

## Quarterly Update/Target price change

## Havells India



## Weak demand leads to mellow showing

## Revenue rises 7% YoY, driven by the cable segment

Havells India (HAVL IN) Q3FY24 revenue rose 6% YoY at a three-year CAGR of 12% to INR 44bn, 5% lower than our estimates, led by steady volume growth in cable and wires. B2B performed better on rising infra spend and upcycle in construction activities while B2C demand remains subdued, due to lower rural spending.

## Q3 revenue up for cables and Lloyd; ECD &amp; lighting remain muted

In Q3FY24, revenue from cables & wires rose 11% YoY to INR 15.7bn, led by robust volume growth in cables (Polycab C&W volume up 17% YoY and KEI up 14% YoY in Q3), which, in turn, was led by infra capex and pickup in private capex. Fans underperformed due to the impact of change in energy norms and high base. Lighting revenue grew 2% YoY to INR 4.3bn, due to lower LED prices (decline halted from November) while switchgears revenue was up 1% YoY to INR 5.2bn, given the drop in exports and the telecom segment. Lloyd grew 7% YoY while other revenue rose 16% to INR 2.7bn in Q3FY24.

## EBIT margin down 30bp YoY to 9.1%, losses from Lloyd grow

Q3 EBIT margin showed a negative trend, dipping 30bp YoY to 9.1%, owing to disproportionate ad spend in the quarter. EBIT margin from switchgears fell by 60bp YoY to 24.1%, due to the decline in telecom OEM orders while cables margin fell 110bp YoY to 10.4%. ECD margin shrank 190bp to 11.2%, and Others margin contracted 150bp to 1.6%. Lighting margin was the only positive, up 150bp to 14.2%. Lloyd continues to post operating losses, with margin dipping 30bp YoY to -10.1% based on lower-than-expected sales.

## Valuation: reiterate Accumulate with a lower TP of INR 1,385

We lower our EPS by 9% in FY24E and by 4% in FY25E, due to prolonged weakness in consumer demand and margin compression in FY24E. We lower our TP by 6% to INR 1,385 based on 42x (from 45x) December 2025E P/E. We reiterate **Accumulate** as capacity expansion should aid B2B revenue growth in H2FY25 and FY26. The positive shift in consumer sentiments and turnaround in Lloyd may further aid in the price movement. We expect an earnings CAGR of 27% during FY23-26E, with an average ROE of 21% and ROCE of 20%.

## Rating: Accumulate

Target Price: INR 1,385

Upside: 6%

CMP: INR 1,306 (as on 24 January 2024)

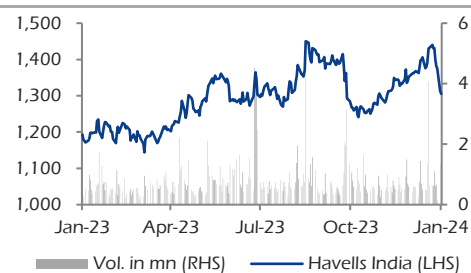
## Key data\*

Bloomberg /Reuters Code	HAVL IN/HVEL.BO
Current /Dil. Shares O/S (mn)	627/627
Mkt Cap (INR bn/USD mn)	818/9,842
Daily Vol. (3M NSE Avg.)	763,933
Face Value (INR)	1

1 USD = INR 83.1

Note: \*as on 24 January 2024; Source: Bloomberg

## Price &amp; volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	59.5	59.4	59.4	59.4
Institutional Investors	33.5	33.6	33.7	34.1
Other Investors	1.5	1.6	1.5	1.4
General Public	5.5	5.4	5.4	5.1

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	11.3	9.1	18.4
Havells India	1.6	0.7	9.4
BSE Capital Goods	22.9	32.6	64.2
BSE Mid Cap	21.9	27.8	51.3

Source: Bloomberg

YE March (INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue	44,006	41,197	6.8	38,912	13.1
EBITDA	3,926	4,237	(7.3)	3,735	5.1
EBITDA Margin (%)	9	10	(236.4)	10	(167.7)
Other Income	559	399	40.2	524	6.8
Depreciation	877	746	17.6	812	8.0
Extra-ordinary Items	400	-	-	-	-
PBT	3,907	3,818	2.3	3,354	16.5
Tax rate (%)	26	26	(30.8)	26	(40.6)
Reported PAT	2,879	2,840	1.4	2,491	15.6
Adj. PAT	2,479	2,840	(12.7)	2,491	(0.5)
EPS (INR)	5.6	6.8	-	6.3	-

