Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	30,067	9.0	-27.1
Nifty-50	8,792	8.8	-27.7
Nifty-M 100	11,930	5.4	-30.2
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	2,659	-0.2	-17.7
Nasdaq	7,887	-0.3	-12.1
FTSE 100	5,704	2.2	-24.4
DAX	10,357	2.8	-21.8
Hang Seng	9,847	2.0	-11.8
Nikkei 225	18,950	2.0	-19.9
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	27	-10.3	-59.7
Gold ($/OZ)	1,648	1.7	8.6
Cu (US$/MT)	5,019	4.0	-18.4
Almn (US$/MT)	1,440	-0.6	-19.2
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	75.6	-0.7	5.9
USD/EUR	1.1	0.8	-2.9
USD/JPY	108.8	0.2	0.1
YIELD (%)	**Close**	**1MChg**	**CYTDchg**
10 Yrs G-Sec	6.4	0.11	-0.1
10 Yrs AAA Corp	7.5	0.05	-0.1
Flows (USD b)	**7-Apr**	**MTD**	**CYTD**
FIIs	0.10	-0.20	-6.90
DIIs	0.10	0.17	10.21
Volumes (INRb)	**7-Apr**	**MTD***	**CYTD***
Cash	550	436	439
F&O	7,658	8,174	15,008

Note: *Average

Today's top research idea

Technology: Expect COVID-19 uncertainty to overshadow 4Q results

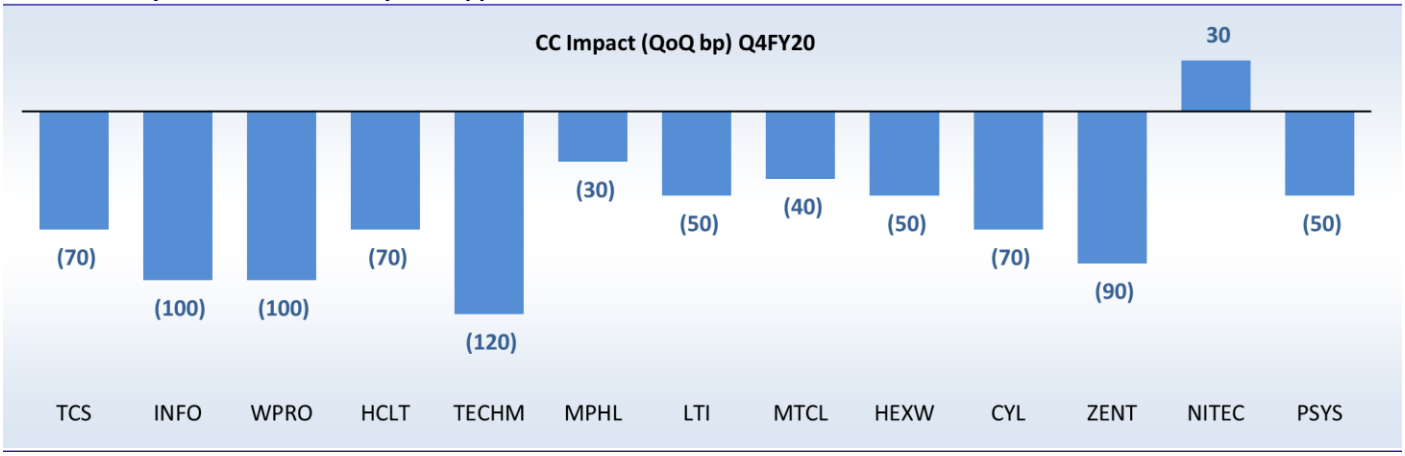
- Second half of 4QFY20 witnessed varying levels of COVID-19 disruption across most of the core markets of IT companies like the US, Europe and even India. We expect MOFSL IT coverage universe to post revenue (USD) / EBIT (INR) / PAT to grow 6%/4%/-2% YoY in 4Q. Given the unprecedented level of uncertainty around the global macro and the multiple moving parts, visibility on near-term growth/profitability is challenged.
- We expect companies to delay their guidance on FY21 outlook or provide a wide guidance band, subject to sharp revisions later on as clients relook at their IT budgets. Commentary around deal closures and ramp ups, expected pressure on pricing, sharing INR depreciation benefit will be important areas of investor focus. Despite the near-term uncertainty, we continue to prefer Infosys and HCLT among large caps, and LTI among Tier II.
- This is attributable to their historical track record in adapting to business challenges/technology change cycles. Besides, we find the P/E multiples of these stocks to be meaningfully lower than their historical averages, offering adequate margin of safety.

