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Equity Research Cell



Remain stock specific; upcoming Q4FY21 result season and COVID-19 scenario to dictate market trend..

Stellar run witnessed in equities during FY21..

In FY21, the COVID-19 pandemic put significant pressure on Indian economy as economic activity came to a standstill led by a nationwide lockdown. However, strong foreign inflows on India being best economic recovery story from COVID-19 crisis, accommodative monetary policies of global central banks, especially the US, including India and strong Union Budget proposals (Bold, growth and reforms oriented) led a strong rally in Indian equities. The S&P BSE Sensex and Nifty50 have rallied 68 per cent and 70.8 per cent, respectively in FY21. Earlier during FY10, the S&P BSE Sensex had surged 80.5 per cent, while Nifty50 rallied 73.7 per cent. The gains in mid-and small-caps have, in fact, been sharper with both the indices rallying 91 per cent and 115 per cent, respectively on the BSE.

FPI liquidity was robust..

During the year, foreign portfolio investors (FPIs) invested in a record US\$37 billion (Rs. 2.74 trillion) into equities (up to March 26), which is the highest since FY13, data from the National Securities Depository Limited (NSDL) show. On the other hand, domestic mutual funds recorded a net outflow of Rs 1.25 trillion and became net sellers for the first time since FY13.

Markets were under pressure in March 2021..

The month gone by witnessed some pressure led by jump in COVID-19 cases in the second wave especially in states like Maharashtra, Punjab in the second wave is a matter of serious concern. In addition factors like US Bond yields trading a high range, rise in inflation, contraction of IIP too are lingering in investors mind and causing worries.

However, positive global cues like US President Joe Biden's proposed \$3 trillion infrastructure package, improved US GDP data and reduced unemployment rate can pull up equities. Domestically, key factors like positive GDP data, phase II of COVID-19 vaccinations drive going strongly, strong GST collections in Feb. 2021, good proposals presented in Union Budget 2021-22, RBI's Monetary Policy keeping rates unchanged, stellar show by majority of the Companies in Q3FY21 earnings season will augur well for the bulls. The Nifty valuations are trading in the range of 35x-40x which looks expensive but with recent budget proposals one will need to watch out the effect on corporate earnings in Q4FY21 and FY22.

Way forward..

Going ahead investors will keep a watch on COVID-19 cases number on daily basis amidst significant spike and vaccination drive, movement of US bond yields, FPI liquidity after new concerns stated above. Globally, Central banks are in the mood of accommodative monetary policy. The US Federal Reserve on March 17, 2021 suggested that it was in no hurry to raise interest rates through all of 2023, even as it talked about a V-shaped recovery in the world's largest economy.

We believe India economic recovery from COVID-19 crisis will surpass major economies. As India is now one of the few major economies to post positive GDP growth in the last quarter of calendar year 2020, foreign investors will get attracted to Indian equities. Moody's Analytics said India's economy is likely to grow by 12 per cent in CY2021 following a 7.1 per cent contraction last year as near-term prospects have turned more favourable.

Investors will continue to track PSUs which would benefit on Government's impetus on privatisation. In addition, the Government is putting a lot of emphasis and effort to implement the Strong Budget proposals in a timely and efficient manner. PSU space as a whole was neglected in the past for many years but with recent announcements re-rating has happened and are also available at fair valuations considering majority of the Companies turning expensive post stellar show. We expect strong rally to continue in PSU space going forward after Prime Minister Narendra Modi announcements earlier while speaking at webinar on privatisation by the Department of Investment and Public Asset Management (DIPAM) regarding monetisation of around 100 government-owned assets as part of the monetisation plan. Investors would continue to look out for PSU names which were not in the limelight during the stellar rally.

We recommend investors to be stock specific and suggest investors not to get carried away with unknown names. Stock specific opportunities would emerge on corrections. The resurgence of COVID-19 cases is a serious matter of concern.

Key recent developments

GST collections were buoyant in March 2021

The goods and services tax (GST) collection crossed the Rs. 1 lakh crore mark for the sixth month in a row in March 2021 and a new record of Rs 1,23,902 crore (GST) collected in the month of March 2021. "The gross GST revenue collected in the month of March 2021 is at a record of Rs 1,23,902 crore of which CGST is Rs 22,973 crore, SGST is Rs 29,329 crore, IGST is Rs 62,842 crore (including Rs 31,097 crore collected on import of goods) and cess is Rs 8,757 crore (including Rs 935 crore collected on import of goods)," an official release stated. GST collection in the month of February stood at Rs. 1.13 lakh crore.

In line with the trend of recovery in the GST revenues over past five months, the revenues for the month of March 2021 are 27 percent higher than the GST revenues in the same month last year. During the month, revenues from import of goods were 70 percent higher and the revenues from domestic transaction (including import of services) were 17 percent higher than the revenues from these sources during the same month last year, the Ministry of Finance said. The GST revenue witnessed growth rate of (-) 41%, (-) 8%, 8% and 14% in the first, second, third and fourth quarters of this financial year, respectively, as compared to the same period last year, clearly indicating the trend in recovery of GST revenues as well as the economy as a whole.

Government extends Emergency Credit Line Guarantee Scheme (ECLGS)

The government has extended the Emergency Credit Line Guarantee Scheme (ECLGS) by another three months, and widened its scope to issue additional funding up to 40 per cent of outstanding loans as on Feb 29, 2020 as against 20 per cent earlier. The scheme, dubbed as ECLGS 3.0, has been extended until June 30, or until Rs. 3 trillion is disbursed, due to continuing adverse impact of Covid-19 pandemic on certain services sector, Ministry of Finance said in a statement. The collateral free loan guarantee scheme, announced as a part of the Atmanirbhar Bharat package, would now also cover borrowers with total credit outstanding up to Rs. 500 crore, with overdues for 60 days or less on February 29 as compared to 30 days overdue earlier. The tenor of loans granted under ECLGS 3.0 will be 6 years including moratorium period of 2 years. The tenor of loans under the previous version, ECLGS 2.0, was five years with a 12-month moratorium on repayment of principal. "The modifications introduced in the scheme, while providing an incentive to MLIs (member lending institutions) to enable availability of additional funding facility to the eligible beneficiaries will go a long way in contributing to economic revival, protecting jobs, and creating conducive environment for employment generation," the statement said. The government has incurred an expense of Rs 4,000 crore to provide guarantee on 91.9 lakh loans amounting to Rs 2.01 trillion as on March 15.

Recapitalisation of four PSU Banks..

