Blue Star

Estimate change	↑
TP change	↑
Rating change	↔

CMP: INR1,633 **TP: INR1,510 (-8%)** **Neutral**

Performance above our estimate; margin recovery gradual

Data center opportunity supports medium-term growth outlook

- Blue Star (BLSTR)'s 2QFY27 performance was above our estimates, driven by higher revenue and OPM. Revenue grew ~21% YoY to INR29.3b (~10% beat), led by PES/UCP/EMPS growth of ~51%/29%/16%. EBITDA rose ~10% YoY to INR2.0b (~64% beat). OPM dipped 70bp YoY to ~7% (est. 4.6%). **The segment EBIT was INR1.8b (~26% beat), representing a smaller beat than EBITDA despite PES provision write-backs.** Adj. PAT grew 8% YoY to INR1.1b (~95% beat).
- Management indicated that margins remain under pressure from escalating input costs pressure and an inability to fully pass on these increases. However, product portfolio rejigs, recent price hikes, and operating leverage are likely to pull unitary cooling products (UCP) margins to at least 6.5% for full-year FY27. In the EMPS projects segment, it reiterated EBIT margin guidance of 7-7.5%, with potential to improve towards 8.5% over the medium term as data center contribution increases. It has secured ~INR20b of orders in the data center segment and expects another ~INR20b in 2HFY27, with order bookings targeted to reach ~INR80b by FY30.
- We raise our PAT estimate by 10%/6% for FY27/FY28, factoring in the 2Q outperformance and higher margins going forward. **We reiterate our Neutral rating on the stock with a TP of INR1,510 (based on SoTP).**

UCP revenue up ~29% YoY; UCP margin at 2.3% (est. 3.0%)

- Consol. revenue/EBITDA/adj. PAT stood at INR29.3b/INR2.0b/INR1.1b (+21%/+10%/+8% YoY and +10%/+64%/+95% vs. our estimates) in 2QFY27. OPM contracted 65bp YoY to 6.9% (+2.3pp vs. our estimates).
- Segmental highlights: a) **UCP:** revenue was up 29% YoY (~13% beat) at INR9.0b, EBIT declined ~51% YoY to INR207m, and EBIT margin contracted 3.9pp YoY to 2.3% (-70bp below estimates). b) **EMPS**: revenue increased 16% YoY to INR19.4b (~7% beat), EBIT declined ~10% YoY to INR1.3b, and PBIT margin contracted 2.0pp YoY to 6.9%. c) **PES**: revenue increased ~51% YoY to INR973m (~56% beat), PBIT surged 3.7x YoY to INR231m, and PBIT margin expanded 14.1pp YoY to ~24%. The strong margin was driven by the reversal of the write-back of warranty provision following the MedTech business divestment.
- In 1HFY27, revenue/EBITDA/PAT stood at INR63.1b/INR3.8b/INR2.0b (+17%/-2%/-8% YoY). OPM declined 1.1pp YoY to ~6.0%. Operating cash inflow stood at INR4.1b vs. operating cash outflow of INR7.3b in 1HFY26. Capex stood at INR1.4b vs. INR1.3b in 1HFY26. Net cash inflow stood at INR2.8b vs. net cash outflow of INR8.6b in 1HFY26.

Key highlights from the management commentary

- BLSTR's RAC primary sales grew ~42% in 2QFY27 vs. the estimated industry growth of ~35-40%. The 1HFY27 industry growth stood at ~30% in value terms, while BLSTR grew ~28-29%, maintaining its market share.
- In EMPS, growth remains heavily anchored in strong data center and factory segments, while infrastructure is intentionally being defocused.