## Key financials

YE	Net Sales (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	DEPS (INR)	RoE (%)	RoCE (%)	P/E [x]	EV/EBITDA [x]
March	168,684	21.5	16,030	9.5	10,534	(9.2)	16.8	16.7	15.7	68.6	43.9
FY23	168,684	21.5	16,030	9.5	10,534	(9.2)	16.8	16.7	15.7	68.6	43.9
FY24E	187,862	11.4	18,347	9.8	12,591	19.5	20.1	18.1	17.6	57.4	38.3
FY25E	216,392	15.2	24,365	11.3	17,309	37.5	27.6	22.0	21.2	41.8	28.4
FY26E	250,532	15.8	29,637	11.8	21,762	25.7	34.7	23.6	22.7	33.2	22.9

Note: pricing as on 24 January 2024; Source: Company, Elara Securities Estimate

Harshit Kapadia • harshit.kapadia@elaracapital.com • +91 22 6164 8542

Mudit Kabra • mudit.kabra@elaracapital.com • +91 22 4204 8611

Nemish Sundar • nemish.sundar@elaracapital.com • +91 22 6164 8500

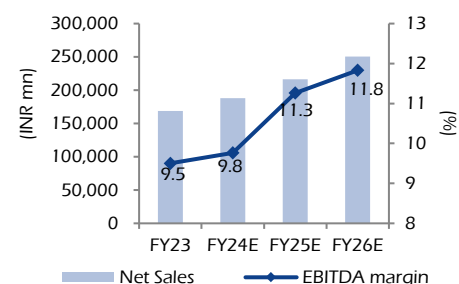
Elara Securities (India) Private Limited

## Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>168,684</b>	<b>187,862</b>	<b>216,392</b>	<b>250,532</b>
<b>EBITDA</b>	<b>16,030</b>	<b>18,347</b>	<b>24,365</b>	<b>29,637</b>
Margin (%)	9.5	9.8	11.3	11.8
Add:- Non operating Income	1,770	2,230	2,740	3,639
Depreciation	2,961	3,344	3,665	3,933
<b>EBIT</b>	<b>14,839</b>	<b>17,233</b>	<b>23,440</b>	<b>29,343</b>
Less:- Interest Expenses	336	400	300	250
<b>PBT</b>	<b>14,503</b>	<b>16,833</b>	<b>23,140</b>	<b>29,093</b>
Less :- Taxes	3,753	4,242	5,831	7,332
<b>PAT</b>	<b>10,750</b>	<b>12,591</b>	<b>17,309</b>	<b>21,762</b>
<b>Adjusted PAT</b>	<b>10,534</b>	<b>12,591</b>	<b>17,309</b>	<b>21,762</b>
Balance Sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Share Capital	627	627	627	627
Reserves	65,518	72,445	83,711	99,242
<b>Net Worth</b>	<b>66,145</b>	<b>73,071</b>	<b>84,338</b>	<b>99,869</b>
Net Deferred Tax Liability	3,615	3,977	4,374	4,812
<b>Capital Employed</b>	<b>69,794</b>	<b>77,082</b>	<b>88,746</b>	<b>104,714</b>
Gross Block	50,028	58,028	63,028	67,028
Less:- Accumulated Depreciation	13,822	17,166	20,831	24,764
Add:- Capital work in progress	1,664	1,000	500	500
<b>Net Fixed Assets</b>	<b>37,870</b>	<b>41,861</b>	<b>42,696</b>	<b>42,764</b>
Investments	205	5	5	5
<b>Net Working Capital</b>	<b>13,101</b>	<b>15,245</b>	<b>16,207</b>	<b>18,996</b>
Cash & Bank Balance	18,619	19,971	29,839	42,950
<b>Application of Funds</b>	<b>69,794</b>	<b>77,082</b>	<b>88,746</b>	<b>104,714</b>
Cash Flow Statement (INR mn)	FY23	FY24E	FY25E	FY26E
<b>Cash Profit adjusted for non-cash items</b>	<b>16,535</b>	<b>20,939</b>	<b>27,503</b>	<b>33,713</b>
Add/Less : Working Capital Changes	(6,969)	(1,097)	199	(1,613)
<b>Operating Cash Flow before Tax</b>	<b>9,566</b>	<b>19,842</b>	<b>27,702</b>	<b>32,100</b>
Tax	(3,919)	(4,242)	(5,831)	(7,332)
<b>Operating Cash Flow</b>	<b>5,647</b>	<b>15,600</b>	<b>21,870</b>	<b>24,769</b>
Less:- Capex	(5,815)	(7,336)	(4,500)	(4,000)
<b>Free Cash Flow</b>	<b>(168)</b>	<b>8,265</b>	<b>17,370</b>	<b>20,769</b>
Investing Cash Flow	6,206	200	-	-
CF from Fin. Activity	(9,069)	(6,065)	(6,342)	(6,481)
<b>Net Change in Cash</b>	<b>(3,032)</b>	<b>2,400</b>	<b>11,028</b>	<b>14,288</b>
Ratio Analysis	FY23	FY24E	FY25E	FY26E
<b>Income Statement Ratios (%)</b>				
Revenue growth	21.5	11.4	15.2	15.8
EBITDA growth	(8.8)	14.5	32.8	21.6
PAT growth	(9.2)	19.5	37.5	25.7
EBITDA margin	9.5	9.8	11.3	11.8
Net margin	6.2	6.7	8.0	8.7
<b>Per Share data (INR/Share)</b>				
Diluted EPS	16.8	20.1	27.6	34.7
DPS	7.5	7.5	8.0	8.3
Book value per share	106	117	135	159
Payout (incl. Div. Tax) (%)	44.6	37.3	29.0	23.8
Dividend yield (%)	0.6	0.6	0.7	0.7
<b>Valuation (x)</b>				
P/E	68.6	57.4	41.8	33.2
EV/EBITDA	43.9	38.3	28.4	22.9
EV/Sales	4.2	3.7	3.2	2.7
Price/Book value	10.9	9.9	8.6	7.2
<b>Return and Liquidity Ratios</b>				
Net debt/Equity (x)	(0.3)	(0.3)	(0.4)	(0.4)
ROE (%)	16.7	18.1	22.0	23.6
ROCE (%)	15.7	17.6	21.2	22.7

