

## HCC

### Performance Highlights

Y/E March (Rs cr)	1QFY11	1QFY10	% chg (yoy)	4QFY10	% chg (qoq)
Net sales	995.4	876.0	13.6	1,085.0	(8.3)
Operating profit	125.8	115.1	9.3	123.0	2.2
Net profit	28.3	18.2	55.6	43.0	(34.1)

Source: Company, Angel Research

For 1QFY2011, HCC's results were in line with our estimates. Along with the results, the company has also declared 1:1 bonus and approved raising of funds for Lavasa. We believe at current valuations of 36.5x FY2012E EPS of Rs3.7 and 2.4x P/BV, the stock price factors in all the upside from the construction arm and its real estate venture. Hence, **we maintain our Neutral view on the stock.**

**Results in line with estimates:** HCC's top line grew 13.6% to Rs995cr v/s our estimate of Rs962cr. OPM stood at 12.6% (13.1% in 1QFY2010). Bottom line grew 55.6% yoy to Rs28.3cr. The robust bottom-line growth was mainly driven by the low base effect of last year created by higher interest cost in 1QFY2010. Since then, HCC has improved its debt equity position by QIP and monetization of assets, resulting in a lower interest cost for the quarter.

**Outlook and valuation:** We value HCC on an SOTP basis and have assigned 14x P/E to its FY2012E standalone earnings. We have valued the company's real estate venture on an NAV basis and BOT assets on a P/BV basis to arrive at a value of Rs126/share, with limited upside from current levels. Hence, **we maintain our Neutral view on the stock.** The upside risk to our recommendation is that if Lavasa is able to garner the envisaged valuations of Rs10,000cr, which we are not factoring in our SOTP target price, as Lavasa is a long gestation project. Further, it should be noted that all large real estate companies (having pan-India performance unlike Lavasa) are trading at a discount to their NAVs and their market caps only factor in the near-term earnings visibility. Moreover, we believe too much paper supply (there are at least five large real estate companies, which have filed their DRHP) in the sector would dilute investors' interest from the sector.

#### Key financials (Standalone)

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
<b>Net sales</b>	<b>3,314</b>	<b>3,629</b>	<b>4,146</b>	<b>4,900</b>
% chg	7.5	9.5	14.2	18.2
<b>Adj. net profit</b>	<b>76</b>	<b>81</b>	<b>96</b>	<b>111</b>
% chg	3.9	7.2	17.7	16.0
EBITDA (%)	13.0	11.8	12.7	12.9
<b>FDEPS (Rs)</b>	<b>3.0</b>	<b>2.7</b>	<b>3.2</b>	<b>3.7</b>
P/E (x)	45.1	49.8	42.3	36.5
P/BV (x)	3.4	2.7	2.6	2.4
RoE (%)	7.6	6.5	6.2	6.8
RoCE (%)	9.9	8.2	9.0	10.6
EV/Sales (x)	1.7	1.8	1.6	1.4
EV/EBITDA (x)	13.0	14.9	12.5	10.9

Source: Company, Angel Research

## NEUTRAL

CMP	Rs130
Target Price	-

Investment Period	12 Months
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#### Stock Info

Sector	Infrastructure
Market Cap (Rs cr)	4,054
Beta	1.4
52 Week High / Low	162/100
Avg. Daily Volume	742,612
Face Value (Rs)	1
BSE Sensex	17,868
Nifty	5,368
Reuters Code	HCNS.BO
Bloomberg Code	HCC@IN

#### Shareholding Pattern (%)

Promoters	39.9
MF / Banks / Indian FIs	20.4
FII / NRIs / OCBs	25.9
Indian Public / Others	13.9

Abs. (%)	3m	1yr	3yr
Sensex	1.8	16.1	17.1
HCC	1.6	16.2	0.9

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**Exhibit 1: 1QFY2011 performance (Standalone)**