Bloomberg	BLSTR IN
Equity Shares (m)	206
M.Cap.(INRb)/(USDb)	335.8 / 3.5
52-Week Range (INR)	2030 / 1432
1, 6, 12 Rel. Per (%)	6/-4/-6
12M Avg Val (INR M)	926
Free float (%)	63.5

Financials & Valuations (INR b)

Y/E MARCH	FY26	FY27E	FY28E
Sales	124.0	142.3	161.6
EBITDA	9.3	9.8	12.3
Adj. PAT	5.6	5.4	7.0
EBITA Margin (%)	7.5	6.9	7.6
Cons. Adj. EPS (INR)	27.3	26.3	34.1
EPS Gr. (%)	-3.5	-3.7	29.7
BV/Sh. (INR)	166.9	185.9	210.0
Ratios			
Net D:E	0.1	0.0	-0.0
RoE (%)	16.4	14.2	16.2
RoCE (%)	15.2	13.5	15.7
Payout (%)	31.1	38.0	35.2
Valuations			
P/E (x)	59.8	62.1	47.9
P/BV (x)	9.8	8.8	7.8
EV/EBITDA (x)	36.3	34.4	27.2
Div Yield (%)	0.5	0.6	0.7
FCF Yield (%)	-0.5	0.8	1.4

Shareholding pattern (%)

As of	Sep-26	Jun-26	Sep-25
Promoter	36.5	36.5	36.5
DII	29.1	28.3	25.3
FII	12.3	12.8	16.1
Others	22.1	22.5	22.1

FII includes depository receipts

Sanjeev Kumar Singh - Research analyst (Sanjeev.Singh@MotilalOswal.com)
Research analyst - Mudit Agarwal (Mudit.Agarwal@MotilalOswal.com) | **Abhishek Sheth** (Abhishek.Sheth@MotilalOswal.com)

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- The data center business could deliver EBIT margins of 10%-12%. However, taking into consideration other businesses such as equipment/other projects, the EMPS segment margin guidance is maintained at 7.0-7.5%.

Valuation and view

- BLSTR's 2QFY27 performance reflected strong revenue growth across UCP and EMPS, though profitability remained under pressure due to elevated input costs and project execution delays. Near-term UCP margin recovery is likely to remain gradual amid intense competition and uncertain demand, while the data center opportunity and healthy order book provide strong medium-term growth visibility in EMPS segment.
- We estimate a CAGR of ~14%/15%/12% in revenue/EBITDA/PAT over FY26-28E. We also estimate overall OPM to remain range-bound at ~7-8% and cumulative OCF to remain at INR13.4b over FY27-28 vs. INR8.4b over FY25-26. Further, we project cumulative FCF of INR7.4b over FY27-28 vs. INR1.5b over FY25-26. We also project a net cash balance of INR1.3b in FY28 vs. net debt of INR2.2b in FY26.
- At CMP, BLSTR trades fairly at a P/E of 62x/48x based on FY27E/FY28E EPS. **We reiterate our Neutral rating with an SoTP-based TP of INR1,510 (valuing UCP and EMPS at 45x each, and PES at 25x FY28E EPS).**

Quarterly performance (Consolidated) (INR m)

Y/E March	FY26				FY27E				FY26	FY27E	FY27 2QE	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales	**29,823**	**24,224**	**29,253**	**40,721**	**33,779**	**29,310**	**32,870**	**46,372**	**1,24,020**	**1,42,331**	**26,743**	**10**
Change (%)	4.1	6.4	4.2	1.3	13.3	21.0	12.4	13.9	3.6	14.8	10.4	
EBITDA	**2,000**	**1,834**	**2,207**	**3,263**	**1,750**	**2,026**	**2,305**	**3,706**	**9,304**	**9,786**	**1,236**	**64**
Change (%)	-15.9	22.8	5.4	16.8	-12.5	10.4	4.4	13.6	6.2	5.2	-32.6	
As of % Sales	6.7	7.6	7.5	8.0	5.2	6.9	7.0	8.0	7.5	6.9	4.6	229
Depreciation	414	434	459	482	566	679	690	725	1,788	2,660	580	**17**
Interest	101	169	221	231	135	169	180	242	721	725	180	**-6**
Other Income/JV share	147	90	112	276	206	165	162	184	625	716	265	**-38**
PBT	**1,632**	**1,322**	**1,640**	**2,826**	**1,254**	**1,343**	**1,597**	**2,923**	**7,419**	**7,117**	**741**	**81**
Tax	424	334	271	729	321	334	399	731	1,758	1,779	195	**72**
Effective Tax Rate (%)	26.0	25.3	16.5	25.8	25.6	24.9	25.0	25.0	23.7	25.0	26.2	
Extra-ordinary Items	0	0	-564	175	92	230	0	0	-388	322	0	
MI/Share of profit from JV	1	2	1	-1	0	0	1	-3	4	-2	1	
Reported PAT	**1,210**	**990**	**807**	**2,271**	**1,025**	**1,239**	**1,199**	**2,188**	**5,277**	**5,657**	**548**	**126**
Change (%)	-28.4	2.9	-39.2	17.3	-15.3	25.2	48.6	-3.6	-10.8	7.2	-44.6	
Adj PAT	**1,210**	**990**	**1,277**	**2,141**	**957**	**1,066**	**1,199**	**2,188**	**5,617**	**5,410**	**548**	**95**
Change (%)	-28.4	2.9	3.7	10.5	-20.9	7.7	-6.1	2.2	-3.5	-3.7	-44.6	

