

Institutional Equity Research

# TVS Motor

Automobile | India

CMP* (Rs)	577
Upside/ (Downside) (%)	39
Bloomberg Ticker	TVSL IN
Market Cap. (Rs bn)	274

**BUY** 

1 Year Target Price: Rs801

2QFY22 Result Update | 22 October, 2021

## Healthy Exports Coupled with New Launches to Aid Higher Margins

TVS Motor (TVSL) has delivered a strong operating performance, with a double-digit EBITDA margin for the first time in its history during 2QFY22, on the back of a healthy realization and better mix. Revenue grew by 22% YoY and 43% QoQ to Rs56.2bn, on the back of a volume growth of 6%YoY/39%QoQ and a 16% YoY improvement in average realization. Its EBITDA margin expanded by 60bps YoY (up 306bps QoQ) to 10% vs. our estimate of 8.3%, mainly due to the lower employee expenses, control on other expenses and cost-cutting measures on the RM front. TVSL PAT came in at Rs2.8bn (up 42% YoY and up 268% QoQ), exceeding our estimate by 29%. ASP growth was supported by product-mix, price hike, higher exports, and a favourable exchange rate. We believe that the better product-mix and rising export contribution, coupled with a favourable exchange rate would support TVSL's margin expansion, going forward. **In view of the strong products basket, improving brand equity, healthy export potential, increasing margin territory and improving return ratio, we reiterate our BUY recommendation on the stock, with a revised Target Price of Rs801 (vs. Rs575 earlier Previous note dated 16th Dec'20).**

### Focus on EV and Double-digit EBITDA Margin Territory augur Well

Though we expect the domestic 2W industry to face a near-term demand weakness, we believe TVSL's outperformance will continue on the volume front, while its rising exports at a better exchange rate would help on the margin front. Better product-mix, pricing power and increasing exports would support its double-digit margins. We expect its EBITDA margin to expand further and record 10.3% in FY24E. Looking ahead, TVSL expects to sustain the higher volume and margin owing to the success of new products and improving brand equity. Moreover, its recent increasing focus on EV segment through new launches as well as strategic tie-ups globally would take it to a new scale on the EV platform. This opens a huge potential for the next decade for the company.

### Outlook & Valuation

We expect TVSL's domestic volume to witness a de-growth of 18% in FY22E. We estimate a healthy 11% CAGR for export over FY22E-FY24E, on the back of strong sales in African markets, which would drive TVSL's revenue. We increase our revenue/EBITDA/PAT estimates by 5%/7%/4% and 5%/10%/8% for FY22E and FY23E respectively. We introduce FY24 estimates and expect the company to report an EPS of Rs32.7 in FY24E. In view of the higher exports and healthy margin profile, we reiterate our BUY recommendation on TVSL. We have shifted to a 1-year Target Price from the earlier 2-year. As we enter 2HFY22, we roll forward our P/E valuation to FY24E and increase the Target Price to Rs801, valuing the core business at 23x (unchanged) to Rs751 and adding Rs50 for the subsidiary and valuing at 2x P/B.

#### Key Financials

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	1,64,233	1,67,505	2,14,686	2,50,673	2,82,803
EBITDA	13,459	14,286	20,045	25,000	29,158
EBITDA margin (%)	8.2	8.5	9.3	10.0	10.3
Adj. Net Profit	6,158	6,120	9,406	12,830	15,514
EPS(Rs)	13.0	12.9	19.8	27.0	32.7
PE (x)	44.5	44.8	29.1	21.3	17.7
EV/ EBITDA	21.5	19.2	14.2	11.0	9.4
RoE (%)	17.2	15.4	20.3	23.1	22.8

Source: Company, RSec Research

Recos/View	Old	Revised	Change
Recos	BUY	BUY	↔
Price Target (Rs)	575	801	↑
↑ Upgrade   ↔ Maintain   ↓ Downgrade			

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	8.0	(1.2)	29.3
Relative to Nifty	4.4	(17.5)	(23.0)