Y/E March (Rs cr)	1QFY11	1QFY10	% chg(yoy)	4QFY10	% chg(qoq)	FY2010	FY2009	% chg(yoy)
<b>Income from operations</b>	<b>995.4</b>	<b>876.0</b>	13.6	<b>1,085.0</b>	(8.3)	<b>3,629</b>	<b>3,313.8</b>	9.5
<b>Total expenditure</b>	<b>869.6</b>	<b>761.0</b>	14.3	<b>962.0</b>	(9.6)	<b>3,201.3</b>	<b>2,882.3</b>	11.1
<b>Operating profit</b>	<b>125.8</b>	<b>115.1</b>	9.3	<b>123.0</b>	2.2	<b>427.9</b>	<b>431.4</b>	(0.8)
OPM (%)	12.6	13.1	-	11.3	-	11.8	13.0	
Interest	57.7	61.3	(5.8)	44.3	30.3	205.2	210.1	(2.3)
Depreciation	34.7	30.1	15.3	20.1	72.3	113.9	115.2	(1.1)
Non-operating income	3.1	1.9	63.4	4.2	(26.4)	13.0	58.8	(77.9)
Non-recurring items		0.0	-	0.0	-	0.0	-	-
<b>PBT</b>	<b>36.4</b>	<b>25.6</b>	42.5	<b>62.8</b>	(42.0)	<b>121.8</b>	<b>165.0</b>	(26.2)
Tax	8.1	7.4	10.0	19.8	-	40.4	39.2	3.1
<b>PAT</b>	<b>28.3</b>	<b>18.2</b>	55.6	<b>43.0</b>	(34.1)	<b>81.4</b>	<b>125.8</b>	(35.3)
PAT (%)	2.8	2.1	-	4.0	-	2.2	3.8	
<b>FDEPS (Rs)</b>	<b>0.9</b>	<b>0.7</b>	31.0	<b>1.40</b>	(33.6)	<b>2.7</b>	<b>4.9</b>	(45.3)

Source: Company, Angel Research

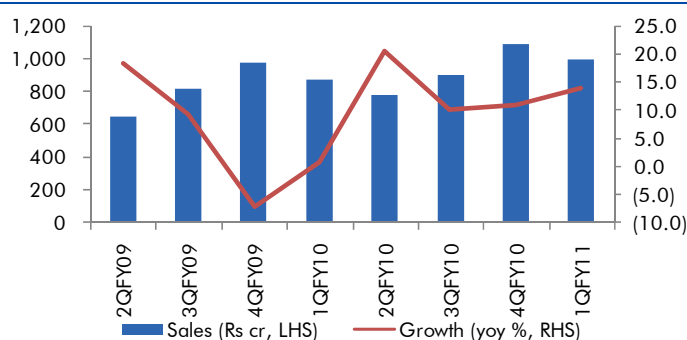
**Exhibit 2: 1QFY2011 actual vs. Angel estimates**

	Estimates	Actual	Variation
Revenue	962.0	995.4	3.5
EBITDA margin	11.1	12.6	153.5bp
PAT	26.3	28.3	7.6

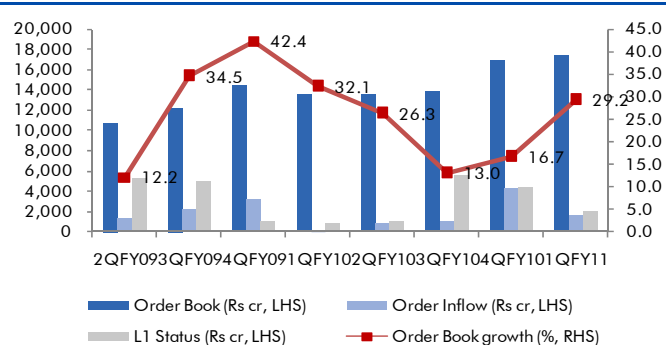
Source: Company, Angel Research

**Top line as per estimates...**

HCC reported top-line growth of 13.6% to Rs995cr as against our estimates of Rs962cr.