Research covered

Cos/Sector	Key Highlights
Technology	Expect COVID-19 uncertainty to overshadow 4Q results
Consumer	Commodity costs largely benign; packaging costs to drop
PNB Housing Finance	AUM declines sequentially; adequate liquidity

Chart of the Day: Technology (Expect COVID-19 uncertainty to overshadow 4Q results)

Cross-currency headwinds driven by USD appreciation



Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

India Panel Recommends Partial Lifting of Lockdown

A panel of Indian government ministers advised Prime Minister Narendra Modi to partially lift the lockdown imposed on March 25 to control the spread of the coronavirus outbreak, people with knowledge of the matter said…

2

SBI reduces loan, savings deposit rates

State Bank of India (SBI) on Tuesday trimmed the marginal cost of funds-based lending rate (MCLR) by 35 basis points (bps) across tenors. The lender, however, simultaneously cut deposit rates moving to protect its margins; the savings deposit rate was lowered by 25 bps to 2.75% and will save the lender an estimated Rs 2,800 crore. The bank has found itself with around Rs 31,000 crore of extra liquidity after the recent cut in the CRR…

3

Centre working to provide insurance for truckers soon

The Centre is likely to roll out a short-term insurance cover for nearly eight lakh truck drivers and assistants who transport essential goods across the country…

4

Centre may require additional Rs5 lac crore to support economy hit by COVID-19: Subhash C. Garg

The Centre may need to borrow 2-2.5 per cent of GDP or about Rs 4-5 lakh crore additionally for supporting people and businesses hit hard by the coronavirus outbreak and nationwide lockdown, according to former finance secretary Subhash Chandra Garg...

5

Skoda to fund dealers' April-June fixed cost, new launches on schedule

Czech carmaker Skoda Auto will provide financial support to its dealers in India to cover their fixed cost for the April-June quarter, as their outlets are shut due to the nationwide lockdown and the future remains uncertain.

6

States pick up Rs 32,560 crore from bond market, long-tenor yields shoot up

In what is believed to be one of the largest state development loan (SDL) auctions conducted in a single week, nineteen states have picked up a total of Rs 32,560 crore from the bond market on Tuesday against the notified amount of Rs 37,500 crore…

7

Covid-19 relief: Lenders want SBI to include NBFCs under moratorium

Several lenders are trying to convince State Bank of India to cover non-banking finance companies (NBFCs) under the moratorium announced by the regulator as part of the COVID-19 relief package…

Technology

Result Preview

Cyient
HCL Tech
Hexaware
Infosys
L&T Infotech
Mindtree
Mphasis
NIIT Tech
Persistent
TCS
Tech Mahindra
Wipro
Zensar

Expect COVID-19 uncertainty to overshadow 4Q results

Low expectations due to partial disruption during the quarter

Growth/margins to be impacted across most companies

- We expect MOFSL coverage universe to post revenue (USD) / EBIT (INR) / PAT to grow 6%/4%/-2% YoY in 4Q.
- On a sequential basis, Tier I revenue should move in the range of (0.5)%-1.3% (CC) and (1.7)%-0.6% (USD) with HCLT/TechM leading/lagging the pack.
- Across Tier II, revenue should move in the range of (2.5)%-3% (CC) and (3.2)%-2.5% (USD) with LTI/Cyient leading/lagging the group.
- While we expect EBIT margins of Tier I to contract to the tune of 20-40bp (QoQ), margins of our Tier II coverage should move in the range of (80)-420bp.
- Second half of 4QFY20 witnessed varying levels of COVID-19 disruption across most of the core markets of IT companies like the US, Europe and even India.
- Most of our coverage companies did a reasonable job in controlling the damage by resorting to options like 'work from home'.
- However, it should be noted that not all service offerings are amenable to be delivered from home for a variety of reasons. In conjunction with lower productivity, both billing and utilizations in 4Q should witness an impact.