Shareholding Pattern (%)	Sep-21	Jun-21
Promoter	52.3	52.3
Public	47.7	47.7

Change of Estimates (% change)	FY22E	FY23E
Revenue	4.5	5.0
EBITDA	6.7	10.4
EBITDA margin	19bps	48bps
PAT	4.4	8.0
EPS (Rs)	4.4	8.0



Note: \* CMP as on October 21, 2021

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Quarterly Performance							
Y/E March (Rs mn)	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)	RSec - Est	Deviation from our est. (%)
Domestic	6,01,407	6,51,935	(7.8)	3,29,653	82.4		
Exports	3,15,299	2,15,899	46.0	3,28,105	(3.9)		
<b>Total Volume (units)</b>	<b>9,16,706</b>	<b>8,67,834</b>	<b>5.6</b>	<b>6,57,758</b>	<b>39.4</b>		
<b>Total Revenue</b>	<b>56,194</b>	<b>46,055</b>	<b>22.0</b>	<b>39,344</b>	<b>42.8</b>	<b>54,486</b>	<b>3.1</b>
Less:							
Net Raw Material consumed	42,665	35,246	21.0	29,790	43.2		
Other Expenses	4,943	4,365	13.3	4,207	17.5		
Personnel	2,957	2,143	38.0	2,609	13.3		
<b>Total Expenditure</b>	<b>50,565</b>	<b>41,754</b>	<b>21.1</b>	<b>36,606</b>	<b>38.1</b>		
<b>EBITDA</b>	<b>5,629</b>	<b>4,301</b>	<b>30.9</b>	<b>2,738</b>	<b>105.6</b>	<b>4,512</b>	<b>24.7</b>
Less: Depreciation	1,544	1,331	16.0	1,431	7.9		
<b>EBIT</b>	<b>4,084</b>	<b>2,970</b>	<b>37.5</b>	<b>1,307</b>	<b>212.5</b>		
Less: Net Interest	350	407	(14.0)	300	16.8		
Add: Other income	35	111	(68.5)	16	119.5		
<b>Profit Before Extra-ordinary items and Tax</b>	<b>3,769</b>	<b>2,674</b>	<b>40.9</b>	<b>1,023</b>	<b>268.3</b>		
Less: Total Tax	993	712	39.5	190	422.1		
Less: Extraordinary Expense	-	-	NA	302	NA		
<b>Profit After Tax</b>	<b>2,776</b>	<b>1,963</b>	<b>41.5</b>	<b>531</b>	<b>422.3</b>	<b>2,156</b>	<b>28.8</b>
<b>Adj. PAT</b>	<b>2,776</b>	<b>1,963</b>	<b>41.5</b>	<b>754</b>	<b>268.4</b>	<b>2,156</b>	<b>28.8</b>
Shares Outstanding (mn)	475	475		475		475	
<b>Reported EPS (Rs.)</b>	<b>5.84</b>	<b>4.13</b>	<b>41.5</b>	<b>1.12</b>	<b>422.3</b>	<b>4.54</b>	<b>28.8</b>
<b>Adj. EPS (Rs.)</b>	<b>5.84</b>	<b>4.13</b>	<b>41.5</b>	<b>1.59</b>	<b>268.4</b>	<b>4.54</b>	<b>28.8</b>
Margin Analysis (%)			Change in bps	Change in bps			
EBIDTA Margin	10.0	9.3	68	7.0	306	8.3	
Adj. NPM	4.9	4.3	68	1.9	302	4.0	
Effective Tax Rate	26.3	26.6	(27)	18.6	776		
Cost Analysis							
RM/Net Sales	75.9	76.5	(61)	75.7	21		
Other Expenses./Net Sales	8.8	9.5	(68)	10.7	(190)		
Personnel/Net Sales	5.3	4.7	61	6.6	(137)		

Source: Company, RSec Research; Note: NA - Not Applicable

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## Conference Call – Key Takeaways