Segment-wise details (INR M)

Description	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY26	FY27E	2QE	Var
EMP & Services	14,125	16,642	16,962	19,899	16,251	19,360	18,998	22,008	67,628	76,616	18,140	**7**
Engineering products and services	704	644	749	972	636	973	599	861	3,068	3,068	624	**56**
Unitary cooling business	14,994	6,938	11,542	19,850	16,893	8,977	13,274	23,504	53,324	62,647	7,979	**13**
Total	**29,823**	**24,224**	**29,253**	**40,721**	**33,779**	**29,310**	**32,870**	**46,372**	**1,24,020**	**1,42,331**	**26,743**	**10**
PBIT												
EMP & Services	1,116	1,471	1,147	1,285	1,102	1,332	1,330	1,600	5,019	5,363	1,088	**22**
Engineering products and services	76	62	68	143	96	231	78	117	349	522	75	**208**
Unitary cooling business	875	427	977	2,070	497	207	796	2,258	4,348	3,759	239	**-13**
Total PBIT	**2,067**	**1,960**	**2,191**	**3,497**	**1,695**	**1,770**	**2,204**	**3,975**	**9,716**	**9,644**	**1,403**	**26**
Segment PBIT (%)												
EMP & Services (%)	7.9	8.8	6.8	6.5	6.8	6.9	7.0	7.3	7.4	7.0	6.0	88
Engineering products and services (%)	10.8	9.6	9.1	14.7	15.1	23.7	13.0	13.6	11.4	17.0	12.0	1,174
Unitary cooling business (%)	5.8	6.2	8.5	10.4	2.9	2.3	6.0	9.6	8.2	6.0	3.0	-69
Total PBIT (%)	**6.9**	**8.1**	**7.5**	**8.6**	**5.0**	**6.0**	**6.7**	**8.6**	**7.8**	**6.8**	**5.2**	79

Highlights from the management commentary

Unitary cooling products (UCP)

- RAC's primary sales grew ~42% in Q2FY27 against estimated industry growth of 35%-40%. H1FY27 industry growth stood at ~30% in value terms, while BLSTR grew ~28%-29%, maintaining its market share. It regained market share lost in April through pricing and offer corrections from May onwards.
- Management expects RAC revenue to grow ~25% in FY27, comprising ~20% volume growth and ~5% pricing contribution. Volume growth could reach ~25%-30% if summer sets in earlier.
- It reiterated its target of achieving at least ~6.5% full-year UCP margin in FY27. Recovery will be driven by price increases, product portfolio rationalization, value engineering and cost optimization. Q4FY27, particularly Mar'27, will be critical for achieving the target.
- It is developing differentiated, cost-optimized SKUs through removal of unnecessary features, alternate component sourcing and outsourcing of entry-level products without compromising quality or performance. Outsourcing, currently at ~15%, is estimated to increase to ~30%.
- Cumulative input cost inflation from Jan'26 to Oct'26 stood at ~18%, against which ~13% price increases have been implemented, including the Oct'26 hike. The remaining ~5% gap is yet to be recovered. The price increase is effective from October 1, with its channel absorption expected to become clearer in November.
- The company does not expect pricing discipline across the industry, given excess manufacturing capacity of 1.7-2.0x demand, and expects competition to remain aggressive.