**Exhibit 3: Quarterly revenue trend**


Source: Company, Angel Research

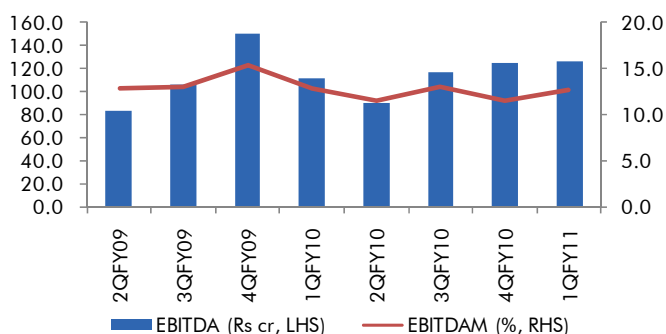
**Exhibit 4: Order booking and order book trend**


Source: Company, Angel Research

**...so was the bottom line**

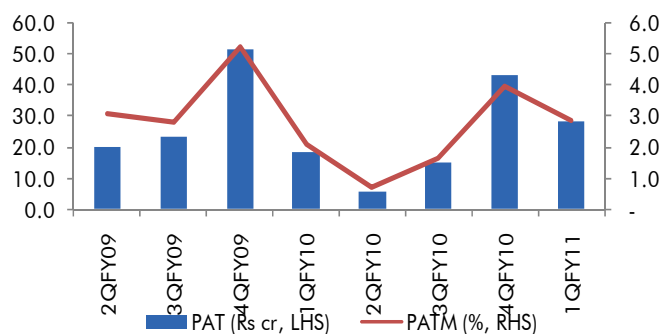
HCC's operating margin witnessed a marginal upside at 12.6% against our estimates of 11.1%, mainly because of reduction in raw-material expenses as a percentage of sales. This was primarily due to a better project mix. The bottom line came marginally ahead of our estimates on account of higher operating margins and lower tax provision for the quarter.

**Exhibit 5: Quarterly EBITDA trend**



Source: Company, Angel Research

**Exhibit 6: Quarterly PAT trend**

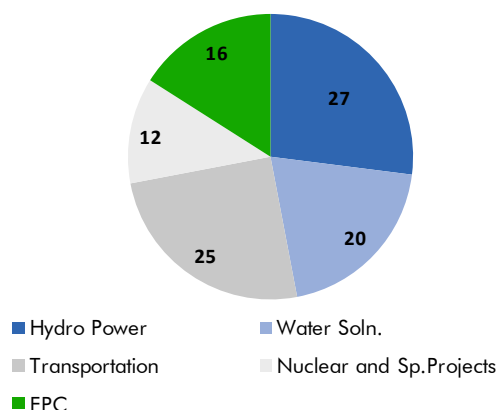


Source: Company, Angel Research

**Order book analysis**

HCC's order book as of 1QFY2011 stood at Rs19,346cr (5.3x FY2010 revenue). The order book comprises the hydro power (27%), water solutions (20%), transportation (25%), nuclear and special projects (12%) and EPC-related works (16%) segments. The company is L1 for contracts worth Rs2,042cr

**Exhibit 7: Segmental order book break-up**



Source: Company, Angel Research

## Outlook and Valuation

We value HCC on an SOTP basis and have assigned 14x P/E to its FY2012E standalone earnings. We have valued the company's real estate venture on an NAV basis and BOT assets on a P/BV basis to arrive at a value of Rs126/share, with limited upside from current levels. Hence, **we maintain our Neutral view on the stock.**

The upside risk to our recommendation is that if *Lavasa* is able to garner the envisaged valuations of Rs10,000cr, which we are not factoring in our SOTP target price, as *Lavasa* is a long gestation project. Further, it should be noted that all the large real estate companies (having pan-India performance unlike *Lavasa*) are trading at a discount to their NAVs and their market caps only factor in the near-term earnings visibility. Moreover, we believe too much paper supply (there are at least five large real estate companies, which have filed their DRHP) in the sector would dilute investors' interest from the sector.