- ▶ **Company Performance:** TVSL recorded the highest-ever revenue and EBITDA for the quarter. Export revenue stood at Rs18bn, while spare parts revenue stood at ~Rs6.4bn in 2QFY22. USD/INR realization stood at Rs74.4. The company took a price hike of ~1.5% during the quarter to negate the higher commodity prices. The volume of premium products increased by ~24% YoY. Management indicated an opportunity loss of 25,000 units of Apache due to the semi-conductor issue.
- ▶ **New Products:** The company has launched the new TVS Raider 125 and TVS Jupiter 125 in the last 3 months. It received very positive response for these new products and they are key volume growth drivers.
- ▶ **EV Update:** TVSL acquired a majority stake in European EGO Movement through the Singapore subsidiary, TVS Motor (Singapore) Pte Ltd, as a part of the overall strategy to expand its presence in Europe and in the EV space. The company launched TVS iQube in 33 cities and received a good response from customers. TVSL has planned a capex of ~Rs10bn for EV (for enhancing product portfolio, higher capacities, and market development). The company plans to increase the EV monthly capacity at ~10k units/month by 4QFY22. TVSL has entered into a strategic partnership with TATA Power to set up the electric vehicle charging station infrastructure across the country.
- ▶ **Festive Demand Scenario:** The company witnessed a subdued demand during Navratri due to the lack of pent-up demand, as compared to last year, and an adverse monsoon impacting the rural economy. TVSL although gained ~2% market share in the festival period. It expects better sales during the Diwali season, as the monsoon issue is settling down and a better traction being seen in the rural market.
- ▶ **Capex & Investment:** TVSL plans to spend a total capex of Rs8bn (including EVs) in FY22, which would be funded through internal accruals. It has already invested ~Rs5bn in 1HFY22 and plans to invest ~Rs3.5bn in 2HFY22.
- ▶ **PT TVS Indonesia & TVS Credit Performance:** PT TVS Indonesia recorded a 2W volume of ~28,500 units as against 14,700 units last year, while the 3W volume stood at ~2,400 units, as against 1,250 units last year. Operating PBT for the quarter stood at US\$0.9mn (US\$0.5mn in 2QFY21) and US\$1.3mn in 1HFY22 (loss of US\$1.3mn in 1HFY21). TVS Credit service recorded a PAT of Rs351mn (vs. Rs143mn in 2QFY21). The book size of the company stands at Rs114bn. The collections for the quarter stood at Rs24bn (vs. Rs18bn in 2QFY21). Its net worth stood at Rs16bn.

## Key Risks

- ▶ Prolonged economic slowdown
- ▶ Major failure of new product launches
- ▶ Adverse exchange rate
- ▶ Sharp jump in commodity prices
- ▶ Adverse government policy in India or in overseas markets

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## Estimate Change & Revision in Target Price

Due to a lower traction in the domestic 2W business, we decrease our volume estimate by 2% and 1% for FY22E and FY23E respectively. We expect the higher export contribution and price hikes would benefit the company on the revenue front, and hence we increase the revenue estimate by 5% for FY22E and FY23E each. With the higher operating leverage, cost control measures and increasing contribution of exports, we raise the EBITDA margin estimates by 19bps/48bps for FY22E/FY23E. Hence, we raise the EBITDA and EPS estimates by 7%/4% and 10%/8% respectively, for FY22E/FY23E. We introduce FY24 estimates and expect the company to record an EPS of Rs32.7 on a revenue of Rs282bn in FY24E and maintain our valuation multiple at 23x. **Considering the better business visibility, improving economic situation and healthy exports outlook, we maintain our BUY recommendation on TVSL. We have shifted to a 1-year TP from the earlier 2-year. As we enter 2HFY22, we roll forward our P/E valuation to FY24E and increase the TP to Rs801 (from the earlier Rs575), valuing the core business at 23x (unchanged) and adding Rs50 for the subsidiary and valuing at 2x P/B.**