Electro-mechanical projects and services

- Margins declined YoY due to material cost escalation and delays in project execution.
- Order inflows were primarily driven by data centers, while factory-related enquiries remained healthy. Revenue growth is expected to improve from Q3FY27 onwards, led by data center execution.
- It is shifting its focus towards data centers and factories while selectively defocusing from infrastructure projects due to cost overruns, execution delays and margin pressures. Infrastructure currently contributes ~20% of segment billing.
- It has secured INR20b of data center orders and expects another INR20b, taking potential order bookings to INR40b. Order-booking potential is estimated to increase to INR80b by FY30.
- Data center revenue is estimated to increase from INR20b currently to INR40b over the next three years. It indicated that the overall electromechanical projects business could generate revenue of INR60b-70b by FY30.
- Data center projects could deliver EBIT margins of ~10%-12%, compared with the current EMPS margin guidance of ~7%-7.5%. Higher data center contribution could eventually improve segment margins to ~8.5%. Projects typically have 8-9 months of execution timelines and favorable payment terms.

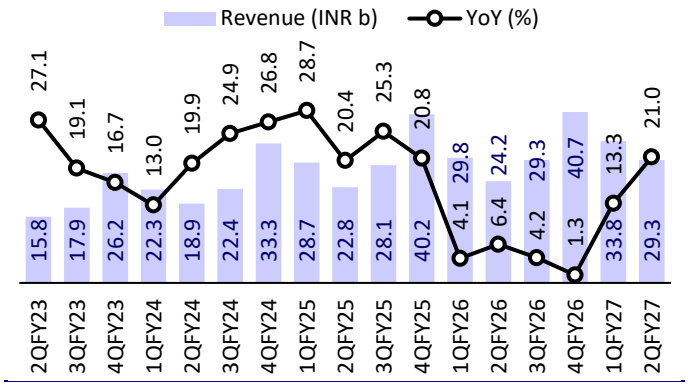
- Commercial air-conditioning growth was driven by healthcare, education and industrial demand, while commercial refrigeration showed early signs of revival. However, subdued FMCG expansion, slower quick-commerce additions and higher input costs remain concerns. It expects single-digit growth in FY27, with ~10% H2 growth being a positive outcome, while highlighting significant long-term potential given low market penetration.
- Despite low penetration and significant long-term growth potential, the business faces input cost inflation of ~24%–25%, given its higher steel, plastic and metal content, along with competition from cheaper Chinese imports prior to 2022. It believes commercial refrigeration could emerge as a key long-term growth driver, while maintaining its market leadership.
- Heat pump supplies to the US continued despite supply-chain challenges. It is developing products for additional OEMs in the US and Europe. The previously indicated USD100m incremental revenue opportunity remains intact, with growth dependent on resolution of tariff-related uncertainties.
- It is not currently addressing international data center EPC opportunities. It is also exploring technology partnerships or JVs for advanced liquid cooling solutions, where it currently has no presence.

Outlook and other highlights

- It remains optimistic about FY27 revenue growth, supported by strong RAC demand, improving commercial refrigeration enquiries and a healthy data center project pipeline.
- It remains focused on restoring margins through price revisions, product cost optimization and operational efficiencies.
- Key demand risks include monsoon shortfall, lower agricultural income and higher interest rates, which could affect rural demand and consumer financing.
- Potential tailwinds include the conclusion of the US trade deal and resolution of the West Asia crisis.
- It refrained from providing FY28 margin guidance. The sustainability of margin recovery will depend on commodity prices, demand, competition and product innovation. Summer'27 will be an important indicator.

