

Wipro

Performance Highlights

(₹ cr)	2QFY17	1QFY17	% chg (qoq)	2QFY16	% chg (yoy)
Net revenue	13,766	13,599	1.2	12,238	12.5
EBITDA	2,654	2,653	0.0	2,606	1.8
EBITDA margin (%)	19.3	19.5	(23)bps	21.3	(202)bps
PAT	2,070	2,052	0.9	2,187	(5.3)

Source: Company, Angel Research

On the sales front, Wipro posted a 0.8% sequential de-growth in its IT Services revenues to US\$1,916mn (V/s US\$1,921mn expected v/s US\$1,931mn in 1QFY2017). In Constant Currency (CC) terms, the company posted a qoq growth of 0.9%. In terms of verticals, Healthcare, Life Sciences & Services posted a CC qoq growth of 4.3%; while in terms of geography, US posted a CC qoq growth of 1.8%. The EBIT margin came in at 15.8% (V/s 15.1% expected), a dip of 32bps qoq. Consequently, the PAT came in at ₹2,070cr (V/s ₹1,968cr expected), a growth of 0.9% qoq. On guidance front, the company expects to post IT Services sales of US\$1,916-1,955mn in 3QFY2017, which imply a qoq CC growth of 0-2%. **We recommend a buy on the stock.**

Quarterly highlights: On the sales front, Wipro posted a 0.8% sequential de-growth in its IT Services revenues to US\$1,916mn (V/s US\$1,921mn expected v/s US\$1,931mn in 1QFY2017). In Constant Currency (CC) terms, the company posted a qoq growth of 0.9%. In INR terms, the consolidated revenues are expected to come in at ₹13,766cr (V/s ₹13,428cr expected), up by 1.2% qoq. In terms of verticals, Healthcare, Life Sciences & Services posted a CC qoq growth of 4.3%; while in terms of geography, US posted a CC qoq growth of 1.8%. The EBIT margin came in at 15.8% (V/s 15.1% expected), an dip of 32bp qoq. Consequently, the PAT came in at ₹2,070cr (V/s ₹1,968cr expected), a growth of 0.9% qoq.

Outlook and valuation: The management has set a target of US\$15bn of revenue and an EBIT margin of 23% by 2020. The company achieving the revenue target would imply a CAGR of 20% in sales over the next four years. However, the near term guidance suggests a moderate organic growth. **We recommend a buy on the stock, given the valuations.**

Key financials (Consolidated, IFRS)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	46,955	51,631	55,440	60,430
% chg	8.1	10.0	7.4	17.0
Net profit	8,653	8,887	9,148	9,853
% chg	11.0	2.7	2.9	7.7
EBITDA margin (%)	22.3	21.7	18.1	18.1
EPS (₹)	35.1	35.9	37.0	39.9
P/E (x)	13.8	13.5	13.1	12.1
P/BV (x)	2.9	2.6	2.4	2.2
RoE (%)	21.1	19.0	19.0	17.0
RoCE (%)	15.3	13.4	13.4	13.9
EV/Sales (x)	2.1	1.8	1.7	1.4
EV/EBITDA (x)	9.3	8.5	8.2	6.9

Source: Company, Angel Research; Note: CMP as of October 24, 2016

Please refer to important disclosures at the end of this report

BUY

CMP	₹484
Target Price	₹590

Investment Period	12 Months
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Stock Info

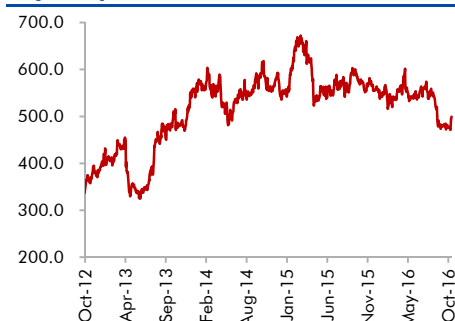
Sector	IT
Market Cap (₹ cr)	117,590
Net Debt (₹ cr)	(21,460)
Beta	0.6
52 Week High / Low	607/470
Avg. Daily Volume	182,727
Face Value (₹)	2
BSE Sensex	28,179
Nifty	8,709
Reuters Code	WIPR.BO
Bloomberg Code	WPRO@IN