### Revised vs. Old Estimates

Y/E Mar	FY22E			FY23E		
	(Rs mn)	Old	Revised	Change (%)	Old	Revised
Domestic	27,29,803	22,29,742	(18.3)	30,49,123	25,48,498	(16.4)
Export	8,63,666	12,88,241	49.2	9,67,306	14,42,830	49.2
Total Volume Units	35,93,469	35,17,983	(2.1)	40,16,429	39,91,327	(0.6)
Net revenues	2,05,385	2,14,686	4.5	2,38,741	2,50,673	5.0
EBIDTA	18,782	20,045	6.7	22,654	25,000	10.4
EBIDTA margin (%)	9.1	9.3	19bps	9.5	10.0	48bps
Reported Net Profit	9,005	9,406	4.4	11,876	12,830	8.0
EPS (Rs.)	19.0	19.8	4.4	25.0	27.0	8.0

Source: RSec Research

## ESG Analysis

While analyzing 20 key criteria under ESG Matrix, we have assigned an overall score of 63% to TVSL. Under **"Environmental Head"**, we have assigned 61% score, as it generates sizable power from renewable energy sources (76% as of FY20). Under **"Social Head"**, we have assigned 70% score, as the company scores well across criteria. Under **"Governance Head"**, the company scores fairly well (57%) across most criteria excluding executive compensation

For detailed report on our ESG analysis of TVSL, please click here ([please refer to page no.56 for detailed ESG analysis](#)).

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## Volume & Market Share Analysis

### Volume Analysis

Units	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)
<b>Motorcycles</b>					
75 cc to 110 cc	92,943	86,720	7.2	54,514	70.5
110 cc to 125 cc	7,057	-	NA	-	NA
150 cc to 225 cc	84,312	1,04,992	(19.7)	79,576	6.0
250 cc to 350 cc	1,313	1,091	20.3	1,056	24.3
<b>Total Domestic Motorcycles</b>	<b>1,85,625</b>	<b>1,92,803</b>	<b>(3.7)</b>	<b>1,35,146</b>	<b>37.4</b>
Domestic Scooter	2,48,122	2,59,433	(4.4)	1,23,782	100
Domestic Moped	1,63,550	1,97,458	(17.2)	69,009	137
Domestic 3Ws	2,155	2,188	(1.5)	770	180
Electric 2W	1,955	53	3,589	946	107
<b>Total Domestic Volume</b>	<b>6,01,407</b>	<b>6,51,935</b>	<b>(7.8)</b>	<b>3,29,653</b>	<b>82.4</b>
<b>Exports</b>	<b>3,15,299</b>	<b>2,15,899</b>	<b>46.0</b>	<b>3,28,105</b>	<b>(3.9)</b>
<b>Total Sales</b>	<b>9,16,706</b>	<b>8,67,834</b>	<b>5.6</b>	<b>6,57,758</b>	<b>39.4</b>

Source: SIAM; Note: NA-Not Applicable

As per SIAM, TVSL's total quarterly volume grew by 6% YoY (up 39% QoQ) to 9,16,706 units. Its domestic bike volume fell by 4% YoY (up 37% QoQ) to 1,85,625 units vs. industry decline of 17% YoY. While scooter volume decreased by 4% YoY (up 100% QoQ) to 2,48,122 units, moped volume fell by 17% YoY (up 137% QoQ) to 1,63,550 units. Exports volume grew by 46% YoY (down 4% QoQ) to 3,15,299. Its domestic 3W sales fell by 2% YoY (up 180% QoQ) to 2,155 units vs. industry growth of 52% YoY in 2QFY22.

TVSL's market share in the domestic 2W segment grew 90bps YoY to 11%, while it declined by 70bps YoY to 18.6% in the scooter segment. Market share of the motorcycle segment grew by 100bps YoY to 7.1%, while the market share in 3W fell by 160bps YoY to 3%.

