

# HAVELLS INDIA

## RESULT UPDATE

### KEY DATA

<b>Rating</b>	<b>HOLD</b>
Sector relative	Neutral
Price (INR)	1,290
12 month price target (INR)	1,250
Market cap (INR bn/USD bn)	881/11.8
Free float/Foreign ownership (%)	40.5/8.2
<b>What's Changed</b>	
Target Price	↑
Rating/Risk Rating	—

### QUICK TAKE

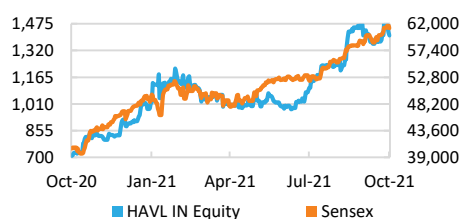
	Above	In line	Below
Profit	●		
Margins		●	
Revenue Growth	●		
Overall	●	□	

### FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	1,04,279	1,26,371	1,47,266	1,68,322
EBITDA	15,653	18,162	22,116	25,739
Adjusted profit	10,396	12,410	15,512	18,222
Diluted EPS (INR)	16.6	19.8	24.8	29.1
EPS growth (%)	41.8	19.4	25.0	17.5
RoAE (%)	22.0	22.6	24.8	25.9
P/E (x)	84.7	71.0	56.8	48.3
EV/EBITDA (x)	55.5	47.8	39.1	33.4
Dividend yield (%)	0.2	0.6	0.8	1.0

### PRICE PERFORMANCE



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## Pricing-led beat; consistent demand key

Havells's Q2FY22 double-digit revenue beat reflects sector-wide pricing scenario as markets open up with double-digit volume growth across segments (ex-cables). This reflects healthy demand for electricals/B2B and small appliances. Management remains optimistic on H2 demand.

Lag in input-cost pass-through is throwing up challenges in managing OPMs even as leaders continue to benefit from consolidation. For Havells, while competitive position, especially in electricals (wires, switches, small appliances), remains strong, a re-rating would hinge on how Lloyd's returns fare over the medium term, apart from ongoing penetration in stronger electrical segments. Retain 'HOLD'.

### Volumes decent, in line; beat largely price-led; Lighting/ECD shines

Cutting through noise, Havells Q2 numbers have a few interesting aspects. Cable and wire value growth is 80% led by pricing, even as volumes growth fared weaker; for all other categories, value growth is half led by pricing and half by volume. Switches, lighting and ECD growth in healthy double digits reflects better demand on ground for real estate, industrial and B2B. In our view, the divergence in cables versus other segments shows Havells's market strategy and focus on cash flows. To us, Lloyd's EBIT loss is a negative surprise resonating with our market feedback of high competition from MNC players and share gains for Voltas, particularly in south. ([click to read Q&A](#))

### What should investors focus on Havells over 12–24 months

Premium-electrical positioning for Havells has been consistent reflecting in its industry-leading margins/cash flows. Tier II penetration with compatible products (Standard, Rio, etc) should continue to aid better electrical growth, and remains a key earnings trigger. More importantly, the consistent gap in Lloyd's returns versus leaders remains a key area for the leadership at Havells to focus on. Given RAC is 70%-plus of revenue, the category remains key; other categories (refrigerators, LED TV) are unlikely to have any material impact on FY22–24E numbers in our view.

### Outlook and valuation: Consistency in growth key; retain 'HOLD'

We see B2B and electrical segments for Havells faring better than many peers given revenue mix even as Lloyd-related challenges go higher. All in all, we are raising FY22/23E earnings by ~5/9% given better growth, This along with a rollover to FY23E earnings yields a revised TP of INR1,250; retain 'HOLD/SN'.

