

Limited growth potential; downgrade to REDUCE

Cement ▶ Result Update ▶ July 19, 2024

TARGET PRICE (Rs): 1,800

We downgrade Dalmia Bharat to REDUCE from Buy owing to limited growth catalysts due to i) uncertainty over the Jaypee deal—as admitted to the NCLT by lenders—impacting the company's market diversification and delaying its plans of becoming a pan-India player; ii) no major announcement on near-term organic plans; and iii) limited levers for cost improvement, in our view. We exclude acquisition of JP assets from our estimates, implying lower volume growth. Prices in its key markets like the South and East are likely to remain volatile owing to capacity additions. Accordingly, we now build-in ~8% volume CAGR with EBITDA/t in the Rs900-1,000 range over FY24-27E. Also, factoring-in lower cement prices, we cut our EBITDA estimates by 7-16% for FY25-26. Stripping out the JP assets, we see limited potential for any stock re-rating for Dalmia. Accordingly, we cut our target EV/E to 11x (vs 12.5x earlier) and revise down our Jun-25E TP to Rs1,800/share, post quarterly roll-over.

Dalmia Bharat: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,35,400	1,46,910	1,51,053	1,66,074	1,82,319
EBITDA	23,160	26,390	27,446	31,312	35,588
Adj. PAT	6,090	8,280	9,400	11,244	13,459
Adj. EPS (Rs)	52.8	43.6	43.5	59.2	70.8
EBITDA margin (%)	17.1	18.0	18.2	18.9	19.5
EBITDA growth (%)	(4.5)	13.9	4.0	14.1	13.7
Adj. EPS growth (%)	(11.8)	(17.5)	(0.1)	36.0	19.7
RoE (%)	4.1	5.2	5.6	6.4	7.2
RoIC (%)	10.8	12.7	12.2	13.0	13.2
P/E (x)	56.0	41.7	36.8	30.7	25.7
EV/EBITDA (x)	15.0	13.3	13.1	11.7	10.4
P/B (x)	2.2	2.1	2.0	1.9	1.8
FCFF yield (%)	(1.3)	(0.3)	(1.6)	(1.0)	(0.3)

Source: Company, Emkay Research

Result Summary

Dalmia's consolidated volumes increased 10% YoY/2% QoQ to Rs6.7bn, coming in 12%/19% (respectively) above Consensus' and our estimates, owing to better than expected realization. The positive surprise on realization—decline of 6% YoY/broadly flat QoQ to Rs4,877 (vs our estimate of a 2% QoQ decline)—was on account of better brand mix, improvement in price positioning, and rationalization of discounts. EBITDA/t increased 3% YoY/21% QoQ to Rs901 (Rs158/t sequential improvement). Volumes increased 6% YoY/declined 16% QoQ to 7.43mt, which was broadly in line with estimates. Total cost/t declined 8% YoY/4% QoQ to Rs3,976, matching our estimates. The company has reported exceptional item of Rs1.13bn (pre-tax) on account of a one-time provision being created as JPA is undergoing insolvency proceedings.

What we liked: Broadly flat realization on sequential basis

What we did not like: Uncertainty over the JP deal; delay in announcement of organic expansion plan

Earnings call KTAs:

i) The management postponed its target of achieving 75mt capacity by a year to FY28 (vs FY27 earlier), as JPA moved to NCLT for insolvency proceedings. It maintained its long-term target of >110mt capacity by FY31. ii) The next phase of organic expansion is likely to be announced in 12 months. iii) Capex spends stood at Rs6.6bn in Q1FY25. FY25 capex guidance was Rs35-40bn, largely towards organic expansion, efficiency improvements, and maintenance. iv) Cement prices have declined 2-3% QoQ in Q1FY25, whereas exit prices are lower than the Q1 average prices by another 3%. The mgmt. expects prices to improve from Q3FY25. v) Dalmia has a sustainable cost-savings potential of Rs150-200/t over the next three years, via improvement in RE power share, usage of captive coal mine, reduction in lead distance, and other improvements like direct despatches, etc.