The government has announced it will put in Rs. 14,500 crore in Central Bank of India, Indian Overseas Bank, Bank of India and UCO Bank by issuing non-interest bearing bonds to the state-owned lenders. Recapitalisation bonds will be issued with six different maturities, and the special securities would be "at par" for the amount as per the application made by the eligible banks. The step completes the government's capital infusion of Rs. 20,000 crore in public sector banks for the current financial year. In December, it infused Rs. 5,500 crore in Punjab and Sind Bank. The special securities shall be non-interest bearing and no interest shall be payable on issue of the securities, said a notification dated March 30, marking a break from the usual practice of government issuing interest-bearing bonds to public sector banks.

Output contraction in eight sectors..

The output of eight infrastructure sectors contracted by 4.6 per cent in February as compared to a revised growth of 0.9% in January. All the core segments, including coal, crude oil, natural gas, refinery products and fertilisers witnessed a decline in February, according to official data released on Wednesday. This is the sharpest contraction in six months. The growth rate of the eight infrastructure sectors - coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity - stood at 6.4 per cent in February 2019. Coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity production recorded negative growth of 4.4 per cent, 3.2 per cent, 1 per cent, 10.9 per cent, 3.7 per cent, 1.8 per cent, 5.5 per cent, and 0.2 per cent, respectively in February, the data showed. According to Commerce and Industry Ministry data, during April-February 2020-21, the eight sectors' growth declined by 8.3 per cent as compared to (+) 1.3 per cent in same period of the previous fiscal.

Inflation target..

Maintaining status quo on inflation targeting, the government on Wednesday extended 4 per cent retail inflation target for the Reserve Bank of India for the next five years. Under the current mechanism, the RBI has been mandated by the government to maintain retail inflation at 4 per cent with a margin of 2 per cent on either side. "The inflation target for the period April 1, 2021 to March 31, 2026 under the Reserve Bank of India Act 1934 has been kept at the same level as was for previous five years," Economic Affairs Secretary Tarun Bajaj said.

COVID-19 scenario

The country witnessed biggest single-day spike since Oct 11, India's Covid tally up by 72,330. Till yesterday, the Country reported first 300 plus daily Covid deaths since Dec 25, 2021 most in 104 days. With India in the grip of the second covid-19 wave, the government said that the situation was going from bad to worse with serious cause for concern in some states, even as it expected a fast uptake in the vaccination from April 1 onwards. "No state and no part of the country should be complacent. Trends show that the virus is still very active and can penetrate our defences. When we think we have controlled it, it strikes back. There is a concern we should all be mindful of," said V K Paul, member-health, Niti Aayog while addressing a weekly briefing on covid situation in India.

India has given the first dose of covid antidote to 6.51 crores beneficiaries in the nation-wide vaccination till date. About 18-19 vaccine candidates against COVID-19 are in the pipeline and in different clinical trial stages, Health Minister Harsh Vardhan had said earlier. The Government last week allowed people above 45 years to get vaccinated from April 1, 2021. The Cabinet also decided that the second dose of the vaccine can be taken between four and eight weeks, on the advice of doctors. It was allowed to be taken between four to six weeks earlier, but scientists have now said that taking the second dose between four and eight weeks gives improved results.

JSW Steel group closed a Rs. 19,350-crore transaction with lenders to acquire Bhushan Power & Steel (BPSL) last week on Friday, ending a corporate insolvency resolution process (CIRP) that has stretched more than three and a half years. The Rs. 19,350-crore transaction has been funded by a mix of equity and debt. As part of the payment, a sum of Rs. 8,614 crore in Piombino Steel Limited (PSL) was arranged through a mix of equity, optionally convertible instruments and debt. Of this, an amount of Rs 8,550 crore was invested in a special purpose vehicle (SPV), Makler Private Limited, the bidding company; the balance Rs. 10,800 crore was funded by debt. JSW informed the stock exchanges that following the implementation of resolution plan that included payment of Rs. 19,350 crore to financial creditors of BPSL and merger of the SPV, PSL holds 100 per cent equity shares in BPSL. Seshagiri Rao, joint managing director and chief financial officer, JSW Steel, said that the company takes charge of the asset today. In a letter to BPSL employees, Sajjan Jindal, chairman of JSW group said that BPSL was the largest acquisition in the history of JSW Steel. "This acquisition not only aligns with our core business and purpose but also establishes our presence and accelerates our growth vision in eastern India," he said. "I am aware how difficult it is to build a greenfield steel plant of this size and this asset is indeed a testament to your tireless efforts," he further said.

RBI's view on economy in the wake of resurgence of COVID-19 cases..

RBI Governor Shaktikanta Das said earlier that the central bank does not at the moment foresee a downward revision of the economic growth forecast for 2021-22. The central bank had in February forecast India's FY22 real Gross Domestic Product (GDP) growth at 10.5 percent. The comments came amidst concerns after the recent surge in COVID-19 cases. The RBI Governor made the comments while speaking at the India Economic Conclave. He said digital players will increasingly have a critical role across the banking sector in India, which is emerging as Asia's financial technology (FinTech) hub. "FinTech is expected to challenge the financial sector with innovations and its exponential growth. Harnessing FinTech for customer services will effectively control costs and expand the banking and nonbanking businesses," Das said. The increased use of digital payments induced by the pandemic can fuel a rise in digital lending in the current decade, he said. The RBI had said that the working group, which was set up in January would study all aspects of digital lending activity of both regulated and unregulated players to put in place an appropriate regulatory approach. The Governor said "IT systems need to be developed to handle the exponential surge in the number of transactions." The Governor cited the example of Unified Payments Interface (UPI) which took three years from 2017 to reach a monthly count of 1 billion transactions, but doubled to 2 billion a month in a short span of another year.

Supreme Court's verdict on loan moratorium case..

The Supreme Court (SC) pronounced verdict on loan moratorium case and declined to extend the six months loan moratorium, observing further that the waiver of complete interest is not possible. The apex court said that the waiver of complete interest is not possible as it affects depositors. However, it said that any amount collected as compound interest shall be adjusted to the next installment payable instead of refunding it to the borrower irrespective of the loan amount. Pronouncing its verdict on a batch of pleas by various trade associations, seeking an extension of loan moratorium and other reliefs in view of the Covid-19 pandemic, the Court partly allowed the petitions which had challenged the decision of the Centre and RBI to restrict waiver of interest on interest to certain categories of borrowers who had availed loans of less than Rs 2 crore. The Centre had earlier submitted before the top court that if it were to consider waiving interest on all the loans and advances to all categories of borrowers for the six-month moratorium period announced by RBI, then the amount foregone would be more than Rs. 6 trillion. "If the banks were to bear this burden, then it would necessarily wipe out a substantial and a major part of their net worth, rendering most of the lenders unviable and raising a very serious question mark over their very survival," it had said.