### Financials

Year to March	Q2FY22	Q2FY21	% Change	Q1FY22	% Change
Net Revenue	32,210	24,518	31.4	25,982	24.0
EBITDA	4,437	4,207	5.5	3,531	25.6
Adjusted Profit	3,016	3,249	(7.2)	2,343	28.7
Diluted EPS (INR)	4.8	5.2	(7.2)	3.7	28.7

## Financial Statements

### Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	1,04,279	1,26,371	1,47,266	1,68,322
Gross profit	39,530	48,309	56,821	65,843
Employee costs	8,853	10,413	11,775	13,409
Other expenses	15,024	19,734	22,931	26,695
EBITDA	15,653	18,162	22,116	25,739
Depreciation	2,489	2,433	2,574	2,762
Less: Interest expense	726	709	630	630
Add: Other income	1,878	1,570	1,826	2,013
Profit before tax	14,316	16,590	20,738	24,360
Prov for tax	3,919	4,181	5,226	6,139
Less: Other adj	0	0	0	0
Reported profit	10,396	12,410	15,512	18,222
Less: Excp.item (net)	0	0	0	0
Adjusted profit	10,396	12,410	15,512	18,222
Diluted shares o/s	626	626	626	626
Adjusted diluted EPS	16.6	19.8	24.8	29.1
DPS (INR)	3.5	9.1	11.4	14.6
Tax rate (%)	27.4	25.2	25.2	25.2

### Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
COGS as % of revenues	62.1	61.8	61.4	60.9
Employee cost (% of rev)	8.5	8.2	8.0	8.0
A&P as % of revenues	0.6	2.5	2.8	3.0
EBITDA margin (%)	15.0	14.4	15.0	15.3
Net profit margin (%)	10.0	9.8	10.5	10.8
Revenue growth (% YoY)	10.6	21.2	16.5	14.3
EBITDA growth (% YoY)	52.4	16.0	21.8	16.4
Adj. profit growth (%)	41.8	19.4	25.0	17.5

### Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(6.0)	7.0	6.0	7.0
Repo rate (%)	3.5	3.5	4.0	5.3
USD/INR (average)	75.0	73.0	72.0	71.0
C&W rev grwth (%)	6.2	28.1	18.8	12.2
Swtgear rev grwth (%)	9.1	23.1	19.3	16.8
L&F rev grwth (%)	6.9	18.3	17.7	8.0
CD rev grwth (%)	18.5	25.1	15.5	21.0
Depreciation (% of FA)	7.0	7.8	7.5	7.5
Tax rate (%)	27.4	25.2	25.2	25.2

### Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	84.7	71.0	56.8	48.3
Price/BV (x)	17.1	15.1	13.2	11.9
EV/EBITDA (x)	55.5	47.8	39.1	33.4
Dividend yield (%)	0.2	0.6	0.8	1.0

Source: Company and Edelweiss estimates

### Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	626	626	626	626
Reserves	51,019	57,720	66,096	73,394
Shareholders funds	51,645	58,346	66,722	74,020
Minority interest	0	0	0	0
Borrowings	3,937	3,937	3,937	3,937
Trade payables	15,968	17,109	19,824	23,865
Other liabs & prov	14,995	15,227	15,464	16,671
Total liabilities	88,202	96,277	1,07,604	1,20,151
Net block	18,607	19,421	20,094	19,579
Intangible assets	14,332	14,085	13,838	13,590
Capital WIP	863	863	863	863
Total fixed assets	33,802	34,368	34,794	34,032
Non current inv	16	16	16	16
Cash/cash equivalent	16,247	17,070	19,850	24,554
Sundry debtors	5,603	6,924	8,069	9,223
Loans & advances	201	282	394	493
Other assets	32,332	37,616	44,480	51,833
Total assets	88,202	96,277	1,07,604	1,20,151

### Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	10,396	12,410	15,512	18,222
Add: Depreciation	2,489	2,433	2,574	2,762
Interest (net of tax)	(836)	(645)	(895)	(1,035)
Others	1,516	(217)	(301)	(349)
Less: Changes in WC	(6,985)	(5,312)	(5,171)	(3,356)
Operating cash flow	6,579	8,669	11,719	16,244
Less: Capex	(2,499)	(3,000)	(3,000)	(2,000)
Free cash flow	4,080	5,669	8,719	14,244

### Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	22.0	22.6	24.8	25.9
RoCE (%)	30.4	29.4	32.1	33.6
Inventory days	127	126	121	122
Receivable days	14	18	19	19
Payable days	85	77	75	78
Working cap (% sales)	10.1	12.6	14.3	14.5
Gross debt/equity (x)	0.1	0.1	0.1	0.1
Net debt/equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Interest coverage (x)	18.1	22.2	31.0	36.5

### Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	41.8	19.4	25.0	17.5
RoE (%)	22.0	22.6	24.8	25.9
EBITDA growth (%)	52.4	16.0	21.8	16.4
Payout ratio (%)	21.1	46.0	46.0	50.0

## Q2FY22 conference call – Key highlights

### Opening remarks

- Delivered broad based growth across categories.
- Except C&W, there is strong volume growth in other segments.
- Despite input cost inflation, we are confident of maintaining margins.
- Seeing good traction from infra and B2B segments.

### Questions and answers

#### **Q. Could you give volume and value growth breakup across categories?**

A. C&W 80% pricing led growth. For rest of the categories 50% is volume led and the other 50% is pricing led.

#### **Q. What are the plans for further price hikes?**

A. There is a delay in passing on the price hikes for some products like AC. There will be price increases as things stand.

#### **Q. Are you confident of growing over H2FY21?**

A. Last year there was pent-up demand seen in Q3 led by rural consumption. Seeing good demand coming from residential and infra segment this year unlike last year. Thus, expect next 6 months to be good. Demand pick-up is positive.

#### **Q. Can you describe the market conditions for Lloyd?**

A. Lloyd witnessed 2 season of lockdowns in its peak season. 70% of Lloyd sales from AC and due to the lost season the inventory levels were high. This led to difficulties in passing on the cost increase.

#### **Q. How do you compare current volume growth with normalized years?**

A. When there is high inflation, generally demand drops but this is an exception as consumers continue to buy in spite of high prices and we expect this demand scenario to continue.

#### **Q. Are you seeing any risk of down-trading by consumers?**

A. Have not seen that currently. There is a shift from unorganized to organized players with consumers preferring high quality products.

#### **Q. Are you seeing any market share gains across categories?**

A. Market share gains and consolidation of the sector will continue to happen. The supply chain disruptions and raw material inflation are easier to handle for organized players and thus shift towards organized players should continue.

#### **Q. By when do you think we will be back to normalized levels of Ad spends?**

A. The plan for FY22 was to be back to normal levels of ad spends but there is a lag in that. Expect to be back to the long term average soon.

#### **Q. What is the status for Lloyd currently in terms of distribution? How do you see Lloyd going forward?**

A. There is good feedback for Lloyd and expect other categories also to contribute significantly to Lloyd revenues going forward. The lockdown has impacted the AC

industry with 2 seasons getting washed out. We will have to see how the next season plays out for Lloyd as well as the AC industry as a whole.

**Q. If the demand is strong, what led to the lag in passing on the price hikes?**

A. There is a trade channel in between and there are competitors as well in the market. The acceptance of the product, acceptance of the pricing takes time which has led to the lag in passing on the price hike. Despite the price hike, we see volume growth of normalized times which is a very good indication of the future.

**Q. How is the channel inventory currently?**

A. Inventory is at normalized levels. Don't think this was a heavy re-stocking quarter.

**Q. What are your targets in market share terms for Lloyd?**

A. Our outlook on Lloyd continues to be strong and our investments in Lloyd shows our confidence. Our focus is to gain market share in the next few years in each category of Lloyd.

**Q. What will help to improve margins for Lloyd?**

A. We will continue to be competitive in the market and expect volumes to drive growth.

**Q. What is the price hike required to sustain our historical margins?**

A. Difficult to say as there is a lot of volatility in the commodity cost.

**Q. How are Rio and Standard brands performing?**

A. The outlook for these brands remains strong as they cater to different segments of the market.

**Q. Going forward, how do you see growth for Switchgears panning out?**

A. Going forward this segment will be strong due to the pick-up in the real estate and industrial cycle and expect switchgears to benefit from this.