Shareholding Pattern (%)

Promoters	73.3
MF / Banks / Indian Fls	7.2
FII / NRIs / OCBs	13.6
Indian Public / Others	5.9

Abs.(%)	3m	1yr	3yr
Sensex	1.4	2.6	36.0
Wipro	(10.0)	(14.9)	2.6

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2017 performance (Consolidated, IFRS)

Y/E March (₹ cr)	2QFY17	1QFY17	% chg (qoq)	2QFY16	% chg (yoy)	1HFY2017	1HFY2016	% chg (yoy)
Net revenue	13,766	13,599	1.2	12,238	12.5	27,365	24,751	10.6
Cost of revenue	9,296	9,172	1.3	8,142	14.2	18,469	16,372	12.8
Gross profit	4,470	4,427	1.0	4,096	9.1	8,896	8,379	6.2
SGA expense	1,816	1,774	2.4	1,490	21.9	3,590	3,053	17.6
EBITDA	2,654	2,653	0.0	2,606	1.8	5,307	5,326	(0.4)
Dep. and amortisation	485	467	3.9	337	43.8	951	689	38.0
EBIT	2,169	2,186	(0.8)	2,269	(4.4)	4,355	4,637	(6.1)
Other income	496	485	2.3	529		981	1,062	(7.7)
PBT	2,665	2,671	(0.2)	2,798	(4.8)	5,336	5,699	(6.4)
Income tax	591	612	(3.5)	595	(0.7)	1,203	1,247	(3.5)
PAT	2,077	2,059	0.9	2,203	(5.7)	4,133	4,452	(7.2)
Minority interest	7	7		16		14	21	
Adj. PAT	2,070	2,052	0.9	2,187	(5.3)	4,119	4,433	(7.1)
Diluted EPS	8.6	8.4	2.4	9.1	(6.2)	16.9	18.1	(6.4)
Gross margin (%)	32.5	32.6	(8)bps	33.5	(100)bps	32.5	33.9	(134)bps
EBITDA margin (%)	19.3	19.5	(23)bps	21.3	(202)bps	19.4	21.5	(213)bps
EBIT margin (%)	15.8	16.1	(32)bps	18.5	(278)bps	15.9	18.7	(282)bps
PAT margin(%)	15.0	15.1	(5)bps	17.9	(283)bps	15.1	17.9	(286)bps

Source: Company, Angel Research

Exhibit 2: 2QFY2017 – Actual vs Angel estimates

(₹ cr)	Actual	Estimate	Variation (%)
Net revenue	13,766	13,428	2.5
EBIT margin (%)	15.8	15.1	62bps
PAT	2,070	1,968	5.2

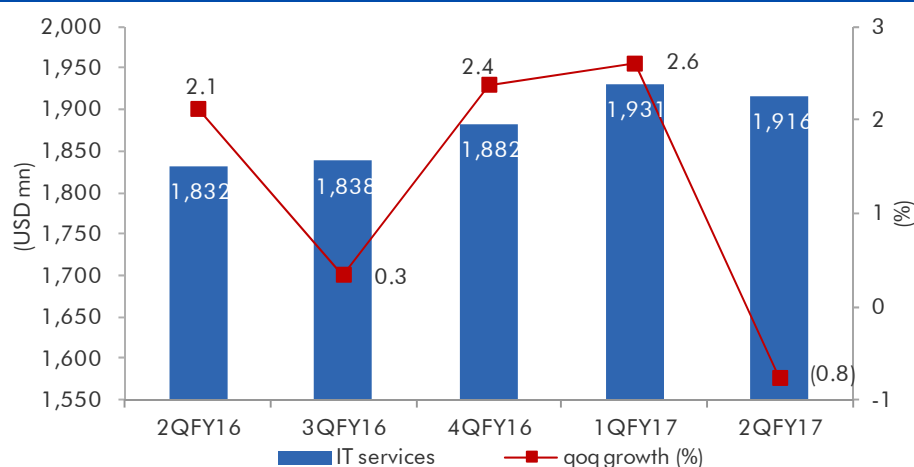
Source: Company, Angel Research

Revenues higher than expected

On the sales front, Wipro posted a 0.8% sequential de-growth in its IT Services revenues to US\$1,916mn (V/s US\$1,921mn expected v/s US\$1,931mn in 1QFY2017). In CC terms, the company posted a qoq growth of 0.9%. In INR terms, the consolidated revenues are expected to come in at ₹13,765cr (V/s ₹13,428cr expected), up by 1.3% qoq.

