



Mercator

Q1FY16 Earnings Concall Transcript

Hosted on : August 13, 2015

Mkt Cap.	₹5.6bn USD 89mn
52 Wk H/L	₹ 37 / 15
BSE Sensex	27,241

Management Team: **MR. ATUL AGARWAL – MANAGING DIRECTOR, MERCATOR LIMITED**
MR. PRASAD PATWARDHAN – CFO, MERCATOR LIMITED
CAPT. KOWSHIK KUCHROO – PRESIDENT SHIPPING, MERCATOR LIMITED

- Moderator:** Ladies and Gentlemen, good day and welcome to the Mercator Limited Q1 FY-16 Earnings Conference Call hosted by Dolat Capital. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touch tone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Kapil Yadav from Dolat Capital. Thank you and over to you Sir.
- Kapil Yadav:** Good Afternoon Ladies and Gentlemen, we welcome you all on behalf of Dolat Capital conference call with the management of Mercator Limited to discuss their Q1 FY-16 results and future plans, representing the management of Mercator Limited Mr. Atul Agarwal - Managing Director, Mr. Prasad Patwardhan – CFO, Capt. Kowshik Kuchroo - President Shipping. We now hand over the conference to Mr. Agarwal for his initial comments, after which we could move onto question and answer session.
- Prasad Patwardhan:** Good Afternoon Ladies and Gentlemen, this is Prasad Patwardhan from Mercator Limited. We declared our Q1 results last week and I am sure you would have had a chance to go through them, we would be happy to answer any questions that you may have on our results.
- Moderator:** Thank you. Ladies and Gentlemen we will now begin the question and answer session. The first question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.
- Saket Kapoor:** Sir, first of all please inform whether a quarter on quarter comparison for the nature of business is correct or a year on year comparison is more corrected because there is a decline if we take the March quarter versus the June quarter?
- Prasad Patwardhan:** Year on year comparison would be much better.
- Saket Kapoor:** Is there any seasonality factor being factored in for the March and the June quarter?
- Prasad Patwardhan:** Seasonality factor would be involved, especially in our dredging and our coal business while typically the second half of the year would contribute more towards the revenues.
- Saket Kapoor:** Mainly, the dredging and the coal segment?
- Prasad Patwardhan:** Yes.
- Saket Kapoor:** The second half you are saying, after September?
- Prasad Patwardhan:** Yes that is correct.
- Saket Kapoor:** First of all Sir, coming to the expenses front in the bunker cost Sir what does this cost interest you and in the shipping corporation results we have seen a very drastic decline in the bunker cost quarter on quarter and year on year also. Why has the same been not been reflected in our case when the fall is there from ₹ 27.65 crore to ₹ 25 crore?
- Prasad Patwardhan:** Well it would depend on the nature of deployment of their vessels; if the vessels are deployed on a time charter, then the bunker cost will not be reflected in the profit and loss statement.
- Saket Kapoor:** How do you define it Sir, what is this cost all about? If you could explain it in bit detail, what is this bunker cost?
- Prasad Patwardhan:** Look when on go on voyage, that means you are like basically hire getting freight and freight is including the higher order vessel plus the bunker plus the port cost and when you give on time charter, the bunker cost and the port cost is on the charter's account,

you are just giving them on hire. Most of our vessels are on time charter, so where the bunker is on, the port cost are on the charter's account. And the bunkers are only for dredger, which is the miniscule in compared to the overall.

Saket Kapoor: Bunkers are only for dredgers; like this cost is only attributed to the dredging segment?

Prasad Patwardhan: The bunker which is mentioned is only for dredging where ships are on time charter.

Saket Kapoor: So this is attributed to this dredging part of business only?

Prasad Patwardhan: Yes.

Saket Kapoor: You have told that for this quarter the dredging business does not attribute on the greater side so therefore the cost some fixed cost has to be there and that is why the fall in the cost is on the lower side?

Prasad Patwardhan: I think the revenue from the dredging business could be lower in Q1 and Q2 as compared to the second half of the year and therefore..