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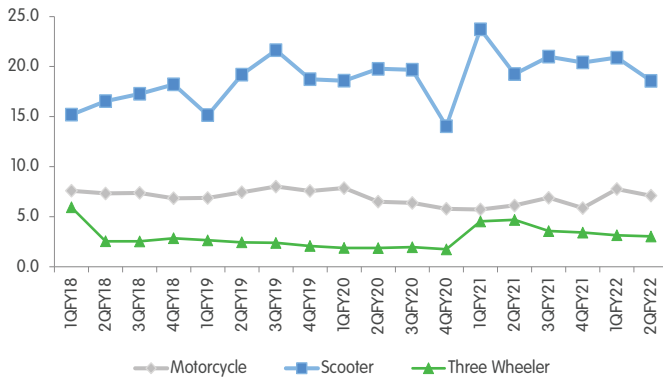
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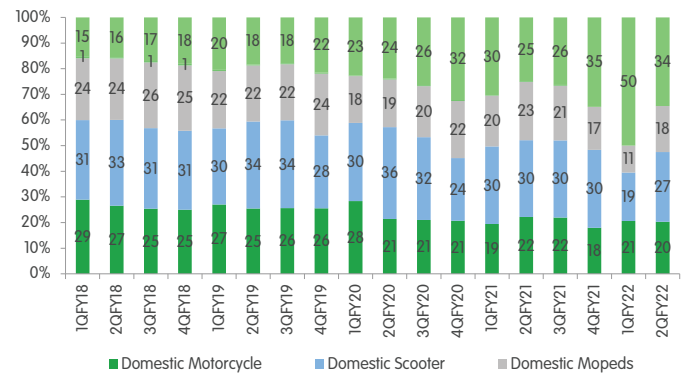
## Key Charts

Exhibit 1: Domestic Market Share Trend (%)



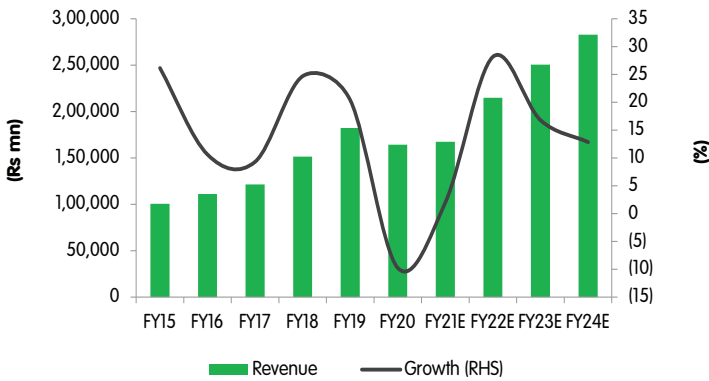
Source: Company, RSec Research

Exhibit 2: Segmental Volume Contribution (%)