In terms of verticals, Healthcare, Life Sciences & Services posted a CC qoq growth of 4.3%; while in terms of geography, US posted a CC qoq growth of 1.8%.

During the quarter, revenue from the Energy vertical declined by 4.1% qoq (CC). The pressure is expected to continue until oil prices stabilize, post which customers would tend to resume their discretionary spends. Finance Solutions saw good growth and the environment in Healthcare and Life sciences is now robust, post the integration of recent acquisitions.

Exhibit 3: Trend in IT Services revenue


Source: Company, Angel Research

Exhibit 4: Revenue growth (Industry wise – CC basis)

	% to revenue	% growth (QoQ)	% growth (yoy)
Global media and telecom	7.5	1.1	8.2
Financial solutions	25.5	0.7	2.8
Manufacturing and hi-tech	22.4	(1.0)	0.5
Healthcare, life sciences and services	16.0	4.3	46.9
Retail and transportation	15.7	0.4	3.7
Energy and utilities	12.9	1.3	(1.8)

Source: Company, Angel Research

Services wise, Wipro's anchor service lines ADM (contributed 43.8% to revenue) and Technology Infrastructure Services (contributed 28.2% to revenue) registered a growth of 0.4% and a dip of 2.1% qoq, respectively. Analytics and Information Management, which contributed 7.3% of sales, de-grew by 2.6% qoq; while Product Engineering and Mobility contributed 7.3% of sales and grew by 0.7% qoq.

Exhibit 5: Revenue growth (Service wise)

Service verticals	% to revenue	% growth (QoQ)
Technology infrastructure services	28.2	(2.1)
Analytics and information management	7.3	(2.6)
BPO	13.4	3.3
Product engineering and mobility	7.3	0.7
ADM	43.8	0.4

Source: Company, Angel Research

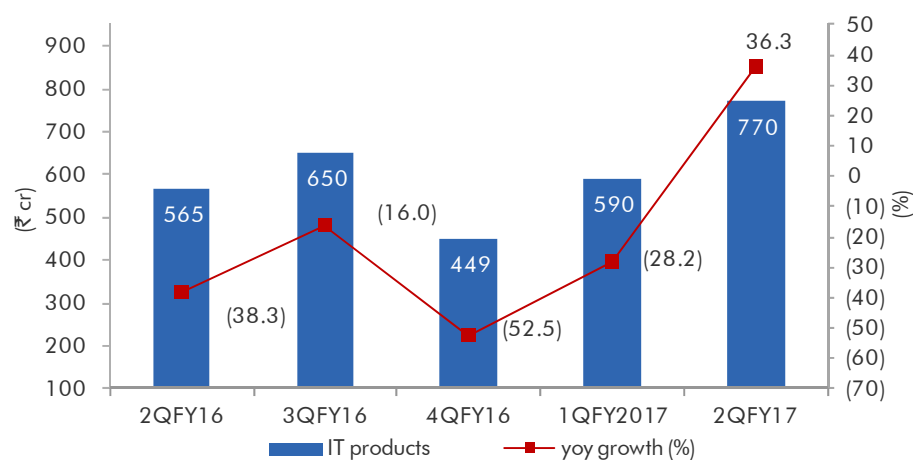
Geography wise, the developed economies such as America and Europe grew by 1.8% and 0.3% qoq in CC terms, respectively. India posted a 1.1% qoq CC de-growth, during the period. However, APAC and other emerging markets posted a 0.1% qoq de-growth for the quarter.