Expect guidance on FY21 growth/margins to be delayed

- Given the unprecedented level of uncertainty around the global macro and the multiple moving parts, visibility on near-term growth/profitability is challenged.
- Accordingly, we expect companies like Infosys/HCLT to delay their FY21 growth/margin guidance to the subsequent quarters.
- Even if they were to guide, these guidance bands will likely be wider than usual and subject to sharp revisions later on as clients relook at their IT budgets.
- In that context, deal signings during 4Q (especially in the second half) will likely be a key area of investor focus as it is the latest available proxy for demand.
- In addition, qualitative cues around the adaptability of different companies to the new work paradigm will be the key thing to watch out for.
- This may include their ability for end-to-end digitization of key processes like deal signings, employee onboarding and deal ramp ups.
- Commentary around expected pressure on pricing, INR depreciation benefit and receivables will be another important area of investor focus.

Expect near-term uncertainty due to COVID-19; prefer INFO, HCLT and LTI

- Given the continuously evolving nature of COVID-19, demand, supply, pricing and receivable uncertainties should remain in the near term.
- Negative news flow around the sector may likely continue given the seriousness of COVID-19 situation in the core geographies like the US, UK and EU.
- In that backdrop, we expect the stocks to trade below their long-time cross cycle average P/E multiples until the time this uncertainty is behind.
- Despite the near-term uncertainty, we continue to prefer Infosys and HCLT among large caps, and LTI among Tier II. This is attributable to their historical track record in adapting to business challenges/technology change cycles.
- Besides, we find the P/E multiples of these stocks to be meaningfully lower than their historical averages, offering adequate margin of safety.

Estimates

	Revenue (USD m)					Revenue (INR b)				
Company	**4QFY20E**	**3QFY20**	**QoQ (%)**	**4QFY19**	**YoY (%)**	**4QFY20E**	**3QFY20**	**QoQ (%)**	**4QFY19**	**YoY (%)**
TCS	5,566	5,586	-0.4	5,250	6.0	401	399	0.6	380	5.4
Infosys	3,211	3,243	-1.0	3,060	4.9	231	231	0.1	215	7.3
Wipro	2,075	2,095	-1.0	2,076	0.0	154	155	-0.6	150	2.5
HCLT	2,558	2,543	0.6	2,278	12.3	185	181	2.0	160	15.7
TECHM	1,330	1,353	-1.7	1,268	5.0	96	97	-0.8	89	7.7
Aggregate	**14,740**	**14,820**	**-0.5**	**13,931**	**5.8**	**1,066**	**1,062**	**0.4**	**994**	**7.2**
	EBIT Margin (%)					**PAT (INR b)**				
Company	**4QFY20E**	**3QFY20**	**QoQ (bp)**	**4QFY19**	**YoY (bp)**	**4QFY20E**	**3QFY20**	**QoQ (%)**	**4QFY19**	**YoY (%)**
TCS	24.7	25.0	-29	25.7	-96	80	81	-1.6	84	-4.4
Infosys	21.6	21.9	-32	21.4	17	42	45	-5.7	41	3.2
Wipro	16.9	17.1	-22	17.0	-6	24	25	-4.3	25	-5.5
HCLT	19.9	20.2	-30	19.0	93	29	30	-3.9	26	13.7
TECHM	11.8	12.2	-38	15.4	-356	9	11	-25.7	11	-24.8
Aggregate	**20.9**	**21.2**	**-28**	**21.5**	**-52**	**183**	**192**	**-4.7**	**186**	**-1.6**