Rise in metal prices forcing auto companies to hike prices..

Maruti Suzuki India said it will increase the prices of vehicles in April, citing the adverse impact of rising input costs over the past one year. "Over the past year the cost of company's vehicles has been impacted adversely due to increase in various input costs," the company said in an exchange filing. "Hence, it has become imperative for the company to pass on some impact of the above additional cost to customers through a price increase," it said. This price increase is likely to vary for different models. The company however did not share details about the quantum of the price hike it intends to take from next month. The country's largest carmaker's service network has crossed 4,000 outlet mark across the country, covering 1,989 towns and cities. The auto major said it has added 208 new service workshops in 2020-21, despite tough conditions due to the Covid-19 pandemic.

In a relief to the bond market, the government had cancelled the last bond auction of the current financial year, scheduled on March 26. The government had planned to raise Rs. 20,000 crore through the auction, but the Reserve Bank of India (RBI) notified on its website that it stands cancelled now "on review of the position of cash balance" of the government. This was not entirely unexpected by the market, said a bond dealer, as there were rumors in the market already that the last auction would be cancelled. The bond market had a scare last week as a short-term bond was quoted at a yield of (-)1.5 per cent, which meant the bond was offered in the market for a face value of more than Rs 100. It turned out to be a case of a fat finger, and the trade was not executed. But the market is under pressure to cover their short positions for which they need to buy bonds. Coupled with the cancellation of auctions, this should be good news for the market, and the yields should fall more. The 10-year bond yields closed at 6.18 per cent on Monday, from their previous close of 6.19 per cent.

Bond markets across the world are hampering the nascent recovery, the Reserve Bank of India (RBI) said in its monthly bulletin for March. The central bank urged the local investors to help it ensure an 'orderly evolution of the yield curve'. "As countries rush to inoculate their populations, the global economy should regain lost momentum in Q2. Bond vigilantes could, however, undermine the recovery, unsettle financial markets and trigger capital outflows from emerging markets," the RBI wrote in its state of the economy report. For the Indian bond market, in particular, the report noted: "The Reserve Bank is striving to ensure an orderly evolution of the yield curve, but it takes two to tango and forestall a tandav." The central bank is clearly using all the platforms at its disposal to engage with the bond market. Governor Shaktikanta Das in the past has also asked the market to be cooperative and not combative, but the market has recently started demanding higher yields seeing the US yields and oil prices heading north, and is asking for more secondary market support from the RBI.

S&P Global Ratings view on Asian markets..

S&P Global Ratings had said earlier that the recovery across Asia's emerging economies would withstand rising US yields so long as this reflects an improving growth outlook and reflation rather than a monetary shock. US yields are rising mostly due to expectations of higher growth, rather than fears of imminent tightening, or monetary-policy shock. This time around, initial conditions in Asia are sturdier than they were in 2013, the rating agency said. It said current account surpluses, low inflation (for the most part), higher real interest rates, and fatter foreign-exchange reserve buffers give regional policymakers more flexibility and should allow central banks to remain focused on supporting recovery. The US-based agency, however, said that if markets price a policy mistake and US real yields surge higher, risks of a 'taper tantrum' rise, with India and Philippines most exposed. In 2013, US yields leaped after the US Federal Reserve indicated it would begin unwinding its quantitative easing program. The resulting panic over rising credit costs led to sharp outflow from emerging markets, including Asia's, and forced central banks to hike interest rates. Since then, S&P said, the central banks in India and Thailand have been more aggressive in building up reserve buffers. It said the effect of USD 1.9 trillion in stimulus on US inflation and rates remains uncertain and markets can react in a non-linear way if inflation expectations surge above central bank targets and imminent tightening is priced in. "In this case, we may see real yields (rather than inflation expectations) jump and the US dollar appreciate at the same time. In our view, this would trigger disorderly capital outflows from Asia's emerging markets. India and the Philippines are the most vulnerable at the current juncture," S&P added.

WPI rose for the second consecutive month..

The wholesale price-based inflation rose for the second consecutive month in February to 4.17 per cent, as food, fuel and power prices spiked. The WPI inflation was 2.03 per cent in January and 2.26 per cent in February last year. After witnessing months of softening of prices, the food articles in February saw 1.36 per cent inflation. In January it was (-) 2.80 per cent. In vegetables the rate of price rise was (-) 2.90 per cent in February, against (-) 20.82 per cent in January. Inflation in pulses was 10.25 per cent in February, while it fruits it was 9.48 per cent, and in fuel and power basket it was 0.58 per cent. The RBI in its monetary policy last month kept interest rates unchanged for the fourth consecutive meeting and said that the near-term inflation outlook has turned favourable. Retail inflation, based on the consumer price index, was at 5.03 per cent in February, data released last week showed.

Capital expenditure in industrial sectors to rise significantly..

Capital expenditure in industrial sectors is expected to rise 45-55 per cent in financial year 2021-22 as the economy gains from a government's scheme to boost productivity, said a report by Crisil Research. The India Outlook Report expects gross domestic product

(GDP) growth to be at 11 per cent in fiscal 2022, after an estimated 8 per cent contraction this fiscal. The next fiscal, like the current, will have a low base “optical” growth in the first half and a rebound in the second. The capex rise in pharmaceuticals, chemicals, textiles, cement, auto and ancillary, metals and oil and gas will come on the back of a 35 per cent contraction in capex in the current fiscal. It will be driven by core sectors and the government’s productivity linked incentive (PLI) scheme. Led by the oil and gas, that accounted for 30-32 per cent, close to 16000 manufacturing companies spent Rs. 3-3.5 trillion on capex annually over the past three years. “Without PLI, a meaningful recovery would have come only after two years in non-metal and cement sectors,” said the report. PLI is directed at sectors that account for 30-35 percent of non-oil import bills. For instance, automobiles and components worth Rs. 80,000 crore to Rs. 90,000 crore—the highest among all the sectors in value terms-- were imported from China and Korea in FY20. This was 20-25 per cent of India’s auto components requirements. The second largest was the IT hardware (laptop, personal computers, tablets and servers) sector that imported goods worth Rs. 25,000 crore to Rs. 30,000 crore from China and Hong Kong in FY20. This was 80-85 per cent of demand for such hard wares in the domestic market.

Monetisation of Government owned assets..