Exhibit 6: Revenue growth (Geography wise, CC basis)

	% to revenue	% growth (QoQ)	% growth (yoy)
America	54.8	1.8	8.4
Europe	24.0	0.3	9.0
India and Middle East	10.4	(1.1)	4.3
APAC and other emerging markets	10.8	(0.1)	0.2

Source: Company, Angel Research

The IT Products segment reported a 36.3% yoy growth in revenue to ₹770cr, during the quarter.

Exhibit 7: IT Products – Revenue growth (yoy)


Source: Company, Angel Research

Hiring and utilization

Wipro reported a net addition of 951 employees in its IT Services' employee base, which now stands at 1,74,238. Though voluntary attritions (annualized) in the global IT business increased considerably, it remained stagnant on a net basis at 16.6%. The utilization rate of the global IT business moved up by 130bp sequentially to 71.2%. Going ahead, an improvement in utilization level will be an important margin lever.

Exhibit 8: Employee pyramid

Employee pyramid	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Utilization – Global IT (%)	69.5	66.4	68.1	69.9	71.2
Attrition (%)					
Global IT	16.4	16.3	16.1	16.5	16.6
BPO	10.2	9.9	11.1	11.7	12.2
Net additions	6,607	2,268	2,248	951	951

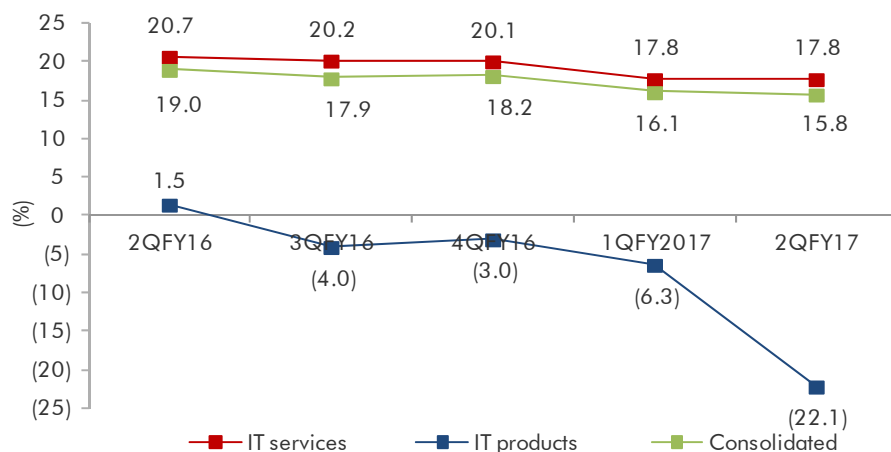
Source: Company, Angel Research

Margins better than expected

The EBIT margin came in at 15.8% (V/s 15.1% expected), an expansion of 52bp qoq; the miss in terms of overall EBIT margins was largely on account of operating losses in the hardware business (-22.1% EBIT margin). The EBIT margins came in

better aided by better utilization (+310bp qoq ex-trainees), Offshore mix (+50bp qoq) and 1% qoq depreciation in realized US \$/INR.

Exhibit 9: Segment-wise EBIT margin trend



Source: Company, Angel Research

Client pyramid

Wipro added 47 new clients during the quarter with its active client base now standing at 1,180. Amongst these, 1 has been in the US\$75mn+ bracket and 1 in the US\$20mn+ bracket. Wipro cited that there has been increasing pricing pressure in large deals, led by growing competitive pressures. Both, deal sizes as well as value of deals are under pressure. In such an environment, Wipro has been trying to offset pressure by increasing the use of automation.

Exhibit 10: Client metrics

Particulars	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
US\$100mn plus	10	9	9	9	8
US\$75mn-\$100mn	7	8	9	10	11
US\$50mn-\$75mn	14	15	15	14	14
US\$20mn-\$50mn	54	53	56	58	58
US\$10mn-\$20mn	69	69	71	79	80
US\$5mn-\$10mn	90	93	88	82	87
US\$3mn-\$5mn	77	78	83	84	83
US\$1mn-\$3mn	212	211	219	229	230
New client addition	67	39	119	50	47
Active customers	1100	1105	1223	1208	1180

Source: Company, Angel Research

Investment highlights

Moderate outlook on growth: For 3QFY2017, the company has given a revenue guidance of US\$1,916-1,955mn implying a US\$ qoq growth of 0-2% on CC. after including one month of revenues from Appirio in 3Q, WPRO's organic guidance will be flat at the midpoint. So after the 3QFY2017 guidance, the expected recovery in the company looks more likely in FY2018. We expect US\$ and INR revenue CAGR to be at 8.4% and 8.2%, respectively, over FY2016-18E.