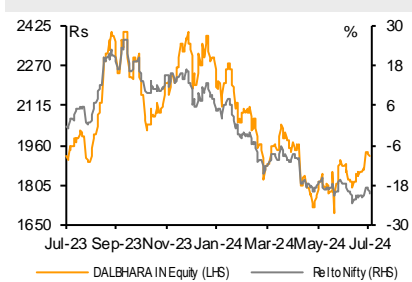
Target Price – 12M	Jun-25
Change in TP (%)	(18.2)
Current Reco.	REDUCE
Previous Reco.	BUY
Upside/(Downside) (%)	(1.0)
CMP (19-Jul-24) (Rs)	1,818.7

Stock Data	Ticker
52-week High (Rs)	2,431
52-week Low (Rs)	1,651
Shares outstanding (mn)	187.5
Market-cap (Rs bn)	341
Market-cap (US\$ mn)	4,077
Net-debt, FY25E (Rs mn)	13,512
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	961.5
ADTV-3M (US\$ mn)	11.5
Free float (%)	-
Nifty-50	24,531
INR/US\$	83.7
Shareholding, Mar-24	
Promoters (%)	55.8
FPIs/MFs (%)	11.3/12.6

Price Performance

(%)	1M	3M	12M
Absolute	(1.9)	(6.4)	(10.7)
Rel. to Nifty	(6.0)	(15.5)	(27.8)

1-Year share price trend (Rs)



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Quarterly Analysis

Exhibit 1: Actual vs. Estimates (Q4FY24)

(Rs mn)	Actual	Estimates		Variation (%)		Comment
		Emkay	Consensus	Emkay	Consensus	
Net sales	36,210	35,239	35,905	2.8	0.8	Better than expected realization led to EBITDA beat
EBITDA	6,690	5,949	5,642	12.4	18.6	
PAT	2,540	1,738	1,438	46.2	76.6	
Volumes (mt)	7.4	7.3		1.0		
Cement realization (Rs/ton)	4,877	4,795		1.7		
EBITDA (Rs/ton)	901	810		11.3		

Source: Bloomberg, Emkay Research

Exhibit 2: Quarterly financial highlights

(Rs mn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Revenue	36,240	31,490	36,000	43,070	36,210	(0.1)	(15.9)
Expenditure	30,140	25,600	28,250	36,530	29,520	(2.1)	(19.2)
Total RM costs	5,660	5,330	6,260	9,780	6,050	6.9	(38.1)
Power & Fuel costs	9,020	6,980	7,260	7,900	7,570	(16.1)	(4.2)
Freight costs	8,090	6,310	7,430	10,200	8,300	2.6	(18.6)
Staff costs	2,220	2,260	2,210	2,020	2,280	2.7	12.9
Other expenditure	5,150	4,720	5,090	6,630	5,320	3.3	(19.8)
EBITDA	6,100	5,890	7,750	6,540	6,690	9.7	2.3
Depreciation	3,990	4,010	3,700	3,280	3,170	(20.6)	(3.4)
EBIT	2,110	1,880	4,050	3,260	3,520	66.8	8.0
Other Income	570	850	640	1,200	500	(12.3)	(58.3)
Interest	830	1,010	1,080	940	950	14.5	1.1
PBT	1,850	1,720	3,610	3,520	3,070	65.9	(12.8)
Total Tax	410	480	950	320	490	19.5	53.1
Adjusted PAT	1,440	1,240	2,660	3,200	2,580	79.2	(19.4)
(Profit)/loss from JVs/Ass/MI	140	60	30	50	1,170	735.7	2,240.0
PAT after MI	1,300	1,180	2,630	3,150	1,410	8.5	(55.2)
Extra ordinary items	-	-	-	-	1,130	#DIV/0!	#DIV/0!
Reported PAT	1,300	1,180	2,630	3,150	2,540	95.4	(19.4)
Adjusted EPS (Rs)	6.9	6.3	14.0	16.8	7.5	8.5	(55.2)

(%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (bps)	QoQ (bps)
EBITDAM	16.8	18.7	21.5	15.2	18.5	164	329
EBITM	5.8	6.0	11.3	7.6	9.7	390	215
EBTM	5.1	5.5	10.0	8.2	8.5	337	31
PATM	4.0	3.9	7.4	7.4	7.1	315	(30)
Effective Tax rate	22.2	27.9	26.3	9.1	16.0		