**Q. What could have the industry volume growth been for fans?**

A. Our focus on market share gains continues. We saw higher levels of inventory and thus not very strong volume growth. Because of the summer season getting washed out, the channel took longer to come to normalized levels and now we expect re-stocking to start.

**Q. What is driving strong growth in Lighting?**

A. Havells is the only brand to manufacture in-house because of which the innovation has been very good. Last few years focus was on improving on distribution and that has also helped to gain market share at a fast pace.

**Q. Are the switchgear/switches sales limited to few markets or is it a broad based growth?**

A. We feel it is a more broad based demand scenario unlike last year where it was driven by only tier 2/3 markets.

**Q. What has been the YTD price hike across segments and how much of it was taken in Q2?**

A. Difficult to give out these numbers as the dynamics of every segment is very different.

**Q. How do you see the festival demand panning out this year?**

A. The start has been good and expect the demand scenario to continue.

**Q. Your views on the PLI scheme?**

A. Have applied for the AC PLI and are awaiting regulatory approval.

**Q. What is the quantum of imports?**

A. Very low as we do 90% (value terms) of the production in-house.

**Q. Ex-ad spends the other expenses seem flat on a 2 year CAGR basis. Can we expect this trend to continue?**

A. The level of expenditure should sustain as we had taken a look at our expenses and had limited certain expenses.

**Q. What is the market share in ACs?**

A. We have been gaining market share since the last few quarters and expect that to continue.

**Q. What will the capex be this year?**

A. INR3-3.5bn this year. Next year we shall come with revised plans.

**Q. What is the extent of margin improvement you see from current levels?**

A. There is no specific margin target. Focus is to grow revenues and continue to invest in building the brand. The range that we would like to operate in and we try and remain within that range.

**Q. What is driving growth in the others segments?**

A. Most categories have been doing well especially motors. Expect this performance to further improve.

**Q. Where are the areas that you have revised capex?**

A. Due to the disruption in Q1, the plans have been deferred and not revised.

**Q. How has the ad spend effectiveness changed in the last few years?**

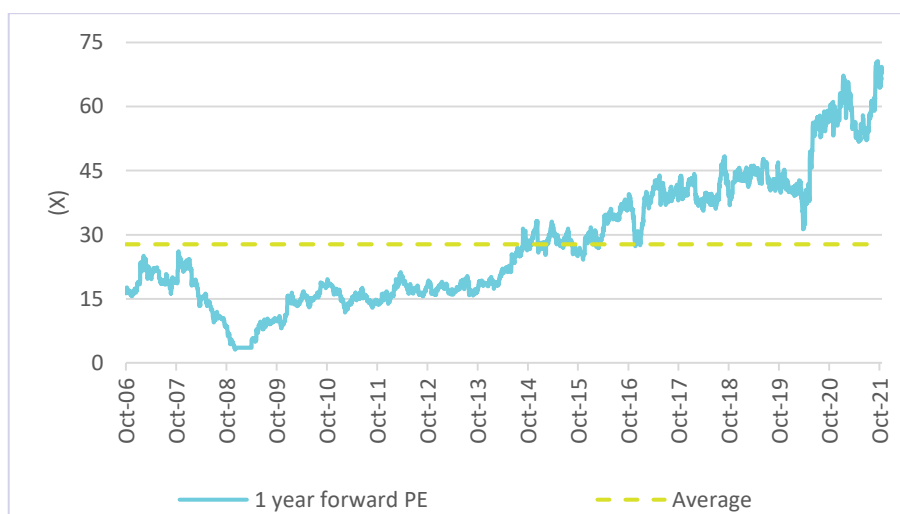
A. Ad spends are now moving towards digital and we consider it more as an investment and not an expenditure.