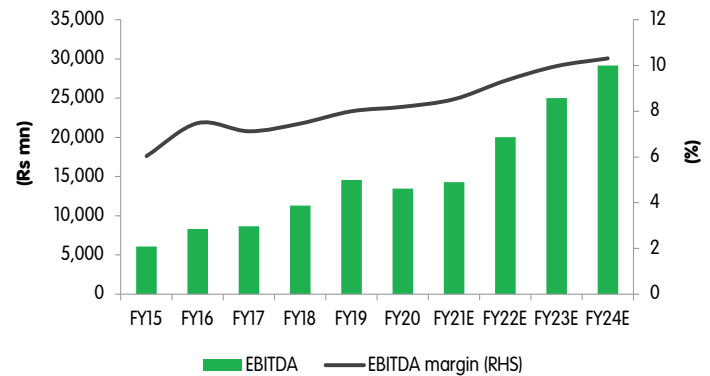
Source: Company, RSec Research

Exhibit 3: Revenue Trend



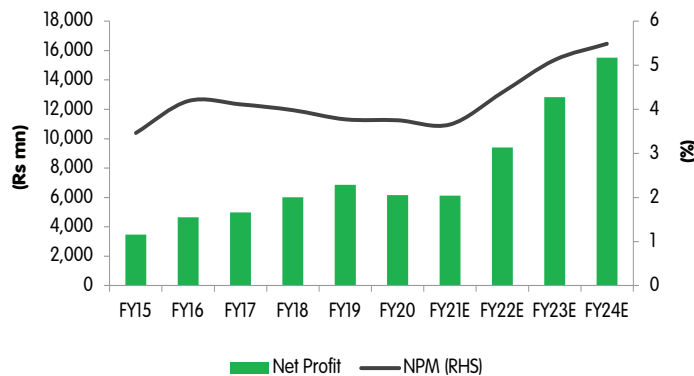
Source: Company, RSec Research

Exhibit 4: EBITDA and EBITDA Margin Trend



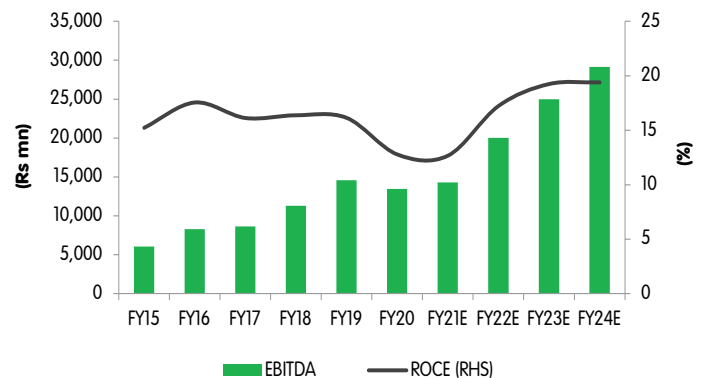
Source: Company, RSec Research

Exhibit 5: Net Profit & NPM Trend



Source: Company, RSec Research

Exhibit 6: EBITDA and ROCE Trend



Source: Company, RSec Research

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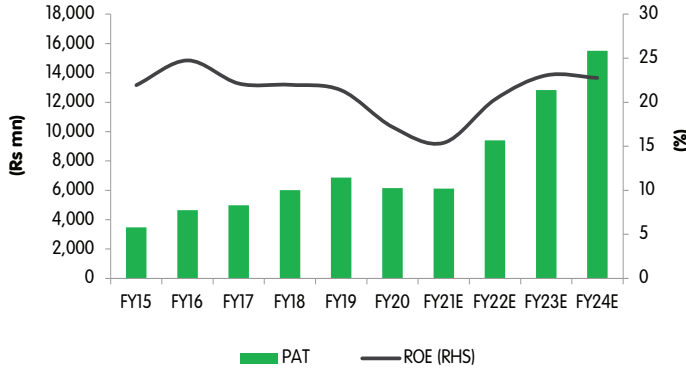
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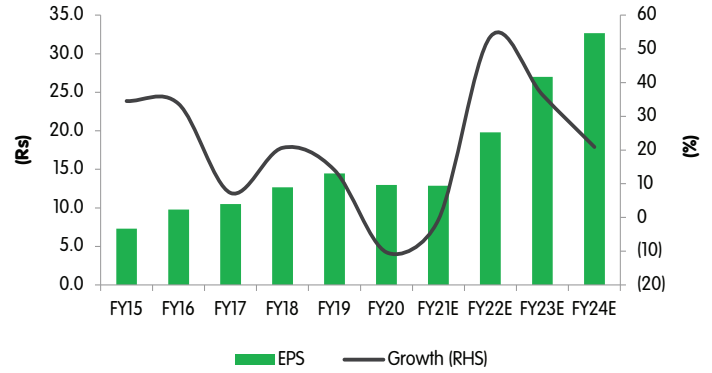
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Exhibit 7: PAT and ROE Trend