Saket Kapoor: Okay and Sir now coming to the employ expenses also; if we compare the June 14 to June 15 that has been on the very higher side from ₹14 crore to ₹23 crore, has there been any revision in the segment or any arears has been set? What is the reason for this hike?

Prasad Patwardhan: I am not sure; I will tell you; from June 14 to June 15 it is largely on account of our energy business where the manpower employ cost have increased.

Saket Kapoor: It is steep rise Sir it is only pertaining to the oil blocks, I mean as a Cambay Basin part story is being out I mean for which we have to..

Prasad Patwardhan: It refers partly to the oil blocks and as well as to the MOPU.

Saket Kapoor: And this is going to be the trend now Sir going forward?

Prasad Patwardhan: It will be the trend but it is likely to come off, may be in the second half of the year.

Saket Kapoor: Okay you spoke that it is attributed to MOPU being deployed, so can you throw some more light on it Sir? Why have the cost increased?

Prasad Patwardhan: See there are two; apart from the existing MOPU which is in operation there are two other MOPUs that are under construction and the reason for the increase in man power cost is on account of these two, the people who are deployed on these two contracts.

Saket Kapoor: And these two MOPUs will be operational when, which quarter?

Prasad Patwardhan: Well the work is currently suspended.

Saket Kapoor: Is it the oil prices that is attributing to it?

Prasad Patwardhan: Yes, partly that has been the reason why the contracts are suspended at the moment.

Saket Kapoor: Okay Sir and how much money has you already spend on the construction?

Prasad Patwardhan: We have spent about \$ 55-60 million so far.

Saket Kapoor: \$55-60 million on those two?

Capt. Kowshik Kuchroo: See, although the expenditure has been incurred by us, this is fully been funded by the customer, this has been funded by the customer for whom the MOPUs are being **(Inaudible) 8.32.**

Saket Kapoor: So this is not on our balance sheet?

Capt. Kowshik Kuchroo: Well the expenditure is sitting on our balance sheet, but in terms of cash flow, it has been funded by the customer.

Saket Kapoor: But then is it on the receivable payables' side being met with that or we do not owe the money to them?

Capt. Kowshik Kuchroo: We do not owe the money to them but this is from the expenditure is completely incurred from these two MOPUs which are being constructed for the customer so it has been funded entirely by the customer.

Saket Kapoor: It will be owned by them only then, as they are paying for it, it is on their request only that we have stopped..

Capt. Kowshik Kuchroo: That is correct.

Saket Kapoor: Now coming to you Sir, the shipping business is the one which is not doing good, what is now the strategy of the management going forward pertaining to the shipping segment itself, I think so it is the dry bulk segment only that is attributing to the losses?

Prasad Patwardhan: Well as Captain Kowshik mentioned earlier; that tankers are all deployed on time charter. The pain that you are seeing on the results is largely arising out of the dry bulk business.

Capt. Kowshik Kuchroo: And presently the dry bulk business is part of slight uptake, it is around 15-20% higher than what we have been, so that is what is happening in the market. As far as other things are there, there if you are already aware that Singapore entity's up for restructuring.

Saket Kapoor: As you have already mentioned in your release about that I would come later on to it but pertaining to this, the bulk you are saying that the dry bulk segment has bottomed out; you are referring to the.

Prasad Patwardhan: I should see the time charter rates which are presently prevalent there is uptake of about around 15% then what we were facing in the early part of the year.

Saket Kapoor: But if you could give breakup also in the shipping segment, what did we earn from the tanker part and what did we lose in the dry bulk segment, if you could give us some clarity?

Prasad Patwardhan: The tanker is the income is the ₹ 92.9 crores while the dry bulk case is ₹ 63.9 crores.

Saket Kapoor: ₹ 92.2 crores and it is?

Prasad Patwardhan: ₹ 63.9 crores and the dredger is ₹ 51.6 crores.

Saket Kapoor: That is also clubbed under the shipping part only?

Prasad Patwardhan: Dredger and tankers are in India and Bulk carriers is overseas.

Saket Kapoor: Now coming to the P&L part.

Prasad Patwardhan: Yes this is the P&L part; I have told you the top line, that is the revenue.

Saket Kapoor: Sir I wanted the breakup of the shipping segment under the dry bulk, tanker and..