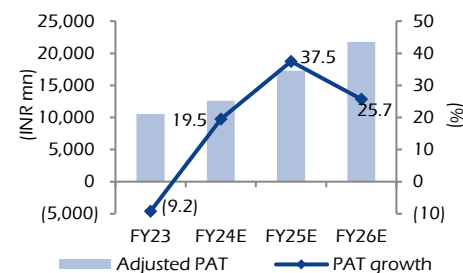
Note: pricing as on 24 January 2024; Source: Company, Elara Securities Estimate

## Revenue & margin trend



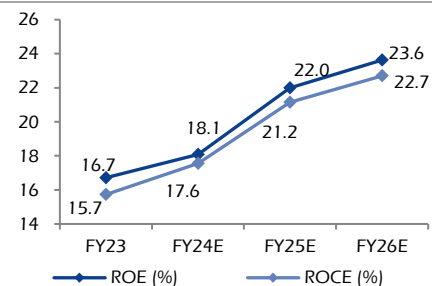
Source: Company, Elara Securities Estimate

## Adjusted profit growth trend



Source: Company, Elara Securities Estimate

## Return ratios



Source: Company, Elara Securities Estimate

Havells India has transformed from an industrial switchgears company into a consumer durables play. For more than four decades, the firm grew through Greenfield expansion (switchgears, cables, fans, lights & fixtures, electric water heaters & air coolers), acquisitions (electric control & switchboards, electric meters & lighting and Lloyd's consumer durables) and via the joint venture route (MCB & motors), adding consumer-based products. The products portfolio comprises industrial and domestic switchgears (switches), industrial & residential cables, pumps & motors, fans, lighting & fixtures, water heaters, air coolers and other domestic appliances such as air conditioners, TV and washing machines.