Source: Company, Emkay Research

Exhibit 3: Quarterly analysis on a per-ton basis

(Rs/ton)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Cement volumes (mt)	7.0	6.2	6.8	8.8	7.4	6.1	(15.7)
Blended realization	5,178	5,104	5,286	4,893	4,877	(5.8)	(0.3)
Raw-material cost	809	864	919	1,111	815	0.8	(26.7)
Power and fuel cost	1,289	1,131	1,066	897	1,020	(20.9)	13.6
Freight cost	1,156	1,023	1,091	1,159	1,118	(3.3)	(3.5)
Staff cost	317	366	325	229	307	(3.2)	33.8
Other expenditure	736	765	747	753	716	(2.6)	(4.9)
Operating cost	4,306	4,149	4,148	4,150	3,976	(7.7)	(4.2)
EBITDA	872	955	1,138	743	901	3.4	21.3

Source: Emkay Research

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Exhibit 4: We cut our EBITDA estimates by 7-16% for FY25-26, as we strip out JP assets

Earnings revision	FY25E			FY26E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue (Rs mn)	1,57,980	1,51,053	(4.4)	1,83,592	1,66,074	(9.5)
EBITDA (Rs mn)	29,570	27,446	(7.2)	37,146	31,312	(15.7)
PAT (Rs mn)	10,316	9,400	(8.9)	11,865	11,244	(5.2)

Source: Emkay Research

Exhibit 5: We downgrade our rating to REDUCE on Dalmia Bharat, with revised down TP of Rs1,800/share, based on Jun-26E EV/E of 11x

EV/E valuation	
Jun-26E EBITDA (Rs bn)	32
EV/E (x)	11.0
Enterprise Value (Rs bn)	357
Net debt (Jun-25E; Rs bn)	15
Equity value (Rs bn)	342
No. of shares (mn)	190
Jun-25E Target Price (Rs/share)	1,800

Source: Emkay Research

Exhibit 6: Annual financials

Key Assumptions	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%)	
									FY20-24	FY24-27E
Cement Capacity (mt)	26	31	36	40	45	50	50	50	14.4	3.5
Volumes (mt)	19	21	22	26	29	31	33	36	10.5	7.3
Utilization (%)	74	67	62	64	65	62	67	72		
Blended Realization (Rs/ton)	4,967	5,088	5,084	5,258	5,104	4,951	5,040	5,123	0.7	0.1
EBITDA/ton (Rs)	1,092	1,346	1,093	899	917	900	950	1,000	(4.3)	2.9
P&L (Rs bn)										
Revenue	96	105	113	135	147	151	166	182	11.3	7.5
EBITDA	21	28	24	23	26	27	31	36	5.8	10.5
Adj. Net Profit	2	9	8	6	8	9	11	13	38.6	17.7
Balance Sheet (Rs bn)										
Equity	106	126	157	156	164	171	180	192		
Net Debt	28	9	(14)	7	5	14	21	26		
Net Debt:EBITDA (x)	1.3	0.3	(0.6)	0.3	0.2	0.5	0.7	0.7		
Net Debt:Equity (x)	0.3	0.1	(0.1)	0.0	0.0	0.1	0.1	0.1		
Cash Flow (Rs bn)										
OCF before NWC change	16	27	24	22	26	23	26	28		
Change in NWC	3	8	(5)	(1)	0	(1)	(1)	(1)		
Capex	(14)	(13)	(18)	(27)	(27)	(28)	(30)	(30)		
FCF	6	21	1	(6)	(1)	(6)	(6)	(3)		
Return ratios										
RoE (%)	2.1	7.5	5.4	4.1	5.2	5.6	6.4	7.2		
RoCE (%)	2.9	5.8	4.6	4.0	5.1	5.3	5.8	6.4		
RoIC (%)	12.8	19.1	13.7	10.8	12.7	12.2	13.0	13.2		
Valuations (x)										
PER						36.8	30.7	25.7		
EV/EBITDA						13.1	11.7	10.4		
EV/ton (US\$)						96	98	99		