**Exhibit 1: Havells has led EPS upgrade over past nine months**

Dec'20 to Sept'21 Company	Price	Earnings revision		PE growth		EBITDA Margin revision (bps)	
	% growth	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Voltas	57.4	-6.4	2.3	57.6	44.2	-37.7	19.0
<b>Havells</b>	<b>54.8</b>	<b>22.4</b>	<b>27.7</b>	<b>22.4</b>	<b>17.4</b>	<b>115.9</b>	<b>143.3</b>
Bajaj Electricals	101.5	28.4	16.1	139.4	46.4	0.5	110.9
Symphony	4.9	0.7	15.3	3.5	-9.7	-178.7	9.2
KEI Industries	100.4	12.7	16.2	72.5	67.3	58.3	70.4
Whirlpool	-3.6	-8.9	-2.6	15.1	7.7	-228.9	54.4
Crompton	27.4	11.1	12.2	13.3	12.1	-20.3	29.2
Amber Enterprises	54.0	-20.5	-0.6	74.4	39.6	-58.6	-14.1
Polycab	145.3	10.3	18.4	109.0	94.7	-30.5	52.0
Dixon	102.0	-2.4	20.2	0.6	42.7	-59.80	-34.31

Source: Bloomberg, Edelweiss Research

**Exhibit 2: One-year forward PE**



Source: Bloomberg, Edelweiss Research

**Exhibit 3: H2FY22 ask for Havells**

Particulars	H2FY22 ask	H2FY21	YoY %	H2FY20	as a % of H2FY20
Revenue	68,179	64,970	4.9	44,860	152.0
EBITDA	10,194	10,137	0.6	5,127	198.9
EBITDA %	15.0	15.6		11.4	
PAT	7,051	6,514	8.2	3,776	186.7

Source: Company, Edelweiss Research

## Exhibit 4: Segmental snapshot

Year to March	Q2FY22	Q2FY21	% change	Q1FY22	% change	as a % of Q2FY20	FY21	FY22E	FY23E
Segment revenue (INR mn)									
Switchgear	4,426	3,703	19.5	3,734	18.5	121.7	14,609	17,988	21,457
Cable & Wire	11,440	7,847	45.8	8,072	41.7	139.3	31,802	40,745	48,405
Lighting & Fixtures	3,536	2,646	33.6	2,099	68.4	139.4	10,846	12,833	15,104
ECD	7,284	5,799	25.6	5,760	26.5	148.6	23,770	29,725	34,333
Lloyd Consumer Division	3,413	2,804	21.7	4,944	(31.0)	189.7	16,888	17,760	19,549
Others	2,112	1,719	22.8	1,373	53.8	173.5	6,365	7,320	8,418
<b>Total</b>	<b>32,210</b>	<b>24,518</b>	<b>31.4</b>	<b>25,982</b>	<b>24.0</b>		<b>1,04,279</b>	<b>1,26,371</b>	<b>1,47,266</b>
EBIT (INR mn)									
Switchgear	1,203	1,150	4.7	1,020	17.9		4,047	5,091	6,094
Cable & Wire	1,153	1,118	3.1	1,262	(8.7)		4,038	4,604	5,567
Lighting & Fixtures	773	521	48.5	317	143.9		2,041	2,438	2,900
ECD	1,264	1,172	7.9	673	87.7		4,037	5,172	6,111
Lloyd Consumer Division	-183	51	(461.8)	103	(278.1)		741	627	808
Others	202	141	43.4	54	276.2		741	627	808
<b>Total</b>	<b>4,412</b>	<b>4,152</b>	<b>6.3</b>	<b>3,429</b>	<b>28.7</b>		<b>15,213</b>	<b>18,210</b>	<b>21,816</b>
EBIT margin (%)									
Switchgear	27.2	31.0		27.3			27.7	28.3	28.4
Cable & Wire	10.1	14.3		15.6			12.7	11.3	11.5
Lighting & Fixtures	21.9	19.7		15.1			18.8	19.0	19.2
ECD	17.3	20.2		11.7			17.0	17.4	17.8
Lloyd Consumer Division	-5.4	1.8		2.1			4.4	3.5	4.1
Others	9.6	8.2		3.9					
<b>Total</b>	<b>13.7</b>	<b>16.9</b>		<b>13.2</b>			<b>14.6</b>	<b>14.4</b>	<b>14.8</b>