The government has an ambitious plan to monetise around 100 government-owned assets as part of the monetisation plan, said Prime Minister Narendra Modi when he spoke about various reforms undertaken in the Union Budget. "With this the government will be aiming to achieve Rs. 2.5 trillion investment, we are going ahead with the mantra of monetise and modernise," PM Modi said. Speaking at a webinar on privatisation by the Department of Investment and Public Asset Management (DIPAM), Modi said state-owned companies in four strategic sectors will be kept at bare minimum and that the government is committed to privatising PSUs in all sectors barring four strategic ones. Further, PM Modi urged for the feedback on the privatisation and monetisation initiative for swift implementation. Outlining the government focus going forward, PM Modi said that the government is working on Rs. 111 trillion national infrastructure pipeline (NIP) fund. "The government has no business to be in business. When government monetises, that space is filled by private sector of the country. Private sector brings investment and best global practices with them," he said.

***In this Monthly Newsletter we have focused on City Gas Distribution
Sector and two major Companies -***

a) Gujarat Gas Limited

and

b) Mahanagar Gas Limited



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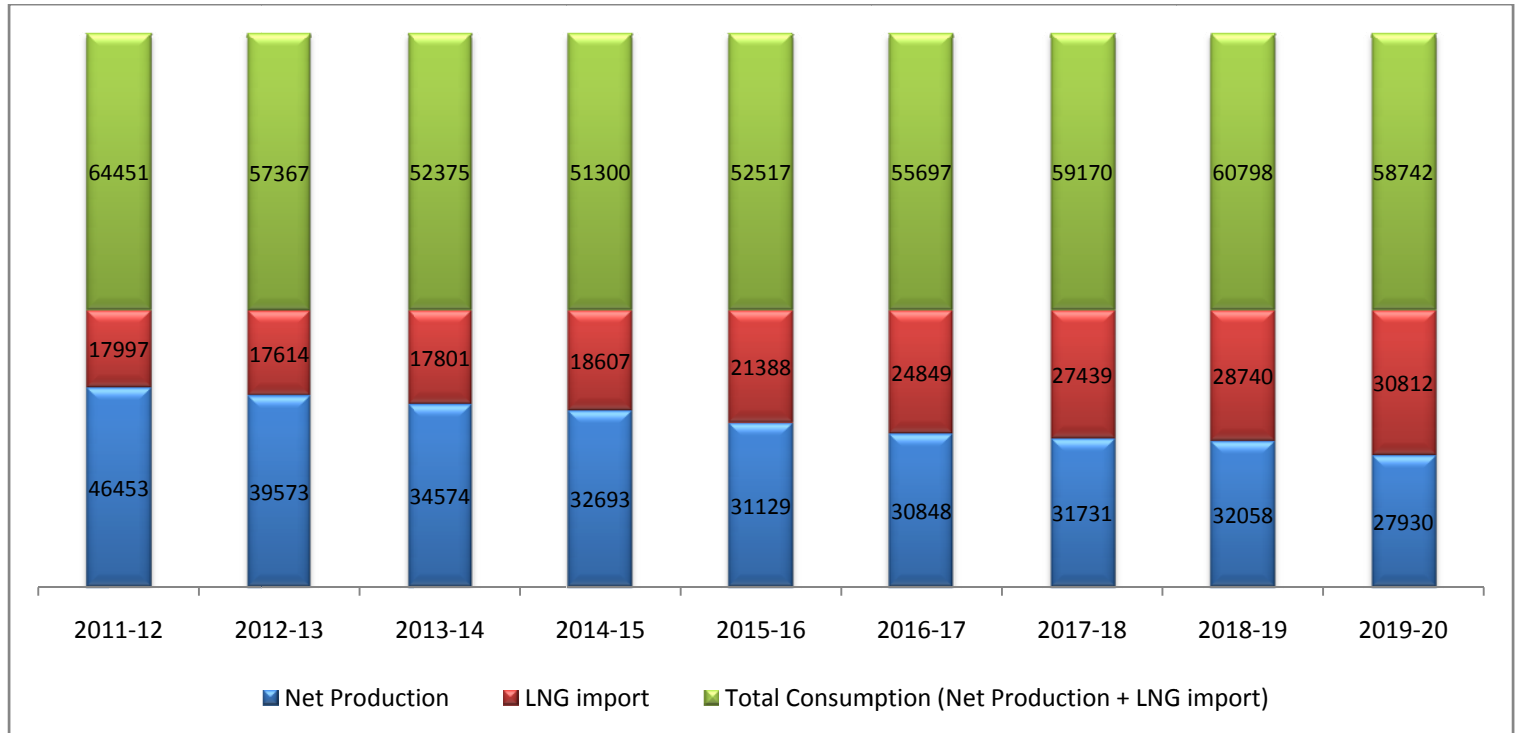
City Gas Distribution



Natural Gas sector overview

1. Natural Gas is the cleanest and most efficient of the fossil fuels. It is the only fossil fuel whose share of the primary energy mix is expected to grow, as it has the potential to play an important role in the world's transition to a cleaner, more affordable and secure energy future due to its high energy content, which results in lower emissions of carbon and volatile organic compounds (VOCs) at combustion, relative to coal and oil. These characteristics of gas provide substantial environmental benefits such as improved air quality and reduced CO₂ emissions. Apart from its environmental benefits, the growing preference for Natural Gas is also stemming from it being a safe, convenient, reliable and affordable source of energy.
2. World energy demand has been increasing steadily with Natural Gas accounting nearly half of increased consumption. Gas demand growth was especially strong in China and the United States, where cheap gas continues to replace coal for electricity generation. As per the International Energy Agency, India along with China is highly dependent on natural gas imports as domestic production exceeds consumption.
3. Crude Oil prices have always been at the forefront for all energy prices including Natural Gas. The crude oil prices have softened in FY 2019-20 compared to FY 2018-19 mainly influenced by economical and geo-political factors and off late by Pandemic COVID 19. There was some spike in the oil prices swing was on account of drone attack on Saudi Arabia oil installations in Sept 2019 but did not sustain for long. There had been continued rapid growth in oil production (shale oil) in the United States. The oil prices in FY 2019-20 had not seen major volatility in first three quarters of FY 2019-20. The oil prices stayed range-bound between US\$ 50/bbl to US\$65/bbl.
4. India was the third-largest energy consumer in the world after China and US in 2019. India's primary energy consumption has increased by around 58 percent between 2009 and 2019, reaching ~813 MToe. India's per capita energy consumption is one-third of the global average, indicating potentially higher energy demand in the long-term. Environmentally clean fuels, such as natural gas, are expected to play a dominant role in India's economic growth in the coming years.
5. India is also the 4th largest importer of Liquefied Natural Gas (LNG). The oil refining capacity of India stood at 249.4 million tonnes, making it the 2nd largest refiner in Asia.
6. Private companies own about 35.36 percent of the total refining capacity. India's energy demand is projected to double to 1516 Mtoe by 2035 from 753.7 in 2017. Moreover, India's share in global primary energy consumption is projected to reach 11 percent by 2040. This increase in consumption is expected to be supplemented by an alteration in the primary energy mix, on account of the substitution of oil by natural gas.
7. The proportion of gas in the country's primary energy mix stood at 6 percent of the total. The current consumption comprises about 80-90 MMSCMD of domestic production and the remaining comes by way of imports. The country has set an ambitious target to increase the share of natural gas from 6 percent to 15 percent in the total energy mix by 2030. To achieve this, the country needs to increase the current 166 MMSCMD per day in gas consumption to 600 million standard cubic metres per day by 2030.
8. Government's emphasis on creation of infrastructure along the entire gas value chain is also going to play an important role in making Natural Gas available across the country. The long-term City Gas Distribution (CGD) business outlook looks very positive in view of the following factors: Favorable regulatory environment addressing previous bidding round impediments with forward looking and investor friendly reforms. Rising population and rapid urbanisation, strong policy framework and guidelines in terms of CGD footprint expansion, mission PNG, smart cities, green corridors, etc., and the developments of CGD network in over 326 cities by 2022 and the ninth round of CGD bidding round called by PNGRB offering 86 new geographical areas in 174 districts, which will cover almost 29 percent of India's population.
9. Growth of India's share in the global energy market is expected to increase in the coming years. India has been mainly dependent on high polluting fuels viz. coal, Furnace Oil to meet its ever growing energy needs.