Prasad Patwardhan: You know what happens in India is, I look after everything, tankers and dredgers so my salaries do not get split, and we have a common account. So what you get is, its P&L which is for the Indian entity and there is the coal division also which is there. Still the segment wise, if you look at the published quarterly results, the segment wise results are given in the published results.

Saket Kapoor: Yes, sir I was only looking at how much are we bleeding in this dry bulk segment and that was my question because it is the net of, the figure is of.....

Prasad Patwardhan: Well our Singapore entity has reported a loss of about \$9.7 million for the quarter.

Saket Kapoor: That is mainly pertaining to the dry bulk segment?

Prasad Patwardhan: That is only dry bulk, the Singapore entity.

Saket Kapoor: And that is what re-structuring is going on. Sir if you pertain more to it, what is the balance sheet size of that Singapore entity? What kind of restructuring is now required, if you could have the..?

Prasad Patwardhan: Saket, we do not have the balance sheet size and other numbers right now but they will be available on the website of the subsidiary in Singapore.

Saket Kapoor: It is available at your website?

Prasad Patwardhan: That is right, Singapore website.

Saket Kapoor: Sir coming to the other part of the offshore segment, in the offshore segment as we mentioned the MOPU and one more about the Nigerian in the press release you have mentioned, about the FPU, these are the only operational assets that have contributed to this offshore segment?

Prasad Patwardhan: There is one FPU which is currently in operation in Nigeria, FPU is a MOPU + FSO, so that is currently in operation in Nigeria and there is one other conversion contract that we are currently executing for ONGC, these are the only two operational contracts at the moment.

Saket Kapoor: Sir could you explain what kind of contract you are doing for ONGC, what is the work we have taken?

Prasad Patwardhan: This is a conversion contract, the drilling rig which is owned by ONGC called 'Sagar Samrat' that is being converted into production rig, so it is an EPC contract that we are doing and once the conversion is complete, it will be commissioned in India and handed over to ONGC.

Saket Kapoor: It is a drilling rig that is going converted into?

Prasad Patwardhan: A production facility.

Saket Kapoor: Sir, so how are the revenues being booked, this is an EPC contract so?

Prasad Patwardhan: This is an EPC contract; the revenues are booked on percentage completion.

Saket Kapoor: So, what portion of this entire contract has been booked, sir?

Prasad Patwardhan: Yes, the large part of it, nearly 75%-80% of the contract is already booked over the years and contract is likely to be completed this year.

Saket Kapoor: It will be done by September quarter itself?

Prasad Patwardhan: No, not September, during this financial year we expect to close it and complete the

conversion contract.

Saket Kapoor: What is the size of the contract, if you can give idea on this?

Prasad Patwardhan: The order size is where it was placed on us was about \$155 million, currently the value has gone up on account of some changes in the scope and it is about \$200 million.

Saket Kapoor: That has been approved by ONGC?

Prasad Patwardhan: That is right, there are some variations which are under approval but the large part of them have already been approved.

Saket Kapoor: So, it was a total, now accumulated total \$200 million.

Prasad Patwardhan: Total contract size is \$200 million, as of now.

Saket Kapoor: Out of that 80% has already been booked.

Prasad Patwardhan: Roughly, yes.

Saket Kapoor: Sir if you could segregate for that also, sir in the offshore segment we have got around ₹ 23 crore as our profit, is the Nigerian part and the ONGC part if the split was available?

Prasad Patwardhan: Large part of it is from the Nigerian operations.

Saket Kapoor: And what is the nature our share, it is an ongoing process or booked for a?

Prasad Patwardhan: Well the MOPU and FSO, they are deployed on a 9 year contract in Nigeria.

Saket Kapoor: And that are inflation adjusted variation?

Prasad Patwardhan: Yes, there is an escalation clause in the contract, so the rates change according to the workings every year.

Saket Kapoor: And sir how do oil prices play part in this?

Prasad Patwardhan: Oil prices have no impact on our earnings from the operations of the MOPU. What we get is a fixed day-rate and as long as the MOPU is in operation we bill for the entire month and we get paid for it in the following month.