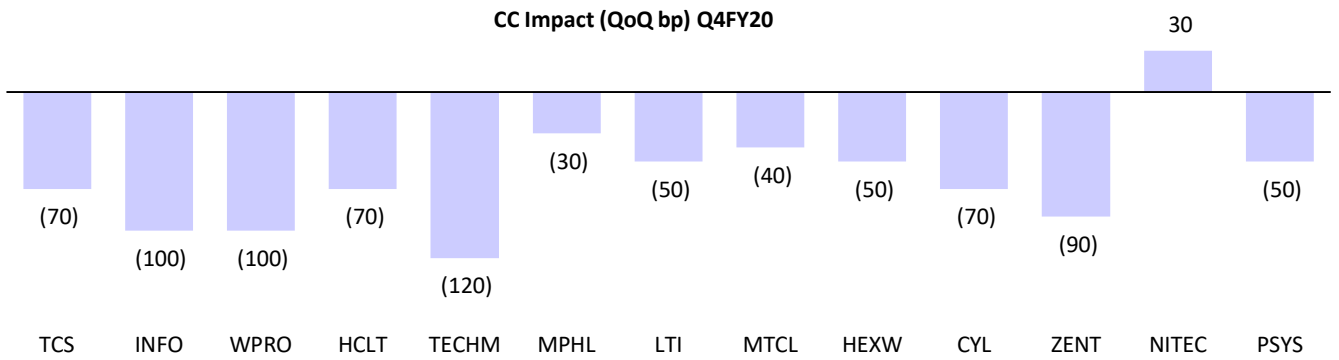
Source: Company, MOFSL

Mid-caps should report slightly better performance than Tier I

	Revenue (USD m)					Revenue (INR b)				
Company	**4QFY20E**	**3QFY20**	**QoQ (%)**	**4QFY19**	**YoY (%)**	**4QFY20E**	**3QFY20**	**QoQ (%)**	**4QFY19**	**YoY (%)**
LTI	404	394	2.5	354	14.3	29	28	3.5	25	17.1
Mindtree	277	275	0.6	262	5.7	20	20	1.4	18	8.4
Mphasis	324	318	2.0	292	11.2	23	23	2.0	20	14.6
NIIT Tech	154	151	2.3	132	16.4	11	11	3.6	9	19.4
Hexaware	210	214	-2.0	180	16.7	15	15	-1.1	13	19.6
Persistent	126	129	-3.0	118	6.1	9	9	-2.0	8	8.7
Zensar	140	143	-2.4	149	-5.9	10	10	-1.3	10	-3.9
Cyient	150	155	-3.2	165	-9.0	11	11	-2.2	12	-7.0
Aggregate	**1785**	**1780**	**0.3**	**1652**	**8.1**	**128**	**127**	**1.1**	**116**	**10.8**
	EBIT Margin (%)					**PAT (INR b)**				
Company	**4QFY20E**	**3QFY20**	**QoQ (bp)**	**4QFY19**	**YoY (bp)**	**4QFY20E**	**3QFY20**	**QoQ (%)**	**4QFY19**	**YoY (%)**
LTI	16.6	16.2	38	17.7	-106	4	4	2.6	4	2.0
Mindtree	12.6	12.0	60	12.9	-28	2	2	-2.9	2	-3.6
Mphasis	15.7	16.2	-51	15.8	-10	3	3	0.8	3	11.2
NIIT Tech	14.3	13.9	38	14.4	-14	1	1	0.2	1	11.2
Hexaware	13.1	13.4	-30	13.8	-70	2	2	-6.3	1	13.3
Persistent	8.0	8.7	-77	10.7	-271	1	1	-16.2	1	-12.7
Zensar	7.0	2.8	425	10.8	-375	1	0	59.7	1	-27.1
Cyient	8.9	9.6	-71	12.8	-392	1	1	-9.2	2	-46.8
Aggregate	**13.2**	**12.8**	**37**	**14.3**	**-109**	**14**	**14**	**-0.3**	**15**	**-4.2**

Source: Company, MOFSL

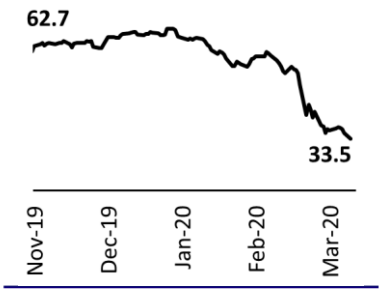
Cross-currency headwinds driven by USD appreciation



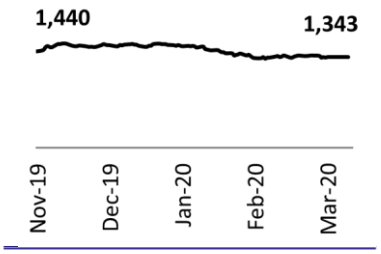
Source: Company, MOFSL

Consumer

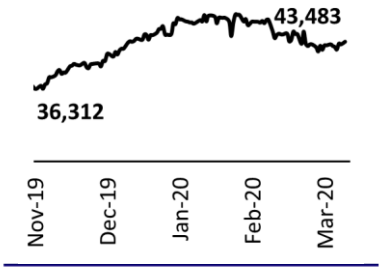
Brent Crude Index



Mentha Oil prices INR/kg



Palm Fatty Acid price (INR/MT)



Commodity costs largely benign; packaging costs to drop

Savior in subdued demand environment

In this edition of our consumer sector update, we analyze price movement in key commodities and identify companies under our coverage that could benefit from or be negatively impacted by it. It is relevant to analyze price trends from the perspective of 4QFY20 earnings and beyond as topline growth in the sector is expected to be subdued due to various factors, while the commodity cost impact being quite sharp in some cases.