Trend of natural gas consumption in India (in MMSCM) [Till February 2020]



Source: Mahanagar Gas Limited Annual Report 2019-20

Key Government reforms

National Gas Grid Expansion plan: With an aim to boost the use of environment friendly fuel, the Government of India had laid down plans to expand the national natural gas pipeline network from current 16,200 km to 27,000 km, marking an increase of about 67%. Apart from encouraging people to use natural gas, the move is also expected to deepen the gas market in the country, and to facilitate transparent price discovery & ease of transactions across the nation.

Foreign Direct Investment (FDI) Inflows: The Government of India is encouraging FDI in the oil and gas sector to supplement and augment domestic investment and technological capabilities. At present, FDI policy in petroleum & natural gas sector allows 100% FDI through automatic route for exploration & production, refining by private companies, marketing of petroleum products, pipelines, storage and LNG regasification infrastructure and all related services. With this initiative, FDI inflows in India's petroleum and natural gas sector stood at US\$7.079 billion during April 2000 – December 2019.

Pradhan Mantri Ujjwala Yojana Scheme (PMUY): The PMUY scheme was launched in May 2016 with the objective of providing LPG connections to women from 'Below Poverty Line' (BPL) households with a support of H1600 per connection. The scheme was initially aimed to target 5 crore households and in February 2018 was revised to target 8 crore households by 2020. The ambit of the scheme was also expanded to cover all SC/ST households, beneficiaries of Pradhan Mantri Awas Yojana (Gramin), forest dwellers, backward classes, in addition to households identified under the Socio Economic and Caste Census. According to the Ministry, as of January 2020, a total of 8.03 crore PMUY connections have been released across 715 districts in the country. Nearly all states have seen a rapid increase in connections released under the scheme.

Exploration and Licensing Policy for Oil & Gas: The Cabinet had approved a policy framework on reforms in the exploration and licensing policy for oil and gas fields in February 2019. The policy is aimed to attract new investment in Exploration and Production (E&P) Sector.

Open Acreage License Policy (OALP): The Ministry of Petroleum & Natural Gas had announced Open Acreage Licensing Policy (OALP) for oil and gas exploration in the FY2016- 17. OALP is a part of the strategy to make India a business and investor friendly destination and cut

import dependence. It also gives companies an option to look for opportunities to explore hydrocarbons and select the exploration areas on its own. Owing to this, Government of India in its Union Budget FY 2020-21 announced that Hydrocarbon acreages covering 137,000 sq. km has been awarded to the private sector and central public sector enterprises for exploration, under the OALP. The government also awarded 32 blocks under OALP bid round 2nd and 3rd covering an approximate area of 59,000 sq. km during July 2019.

Overview of City Gas Distribution Market

Gas Pipeline infrastructure is an economical and safe mode of transporting natural gas by connecting gas sources to gas consuming markets. Gas pipeline grid determines the structure of the gas market and its development. Therefore, an interconnected National Gas Grid has been envisaged to ensure the adequate availability and equitable distribution of natural gas in India.

Supply of natural gas in the form of Piped Natural Gas (PNG) to households, commercial units and industries and supply of natural gas in the form of Compressed Natural Gas (CNG) to vehicles are part of the development of CGD network and the same is carried out by the entities authorized by Petroleum and Natural Gas Regulatory Board (PNGRB). So far, PNGRB has authorized 228 Geographical Areas spread over 406 districts with a potential to cover about 53 percent of the country's area and 70% of country's population. There are 2,086 CNG stations, 6.06 million domestic connections and 40,588 industrial and commercial connections in India as on February 2020. Approximately 76% of the CNG stations and around 80-90 percent of the PNG connections are concentrated in Delhi, Gujarat and Maharashtra. With the conclusion of the 9th and 10th rounds of bidding for CGD networks, the numbers of CNG stations and domestic PNG connections are expected to increase by 8,181 and 4.2 crore, respectively. Additionally, the PNGRB has proposed 44 new geographical areas for the upcoming 11th round of bidding for city gas distribution (CGD).

The City Gas Distribution ("CGD") business in India contributes around 17.57 percent of total natural gas consumption in India and leading the way with the highest CAGR amongst all sectors in the coming decade. The sector regulator Petroleum and Natural Gas Regulatory Board in FY20 awarded 50 CGD licenses for the Geographical Areas (GAs) announced during the 10th CGD Bidding Round on 8th November, 2018 covering 124 districts (112 complete and 12 part) in 14 states, 18% of India's geographical area and 24% of its population.

City Gas Distribution (CGD) market in India is projected to grow at a CAGR of 10% from an estimated 9,223 MMSCM (Million Metric Standard Cubic Meter) in 2020 to 25,570 MMSCM by 2030. Growth in the sector is anticipated on account of increasing natural gas demand from automotive, industrial, commercial as well as residential end-user segments. With an increasing number of favourable initiatives taken in the CGD sector by the Government of India, an increasing number of companies have been authorized and granted licenses in Round 9 and 10 to expand the CGD network in the country. In 2019, CGD sales in India were dominated by the CNG segment, owing to stringent environmental regulations and rapidly growing penetration of CNG fitted vehicles in India. Backed by booming PNG and CNG segments, the country's CGD network is anticipated to witness robust expansion in the coming years.