Source: Company, Edelweiss Research

## Exhibit 5: Quarterly snapshot (INR mn)

Year to March	Q2FY22	Q2FY21	% change	Q1FY22	% change	FY21	FY22E	FY23E
Total Revenue	32,210	24,518	31.4	25,982	24.0	1,04,279	1,26,371	1,47,266
Total Raw Material Cost	21,175	14,655	44.5	16,713	26.7	64,749	78,062	90,445
Employees Cost	2,494	2,145	16.3	2,325	7.3	8,853	10,413	11,775
Other expenditure	4,105	3,511	16.9	3,413	20.2	15,024	19,734	22,931
EBTIDA	4,437	4,207	5.5	3,531	25.6	15,653	18,162	22,116
Depreciation	623	591	5.5	616	1.2	2,489	2,433	2,574
EBIT	3,813	3,616	5.5	2,915	30.8	13,164	15,729	19,542
Interest	111	173	(35.7)	110	1.5	726	709	630
Other income	333	792	(58.0)	342	(2.7)	1,878	1,570	1,826
Exceptional items	-	-	-	-	-	-	-	-
PBT	4,035	4,236	(4.7)	3,148	28.2	14,316	16,590	20,738
Total Provision for Taxation :	1,019	987	3.3	805	26.6	3,919	4,181	5,226
Reported Profit	3,016	3,249	(7.2)	2,343	28.7	10,396	12,410	15,512
Adjusted Profit	3,016	3,249	(7.2)	2,343	28.7	10,396	12,410	15,512
Equity Capital (FV INR 1)	624	624		624		624	624	624
No. of shares (mn)	624	624		624		624	624	624
Diluted EPS	4.8	5.2	(7.2)	3.8	28.7	16.7	19.9	24.9
As a % of sales								
RM cost	65.7	59.8		64.3		62.1	61.8	61.4
Employee	7.7	8.7		8.9		8.5	8.2	8.0
Other expenses	12.7	14.3		13.1		14.4	15.6	15.6
EBTIDA margin	13.8	17.2		13.6		15.0	14.4	15.0
Depreciation	1.9	2.4		2.4		2.4	1.9	1.7
EBIT margin	11.8	14.7		11.2		12.6	12.4	13.3
Interest expenses	0.3	0.7		0.4		0.7	0.6	0.4
Other income	1.0	3.2		1.3		1.8	1.2	1.2
Tax rate	25.3	23.3		25.6		27.4	25.2	25.2
Adjusted profit margin	9.4	13.3		9.0		10.0	9.8	10.5
Diluted PE (x)						84.7	71.0	56.8
EV/EBITDA (x)						55.5	47.8	39.1
ROAE (%)						22.0	22.6	24.8

Source: Company, Edelweiss Research



## Company Description

Incorporated in 1983, Havells India (HAVL) is one of the largest and fastest growing manufacturers of electrical components and systems in India. It is the market leader in light-duty power distribution products. Its offerings include electrical products like circuit protection equipment (domestic and industrial switchgears), cables and wires, and consumer durables like fans, CFLs, and lighting fixtures. Havells acquired (Feb 2017) the Consumer segment of Lloyd electricals which gave HAVL access to Lloyds' strong distribution network with 10k touch points along with strong positioning in room AC segment. Post recent commissioning of its Gehlot plant, Havells now has a significant manufacturing footprint for Lloyd, the company currently has product portfolio in white goods spanning across RACs, LED TVs, refrigerators and washing machines.

## Investment Theme

HAVL is India's largest diversified FMEG major with the highest (over 90%) target market coverage. The company is amongst top 3-5 player across key segments in most large categories like fans, lighting, switchgears, cable & wires with a solid track record of industry leading growth over past decade. While the past decade has been driven by ramp up in premium range, the company in the recent past has started expanding its focus on Tier II/III towns which if executed well, could drive the next leg of growth.

However, we believe given weakness in residential construction market and Havells' higher exposure to the same, near to medium growth prospects might be challenging. On the Lloyd portfolio, while significant investment (Gehlot) has been committed, competitive dynamics in RAC, refrigerator, LED TV could pose challenges making any meaningful scale up challenging and remains a key monitorable.

## Key Risks

Branded wires, switches account for a significant share of Havells business/profits, any sharp revival in residential markets could drive higher growth.