Target sales CAGR of 20% and EBIT Margin of 23%: Company as part of its vision for 2020 is targeting to reach US\$15bn revenues with 23% EBIT margin, implying revenue CAGR of ~20% over the next four years. If the margins expand by 300bp, then it would imply an even higher CAGR for earnings. The company sees itself better placed than this time last year to latch on to opportunities in the market though the same aggression and optimism is yet to reflect in its performance. Going by the guidance, the company's organic growth outlook is not even closer to its peers. However, on the acquisition front, the company has been very aggressive in comparison to its peers.

During the quarter, company announced the acquisition of Appirio, a leading cloud services company in areas like Sales force and Workday implementation. Appirio's CY15 revenue was US\$196mn and purchase consideration for the acquisition is US\$500mn. Its customers include Virgin America, Four Seasons Hotels & Resorts, Coca Cola, eBay, Home Depot, Honeywell, NYSE Euronext, Toyota and Facebook, among others.

Earlier, the company acquired HealthPlan Services from Water Street Healthcare Partners. Since partnering with Water Street in 2008, HealthPlan Services has grown to become the leading independent technology and Business Process as a Service (BPaaS) provider in the US health insurance market. As part of the agreement, Wipro will acquire 100% of HealthPlan Services' shares for a purchase consideration of US\$460mn. Headquartered in Tampa, Florida, HealthPlan Services employs over 2,000 associates. It offers market-leading technology platforms and a fully integrated BPaaS solution to health insurance companies in the individual, group and ancillary markets. HealthPlan Services' BPaaS solutions are ideal for players who want to operate in the private and public exchanges and the off-exchange individual market in the US.

Outlook and valuation

The new CEO of the company has put in place an aggressive target of 20% revenue CAGR over the next four years, with much improved profitability (where the company has significant levers in the form of automation and improving utilization levels). Also, the company announced a total of ₹6/share in dividend and up to ₹2,500cr through a buyback. Thus, the total payout in FY2016 amounts to ~45% compared to 34% in FY2015. The company guided at sustaining ~40% payout going forward, which will improve the overall returns of the shareholders. On the valuation front, the stock is currently trading at 13.1x its FY2017E and 12.1x its FY2018E EPS, ie at a discount to its peers, while we expect the gap to narrow down once the company's performance comes in line with its peers in terms of growth and profitability. **We recommend a buy on the stock with a target price of ₹590.**

Exhibit 11: Key assumptions

	FY2017E	FY2018E
Revenue growth – IT services (USD)	7.8	9.0
USD-INR rate (realized)	66.0	66.0
Revenue growth – Consolidated (₹)	7.4	17.0
EBITDA margin (%)	18.1	18.1
Tax rate (%)	22.0	22.0
EPS growth (%)	2.9	7.7

Source: Company, Angel Research

Exhibit 12: One-year forward PE chart


Source: Company, Angel Research

Exhibit 13: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside (%)	FY2018E EBITDA (%)	FY2018E P/E (x)	FY2016-18E EPS CAGR (%)	FY2018E EV/Sales (x)	FY2018E RoE (%)
HCL Tech	Buy	811	1,000	23.4	20.5	12.6	9.6	1.8	17.9
Infosys	Buy	1,029	1,249	21.4	27.0	14.8	8.4	2.5	21.6
TCS	Accumulate	2,428	2,867	7.9	27.6	16.7	8.5	3.3	33.1
Tech Mahindra	Buy	428	700	38.6	17.0	10.4	13.2	0.9	20.7
Wipro	Buy	484	590	22.0	18.1	12.1	5.3	1.7	19.3

Source: Company, Angel Research

Company background

Wipro is among the leading Indian companies, majorly offering IT services. The company is also engaged in the IT hardware (10% of sales) business. Wipro's IT arm is India's fourth largest IT firm, employing more than 1,68,000 professionals, offering a wide portfolio of services such as ADM, consulting and package implementation, and servicing more than 1,000 clients.