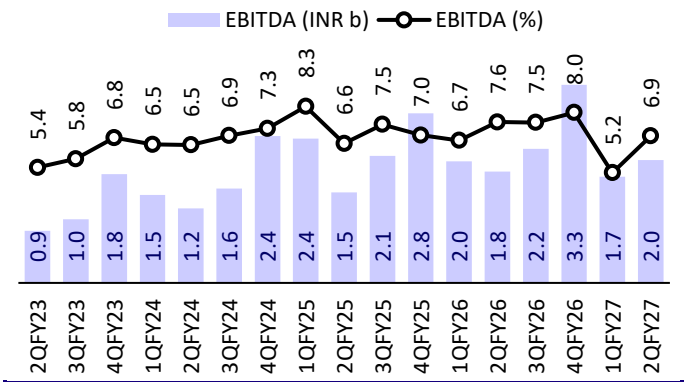
Story in charts

Exhibit 1: Total revenue increased 21% YoY



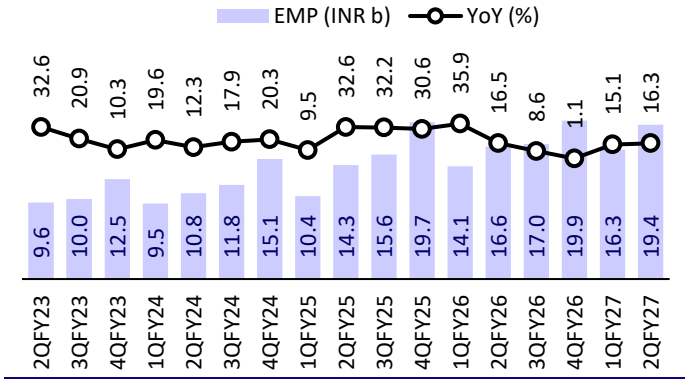
Source: MOFSL, Company

Exhibit 2: EBITDA increased 10% YoY



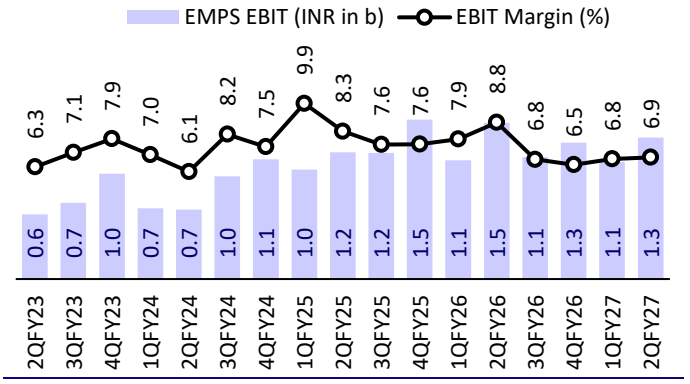
Source: MOFSL, Company

Exhibit 3: EMPS revenue increased 16% YoY



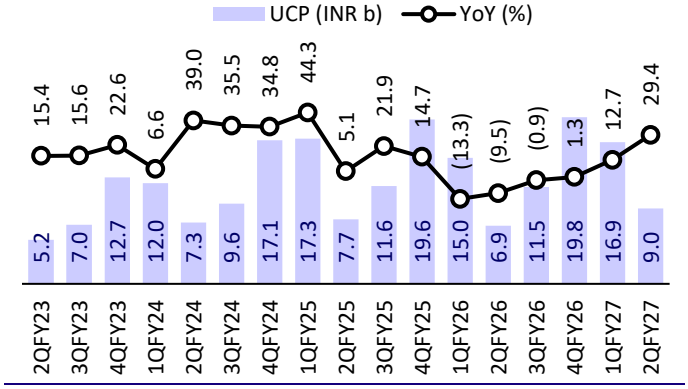
Source: MOFSL, Company

Exhibit 4: EMPS EBIT remained flat YoY



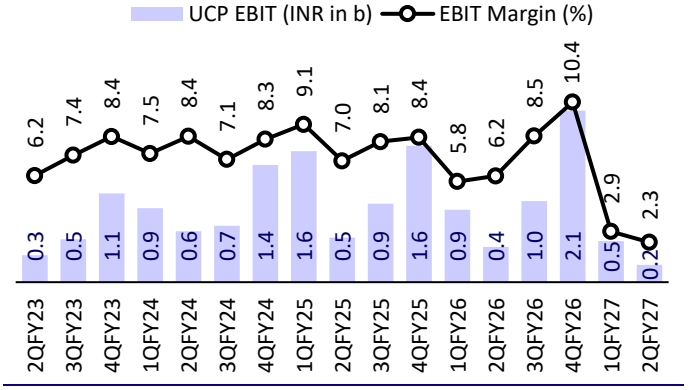
Source: MOFSL, Company

Exhibit 5: UCP revenue increased 16% YoY



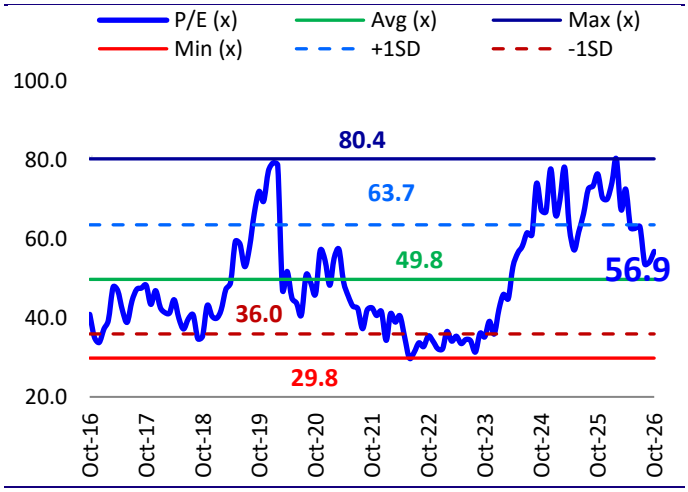
Source: MOFSL, Company; Note: market share YTD

Exhibit 6: UCP EBIT declined 51% YoY



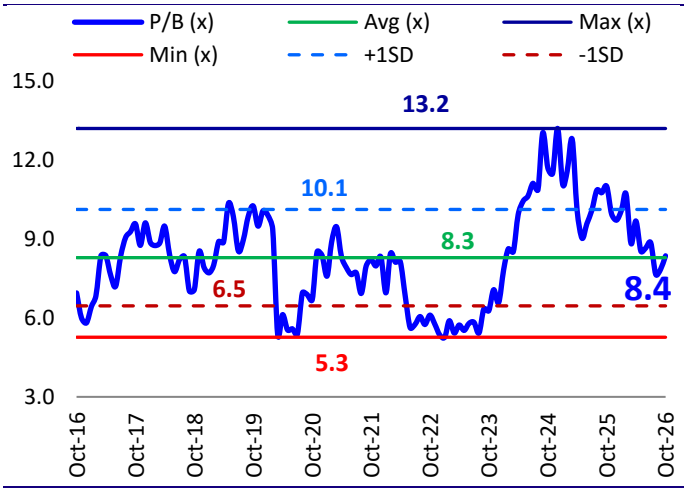
Source: MOFSL, Company

Exhibit 7: One-year forward P/E chart



Source: MOFSL, Company

Exhibit 8: One-year forward P/B chart



Source: MOFSL, Company

Financials and valuations (Consolidated)

Income Statement								(INR m)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27E**	**FY28E**
Total Revenues	**42,636**	**60,641**	**79,773**	**96,854**	**1,19,677**	**1,24,020**	**1,42,331**	**1,61,635**