Source: Company, RSec Research

Exhibit 8: EPS Trend



Source: Company, RSec Research

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## Profit & Loss Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net revenue</b>	<b>1,64,233</b>	<b>1,67,505</b>	<b>2,14,686</b>	<b>2,50,673</b>	<b>2,82,803</b>
<b>Expenditure</b>	<b>1,50,775</b>	<b>1,53,220</b>	<b>1,94,642</b>	<b>2,25,673</b>	<b>2,53,645</b>
Raw Materials	1,21,359	1,27,239	1,63,293	1,88,757	2,12,950
Employee Expenses	9,384	9,485	11,475	12,852	14,394
Other expenditure	20,031	16,497	19,874	24,065	26,301
<b>EBITDA</b>	<b>13,459</b>	<b>14,286</b>	<b>20,045</b>	<b>25,000</b>	<b>29,158</b>
Depreciation and amortization expense	4,890	4,937	6,131	6,556	7,039
EBIT	8,568	9,349	13,914	18,444	22,118
Non-operating income	298	329	102	148	178
Interest including finance charges	1,022	1,416	1,391	1,486	1,611
<b>Adjusted pre-tax profit</b>	<b>7,844</b>	<b>8,262</b>	<b>12,624</b>	<b>17,107</b>	<b>20,686</b>
Less: Extraordinary Exp	300	(0)	302	-	-
Reported pre-tax profit	7,544	8,262	12,323	17,107	20,686
Less: taxes	1,622	2,142	3,141	4,277	5,171
Reported PAT	5,922	6,120	9,181	12,830	15,514
<b>Adjusted PAT</b>	<b>6,158</b>	<b>6,120</b>	<b>9,406</b>	<b>12,830</b>	<b>15,514</b>
EPS (Rs), based on fully diluted shares	13.0	12.9	19.8	27.0	32.7
Year-end shares outstanding (mn)	475	475	475	475	475
Fully diluted shares outstanding (mn)	475	475	475	475	475

## Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity capital	475	475	475	475	475
Reserves and surplus	35,706	41,234	48,753	59,920	73,772
<b>Total equity</b>	<b>36,181</b>	<b>41,710</b>	<b>49,228</b>	<b>60,395</b>	<b>74,247</b>
Deferred tax liability (net)	1,581	1,955	1,955	1,955	1,955
Total borrowings	19,746	10,356	14,356	15,356	16,856
Current liabilities	36,026	47,955	54,066	58,201	57,383
<b>Total liabilities</b>	<b>93,533</b>	<b>1,01,975</b>	<b>1,19,604</b>	<b>1,35,907</b>	<b>1,50,440</b>
Cash and bank Bal	4,192	9,298	8,316	13,196	17,387
Inventory	10,389	11,518	13,865	16,075	18,068
Trade receivables	12,814	8,700	15,293	17,856	20,145
Other current assets	9,261	7,551	7,854	9,058	10,159
<b>Total current assets</b>	<b>36,656</b>	<b>37,067</b>	<b>45,328</b>	<b>56,186</b>	<b>65,758</b>
Gross block	56,816	62,104	69,390	76,290	82,790
Less: depreciation and amortization	28,851	33,128	39,259	45,814	52,854
Add: capital work-in-process	2,854	2,787	3,000	2,600	2,600
Total fixed assets	30,819	31,762	33,131	33,076	32,537
Total Investments	26,059	33,145	41,145	46,645	52,145
<b>Total assets</b>	<b>93,533</b>	<b>1,01,975</b>	<b>1,19,604</b>	<b>1,35,907</b>	<b>1,50,440</b>