Profit & Loss account (Consolidated, IFRS)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Net revenue	43,427	46,955	51,631	55,440	60,430
Cost of revenues	29,549	30,846	34,325	38,143	41,576
Gross profit	13,878	16,108	17,306	17,297	18,854
% of net sales	32.0	34.3	33.5	31.2	31.2
Selling and mktg exp.	2,925	3,063	3,319	3,714	4,049
% of net sales	6.7	6.5	6.4	6.7	6.7
General and admin exp.	2,354	2,585	2,788	3,548	3,867
% of net sales	5.4	5.5	5.4	6.4	6.4
Depreciation and amortization	1,111	1,282	1,496	1,608	1,752
% of net sales	2.6	2.7	2.9	2.9	2.9
EBIT	8,600	9,179	9,703	10,035	10,938
% of net sales	19.8	19.5	18.8	18.1	18.1
Other income, net	1,501	1,990	1,770	1,770	1,770
Share in profits of eq. acc. ass.	0	0	0	0	0
Profit before tax	10,101	11,168	11,473	11,804	12,708
Provision for tax	2,260	2,462	2,537	2,597	2,796
% of PBT	22.4	22.0	22.1	22.1	22.0
PAT	7,840	8,706	8,936	9,207	9,912
Share in earnings of associate	-	-	-	-	-
Minority interest	44	53	49	59	59
Adj. PAT	7,797	8,653	8,887	9,148	9,853
Diluted EPS (₹)	31.5	35.1	35.9	35.9	39.9

Balance sheet (Consolidated, IFRS)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Assets					
Goodwill	6,342	6,808	10,199	6,316	6,317
Intangible assets	194	793	1,584	1,584	1,584
Property, plant & equipment	5,145	5,421	6,495	6,795	6,795
Investment in equ. acc. investees	268	387	491	491	491
Derivative assets	29	74	26	26	26
Non-current tax assets	1,019	1,141	1,175	1,175	1,175
Deferred tax assets	336	295	380	380	380
Other non-current assets	1,430	1,437	1,583	1,583	1,583
Total non-current assets	14,762	16,354	21,933	18,350	18,351
Inventories	229	485	539	539	539
Trade receivables	8,539	9,153	10,238	10,063	11,778
Other current assets	3,947	7,336	10,407	10,407	10,407
Unbilled revenues	3,933	4,234	4,827	4,827	4,827
Available for sale investments	6,056	5,391	13,294	13,294	13,294
Current tax assets	977	649	781	781	781
Derivative assets	366	508	568	568	568
Cash and cash equivalents	11,420	15,894	9,902	17,852	24,975
Total current assets	35,469	43,649	50,556	58,330	67,169
Total assets	50,230	60,003	72,489	72,489	85,519
Equity					
Share capital	493	493	494	493	494
Share premium	1,266	1,403	1,462	1,462	1,462
Retained earnings	31,495	37,225	42,574	49,680	53,937
Share based payment reserve	102	131	223	102	103
Other components of equity	1,047	1,545	1,853	1,853	1,853
Shares held by controlled trust	(54)	-	-	-	-
Eq. attrib. to shareholders of Co.	34,350	40,789	46,606	46,606	57,849
Minority interest	139	165	222	222	222
Total equity	34,489	40,954	46,828	46,828	58,072
Liabilities					
Long term loans and borrowings	1,091	1,271	1,736	1,736	1,736
Deferred tax liability	180	324	511	511	511
Derivative liabilities	63	16	12	12	12
Non-current tax liability	345	670	823	823	823
Other non-current liabilities	417	366	723	723	723
Provisions	1	1	-	-	-
Total non-current liabilities	2,096	2,647	3,804	3,804	3,804
Loans and bank overdraft	4,068	6,621	10,786	10,786	10,786
Trade payables	5,226	5,875	6,819	6,659	8,066
Unearned revenues	1,277	1,655	1,808	1,877	1,878
Current tax liabilities	1,248	804	702	1,015	1,171
Derivative liabilities	250	75	234	234	234
Other current liabilities	1,439	1,222	1,382	1,382	1,382
Provisions	137	152	126	126	126
Total current liabilities	13,646	16,403	21,856	21,856	23,643
Total liabilities	15,742	19,050	25,661	25,661	27,448
Total equity and liabilities	50,230	60,003	72,489	72,489	85,519