Change (%)	-20.5	42.2	31.6	21.4	23.6	3.6	14.8	13.6
Raw Materials	32,714	47,332	61,817	73,920	90,743	95,421	1,09,737	1,23,328
Staff Cost	3,818	5,086	5,922	7,495	9,189	9,181	10,283	11,620
Other Expenses	3,706	4,759	7,107	8,790	10,985	10,114	12,525	14,386
EBITDA	**2,398**	**3,465**	**4,928**	**6,649**	**8,759**	**9,304**	**9,786**	**12,302**
Change (%)	-15.2	44.5	42.2	34.9	31.7	6.2	5.2	25.7
% of Total Revenues	5.6	5.7	6.2	6.9	7.3	7.5	6.9	7.6
Other Income	624	357	309	474	750	619	712	808
Depreciation	923	860	848	976	1,284	1,788	2,660	2,963
Interest	647	464	547	581	488	721	725	776
PBT	**1,452**	**2,498**	**3,842**	**5,567**	**7,737**	**7,414**	**7,112**	**9,371**
Tax	471	829	1,547	1,429	1,937	1,758	1,779	2,345
Rate (%)	32.4	33.2	40.3	25.7	25.0	23.7	25.0	25.0
Extra-ordinary Income (net)	0	0	1,708	0	125	-388	322	0
Reported PAT	**1,004**	**1,677**	**4,005**	**4,150**	**5,912**	**5,277**	**5,657**	**7,015**
Change (%)	-30.0	67.1	138.8	3.6	42.5	-10.8	7.2	24.0
Adj. Consolidated PAT	**1,004**	**1,677**	**2,773**	**4,150**	**5,818**	**5,617**	**5,410**	**7,015**
Change (%)	-31.9	67.1	65.3	49.6	40.2	-3.5	-3.7	29.7