Commodity costs remain largely benign for consumer companies

- Consumer companies are expected to witness subdued sales growth due to an uncertain demand environment, disruption in the supply chain on account of COVID-19-related lockdown, channel liquidity issues, and rural slowdown, among other factors. However, we believe lower input costs would offer some relief to companies, providing room for spending on promotions/price-offs and other offers to drive up category volumes once the lockdown impact ends. But, rising competitive intensity would also mean low material cost's benefits would be nowhere near as high as they would in a more favorable operating environment. Moreover, most companies in the sector have curtailed ad spend / new launches due to persistently weak demand. Therefore, promotion intensity is expected to be high and affect realization and sales growth in the quarter.
- **Crude prices plummet:** After trending up on a QoQ basis in 3QFY20, crude prices began their downtrend 4QFY20 onwards – down 18.5% sequentially (up 1.1% in 3QFY20), down 19.3% YoY, and down 39.1% MoM at USD33.5 per barrel levels (monthly average for March). A similar level was witnessed in Feb'16, when crude prices came in at USD33 per barrel (previously observed in Mar'04).
- **Agri commodity basket sees moderate inflation/deflation in 3QFY20:** The sugar index fell 2.4% QoQ / 2.6% YoY. On the other hand, wheat cost rose 7.5% YoY / fell 3.1% QoQ, against fears of a further sequential increase. Barley cost continued at high levels (up 10.8% YoY / 0.2% QoQ). Similarly, palm oil costs were up 33.4% YoY / 7.5% QoQ. Mentha prices declined 21.8% YoY and 3.4% QoQ. Copra costs came in flat YoY, but were up 6.5% QoQ (YTD Feb'20).
- **Non-agri commodity basket, barring gold and PFAD, sees deflation:** VAM costs declined 18.2% YoY / 0.8% QoQ. Tio2 costs were down 9.5% YoY / 3.5% sequentially. Up to Feb'20, HDPE costs declined ~15.2% YoY YTD, and LLP costs were down 2.1% YoY YTD. Gold prices (MCX Gold) expanded 26.1% YoY and 7.3% sequentially. PFAD prices were up 49.5% YoY / 26.8% QoQ.
- **On an MoM basis, the entire commodity cost basket declined 4.4% on average, v/s rising 1.2% QoQ and 2.7% YoY.**

Impact on top picks: Hindustan Unilever (HUVR), Marico (MRCO)

- **HUVR**: HUVR is witnessing inflation in palm oil, but has undertaken adequate price increases. Packaging costs are declining significantly, which would support gross margins. Moreover, the company's cost-saving measures, along with premiumization across the portfolio, should aid margin improvement going forward.
- **MRCO:** Copra costs still remain flat YoY, while other costs continue to decline, filliping overall margin growth.

Other material beneficiaries: APNT, PIDI, CLGT, and HMN

- **APNT and PIDI**: APNT and PIDI are significant beneficiaries of declining VAM, Tio2, and crude costs in the quarter. The sales growth outlook, however, weakened in the last month of the quarter and remains weak during the lockdown period.
- **CLGT**: The company is a significant beneficiary of the moderate crude price-related packaging cost.
- **HMN:** Following several quarters of inflation impact on mentha, HMN is expected to be a key beneficiary of ongoing decline in mentha and packaging costs. A weak growth outlook, however, would likely restrict the potential upside from such benefits.
- **UBBL and GSKCH:** Continued high barley costs are likely to impact the gross margins of UBBL and GSKCH.
- **BRIT**: Wheat and sugar costs, which have been declining sequentially, witnessed lower-than-expected inflation YoY. From an operating margin standpoint, the company's strategy of holding a very high level of lower cost inventory has proved successful. Its all-time high margins in recent quarters and the sequential deflation in wheat and sugar cost potentially indicates it has tided over the threat of material cost inflation.