Opportunity in the sector

The Government is promoting the usages of clean and green fuel, i.e. Piped Natural Gas ("PNG") and Compressed Natural Gas ("CNG") by expanding the coverage of CGD network in the country. In order to promote the natural gas usage in the country, the Government has issued guidelines for making available domestic gas to the CGD entities for meeting the entire requirement of CNG for transport sector and PNG for Domestic.

In the coming Financial Year it is also expected that the PNGRB shall be announcing the 11th CGD Bidding Round wherein it is likely that many new GAs which are contiguous to the company's existing CGD operations shall also be included which presents opportunity to the existing players for expansion of their foot prints.

Gujarat Gas Limited (GGL)

April 01, 2021

Leadership position in the City Gas Distribution (CGD) space..

Gujarat Gas Limited (GGL), is India's largest City Gas Distribution player. The Company has total 25 CGD licenses and operates in 23 districts in the state of Gujarat, 7 districts in the state of Punjab, 5 districts in the state of Madhya Pradesh, 4 districts in the state of Rajasthan, 2 districts in the state of Maharashtra, 2 districts in the state of Haryana and is also operating in Dadra and Nagar Haveli in the Union Territory of Dadra & Nagar Haveli and Daman & Diu. In the recently concluded 10th CGD bidding round, the company has won 6 GAs in 17 cities in Punjab, Haryana, Madhya Pradesh and Rajasthan which presents volume sales opportunity of 3-3.5 mmscmd. The Company has an expanse of around 1,69,700 square kilometres of licensed area under its umbrella and continues to hold the leadership position of being the largest CGD Company in terms of market share with catering to more than 14.4 lakh residential consumers, over 12,600 commercial customers, dispensing CNG from 403 CNG stations for vehicular consumers and providing clean energy solutions to over 3,700 industrial units through its wide spread operations with more than 24,400 kilometres of Natural Gas pipeline network.

Strong player in Indian Industrial PNG market..

The inclusion of natural gas under GST will benefit the Company significantly as it will further improve industrial PNG demand.

Well poised to take advantage of Gujarat's infrastructure demand which will lead to good volume growth..

Gujarat has witnessed good CGD development in India supported by availability of the state gas grid, access to LNG terminals, and natural gas infrastructure. After the ninth CGD bidding round, all districts of Gujarat have been authorised for CGD development; and after completion of minimum work program (MWP), 100 percent of its GA and population would be covered by CGD network. It is interesting to note that Gujarat accounts for 29 percent of India's CNG station and CNG vehicles, 35 percent of domestic PNG connections, 65 percent of PNG connections, and 50 percent of industrial PNG connection. The Company has witnessed steep volume growth in industrial customers of around 63% compared to previous year. The volume increase was mainly on account of Ban on usage of Coal Gasifier in the Morbi industrial cluster (which is considered as Ceramic Hub of India) resulting in switchover to natural gas. This was challenging task technically as well as commercially but the company was able to meet this challenge through concentrated efforts. For this to happen, the company has laid 6 inch steel pipeline of 5 kms in record time of 28 days. The volume in commercial category has also grown by around 9 percent during the fiscal. The Company has continued its focused efforts for developing and growing PNG (Domestic) and CNG business. GGL added more than 93,000 residential customers and erected / commissioned 62 new CNG stations during the year. The Company has been able to sustain the volumes with growth of around 6% in the residential sector and around 10% in CNG (transport) sector. In FY20, the Company was able to connect around 329 new industrial units during the year. The Management has guided for Morbi's peak volume potential of 10mmscmd versus 6.5mmscmd currently and 8%-10% annual growth from pharma/chemical customers.

Strong performance witnessed in Q3FY21 and expected to continue

The Standalone Profit Before Tax (PBT) for the current quarter stood at Rs. 523.93 crore as compared to Rs. 263.20 crore in the corresponding quarter previous year. The Standalone PBT for the nine months period ended on 31st December 2020 grew by 40 percent to Rs. 1,236.49 Crore, as compared to Rs. 884.74 Crore during the corresponding period previous year. The Company's average gas sales volume for the quarter was at 11.44 mmscmd, up by 23% compared to corresponding quarter previous year. During the current nine months period ended on 31st December 2020, the Company commercialized 83 new CNG stations. The company's gas sales volume has shown a robust recovery

CMP	546 (Face value: Rs. 2)			
Book value	Rs. 48 per share			
Recommendation	Not rated			
52 Week High/Low	566.70/212.80			
Beta	0.40			
Market Cap	Rs. 35,668 crores			
EPS (TTM)/P/E(x)	17.10/32x			
BSE code	539336			
Bloomberg code	GUJGA:IN			
Promoter holding	60.9%			
3 year CAGR	Revenue - 27%, EBITDA - 30%, PAT - 76%			
Price performance	1 month: 2.77%, 3 months: 44.92%, YTD: 45.54%, 1 Year: 141.64%			
Particulars (Rs. crores)	9MFY21	FY20	FY19	FY18
Topline	6,553	10,526	7,754	6,339
EBITDA	1,589	1,709	1,078	931
EBITDA (%)	24.25	16.24	13.90	14.69
Profit after tax	948	1,199	416	291
PAT margin (%)	14.45	11.39	5.36	4.59
Equity share cap.	137.68	137.68	137.68	137.68
Networth	4,100	3,152	2,184	1,846
EPS (Rs.)	18.36	17.41	6.1	4.23
P/E (x)	30	31	90	129
RoNW (%)	23	32.9	20.6	15.8

Source: RHP, # denotes P/E and ROE on annualised 9MFY21 numbers,

post lockdown. In Q3FY21, in industrial and CNG category, the gas sales volume was up by 29 percent and 2 percent respectively compared to corresponding quarter previous year, and 16 percent and 20 percent respectively compared to previous quarter. The company currently continues to flow total gas volume above 11.50 mmscmd as against FY20 average sales of 9.44 mmscmd.

Robust balance sheet..

The Company currently has a comfortable liquidity position. The Company had not availed moratorium from term loan lenders and continues to service its debt obligations. The Company prepaid term loans of Rs. 988 crore during the nine months period ended on 31st December 2020, while continuing to service its debt obligations.