### Exhibit 8: SOTP valuation summary

Business segment	Methodology	Remarks	Rs/share
Construction	P/E	14x FY2012E earnings	51.3
Value of real estate	NAV	NAV basis	58.6
Road BOT	P/BV	1.5x P/BV	16.3
<b>Total</b>			<b>126</b>

Source: Company, Angel Research

### Exhibit 9: Key assumptions

Rs cr	FY07	FY08	FY09	FY10	FY11E	FY12E
Order inflow	1,998	3,929	7,616	7,979	11,402	10,114
Revenue	2,358	3,083	3,314	3,629	4,146	4,900
Order backlog (Y/E)	9,312	10,158	14,460	18,810	26,066	31,279
Order book-to-sales ratio (x)	3.9	3.3	4.4	5.2	6.3	6.4

Source: Company, Angel Research

### Exhibit 10: Angel EPS forecast v/s consensus

	Angel forecast	Bloomberg consensus	Variation (%)
FY2011E	3.2	4.4	37.5
FY2012E	3.7	5.3	43.2

Source: Company, Angel Research

## Investment Argument

### Fairly valued

HCC has a modest top-line growth of 16.2%, despite high order book-to-sales ratio because of its relatively long-gestation projects' skewed order book (hydro power and transportation segments). However, we believe, at current valuations of 36.5x FY2012E EPS of Rs3.7 and 2.4x P/BV, the stock price factors in all the upside from the construction arm and its real estate venture.

### Exhibit 11: Recommendation summary

Company	CMP (Rs)	TP (Rs)	Rating	Top line				EPS				Adj. P/E			OB/ Sale
				FY10	FY11E	FY12E	CAGR (%)	FY10	FY11E	FY12E	CAGR (%)	FY10	FY11E	FY12E	
CCCL	84	-	Neutral	1,976	2,444	2,871	20.5	5.0	6.0	7.5	22.5	16.7	13.9	11.1	2.3
Gammon	216	-	Neutral	4,489	5,575	6,607	21.3	8.4	10.0	12.1	20.0	13.3	11.2	9.2	2.5
HCC	134	-	Neutral	3,629	4,146	4,900	16.2	2.7	3.2	3.7	18.8	21.9	18.6	15.5	5.3
IRB Infra	293	-	Neutral	1,705	2,778	3,580	44.9	11.6	12.3	14.5	11.8	25.2	21.2	19.2	-
IVRCL	173	216	Buy	5,492	6,663	8,294	22.9	7.8	9.6	12.0	23.9	15.9	13.0	10.3	4.3
JP Assoc.	118	178	Buy	10,316	13,281	17,843	31.5	4.7	5.2	7.7	28.5	25.4	22.7	15.4	-
Punj	127	170	Buy	10,539	11,088	13,407	12.8	(11.1)	8.3	12.2	-	-	15.3	10.4	2.8
NCC	172	-	Neutral	4,778	5,913	6,758	18.9	7.8	10.0	10.7	17.4	22.0	17.2	16.0	3.6
Sadbhav	1,335	-	Neutral	1,257	1,560	1,911	23.3	43.0	57.5	69.5	27.1	21.3	16.0	13.2	5.4
Sl.	484	570	Buy	4,555	5,535	6,428	18.8	25.7	31.9	40.7	25.9	18.9	15.2	11.9	2.5
PEL	419	563	Buy	3,081	3,685	4,297	18.1	23.4	31.2	32.9	18.6	13.5	10.1	9.6	3.5
MPL	153	190	Buy	1,308	1,701	2,120	27.3	5.8	6.4	9.8	29.8	8.6	7.8	5.1	3.1
L&T	1,797	-	Neutral	37,035	44,047	55,519	22.4	47.5	55.1	68.9	20.4	29.5	25.5	20.4	2.7