PNB Housing Finance

BSE SENSEX	S&P CNX
30,067	8,792

Bloomberg	PNBHOUSI IN
Equity Shares (m)	167
M.Cap.(INRb)/(USDb)	28.3 / 0.4
52-Week Range (INR)	942 / 146
1, 6, 12 Rel. Per (%)	-24/-50/-59
12M Avg Val (INR M)	420

Financials & Valuations (INR b)

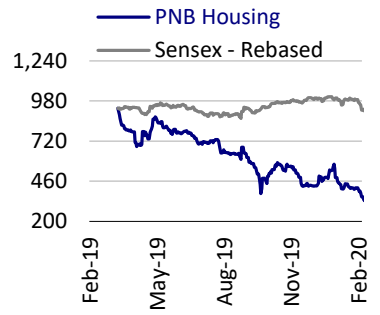
Y/E March	2020E	2021E	2022E
NII	17.9	19.2	22.9
PPP	20.8	19.9	23.5
PAT	11.3	11.0	13.8
EPS (INR)	67.5	65.7	82.4
EPS Gr. (%)	-5.1	-2.7	25.4
BV/Sh. (INR)	508	564	634
Ratios			
NIM (%)	2.5	2.8	3.1
C/I ratio (%)	20.8	23.4	22.8
RoAA (%)	1.4	1.3	1.6
RoE (%)	14.1	12.3	13.8
Payout (%)	15.0	15.0	15.0
Valuations			
P/E (x)	2.5	2.6	2.0
P/BV (x)	0.3	0.3	0.3
Div. Yield (%)	5.0	4.9	6.1

Shareholding pattern (%)

As Of	Dec-19	Sep-19	Dec-18
Promoter	32.7	32.7	32.8
DII	6.6	7.1	9.8
FII	23.1	23.4	19.2
Others	37.6	36.8	38.2

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR168 **TP: INR190 (+13%)** **Neutral**

AUM declines sequentially; adequate liquidity

- PNB Housing Finance (PNBHF) disclosed some key details of the quarter gone by in an exchange release.
- **The company ended the fiscal year with AUM of ~INR840b (-3% QoQ/-1% YoY).** According to our calculations, disbursements during the quarter would have been INR35-40b (down 50-60% YoY). In our view, disbursements are likely to be muted due to (a) lower incremental demand post COVID-19, (b) scale-back in corporate lending and (c) high leverage.
- **The company raised deposits of INR92b in FY20 (~INR15b in 4QFY20)** – note that the share of deposits stood at 19% of total borrowings in 9MFY20 (+200bp QoQ). **On an incremental basis, PNBHF is able to raise 1-3 year retail deposits at 7.5-7.6% (down 30-40bp over the past six months).** Note that as of FY19, 82% of deposits were retail, thus adding to the granularity of the deposit portfolio.
- **Margins and liquidity: The company ended the year with INR76b of liquidity on the balance sheet (ex-SLR investments).** In addition, it has INR40b of undrawn lines from banks outstanding. Note that this was after net borrowing repayment of INR25b during the quarter. **Loan spread is expected to be within the guided range of 2.1-2.15% for the year.**
- PNBHF entered into an agreement for a USD75m ECB from Japan International Cooperation Agency (JICA) with USD25m co-financing from Citibank. The loan is for a five-year tenure and for providing affordable housing finance to low-income households.