**Exhibit 1: Quarterly financials**

YE March (INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net sales	42,301	36,689	41,197	48,496	48,237	38,912	44,006
YoY (%)	62.8	13.9	12.8	9.8	14.0	6.1	6.8
EBITDA	3,614	2,871	4,237	5,308	4,024	3,735	3,926
EBITDA margin (%)	8.5	7.8	10.3	10.9	8.3	9.6	8.9
Other income	470	433	399	468	547	524	559
Interest	98	68	73	98	85	93	102
Depreciation	721	721	746	774	763	812	877
Extraordinary items	-	-	-	-	100	-	400
PBT	3,266	2,515	3,818	4,904	3,823	3,354	3,907
Tax	841	646	978	1,287	950	863	1,028
Tax rate (%)	25.8	25.7	25.6	26.2	24.8	25.7	26.3
Reported PAT	2,424	1,869	2,840	3,617	2,874	2,491	2,879
Adjusted PAT	2,424	1,869	2,840	3,617	2,774	2,491	2,479
NPM (%)	5.7	5.0	6.8	7.4	5.7	6.3	5.6
EPS (INR)	3.9	3.0	4.5	5.8	4.4	4.0	4.0

Source: Company, Elara Securities Research

**Lloyd: lower sales growth despite market share gains**

Lloyd's revenue grew 7% YoY with a three-year CAGR of 8% to INR 6.5bn in Q3FY24, lower than our estimates, due to subdued customer demand. However, it maintains an aggressive approach focused on volume growth with a long-term view. Lloyd retained its market position among the Top 3 RAC players in Q3FY24. Going forward, losses may subside due to cost efficiency initiatives, improving product portfolio toward premiumization and scaling up production, leading to operating leverage.

**Anticipation of strong Summer sales for fans and RAC**

Fans witnessed a long period of turmoil over the past year, due to BEE norm changes, resulting in channel inventory liquidation at losses. Additionally, RAC sales was hurt due to unseasonal rains, affecting Summer demand. However, with stabilization in fans demand this quarter, and robust Summer demand expected especially from B2C, HAVL expects robust growth in fans as well as RAC segments, with market share gains expected in both segments.

**Higher ad spend drags EBITDA margin**

Gross margin improved 30bp YoY to 33.3% and remains flat QoQ, led by cost improvement initiatives. Employee costs was higher by 15% while other expenses flat YoY. Ad expenses witnessed a disproportionate increase in the quarter, up 38% YoY. EBITDA inched up 2% YoY to INR 4.3bn while margin fell 50bp YoY to 9.8%. Other income and interest cost jumped 40% while depreciation was up 18% and the tax rate rose to 26.3%. Net profit rose by 1% to INR 2.9bn in Q3FY24.

**Lighting volume growth offset by LED price erosion**

Lighting saw healthy volume growth in this quarter, driven by good B2B demand. Additionally, HAVL participated in several marquee projects, including supplying architectural lighting for the Ram Mandir at Ayodhya. However, continued LED price erosion offset volume growth achieved in this segment. Despite this, lighting segment-wise contribution increased 15% YoY amid the subdued B2C demand environment.

**Key downside risks** are lower spend in consumer discretionary, volatile commodity prices, delay in profitability in Lloyd, subdued demand scenario in B2C, downturn in the real estate market, and increased competition from organized & unorganized firms.

## Exhibit 2: Segment-wise quarterly performance

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Sales</b>							
Switchgears	5,167	4,878	5,141	6,010	5,407	5,324	5,206
Cable	11,929	13,594	14,121	15,682	14,852	14,702	15,727
Lighting & fixtures	3,711	3,970	4,201	4,134	3,670	3,965	4,299
Electrical consumer	8,381	7,735	9,348	7,495	8,770	7,331	9,613
Lloyds Consumer	10,837	4,141	6,068	12,640	13,055	4,930	6,467
Others	2,276	2,372	2,319	2,536	2,483	2,662	2,695
<b>Total</b>	<b>42,301</b>	<b>36,689</b>	<b>41,197</b>	<b>48,496</b>	<b>48,237</b>	<b>38,912</b>	<b>44,006</b>
<b>Segment-wise contribution</b>							
Switchgears	1,353	1,220	1,270	1,721	1,499	1,407	1,256
Cable	875	859	1,628	1,885	1,691	1,707	1,633
Lighting & fixtures	611	570	534	754	529	569	612
Electrical consumer	1,098	901	1,228	962	957	848	1,073
Lloyds Consumer	(559)	(833)	(596)	(221)	(608)	(733)	(652)
Others	122	41	72	115	88	40	44
<b>Total</b>	<b>3,500</b>	<b>2,758</b>	<b>4,135</b>	<b>5,216</b>	<b>4,155</b>	<b>3,838</b>	<b>3,965</b>
<b>Segment-wise EBIT margin (%)</b>							
Switchgears	26.2	25.0	24.7	28.6	27.7	26.4	24.1
Cable	7.3	6.3	11.5	12.0	11.4	11.6	10.4
Lighting & fixtures	16.5	14.4	12.7	18.2	14.4	14.4	14.2
Electrical consumer	13.1	11.6	13.1	12.8	10.9	11.6	11.2
Lloyds Consumer	(5.2)	(20.1)	(9.8)	(1.7)	(4.7)	(14.9)	(10.1)
Others	5.4	1.7	3.1	4.5	3.5	1.5	1.6