Source: Company, Angel Research

### Exhibit 12: Recommendation summary - SOTP break-up

Company	Core Const.		Real Estate		Road BOT		Invst. In Subsidiaries		Others		Total Rs
	Rs	% to TP	Rs	% to TP	Rs	% to TP	Rs	% to TP	Rs	% to TP	
CCCL	90	100	-	-	-	-	-	-	-	-	90
Gammon India	121	54	-	-	-	-	-	-	104	46	225
HCC	51	41	59	46	16	13	-	-	-	-	126
IRB Infra	113	41	3	1	154	56	5	2	-	-	275
IVRCL	168	78	-	-	-	-	48	22	-	-	216
JP Assoc.	65	38	41	23	-	-	-	-	68	39	174
Punj Lloyd	170	100	-	-	-	-	-	-	-	-	170
NCC	152	82	18	10	16	8	-	-	-	-	186
Sadbhav	834	67	-	-	418	33	-	-	-	-	1,252
Simplex In.	570	100	-	-	-	-	-	-	-	-	570
Patel Engg	460	82	103	18	-	-	-	-	-	-	563
Madhucon	98	52	4	2	-	-	88	46	-	-	190
L&T	1,447	79	-	-	-	-	394	21	-	-	1,841

Source: Company, Angel Research

**Profit & loss statement (Standalone)**

Y/E March (Rs cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
<b>Net sales</b>	<b>2,358</b>	<b>3,083</b>	<b>3,314</b>	<b>3,629</b>	<b>4,146</b>	<b>4,900</b>
Other operating income	-	-	-	-	-	-
<b>Total operating income</b>	<b>2,358</b>	<b>3,083</b>	<b>3,314</b>	<b>3,629</b>	<b>4,146</b>	<b>4,900</b>
% chg		30.8	7.5	9.5	14.2	18.2
Total expenditure	2,142	2,716	2,882	3,201	3,620	4,268
Net raw materials	741	971	1,236	1,060	1,435	1,656
Other mfg costs	1,193	1,448	1,271	1,747	1,853	2,215
Personnel	209	297	375	394	332	397
Other	-	-	-	-	-	-
<b>EBITDA</b>	<b>215</b>	<b>367</b>	<b>431</b>	<b>428</b>	<b>527</b>	<b>632</b>
% chg		70.3	17.7	(0.8)	23.1	20.1
(% of net sales)	9.1	11.9	13.0	11.8	12.7	12.9
Depreciation & amortisation	80	96	115	114	139	144
<b>EBIT</b>	<b>136</b>	<b>270</b>	<b>316</b>	<b>314</b>	<b>388</b>	<b>488</b>
% chg		99.5	16.9	(0.7)	23.5	26.0
(% of net sales)	5.8	8.8	9.5	8.7	9.4	10.0
Interest & other charges	62	152	211	205	257	337
Other Income	11	2	9	13	13	15
(% of PBT)	11.3	1.9	8.2	10.7	8.7	8.9
Share in profit of assoc.	9	(0)	(0)	(0)	(0)	-
<b>Recurring PBT</b>	<b>93</b>	<b>120</b>	<b>115</b>	<b>122</b>	<b>143</b>	<b>166</b>
% chg		28.8	(4.3)	5.8	17.5	15.9
Extraordinary expense/(Inc.)	(18)	36	49	-	0	-
<b>PBT (reported)</b>	<b>75</b>	<b>157</b>	<b>165</b>	<b>122</b>	<b>143</b>	<b>166</b>
Tax	39	47	39	40	47	55
(% of PBT)	41.3	39.2	34.0	33.2	33.0	33.0
<b>PAT (reported)</b>	<b>37</b>	<b>110</b>	<b>125</b>	<b>81</b>	<b>96</b>	<b>111</b>
Add: Share of earnings of assoc	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
<b>PAT after MI (reported)</b>	<b>37</b>	<b>110</b>	<b>125</b>	<b>81</b>	<b>96</b>	<b>111</b>
<b>ADJ. PAT</b>	<b>55</b>	<b>73</b>	<b>76</b>	<b>81</b>	<b>96</b>	<b>111</b>
% chg		33.3	3.9	7.2	17.7	16.0
(% of net sales)	2.3	2.4	2.3	2.2	2.3	2.3
<b>Basic EPS (Rs)</b>	<b>2.1</b>	<b>2.9</b>	<b>3.0</b>	<b>2.7</b>	<b>3.2</b>	<b>3.7</b>
<b>Fully diluted EPS (Rs)</b>	<b>1.8</b>	<b>2.4</b>	<b>2.5</b>	<b>2.7</b>	<b>3.2</b>	<b>3.7</b>
% chg		33.3	3.9	7.2	17.7	16.0