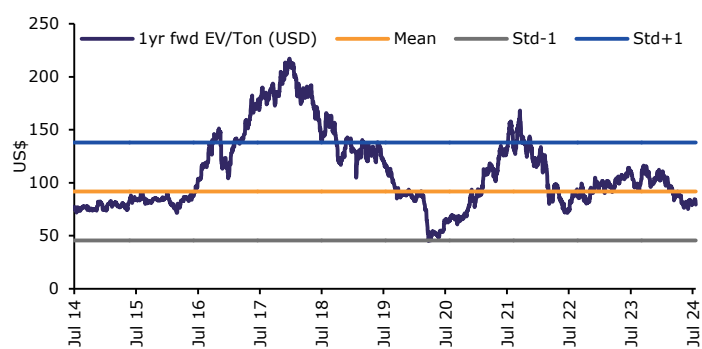
Source: Company, Emkay Research

Exhibit 7: Annual analysis on a per-ton basis

(Rs/ton)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Blended realization	4,967	5,088	5,084	5,258	5,104	4,951	5,040	5,123
YoY (%)	(1.6)	2.4	(0.1)	3.4	(2.9)	(3.0)	1.8	1.7
Raw-material costs	857	861	663	769	939	948	957	970
Power & fuel costs	901	809	1,158	1,429	1,083	962	990	1,005
Freight costs	982	1,009	1,061	1,088	1,113	1,102	1,112	1,123
Staff costs	350	345	335	299	303	307	303	297
Other expenses	785	719	774	773	750	733	728	728
Operating costs	3,875	3,742	3,991	4,359	4,187	4,051	4,090	4,123
YoY (%)	(3.9)	(3.4)	6.6	9.2	(3.9)	(3.2)	0.9	0.8
Blended EBITDA	1,092	1,346	1,093	899	917	900	950	1,000
YoY (%)	7.5	23.3	(18.8)	(17.7)	1.9	(1.9)	5.6	5.2

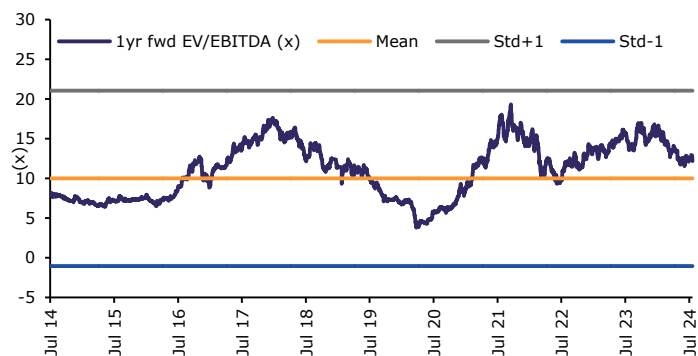
Source: Company, Emkay Research

Exhibit 8: One-year forward EV/ton



Source: Bloomberg, Emkay Research

Exhibit 9: One-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Dalmia Bharat: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,35,400	1,46,910	1,51,053	1,66,074	1,82,319
Revenue growth (%)	20.0	8.5	2.8	9.9	9.8
EBITDA	23,160	26,390	27,446	31,312	35,588
EBITDA growth (%)	(4.5)	13.9	4.0	14.1	13.7
Depreciation & Amortization	13,050	14,980	13,560	13,902	15,046
EBIT	10,110	11,410	13,886	17,410	20,542
EBIT growth (%)	(15.0)	12.9	21.7	25.4	18.0
Other operating income	0	0	0	0	0
Other income	1,380	3,150	2,832	2,860	3,089
Financial expense	2,340	3,860	4,253	4,927	5,284
PBT	9,150	10,700	12,465	15,344	18,347
Extraordinary items	3,810	0	(1,130)	0	0
Taxes	2,420	2,160	2,867	3,882	4,642
Minority interest	640	260	198	218	247
Income from JV/Associates	0	0	0	0	0
Reported PAT	9,900	8,280	8,270	11,244	13,459
PAT growth (%)	(11.6)	(16.4)	(0.1)	36.0	19.7
Adjusted PAT	6,090	8,280	9,400	11,244	13,459
Diluted EPS (Rs)	52.8	43.6	43.5	59.2	70.8
Diluted EPS growth (%)	(11.8)	(17.5)	(0.1)	36.0	19.7
DPS (Rs)	9.0	5.0	7.4	8.9	10.6
Dividend payout (%)	17.0	11.5	17.0	15.0	15.0
EBITDA margin (%)	17.1	18.0	18.2	18.9	19.5
EBIT margin (%)	7.5	7.8	9.2	10.5	11.3
Effective tax rate (%)	26.4	20.2	23.0	25.3	25.3
NOPLAT (pre-IndAS)	7,436	9,107	10,692	13,005	15,345
Shares outstanding (mn)	187.5	190.0	190.0	190.0	190.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	9,150	10,700	12,465	15,344	18,347
Others (non-cash items)	(5,150)	(3,100)	(287)	0	(862)
Taxes paid	(140)	(540)	(2,867)	(3,882)	(4,642)
Change in NWC	(770)	460	(806)	(710)	(968)
Operating cash flow	22,520	26,350	22,159	26,502	28,869
Capital expenditure	(27,010)	(27,230)	(28,000)	(30,000)	(30,000)
Acquisition of business	2,980	(1,610)	0	0	0
Interest & dividend income	770	1,340	2,832	2,860	3,089
Investing cash flow	(23,260)	(27,500)	(25,168)	(27,140)	(26,911)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	6,670	8,270	10,000	10,000	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(3,300)	(4,360)	(4,253)	(4,927)	(5,284)
Dividend paid (incl tax)	(1,690)	(1,690)	(1,410)	(1,687)	(2,019)
Others	310	1,900	0	0	0
Financing cash flow	1,990	4,120	4,337	3,387	(7,303)
Net chg in Cash	1,250	2,970	1,328	2,749	(5,344)
OCF	22,520	26,350	22,159	26,502	28,869
Adj. OCF (w/o NWC chg.)	23,290	25,890	22,965	27,213	29,837
FCFF	(4,490)	(880)	(5,841)	(3,498)	(1,131)
FCFE	2,180	7,390	4,159	6,502	(1,131)
OCF/EBITDA (%)	97.2	99.8	80.7	84.6	81.1
FCFE/PAT (%)	35.8	89.3	44.2	57.8	(8.4)
FCFF/NOPLAT (%)	(60.4)	(9.7)	(54.6)	(26.9)	(7.4)