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**Cash Flow Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Operating cashflow</b>					
Pre-tax income	7,544	8,262	12,323	17,107	20,686
Add: depreciation and amortization	4,890	4,937	6,131	6,556	7,039
Add: interest expense (net)	732	1,095	1,391	1,486	1,611
Less: other adjustments	(306)	417	-	-	-
Less: taxes paid	(1,850)	(2,020)	(3,141)	(4,277)	(5,171)
Add: working capital changes	2,926	12,918	(3,132)	(1,842)	(6,200)
<b>Total operating cashflow</b>	<b>13,936</b>	<b>25,609</b>	<b>13,572</b>	<b>19,029</b>	<b>17,964</b>
<b>Investing cashflow</b>					
Capital expenditure	(7,267)	(5,557)	(7,287)	(6,900)	(6,500)
Investments	(5,911)	(3,956)	(8,000)	(5,500)	(5,500)
Others	290	307	(213)	400	-
<b>Total investing cashflow</b>	<b>(12,888)</b>	<b>(9,206)</b>	<b>(15,500)</b>	<b>(12,000)</b>	<b>(12,000)</b>
<b>Financing cashflow</b>					
Loans	5,888	(8,949)	4,000	1,000	1,500
Dividend	(2,000)	(998)	(1,663)	(1,663)	(1,663)
Interest Payment	(1,003)	(1,129)	(1,391)	(1,486)	(1,611)
Less: Others	(180)	(220)	-	-	-
<b>Total financing cashflow</b>	<b>2,705</b>	<b>(11,296)</b>	<b>946</b>	<b>(2,148)</b>	<b>(1,773)</b>
<b>Net change in cash</b>	<b>3,753</b>	<b>5,106</b>	<b>(982)</b>	<b>4,880</b>	<b>4,191</b>
Opening cash	439	4,192	9,298	8,316	13,196
<b>Closing cash</b>	<b>4,192</b>	<b>9,298</b>	<b>8,316</b>	<b>13,196</b>	<b>17,387</b>

**Key Ratio**

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
<b>Growth Ratios (%)</b>					
Net revenue	(9.8)	2.0	28.2	16.8	12.8
EBITDA	(7.6)	6.1	40.3	24.7	16.6
Adjusted net profit	(10.3)	(0.6)	53.7	36.4	20.9
<b>Other Ratios (%)</b>					
Effective tax rate	21.5	25.9	25.5	25.0	25.0
EBITDA margin	8.2	8.5	9.3	10.0	10.3
Adjusted net income margin	3.7	3.7	4.4	5.1	5.5
ROaCE	12.8	12.7	17.2	19.2	19.4
ROaE	17.2	15.4	20.3	23.1	22.8
Total asset turnover ratio (x)	1.8	1.6	1.8	1.8	1.9
Inventory days	23	25	24	23	23
Debtor days	28	19	26	26	26
Creditor days	70	93	85	80	70
<b>Per share numbers (Rs)</b>					
Diluted earnings	13.0	12.9	19.8	27.0	32.7
Free cash	14.0	42.2	13.2	25.5	24.1
Book value	76.2	87.8	103.6	127.1	156.3
<b>Valuations (x)</b>					
P/E	44.5	44.8	29.1	21.3	17.7
EV/EBITDA	21.5	19.2	14.0	11.0	9.4
P/B	7.6	6.6	5.6	4.5	3.7

Institutional Equity Research

# TVS Motor

Automobile | India

CMP* (Rs)	577
Upside/ (Downside) (%)	39
Bloomberg Ticker	TVSL IN

**BUY** 

Target Price: Rs801

## Change in Ratings

We have changed our rating system and included **HOLD** recommendation. We have **BUY, HOLD and SELL** recommendation now.

We have also shifted to **1-Year Target Price** from **2-Year Target Price**.

## Rating History

Date	Reco	CMP	TP	Date	Reco	CMP	TP
16-Dec-20	BUY	488	575	30-Apr-19	REDUCE	492	435
13-May-20	BUY	340	421	05-Apr-19	REDUCE	485	520
05-Feb-20	BUY	455	575	22-Jan-18	REDUCE	554	520
17-Oct-19	REDUCE	440	415	23-Oct-18	HOLD	535	585
23-Jul-19	REDUCE	380	351	07-Aug-18	HOLD	549	585

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## Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	≥10%
HOLD	0% to <10%
SELL	<0%

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