Investment recommendation and rationale

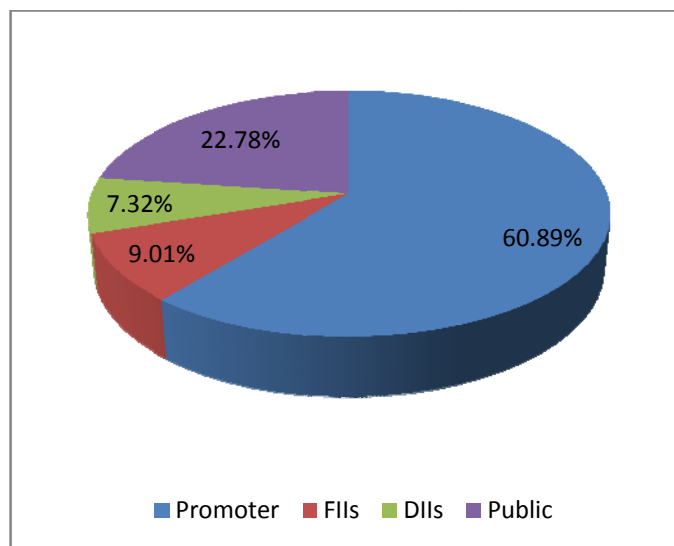
At CMP of Rs. 546, the Company is valued at P/E of 30x at 9MFY21 annualised EPS of Rs. 24.48 which we believe is at a premium considering its leadership position, strong growth witnessed in the recent past along with good return profile. We like the Company due to the following factors: a) Indian Government thrust on Natural Gas usage, b) Company's leadership position in the City Gas Distribution (CGD) space, c) strong player in Indian Industrial PNG market, d) well poised to take advantage of Gujarat's infrastructure demand which will lead to good volume growth, d) robust growth witnessed in past years, f) strong revenue visibility as volume growth is expected to be high considering NGT crackdown of polluting industrial areas in Gujarat, g) inclusion of natural gas under GST will benefit the Company significantly, h) good financial performance witnessed in Q3FY21 and expected to continue in coming quarters and years, f) strong balance sheet, good free cash flow generating capability with impressive ROEs, g) strong growth opportunity in the sector.

One year price movement



Source: Trading view

Shareholding of the Company



Top shareholders

	Name of the shareholder	Holding (%)
1)	Gujarat State Fertilizers & Chemicals Limited	6.82
2)	Gujarat Industrial Development Corporation	3.87
3)	Gujarat Alkalies and Chemicals Limited	3.10
4)	UTI-Long Term Equity Fund (Tax Saving)	1.26
5)	Bodies Corporate	14.97

Source: BSE, Moneycontrol

Challenges faced by the Company

The Company faces challenges in the form of stiff competition from other conventional fossil fuels due to accessibility and availability. The fuel also faces threat in the form of disparity in the tax structure compared to alternate fuels as PNG and CNG are still out of GST ambit. Notwithstanding these the Company shall continue to focus placing environmentally clean Natural Gas to affordable markets for sustainable growth.

Impact of COVID-19

Subsequent to the outbreak of Coronavirus (COVID-19) followed by countrywide lock down, the Company continued its uninterrupted supply of Natural Gas to its customers based on their requirement. However, the lockdown had an impact in the immediate natural gas demand, mainly from Industrial and CNG customers. As restrictions are being lifted gradually in many of Company's operating areas, demand has started showing up an increasing trend both in industrial and CNG segments.

Future outlook

The future outlook for natural gas in India depends on the growth in demand, the evolution of the pricing regime, and the pace of gas infrastructure expansion. With outbreak of pandemic COVID-19, the demand for oil & gas has deteriorated. The demand has improved with opening of the economy after the pandemic. The company has already adopted digitization of its critical processes and due to that these processes were least impacted during the Covid-19 lockdown period. Going forward also, the company shall leverage its endeavors for more digitization and aims to set benchmark in the CGD industry for complete E-Office, benefiting all the stakeholders viz. consumers, vendors, suppliers and employees.

India's Natural Gas supply and demand outlook is changing. The Government of India (GoI) wants to make India a gas-based economy by boosting domestic production and buying cheap LNG. India has set a target to raise the share of gas in its primary energy mix to 15% by 2030. To improve the share of Natural Gas and promote a gas-based and clean fuel economy, the GoI has adopted a systematic approach to focus on all aspects of the gas sector viz upstream, midstream and downstream including CGD network development.

Mahanagar Gas Limited (MGL) - "BUY"

April 01, 2021

Strong player in the City Gas Distribution (CGD) space..

Mahanagar Gas Limited was incorporated on 8th May 1995 with the objective of supplying natural gas as compressed natural gas (CNG) and piped natural gas (PNG) in Mumbai and the adjoining areas. The Company has blue chip shareholders GAIL (India) Ltd. ("GAIL") (32.5%) Government of Maharashtra ("GoM") (10.0%) Public and Other (57.5%). The Company is the Sole authorized distributor of CNG and PNG in Mumbai, its adjoining Areas and Raigad with more than 22 years track record in Mumbai. CNG accounts for 73 percent of its total volumes, 14 percent is accounted by domestic PNG and the balance from commercial/industrial PNG. As on 31st March 2020, the Company has over 5,600 kms of pipeline. MGL supplied gas to more than 11.68 lakhs households and 4,021 industrial and commercial customers. The Company has 265 CNG stations as on Q3FY21, with a cumulative compression capacity of 35.10 lakhs kg per day. With a wide network of over 5,630 kms of carbon steel (CS) and polyethylene (PE) pipeline, MGL has the distinction of pioneering the Natural Gas distribution network in Mumbai and its adjoining areas, serving over 1.5 million households. Domestic PNG is used for various purposes like cooking and water heating. It is also widely used in hospitals, nursing homes, hotels, flight kitchens, restaurants, places of worship etc. PNG efficiently satisfies fuel requirements across all segments and is a non-polluting and an economical energy source. In FY20, the Company has added 329 industrial and commercial customers, to reach over 3,949 small commercial establishments and 72 industrial establishments.

Rapidly expanding CGD network with strong addition of customers..

MGL is rapidly expanding its CGD network in the existing license areas. During Q3FY21, 49,171 domestic households were connected. Thus, the Company has established connectivity for nearly 1.5 million households. It has added 6 new CNG stations and with these it has 265 CNG stations. The Company also added 47 industrial and commercial consumers and at Q3FY21 end it had 4,093 industrial and commercial customers. With regards to Raigad geographical area, the Company is connected to more than 39,500 domestic households and 18 CNG stations are currently operational. CNG stations in Raigad has crossed the average level of 41,000 kg per day in the month of December 2020. It is expected to go up when some more CNG stations become operational in coming months.