Saket Kapoor: And it is deployed to which company, there in Nigeria?

Prasad Patwardhan: It is deployed with a company called Afren Natural Resources.

Saket Kapoor: It is a government firm or a private company?

Prasad Patwardhan: No, it is a private company.

Saket Kapoor: And how long is the duration of the contract sir?

Prasad Patwardhan: The duration of the contract is 9 years, effective May 2011.

Saket Kapoor: So, we are only 4 years into it, so 5 years visibility is still there. And what is the annual revenue we booked for this?

Prasad Patwardhan: Annual revenue would be around \$50-52 million.

Saket Kapoor: And the EBITDA for the margin?

Prasad Patwardhan: EBITDA would be about \$35 million.

Saket Kapoor: Very high sir.

Prasad Patwardhan: Yes.

Saket Kapoor: Now coming to the other segment of the coal part sir, do the coal part as you told earlier plays the seasonality role for the Indonesia?

Prasad Patwardhan: Yes as I mentioned it is seasonal and there are more dispatches of coal which happens in the second half of the year post monsoons.

Saket Kapoor: How are you seeing now the coal market altogether, I mean after cancelation of licenses by Supreme Court what is the scenario, I am talking about the Indian part only, the decline in the commodity prices?

Prasad Patwardhan: Saket, we do not own or operate any coal mines in India. We are operating only 3 mines which are in Indonesia, so we are exporters from Indonesia.

Saket Kapoor: Correct sir, but the market is very dynamic and it is international market if we take the coal prices, I am talking about that; since the demand from the Indian subcontinent is reducing on a month on month basis, it is putting a pressure on the already declining prices of coal, so the business dynamics have changed, whether you are operating from Indonesia or from India. Definitely the business ball game is altogether different, so that is what I am asking you sir, how are you seeing the coal game already now? How the changes have occurred and how the coal output is increasing in the country? My question is; sir how has the coal business dynamics changed after the coal output which has dramatically improved from Coal India for our country? And it is going to improve on a sustainable basis?

Prasad Patwardhan: Saket coal output I do not think is dramatically improved in India; that is not to what I

understand.

Saket Kapoor: Okay, the 15% growth is there.

Prasad Patwardhan: Just hear me out. The second thing is; coal is a commodity and it is driven by the global demand supply and the prices, so you are right the coal prices continue to be under pressure but the demand for coal would continue to be there, especially for power projects which are close to the coast because infrastructure facilities in India are not that developed, so excavating coal and reaching it to the point of consumption, still not that effective. So, we still see some demand for coal, especially where the power plants are located near the coast. The other thing is; what we are trying to do in our business is, on one hand we are controlling the costs of mining and transportation of coal and on the other hand we are also moving to higher grade of coal where the realizations are better.

Saket Kapoor: Higher grade of coal means you are going for trading or from your mines only the extractable..

Prasad Patwardhan: Some our own mines as well.

Saket Kapoor: But sir from your mines, you told it is in the band of \$35-40 only the selling price is?

Prasad Patwardhan: Selling price is there but if we; there are some pockets in our mines where we can get a higher grade of coal as well.

Saket Kapoor: Generally, what GCV is there over there?

Prasad Patwardhan: Gross Calorific Value, at our place is (+3800), from 3800-4200, till 4500.

Saket Kapoor: Generally, for power plants what is the optimum grade required for their production?

Prasad Patwardhan: This we do not know Saket. That you will have to ask the power plants.

Saket Kapoor: But generally you stated that power plants are your main buyers.

Prasad Patwardhan: But form 3400-6000 quality of coal is also there in it. So, it depends on the requirement of each power plant.

Saket Kapoor: Sir from last June till now if we see, the volume you said is 1.10 you said in June '14?

Prasad Patwardhan: In June'14, volume is not there with me, for this year it is 1.1.

Saket Kapoor: But then to sir if our realizations if compared with the volume we can understand because last year it was 442 and this year it is 335. So, what has been the decline in the prices sir, year on year?

Prasad Patwardhan: See, the prices have decline was there; there is no doubt about that but right now I do not have the quantity volume with me.