Balance Sheet								(INR m)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27E**	**FY28E**
Share Capital	193	193	193	411	411	411	411	411
Reserves	8,659	9,983	13,114	25,690	30,239	33,903	37,813	42,771
Net Worth	**8,852**	**10,176**	**13,307**	**26,101**	**30,650**	**34,314**	**38,224**	**43,182**
Minority Interest	**27**	**30**	**32**	**26**	**26**	**25**	**27**	**29**
Loans	4,548	4,778	5,776	1,666	1,994	6,268	5,768	5,268
Deferred Tax Liability	-475	-276	-79	-3	46	223	223	223
Capital Employed	**12,952**	**14,708**	**19,035**	**27,790**	**32,715**	**40,830**	**44,242**	**48,702**
Gross Fixed Assets	7,665	9,017	14,126	17,379	21,664	24,839	27,839	30,839
Less: Depreciation	3,829	4,689	5,537	5,734	6,307	7,869	10,529	13,493
Net Fixed Assets	**3,836**	**4,328**	**8,589**	**11,645**	**15,357**	**16,970**	**17,309**	**17,346**
Capital WIP	715	1,523	833	1,271	1,232	1,369	1,369	1,369
Investments	2,950	1,623	1,481	2,668	4,321	4,572	4,577	4,567
Curr. Assets	**27,519**	**35,376**	**43,490**	**50,526**	**61,577**	**62,757**	**73,766**	**85,358**
Inventory	8,824	11,442	14,334	14,072	21,492	21,662	23,397	26,570
Debtors	8,110	11,897	15,488	19,526	19,594	21,397	25,347	28,784
Cash & Bank Balance	3,322	2,697	2,433	3,774	4,319	4,021	4,422	6,609
Loans & Advances	7,263	9,340	11,235	13,155	16,172	15,677	20,600	23,394
Current Liab. & Prov.	**22,068**	**28,143**	**35,358**	**38,320**	**49,771**	**44,837**	**52,779**	**59,937**
Creditors	16,049	20,417	25,112	26,166	34,276	29,429	35,095	39,855
Other Liabilities	6,019	7,726	10,246	12,154	15,495	15,409	17,684	20,082
Net Current Assets	**5,451**	**7,234**	**8,132**	**12,206**	**11,806**	**17,920**	**20,987**	**25,421**
Application of Funds	**12,952**	**14,708**	**19,035**	**27,790**	**32,715**	**40,830**	**44,242**	**48,702**

Financials and valuations (Consolidated)