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	375	380	380	380	380
Reserves & Surplus	1,55,905	1,63,590	1,70,450	1,80,008	1,91,448
Net worth	1,56,280	1,63,970	1,70,830	1,80,388	1,91,828
Minority interests	1,160	1,100	1,100	1,100	1,100
Deferred tax liability (net)	16,340	17,950	17,663	17,663	16,801
Total debt	37,630	46,510	56,510	66,510	66,510
Total liabilities & equity	2,11,410	2,29,530	2,46,104	2,65,661	2,76,238
Net tangible fixed assets	1,23,260	1,27,120	1,38,560	1,49,658	1,66,612
Net intangible assets	24,430	24,430	24,430	24,430	24,430
Net ROU assets	1,870	1,870	1,870	1,870	1,870
Capital WIP	18,590	22,840	25,840	30,840	28,840
Goodwill	7,300	5,270	5,270	5,270	5,270
Investments [JV/Associates]	7,070	8,770	8,770	8,770	8,770
Cash & equivalents	31,020	41,670	42,998	45,747	40,403
Current assets (ex-cash)	41,890	45,520	46,185	49,402	52,876
Current Liab. & Prov.	44,020	47,960	47,819	50,326	52,832
NWC (ex-cash)	(2,130)	(2,440)	(1,634)	(924)	44
Total assets	2,11,410	2,29,530	2,46,104	2,65,661	2,76,238
Net debt	6,610	4,840	13,512	20,763	26,107
Capital employed	2,11,410	2,29,530	2,46,104	2,65,661	2,76,238
Invested capital	1,54,730	1,56,250	1,68,495	1,80,304	1,98,226
BVPS (Rs)	833.6	863.0	899.1	949.4	1,009.6
Net Debt/Equity (x)	0.0	0.0	0.1	0.1	0.1
Net Debt/EBITDA (x)	0.3	0.2	0.5	0.7	0.7
Interest coverage (x)	4.9	3.8	3.9	4.1	4.5
RoCE (%)	5.5	6.6	7.0	7.9	8.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	56.0	41.7	36.8	30.7	25.7
P/CE(x)	17.8	14.9	15.0	13.7	12.1
P/B (x)	2.2	2.1	2.0	1.9	1.8
EV/Sales (x)	2.6	2.4	2.4	2.2	2.0
EV/EBITDA (x)	15.0	13.3	13.1	11.7	10.4
EV/EBIT(x)	34.4	30.7	25.9	21.0	18.1
EV/IC (x)	2.2	2.2	2.1	2.0	1.9
FCFF yield (%)	(1.3)	(0.3)	(1.6)	(1.0)	(0.3)
FCFE yield (%)	0.6	2.1	1.2	1.8	(0.3)
Dividend yield (%)	0.5	0.3	0.4	0.5	0.6
DuPont-RoE split					
Net profit margin (%)	4.5	5.6	6.2	6.8	7.4
Total asset turnover (x)	0.6	0.7	0.6	0.6	0.7
Assets/Equity (x)	1.3	1.4	1.4	1.5	1.5
RoE (%)	3.9	5.2	5.6	6.4	7.2
DuPont-RoIC					
NOPLAT margin (%)	5.5	6.2	7.1	7.8	8.4
IC turnover (x)	0.9	0.9	0.9	1.0	1.0
RoIC (%)	10.8	12.7	12.2	13.0	13.2
Operating metrics					
Core NWC days	(5.7)	(6.1)	(3.9)	(2.0)	0.1
Total NWC days	(5.7)	(6.1)	(3.9)	(2.0)	0.1
Fixed asset turnover	0.6	0.6	0.6	0.6	0.6
Opex-to-revenue (%)	68.3	63.6	62.7	62.2	61.5