Saket Kapoor: Sir in this also, it is according to the long term contract or it is on the short?

Prasad Patwardhan: No, mostly short term contracts are there. From 3-6 months only, in that also the price is not fixed, it is linked to the indices.

Saket Kapoor: But sir these are declining trends because your market is down, so your realizations are down, but you cannot make money.

Prasad Patwardhan: But in trading the margin will be maintained. If selling price is reduced, then my purchase price will also fall, no.

Saket Kapoor: But sir this you yourself are only mining know....

Prasad Patwardhan: The one which I am mining by myself in that only I am telling, we are trying to move to a higher grade of coal, where the realizations will be slightly higher.

Saket Kapoor: Over there, what is the system of royalty in Indonesian mines? How much royalty we have to pay?

Prasad Patwardhan: We will come back to you on that, I do not have the exact percentage with me right now.

Saket Kapoor: Okay and what is the agreement all about with the Indonesian, for what period mines?

Prasad Patwardhan: It is for 10 years, the concession.

Saket Kapoor: And how long have it would been effective from what date?

Prasad Patwardhan: The new mine has been in operation for about 2-2.5 years now.

Saket Kapoor: Sir we are owning 2 mines there no?

Prasad Patwardhan: Yes. 3 mines actually.

Saket Kapoor: All 3 are operational?

Prasad Patwardhan: All 3 are operational.

Saket Kapoor: And the latest one is...

Prasad Patwardhan: Latest one, we started mining about 2.5 years back.

Saket Kapoor: And the other two sir?

Prasad Patwardhan: The other two are older than that.

Saket Kapoor: All 3 are into a 10 years' contract?

Prasad Patwardhan: Yes.

Saket Kapoor: So, the other two are nearing their completion?

Prasad Patwardhan: Yes.

Saket Kapoor: And what is the procedure for reclaiming the licenses?

Prasad Patwardhan: There is no reclaiming, if in one coal mine the coal is extracted fully, then we have to hand it over back and if we have to continue operations probably we will need to look at some other mines.

Saket Kapoor: No, sir the estimated reserve which you would have, in 10 years you would not have had extracted the percentage fully?

Prasad Patwardhan: We can excavate, why are you saying that we will not be able to extract the coal in 10 years?

Saket Kapoor: I am telling that, the amount of reserve you have, and how much you extracted on that it will depend that you will go into a renewal or not.

Prasad Patwardhan: That is correct and to answer that now it is difficult know.

Saket Kapoor: And total, the last mine which you have bought 2 years back, what is its estimated reserve?

Prasad Patwardhan: It is around 30-35 million.

Saket Kapoor: Sir in other segment what do you all map, the ₹ 89 crore that you are displaying?

Prasad Patwardhan: Other segment is mainly 'Sagar Samrat' the ONGC's contract that is there of conversion that is getting covered under other segment.

Saket Kapoor: And sir about the restructuring that you were telling about the strategy, on that can you throw some more light, what you are expecting and till when that can be effective?

Prasad Patwardhan: Saket at present to answer that is difficult, what we are expecting? We are still in touch and discussing with all the lenders, so as soon as something concretes, so we will be sharing with everybody.

Saket Kapoor: But what are we looking for, refinancing only of the loans due to the poor market conditions?

Prasad Patwardhan: Well we are considering various options Saket, it will not be appropriate for me to give you any information on this at this stage. Whatever restructuring is happening, we have informed all of you.

Saket Kapoor: But what will you give off and you will separately indicate the segment?

Prasad Patwardhan: As I said, we are considering various options, we are discussing with all the parties involved, but it is difficult to say as of now.

Saket Kapoor: It can be treated as one of the options.

Prasad Patwardhan: As I said, there are various options that we are considering. I would not like to go beyond that at this stage.

Saket Kapoor: So what is the net debt level Sir?

Prasad Patwardhan: Net debt on a consolidated basis; is about 3700.

Saket Kapoor: And that has moved up or down from last quarter?

Prasad Patwardhan: It has slacked; it has moved up marginally, largely because of some debt that we have taken in India for expansion and because of the depreciation of the rupee.