Better than expected customer acceptance of Lloyd's core portfolio (RAC, LED TV, refrigerators) could drive better market share.

## Additional Data

### Management

Chairman & MD	Anil Rai Gupta
WTD & Grp CFO	Rajesh Kumar Gupta
WTD	Ameet Kumar Gupta
Non-Executive Dir	Surjit Kumar Gupta
Auditor	Price Waterhouse & Co

### Holdings – Top 10\*

	% Holding		% Holding
Nalanda India E	5.28	Vanguard Group	1.28
Life Insurance	4.17	Blackrock Inc	1.23
Capital Group C	2.26	Fil Ltd	0.91
Government Pens	1.93	Mirae Asset Glo	0.85
Norges Bank	1.91	Nordea Bank Abp	0.80

\*Latest public data

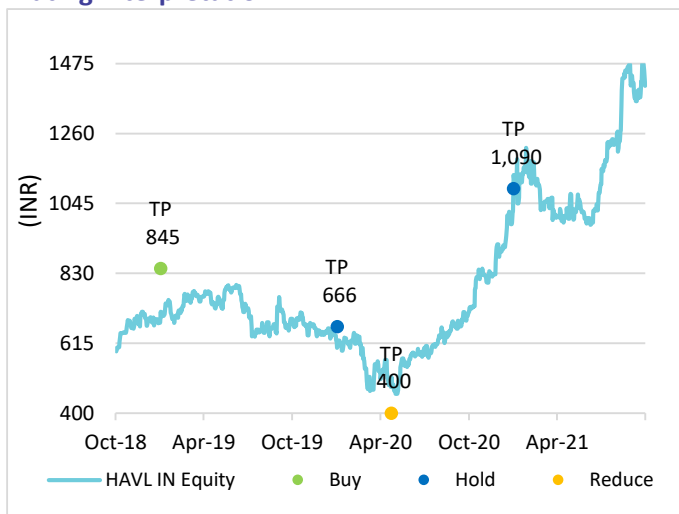
### Recent Company Research

Date	Title	Price	Reco
17-Aug-21	Multiple growth avenues; <i>Company Update</i>	1226	Hold
22-Jul-21	Solid beat; optimism demands caution; <i>Result Update</i>	1104	Hold
21-May-21	Shining on ECD; some cash flow stress; <i>Result Update</i>	1072	Hold

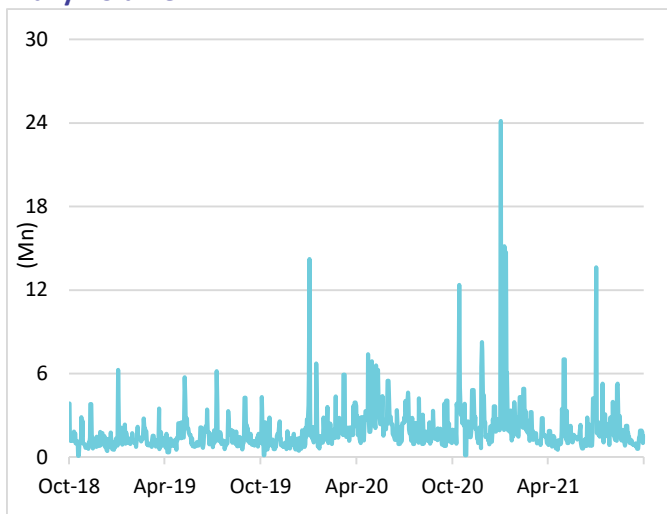
### Recent Sector Research

Date	Name of Co./Sector	Title
13-Oct-21	Consumer Durables	Dealers stocked up, awaiting consumers; <i>Sector Update</i>
01-Oct-21	Dixon	Local dominance, global ambition; <i>Initiating Coverage</i>
07-Sep-21	Polycab India	Changing perceptions; potent levers; <i>Company Update</i>

### Rating Interpretation



### Daily Volume



### Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	179	53	19	252
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	228	40	3	271

\*1 stocks under review

### Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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Aditya Narain

Head of Research

Aditya.narain@edelweissfin.com

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