Source: Company, Emkay Research

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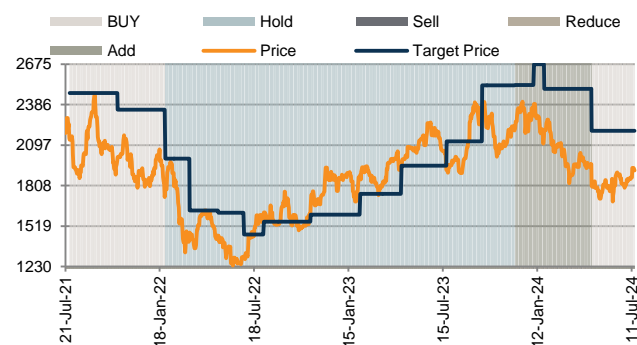
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-24	1,850	2,200	Buy	Dharmesh Shah
10-Jun-24	1,876	2,200	Buy	Dharmesh Shah
25-Apr-24	1,806	2,200	Buy	Dharmesh Shah
01-Apr-24	1,992	2,500	Add	Dharmesh Shah
04-Mar-24	2,027	2,500	Add	Dharmesh Shah
25-Jan-24	2,205	2,500	Add	Dharmesh Shah
05-Jan-24	2,391	2,675	Add	Dharmesh Shah
30-Nov-23	2,218	2,525	Add	Dharmesh Shah
30-Nov-23	2,218	2,525	Hold	Dharmesh Shah
16-Oct-23	2,322	2,525	Hold	Dharmesh Shah
28-Sep-23	2,340	2,525	Hold	Dharmesh Shah
18-Sep-23	2,369	2,125	Hold	Dharmesh Shah
22-Jul-23	1,921	2,125	Hold	Dharmesh Shah
17-Jun-23	2,255	1,950	Hold	Dharmesh Shah
03-Jun-23	2,139	1,950	Hold	Dharmesh Shah
04-May-23	2,024	1,950	Hold	Dharmesh Shah
26-Apr-23	1,934	1,950	Hold	Dharmesh Shah
27-Mar-23	1,869	1,750	Hold	Dharmesh Shah
02-Mar-23	1,846	1,750	Hold	Dharmesh Shah
06-Feb-23	1,885	1,750	Hold	Dharmesh Shah
05-Feb-23	1,868	1,600	Hold	Dharmesh Shah
29-Dec-22	1,855	1,600	Hold	Dharmesh Shah
12-Dec-22	1,906	1,600	Hold	Dharmesh Shah
05-Dec-22	1,886	1,600	Hold	Dharmesh Shah
05-Nov-22	1,743	1,600	Hold	Dharmesh Shah
03-Nov-22	1,654	1,600	Hold	Dharmesh Shah
04-Oct-22	1,596	1,550	Hold	Dharmesh Shah
04-Sep-22	1,535	1,550	Hold	Dharmesh Shah
05-Aug-22	1,616	1,550	Hold	Dharmesh Shah
04-Jul-22	1,318	1,460	Hold	Dharmesh Shah
28-Jun-22	1,302	1,460	Hold	Dharmesh Shah
10-May-22	1,422	1,615	Hold	Dharmesh Shah
16-Mar-22	1,474	1,630	Hold	Dharmesh Shah
28-Jan-22	1,785	2,000	Hold	Dharmesh Shah
31-Dec-21	1,848	2,350	Buy	Dharmesh Shah
02-Dec-21	1,848	2,350	Buy	Dharmesh Shah
29-Oct-21	2,012	2,350	Buy	Dharmesh Shah
05-Sep-21	2,229	2,470	Buy	Dharmesh Shah
29-Jul-21	2,135	2,470	Buy	Dharmesh Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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