Moderator: Thank you. We will move on to the next question that is a follow up question from the line of Saket Kapoor of Kapoor & Company. Please go ahead.

Saket Kapoor: The ₹ 700 crores debt that you have carried over, is this the change in the business dynamic in the shipping segment. Sir, first of all, if you can give us the breakup, such a big debt pertaining....whom would you attribute this to? How much is the working capital in this and how much money has been taken for expansion?

Prasad Patwardhan: Most of it is term debt. The debt that we have; about 10% or 15% of this amount would be working capital, all of the remaining is term debt.

Saket Kapoor: What is the asset creation program with the term debt means what asset will be created out of term debt?

Prasad Patwardhan: See this is the term debt which we have already taken, which has already been taken for acquisitions of vessels and tankers. For example, we have acquired 2 dredgers during this year which have been again partly funded by debt.

Saket Kapoor: That means in future whatever tanker, vessels we have owned, that is all on debt taken?

Prasad Patwardhan: That is partly funded by debt and partly by out of our own contribution.

- Saket Kapoor:** Going forward, just wanted to understand how this is going to get reduced? I mean, the tanker market you are telling, market is buoyant, the rates are in the higher, and so what is your game plan? How long will this ₹ 3700 crores amount remains ₹ 3700 crores only or will there be any deduction?
- Prasad Patwardhan:** That will depend on the business know, if you are going to expand, if you are going to acquire more vessels or more tankers or more coal mines, then obviously there will be some increase in debt. But you are right, as a long term strategy, we want to reduce our debt and from whatever money we are generating in our business, the endeavor would be to reduce the debt levels.
- Saket Kapoor:** But Sir, whatever you are earning, more than that amount your service is going in the finance cost because balance sheet is in red only, so...
- Prasad Patwardhan:** No balance sheet is in red that you are saying, but it is largely on account of the dry bulk business. Apart from it, if you see, the other businesses are generating money for the company. What you are saying about the bleeding that is taking place in P&L it is largely on account of the dry bulk business.
- Saket Kapoor:** Until that does not improve, the reflection will not happen.
- Prasad Patwardhan:** As I explained to you, we are talking to the lender for restructuring of the debt. So once we go through that process, then we will have more clarity on what the balance sheet is going to look like.
- Saket Kapoor:** And that will happen in 3 months' time or it will take...
- Prasad Patwardhan:** We are talking to the lenders; it is difficult to put a timeline or timeframe to it. The endeavor is going to be completed as quickly as possible.
- Saket Kapoor:** One last question; the revenue breakup which you had given me before; of the different segment; if you can just repeat it once again as I have not noted it.
- Prasad Patwardhan:** See, I am giving you rough numbers; tankers is about ₹ 90 crores, dry bulk is ₹ 65 crores, dredger is ₹ 52 crores, Oil and gas is ₹ 90 crores, coal is ₹ 330 crores and ONGC conversion contract is about ₹ 90 crores.
- Saket Kapoor:** Now in dry bulk, what are your losses out of the ₹ 65 crores revenues that you have booked?
- Prasad Patwardhan:** In that; the losses is around ₹ 65 crores.
- Saket Kapoor:** Sir, the entire revenue of is loss?
- Prasad Patwardhan:** Yes. In that operating cost has been shown, money was provided for interest, for depreciation. It is not entirely a cash loss. See my top line for dry bulk is around Rs. 65 crores. What I suggest is, as I mentioned earlier, you can look at the website of our Singapore subsidiary, you will get its complete balance sheets and the quarterly results over there. That will give you a good idea. And secondly sir, please make the transcript available on the websites also.
- Prasad Patwardhan:** We do upload that, I think the previous one will also be there on our website.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Kapil Yadav.
- Kapil Yadav:** Sir, thank you very much, thanks a lot. Thank you all the participants for the call.
- Management:** Thank you Kapil.
- Moderator:** Ladies and Gentlemen, on behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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Stock price return objective (12 Months)

Buy	> 15%
Accumulate	5 to 15%
Reduce	(-5) to 5%
Sell	< -5%

Dolat Capital Market Pvt. Ltd.

Corporate Identity Number: U65990MH1993PTC075189

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031 & INF230710031

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