Cash flow statement (Consolidated, IFRS)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Pre tax profit from operations	8,935	11,168	11,473	11,473	12,708
Depreciation	1,111	1,282	1,496	1,496	1,752
Expenses (deferred)/written off	(13)	(13)	(13)	(13)	(13)
Pre tax cash from operations	10,033	12,438	12,956	12,956	14,447
Other income/prior period ad	1,165	1,990	1,770	1,770	1,770
Net cash from operations	11,198	14,428	14,726	14,726	16,217
Tax	(2,260)	(2,462)	(2,537)	(2,537)	(2,929)
Cash profits	8,938	11,965	12,189	12,189	13,289
(Inc)/dec in current assets	(2,653)	(8,181)	(6,906)	-	(9,506)
Inc/(dec) in current liab.	(828)	2,757	5,453	-	1,787
Net trade working capital	(3,482)	(5,423)	(1,453)	(1,453)	(7,719)
Cashflow from oper. actv.	5,456	6,542	10,736	10,736	5,570
(Inc)/dec in fixed assets	(1,203)	(276)	(1,075)	-	(300)
(Inc)/dec in intangibles	(889)	(600)	(791)	-	-
(Inc)/dec in investments	594	(119)	(104)	-	-
(Inc)/dec in net def. tax assets	87	-	-	-	-
(Inc)/dec in derivative assets	(24)	-	-	-	-
(Inc)/dec in non-current tax asset	12	7	146	-	-
(Inc)/dec in minority interest	22	9	(4)	-	10
Inc/(dec) in other non-current liab	90	273	510	-	-
(Inc)/dec in other non-current ast.	(122)	(122)	(34)	-	-
Cashflow from investing activities	(1,667)	(826)	(1,352)	(1,352)	(290)
Inc/(dec) in debt	1,006	180	465	-	-
Inc/(dec) in equity/premium	(123)	314	(14,062)	3,654	473
Dividends	(1,736)	(1,736)	(1,780)	(5,089)	(5,596)
Cashflow from financing activities	(853)	(1,242)	(15,377)	(1,435)	(5,123)
Cash generated/(utilized)	2,936	4,474	(5,992)	7,950	157
Cash at start of the year	8,935	11,168	11,473	11,473	12,708
Cash at end of the year	1,111	1,282	1,496	1,496	1,752

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation ratio (x)					
P/E (on FDEPS)	15.3	13.8	13.5	13.1	12.1
P/CEPS	7.3	6.7	6.4	6.4	5.8
P/BVPS	3.5	2.9	2.6	2.4	2.2
Dividend yield (%)	1.7	2.5	1.2	4.3	4.7
EV/Sales	2.3	2.1	1.8	1.7	1.4
EV/EBITDA	10.4	9.3	8.5	8.2	6.9
EV/Total assets	2.0	1.6	1.3	1.3	1.0
Per share data (₹)					
EPS (Fully diluted)	31.5	35.1	35.9	35.9	39.9
Cash EPS	66.3	72.1	75.2	75.2	84.1
Dividend	8.0	12.0	6.0	20.6	22.6
Book value	139.5	165.7	189.4	200.9	218.2
Return ratios (%)					
RoCE (pre-tax)	17.1	15.3	13.4	13.4	13.9
Angel RoIC	32.6	28.8	24.8	24.8	22.8
RoE	22.6	21.1	19.0	19.0	17.0
Turnover ratios(x)					
Asset turnover (fixed assets)	8.5	8.9	8.7	7.9	9.0
Receivables days	68	69	69	70	71
Payable days	67	67	67	67	67

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