Ratios								
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27E**	**FY28E**
Basic (INR)								
Adj EPS	**4.9**	**8.2**	**13.5**	**20.2**	**28.3**	**27.3**	**26.3**	**34.1**
Cash EPS	9.4	12.3	17.6	24.9	34.5	36.0	39.3	48.5
Book Value	43.1	49.5	64.7	126.9	149.1	166.9	185.9	210.0
Adj. DPS	2.0	5.0	6.0	7.0	9.0	8.5	10.0	12.0
Payout (%)	41.0	61.3	44.5	34.7	31.8	31.1	38.0	35.2
Valuation (x)								
P/E	334.6	200.2	121.1	80.9	57.7	59.8	62.1	47.9
Cash P/E	174.3	132.3	92.7	65.5	47.3	45.3	41.6	33.6
EV/EBITDA	66.1	46.0	32.6	50.2	38.1	36.3	34.4	27.2
EV/Sales	3.7	2.6	2.0	3.4	2.8	2.7	2.4	2.1
Price/Book Value	37.9	33.0	25.2	12.9	11.0	9.8	8.8	7.8
Dividend Yield (%)	0.1	0.3	0.4	0.4	0.6	0.5	0.6	0.7
Profitability Ratios (%)								
RoE	11.3	16.5	20.8	15.9	19.0	16.4	14.2	16.2
RoCE	10.8	13.3	16.2	16.5	18.9	15.2	13.5	15.7
RoIC	14.9	16.8	16.1	19.8	23.3	17.8	15.2	18.7
Turnover Ratios								
Debtors (Days)	69	72	71	74	60	63	65	65
Inventory (Days)	76	69	66	53	66	64	60	60
Creditors. (Days)	137	123	115	99	105	87	90	90
Asset Turnover (x)	3.3	4.1	4.2	3.5	3.7	3.0	3.2	3.3
Leverage Ratio								
Net Debt/Equity (x)	0.1	0.2	0.3	-0.1	-0.1	0.1	0.0	0.0

Cash Flow Statement								(INR m)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27E**	**FY28E**
PBT before EO Items	**1,452**	**2,509**	**5,554**	**5,572**	**7,849**	**7,031**	**7,112**	**9,371**
Add : Depreciation	923	860	848	976	1,284	1,788	2,660	2,963
Interest + other income	175	261	(919)	472	80	16	335	(32)
Less : Direct Taxes Paid	(102)	(390)	(927)	(1,363)	(1,816)	(1,723)	(1,779)	(2,345)
(Inc)/Dec in WC	1,051	(2,366)	(2,124)	(2,765)	(516)	(5,574)	(2,666)	(2,247)
CF from Oper. Incl. EO Items	**3,498**	**874**	**2,432**	**2,892**	**6,881**	**1,538**	**5,662**	**7,711**
(Inc)/Dec in FA	174	(2,179)	(3,530)	(4,359)	(3,686)	(3,224)	(3,000)	(3,000)
Free Cash Flow	**3,672**	**(1,305)**	**(1,097)**	**(1,467)**	**3,194**	**(1,685)**	**2,662**	**4,711**
Investment in liquid assets	(2,569)	1,489	1,713	(887)	(954)	(364)	712	808
CF from Investments	**(2,396)**	**(690)**	**(1,817)**	**(5,246)**	**(4,640)**	**(3,588)**	**(2,288)**	**(2,192)**
(Inc)/Dec in Debt	(21)	217	1,132	(4,157)	432	4,242	(500)	(500)
(Inc)/Dec in Equity	-	-	-	9,834	(5)	-	-	-
Less : Interest Paid	(395)	(411)	(664)	(636)	(329)	(514)	(725)	(776)
Dividend Paid	(12)	(388)	(964)	(1,158)	(1,439)	(1,848)	(1,748)	(2,056)
Others	(291)	(243)	(264)	(235)	(281)	(509)	-	-
CF from Fin. Activity	**(720)**	**(824)**	**(759)**	**3,648**	**(1,622)**	**1,371**	**(2,973)**	**(3,332)**
Inc/Dec of Cash	**382**	**(640)**	**(144)**	**1,294**	**619**	**(678)**	**402**	**2,187**
Add: Beginning Balance	2,939	3,336	2,577	2,479	3,700	4,699	4,021	4,422
Closing Balance	**3,322**	**2,697**	**2,433**	**3,774**	**4,319**	**4,021**	**4,422**	**6,609**

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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Nainesh Rajani
Email: nainesh.rajani@motilaloswal.com
Contact: (+65) 8328 0276

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com
Mr. Neeraj Agarwal	022 40548085	na@motilaloswal.com
Mr. Siddhartha Khemka	022 50362452	po.research@motilaloswal.com

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