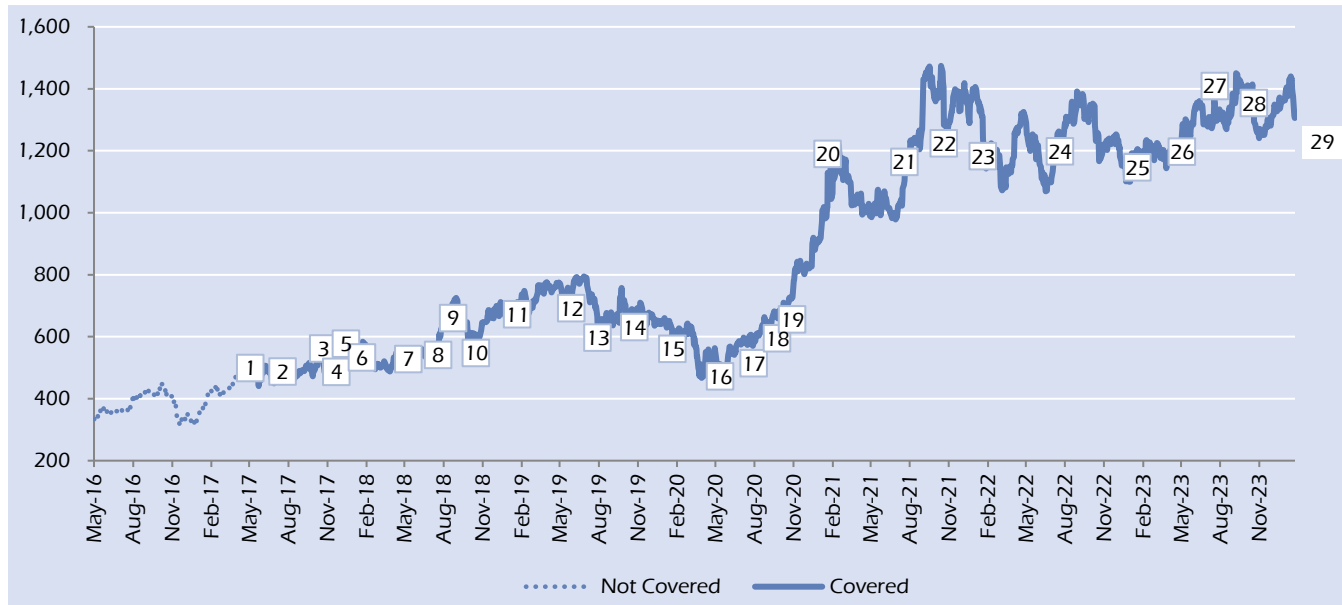
Source: Company, Elara Securities Research

## Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	190,328	219,291	253,882	187,862	216,392	250,532	(1.3)	(1.3)	(1.3)
% YoY	12.8	15.2	15.8	11.4	15.2	15.8			
EBITDA	19,759	25,192	30,467	18,347	24,365	29,637	(7.1)	(3.3)	(2.7)
Margin (%)	10.4	11.5	12.0	9.8	11.3	11.8	(5.9)	(2.0)	(1.4)
Net profit	13,778	18,113	23,002	12,591	17,309	21,762	(8.6)	(4.4)	(5.4)
% YoY	30.8	31.5	27.0	19.5	37.5	25.7			
EPS (INR)	22.0	28.9	36.7	20.1	27.6	34.7	(8.6)	(4.4)	(5.4)
<b>TP (INR)</b>			<b>1,480</b>			<b>1,385</b>			<b>(6.4)</b>