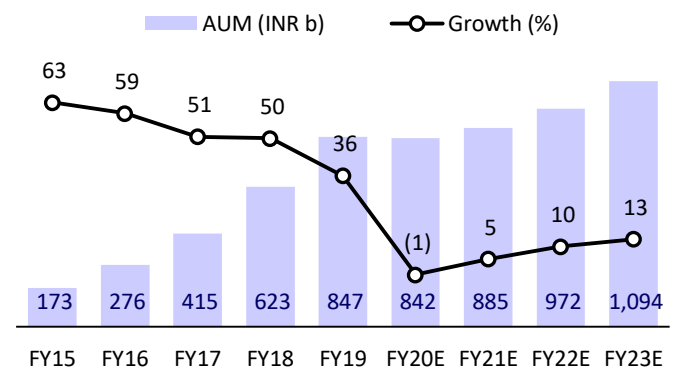
Valuation and view

The past 4-6 quarters have been tough for PNBHF on both liability and asset sides. The company has not been able to raise adequate money from capital markets and relied largely on bank loans and securitization for incremental debt capital. High securitization volumes have also boosted earnings in FY20 due to upfront income recognition under Ind-AS. **On the asset side, the company has witnessed slowing growth and an increase in the GNPL ratio (up 100bp to 1.45%). Recovery of stressed corporate accounts would now be delayed due to the impact of COVID-19 on the real estate sector.** While on-balance sheet leverage has declined over the past four quarters, it is still high at 9x. **The ability to raise equity capital will determine the near-to-medium term trajectory of the company.** We cut our FY21-22 EPS estimates by 8-11% to factor in lower growth and higher credit costs. Note that our estimates do not factor in any capital raise. PNBHF is likely to deliver high-single-digit AUM CAGR with RoE of 12-14%. Maintain Neutral with a TP of INR190 (0.3x FY22E BVPS).

We cut our estimates by 8-11% to factor in lower growth and higher credit cost

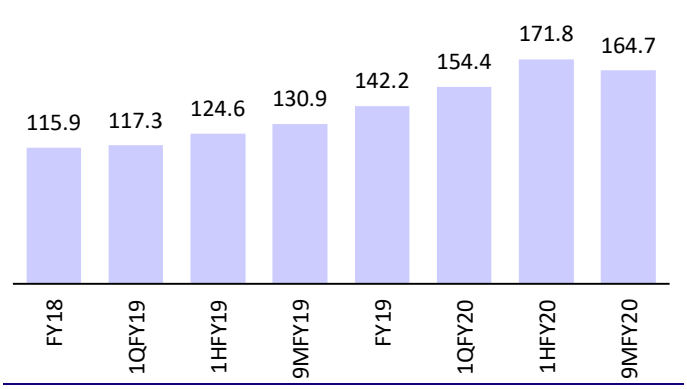
INR b	Old Est.		New Est.		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
NII	20.4	23.9	19.2	22.9	-5.9	-4.3
Other Income	6.8	7.7	6.8	7.6	-1.2	-1.5
Total Income	**27.3**	**31.6**	**26.0**	**30.5**	**-4.7**	**-3.6**
Operating Expenses	6.1	7.0	6.1	6.9	-1.1	-1.1
Operating Profits	**21.1**	**24.6**	**19.9**	**23.5**	**-5.8**	**-4.3**
Provisions	5.3	5.4	5.9	5.9		
PBT	**15.8**	**19.2**	**14.0**	**17.6**	**-11.3**	**-8.2**
Tax	3.4	4.1	3.0	3.8	-11.3	-8.2
PAT	**12.4**	**15.0**	**11.0**	**13.8**	**-11.3**	**-8.2**
ROAA (%)	**1.5**	**1.7**	**1.3**	**1.6**		
RoAE (%)	**13.7**	**14.7**	**12.3**	**13.8**		

AUM growth to be modest



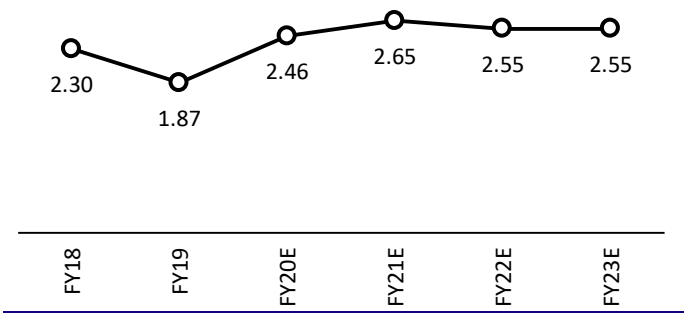
Source: MOFSL, Company

Deposit franchise ramping up (INR b)



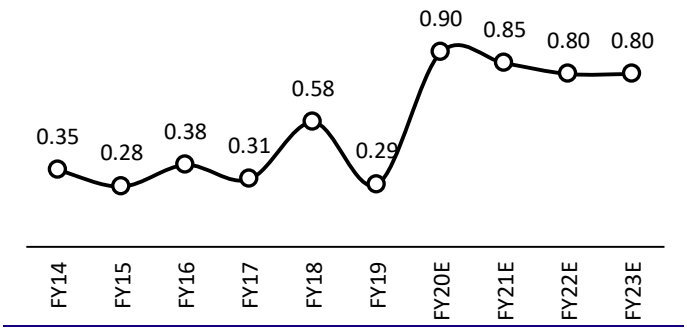
Source: MOFSL, Company

Trend in spreads (%)