**Balance sheet (Standalone)**

Y/E March (Rs cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	25.6	25.6	25.6	30.3	30.3	30.3
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	878	978	979	1,502	1,572	1,657
<b>Shareholders' Funds</b>	<b>904</b>	<b>1,004</b>	<b>1,005</b>	<b>1,517</b>	<b>1,587</b>	<b>1,672</b>
Minority Interest	-	-	-	-	-	-
Total Loans	1,551	1,845	2,322	2,515	2,677	3,009
Deferred Tax Liability	86	113	113	143	143	143
<b>Total Liabilities</b>	<b>2,541</b>	<b>2,962</b>	<b>3,440</b>	<b>4,174</b>	<b>4,407</b>	<b>4,824</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	1,101	1,410	1,683	1,814	1,994	2,179
Less: Acc. Depreciation	355	457	555	664	803	947
<b>Net Block</b>	<b>746</b>	<b>953</b>	<b>1,128</b>	<b>1,150</b>	<b>1,191</b>	<b>1,232</b>
Capital Work-in-Progress	151	68	46	35	62	59
Goodwill	-	-	-	-	-	-
<b>Investments</b>	<b>229</b>	<b>296</b>	<b>366</b>	<b>409</b>	<b>446</b>	<b>468</b>
Current Assets	2,306	2,710	3,467	4,624	4,892	5,466
Cash	208	264	154	188	158	158
Loans & Advances	348	295	528	863	622	588
Other	1,750	2,150	2,785	3,573	4,112	4,720
Current liabilities	892	1,064	1,568	2,043	2,184	2,402
<b>Net Current Assets</b>	<b>1,415</b>	<b>1,646</b>	<b>1,900</b>	<b>2,581</b>	<b>2,708</b>	<b>3,064</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>2,541</b>	<b>2,962</b>	<b>3,440</b>	<b>4,174</b>	<b>4,407</b>	<b>4,824</b>

**Cash flow statement (Standalone)**

Y/E March (Rs cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Profit before tax	75.3	156.8	164.5	121.8	143.2	165.9
Depreciation	79.7	96.2	115.2	113.9	138.9	143.8
Change in Working Capital	784.8	175.5	364.1	647.1	156.8	355.8
Less: Other income	10.6	2.3	9.5	13.0	12.5	14.8
Direct taxes paid	38.6	47.2	39.2	40.4	47.3	54.8
<b>Cash Flow from Operations</b>	<b>(679.0)</b>	<b>27.9</b>	<b>(133.0)</b>	<b>(464.8)</b>	<b>65.5</b>	<b>(115.7)</b>
(Inc.)/ Dec. in Fixed Assets	(372.2)	(224.8)	(252.0)	(119.7)	(207.4)	(182.2)
(Inc.)/ Dec. in Investments	(102.2)	(66.9)	(70.0)	(43.2)	(37.5)	(22.1)
Other income	10.6	2.3	9.5	13.0	12.5	14.8
<b>Cash Flow from Investing</b>	<b>(463.8)</b>	<b>(289.4)</b>	<b>(312.6)</b>	<b>(149.9)</b>	<b>(232.4)</b>	<b>(189.5)</b>
Issue of Equity		-		459.3	-	-
Inc./(Dec.) in loans	260.0	293.8	476.9	192.9	162.1	332.2
Dividend Paid (Incl. Tax)	(22.5)	(24.0)	(24.0)	(28.4)	(31.9)	(31.9)
Others	107.6	48	(117.9)	25.3	6.2	5.4
<b>Cash Flow from Financing</b>	<b>345.2</b>	<b>317.4</b>	<b>335.1</b>	<b>649.1</b>	<b>136.4</b>	<b>305.7</b>
Inc./(Dec.) in Cash	(797.6)	56.0	(110.5)	34.4	(30.5)	0.5
<b>Opening Cash balances</b>	<b>1,006.0</b>	<b>208.4</b>	<b>264.3</b>	<b>153.9</b>	<b>188.3</b>	<b>157.8</b>
<b>Closing Cash balances</b>	<b>208.4</b>	<b>264.3</b>	<b>153.9</b>	<b>188.3</b>	<b>157.8</b>	<b>158.3</b>