Source: Elara Securities Estimate

### Coverage History



	Date	Rating	Target Price	Closing Price
15	22-Jan-2020	Accumulate	INR 700	INR 600
16	13-May-2020	Reduce	INR 490	INR 511
17	31-Jul-2020	Sell	INR 530	INR 583
18	24-Sep-2020	Sell	INR 580	INR 664
19	29-Oct-2020	Sell	INR 640	INR 725
20	21-Jan-2021	Sell	INR 880	INR 1,132
21	22-Jul-2021	Reduce	INR 1,185	INR 1,151
22	21-Oct-2021	Reduce	INR 1,235	INR 1,286
23	21-Jan-2022	Accumulate	INR 1,360	INR 1,242
24	21-July-2022	Accumulate	INR 1,300	INR 1,257
25	19-Jan-2023	Accumulate	INR 1,340	INR 1,205
26	4-May-2023	Reduce	INR 1,230	INR 1,256
27	20-July-2023	Accumulate	INR 1,420	INR 1,348
28	20-Oct-2023	Accumulate	INR 1,480	INR 1,293
29	24-Jan-2024	Accumulate	INR 1,385	INR 1,306

### Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



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<b>India</b> <b>Elara Securities (India) Pvt. Ltd.</b> One International Center, Tower 3, 21st Floor, Senapati Bapat Marg, Elphinstone Road (West) Mumbai – 400 013, India Tel : +91 22 6164 8500	<b>Europe</b> <b>Elara Capital Plc.</b> 6th Floor, The Grove, 248A Marylebone Road, London, NW1 6JZ, United Kingdom Tel : +44 20 7486 9733	<b>USA</b> <b>Elara Securities Inc.</b> 230 Park Avenue, Suite 2415, New York, NY 10169, USA Tel: +1 212 430 5870 Fax: +1 212 208 2501	<b>Asia / Pacific</b> <b>Elara Capital (Asia) Pte.Ltd.</b> One Marina Boulevard, Level 20, Singapore 018989 Tel : +65 6978 4047
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------