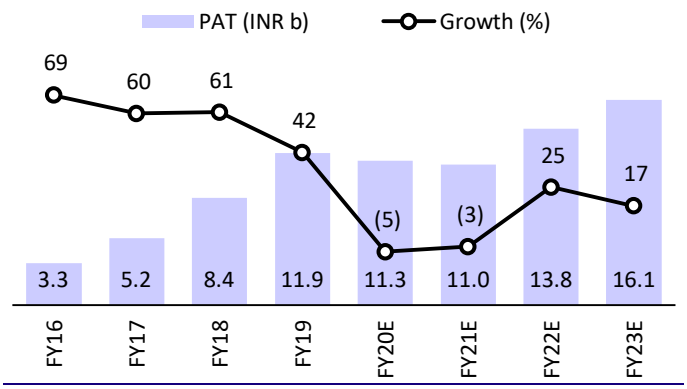
Source: MOFSL, Company

Credit costs to remain elevated (%)



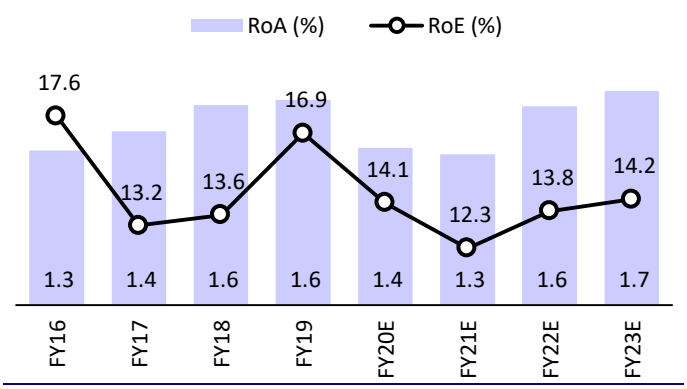
Source: MOFSL, Company

Profits under pressure



Source: MOFSL, Company

Expect 12-14% RoE going forward



Source: MOFSL, Company

IPCA LABS: PREPARED TO SUPPLY 10 CRORE TABLETS OF HYDROXYCHLOROQUINE TO INDIAN GOVERNMENT; A K Jain, Joint MD

- Whatever order government has given to company (of Hydroxychloroquine), will be servicing this month itself. They have given an order for around six crore tablets, so will be servicing everything. In spite of logistics problem and all other problem will make sure there is no delay in supplying the medicine.
- Don't need new production to supply. In this month itself company will get 20 tonnes more of API, India requirement is only 4 tonnes of this and building sufficient stock and supplying to domestic market. Will service the domestic market; will service the government demand and whatever buffer that is needed even if the patient number goes up.
- Have already moved 1 crore tablets to the government last week, this was 2 crore tablets that I had provided to other institutions. So, in this order of 6 crore, have already supplied 3 crore tablets.

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AN ALTERNATIVE SAFETY REGIME FOR INDIA AFTER WE LIFT THE LOCKDOWN

- Before discussing the Indian lockdown, it is useful to recall the definition of a “lockdown". Broadly, it could mean either the confinement of prisoners to their cells, typically in order to regain control during a riot, or a state of human isolation or restricted access instituted as a security measure. The security measures instituted in India are meant to protect us against a viral threat. This threat is compounded by irresponsible foreign tourists and citizens who refuse to take the risk of person-to-person transmission seriously enough, and do not take precautionary measures such as home quarantining themselves. The spread of covid-19 has resulted in countries deciding to announce “lockdowns" to stop or at least slow the mass spread of the disease. The precise nature of the shutdown is not identical in every country, though. India has announced a temporary countrywide lockdown, with only “essential commodities/services" and their supply chains exempt. This is based on the advice of the medical establishment, which is reported to believe that this it is the best or only way to “flatten the curve" of transmission, given that we are a relatively poor country with limited health infrastructure compared to rich countries. There is no denying the need to flatten the curve—the preservation of life should always be the top priority during a pandemic. And though the government has stated that the lockdown won’t be extended, we must consider whether such a shutdown is the most efficient mechanism for slowing the spread of the virus. The economic and consequent social costs of a lockdown must be weighed against its benefits. Further, the choice is not merely between a lockdown and no lockdown.

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NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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