**Key Ratios**

Y/E March	FY07	FY08	FY09	FY10	FY11E	FY12E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	62.5	46.9	45.1	49.8	42.3	36.5
P/CEPS	25.5	20.2	17.9	20.8	17.3	15.9
P/BV	3.8	3.4	3.4	2.7	2.6	2.4
Dividend yield (%)	0.6	0.6	0.6	0.6	0.7	0.7
EV/Sales	2.0	1.8	1.7	1.8	1.6	1.4
EV/EBITDA	22.2	15.1	13.0	14.9	12.5	10.9
EV / Total Assets	1.9	1.7	1.6	1.5	1.5	1.4
Order book to sales	3.9	2.7	4.4	5.0	5.3	5.7
<b>Per Share Data (Rs)</b>						
EPS (Basic)	2.1	2.9	3.0	2.7	3.2	3.7
EPS (fully diluted)	2.1	2.9	3.0	2.7	3.2	3.7
Cash EPS	5.2	6.6	7.5	6.4	7.7	8.4
DPS	0.8	0.8	0.8	0.8	0.9	0.9
Book Value	35.3	39.2	39.2	50.0	52.3	55.1
<b>DuPont Analysis</b>						
EBIT margin	5.8	8.8	9.5	8.7	9.4	10.0
Tax retention ratio	58.7	60.8	66.0	66.8	67.0	67.0
Asset turnover (x)	1.0	1.2	1.1	1.0	1.0	1.1
ROIC (Post-tax)	3.4	6.5	7.0	5.8	6.3	7.3
Cost of Debt (Post Tax)	2.3	5.5	6.7	5.7	6.6	7.9
Leverage (x)	1.5	1.5	1.9	1.8	1.6	1.6
Operating ROE	5.0	8.2	7.5	6.0	5.8	6.3
<b>Returns (%)</b>						
ROCE (Pre-tax)	5.3	9.8	9.9	8.2	9.0	10.6
Angel ROIC (Pre-tax)	6.2	11.2	10.8	8.7	9.5	11.1
ROE	6.1	7.7	7.6	6.5	6.2	6.8
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	2.1	2.5	2.1	2.1	2.2	2.3
Inventory / Sales (days)	269.2	332.8	389.1	458.5	494.5	481.2
Receivables (days)	0.1	0.3	0.7	0.6	0.5	0.8
Payables (days)	143.8	181.8	217.7	265.5	286.7	262.7
Working capital(ex-cash) (days)	142.8	153.2	172.2	208.1	217.6	203.2
<b>Solvency ratios (x)</b>						
Net debt to equity	1.5	1.6	2.2	1.5	1.6	1.7
Net debt to EBITDA	6.2	4.3	5.0	5.4	4.8	4.5
Interest Cov. (EBIT / Interest)	2.2	1.8	1.5	1.5	1.5	1.4

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**Disclosure of Interest Statement**

	HCC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

<b>Ratings (Returns) :</b>	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	