Strong performance witnessed in Q3FY21 and expected to continue

Significant volume recovery trend is seen in Q3FY21 with an increase of 34 percent in overall sales volume compared to previous quarter. In case of CNG sales volume has increased from 1.276 MMSCMD to 1.883 MMSCMD which is an increase of 48 percent. In case of domestic sales volume has increased from 0.463 MMSCMD to 0.509 MMSCMD which is an increase of 10% while in case of industrial and commercial segments sales volume has increased from 0.334 MMSCMD to 0.378 MMSCMD an increase of 13% compared to the previous quarter. As a result, Q3FY21 EBITDA stood at Rs. 317 crore which is 43 percent higher as compared to previous quarter EBITDA of Rs. 221 crore. EBITDA margins too improved to 47.5 percent for Q3FY21 as compared to previous quarter EBITDA margin of 43.6 percent. Net profit after tax stood at Rs. 217 crore for the quarter as compared to Rs. 144 crore in the previous quarter representing a 51% increase. The Company is debt free and currently has a comfortable liquidity position

MGL at an inflection point for strong growth..

MGL seems to be at a takeoff point for rapid progress in next three to four quarters in view of new highs in margins. Sales volume crossing 3 million standard cubic meter per day in Q3 and infrastructure getting ready in Raigad to tap industrial load. Going ahead, MGL is expected to witness steady or even improved EBITDA margin per unit depending upon successful negotiation with OMCs on trade discount matter provided factors like spot gas prices, Brent level and rupee dollar exchange rate remains favorable.

CMP	Rs. 1,181
FV	Rs. 10
Book value	Rs. 362 per share
Target price	Rs. 1,500
Upside	27%
52 Week High/Low	Rs. 1,257/Rs. 758.7
Beta	0.42
Market Cap	Rs. 11,670 crores
EPS (TTM)/P/E	Rs. 57.89/20x
BSE code	539957
Bloomberg code	
Promoter holding	32.5%
3 year CAGR	Revenue - 13.7%, EBITDA -17.8%, PAT 26.3%
Price performance	1 month: 1.98%, 3 months: 11.47%, YTD: 11.34%, 1 Year: 44.99%

Particulars (Rs. crores)	9MFY21	FY20	FY19	FY18
Topline	1,554	3,264	3,057	2,453
EBITDA	681	1,053	885	780
EBITDA (%)	43.8	32.2	28.9	31.8
Profit after tax	406	794	546	478
PAT margin (%)	26.1	24.3	17.8	19.5
Equity share cap.	98.78	98.78	98.78	98.78
Networth	3,359	2,953	2,399	2,095
EPS (Rs.)	41.18	80.33	55.31	48.38
P/E (x)	22	14	21	24
RoNW (%)	-	26.87	22.78	22.81

Source: RHP, # denotes P/E and ROE on annualised 9MFY21 numbers,

Investment recommendation and rationale

At CMP of Rs. 1,181, the Company is valued at P/E of 22x at 9MFY21 annualised EPS of Rs. 54.91 and P/E of 14x at FY20 EPS which is at a discount against its immediate listed players. We recommend a "BUY" with target price of Rs. 1,500 (14x at estimated FY22 EPS of Rs. 107). Our conviction on the Company stems from the fact that CNG is most preferred fuel by auto consumers as it is priced at a significant discount to petrol and diesel. The Company has recovered from COVID-19 crisis and has witnessed robust recovery in high margin CNG volumes to more than 90% of pre-COVID-19 levels and has strong volume growth prospects led by Development of Raigad GA (0.6 mmscmd volume potential or 20% of MGL's FY2020 gas sales volume). We like the Company considering its Monopoly status in CNG space – Mumbai and adjoining areas, extensive supply network built over 20 years, infrastructure exclusivity prevailing in Mumbai, 2030 in its Adjoining Areas and 2040 in Raigad, underpenetrated market with significant potential for expansion, robust infrastructure in place to support future growth, favourable regulatory environment, focused growth strategy in place, significant entry barriers for competitors to enter into its area of operation such as infrastructure exclusivity, requirement of large investments to establish a natural gas distribution network, lead time in allocation of domestic natural gas and obtaining the required regulatory approvals.. Natural gas penetration in Maharashtra is around 30 percent implying huge growth potential. The Company enjoys robust return ratios, is debt free and has a strong balance sheet.



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NATURAL GAS DISTRIBUTION CHAIN



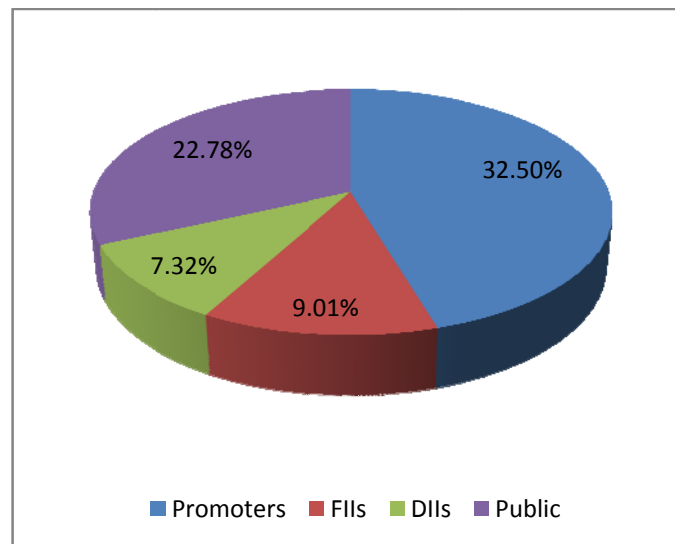
Source: Company Annual Report

One year price movement



Source: Trading view

Shareholding of the Company



Top shareholders

	Name of the shareholder	Holding (%)
1)	GAIL (Promoter)	32.5
2)	Vontobel Fund - Mtx Sustainable Emerging Markets Leaders	7.83
3)	Fidelity Investment Trust Fidelity Series Emerging Markets Opportunities Fund	3.12
4)	Life Insurance Corporation Of India	5.12
5)	Schroder International Selection Fund Emerging Asia	2.85
6)	Hdfc Life Insurance Company Limited	2.55
7)	L And T Mutual Fund Trustee Ltd-L And T Mid Cap Fund	1.58
8)	Sbi Life Insurance Co. Ltd	1.33

Source: BSE, Moneycontrol

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Disclosure for Companies discussed in this Newsletter: a) Gujarat Gas Limited, b) Mahanagar Gas Limited

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Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

Not rated/Neutral - No recommendation but only outlook given

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