Harendra Kumar	Managing Director		harendra.kumar@elaracapital.com	+91 22 6164 8571
<b>Sales</b>				
Ashok Agarwal	India		ashok.agarwal@elaracapital.com	+91 22 6164 8558
Hitesh Danak	India		hitesh.danak@elaracapital.com	+91 22 6164 8543
Karan Rathod	India		karan.rathod@elaracapital.com	+91 22 6164 8570
Lekha Nahar	India		lekha.nahar@elaracapital.com	+91 22 6164 8512
Prashin Lalvani	India		prashin.lalvani@elaracapital.com	+91 22 6164 8544
Shraddha Shrikhande	India		shraddha.shrikhande@elaracapital.com	+91 22 6164 8567
Sudhanshu Rajpal	India		sudhanshu.rajpal@elaracapital.com	+91 22 6164 8508
Joshua Saldanha	Asia		joshua.saldanha@elaracapital.com	+91 22 6164 8541
Anita Nazareth	Corporate Access, Conference & Events		anita.nazareth@elaracapital.com	+91 22 6164 8520
Tina D'souza	Corporate Access		tina.dsouza@elaracapital.com	+91 22 6164 8595
<b>Quantitative, Alternatives, Sales Trading &amp; Dealing</b>				
Sunil Jain	Quantitative & Alternates		sunil.jain@elaracapital.com	+91 22 6164 8531
Nandish Patel	Quantitative & Alternates		nandish.patel@elaracapital.com	+91 22 6164 8564
Biren Mehta	Head - Sales Trading		biren.mehta@elaracapital.com	+91 22 6164 8500
Kalpesh Parekh	India		kalpesh.parekh@ElaraCapital.com	+91 22 6164 8555
Manoj Murarka	India		manoj.murarka@elaracapital.com	+91 22 6164 8551
Anil Pawar	India		anil.pawar@elaracapital.com	+91 22 6164 8552
Nilesh Chheda	India		nilesh.chheda@elaracapital.com	+91 22 6164 8554
Nupur Barve	India		nupur.barve@elaracapital.com	+91 22 6164 8532
<b>Research</b>				
Dr Bino Pathiparampil	Head of Research	Healthcare, Pharmaceuticals, Strategy	bino.pathiparampil@elaracapital.com	+91 22 6164 8689
Amit Purohit	Analyst	Building Materials, FMCG, Paints	amit.purohit@elaracapital.com	+91 22 6164 8594
Ankita Shah	Analyst	Infrastructure, Ports & Logistics, Industrials	ankita.shah@elaracapital.com	+91 22 6164 8516
Biju Samuel	Analyst	Quantitative & Alternate Strategy	biju.samuel@elaracapital.com	+91 22 6164 8505
Gagan Dixit	Analyst	Aviation, Chemicals, Oil & Gas	gagan.dixit@elaracapital.com	+91 22 6164 8504
Garima Kapoor	Economist		garima.kapoor@elaracapital.com	+91 22 6164 8527
Harshit Kapadia	Analyst	Capital Goods, Consumer Electronics	harshit.kapadia@elaracapital.com	+91 22 6164 8542
Jay Kale, CFA	Analyst	Auto & Auto Ancillaries	jay.kale@elaracapital.com	+91 22 6164 8507
Karan Taurani	Analyst	Media & Entertainment, Alcobev, QSR, Internet	karan.taurani@elaracapital.com	+91 22 6164 8513
Prakhar Agarwal	Analyst	Banking & Financials	prakhar.agarwal@elaracapital.com	+91 22 6164 8502
Prashant Biyani	Analyst	Agrochemicals, Fertilisers, Hotels, Sugar	prashant.biyani@elaracapital.com	+91 22 6164 8581
Prerna Jhunjunwala	Analyst	Textiles, Retail	prerna.jhunjunwala@elaracapital.com	+91 22 6164 8519
Ravi Sodah	Analyst	Cement, Metals & Mining	ravi.sodah@elaracapital.com	+91 22 6164 8517
Ruchi Mukhija	Analyst	IT Services	ruchi.mukhija@elaracapital.com	+91 22 6164 8583
Rupesh Sankhe	Analyst	Utilities, Renewables, Capital Goods, Real Estate	rupesh.sankhe@elaracapital.com	+91 22 6164 8518
Shweta Daptardar	Analyst	Diversified Financials, Non Lending Financials	shweta.daptardar@elaracapital.com	+91 22 6164 8559
Saurabh Mitra	Sr. Associate	Cement, Metals & Mining	saurabh.mitra@elaracapital.com	+91 22 6164 8546
Aditya Jaiswal	Associate	Strategy	aditya.jaiswal@elaracapital.com	+91 22 4204 8683
Amogh Deshpande	Associate	Aviation, Chemicals, Oil & Gas	amogh.deshpande@elaracapital.com	+91 22 4204 8664
Bhavi Shah	Associate	Cement, Metals & Mining	bhavi.shah@elaracapital.com	+91 22 6164 8521
Gaurang Sakare	Associate	Healthcare, Pharmaceuticals	gaurang.sakare@elaracapital.com	+91 22 4204 8618
Heet Van	Associate	Healthcare, Pharmaceuticals	heet.van@elaracapital.com	+91 22 6164 8545
Himanshu Dhyawala	Associate	Diversified Financials, Non Lending Financials	himanshu.dhyawala@elaracapital.com	+91 22 4204 8661
Jinesh Kothari	Associate	Infrastructure, Ports & Logistics	jinesh.kothari@elaracapital.com	+91 22 6164 8500
Kartik Solanki	Associate	Banking & Financials	kartik.solanki@elaracapital.com	+91 22 4204 8604
Ketul Dalal	Associate	Auto & Auto Ancillaries	ketul.dalal@elaracapital.com	+91 22 4204 8693
Keval Shah	Associate	Strategy	keval.shah@elaracapital.com	+91 22 4204 8669
Mudit Kabra	Associate	Capital Goods, Consumer Electronics	mudit.kabra@elaracapital.com	+91 22 4204 8611
Nemish Sundar	Associate	Capital Goods, Consumer Electronics	nemish.sundar@elaracapital.com	+91 22 4204 8683
Nishant Chowhan, CFA	Associate	Auto & Auto Ancillaries	nishant.chowhan@elaracapital.com	+91 22 4204 8667
Palak Shah	Associate	Banking & Financials	palak.shah@elaracapital.com	+91 22 4204 8682
Ragini Pande	Associate	Utilities, Renewables	ragini.pande@elaracapital.com	+91 22 6164 8500
Rohit Harlikar	Associate	Building Materials, FMCG, Paints	rohit.harlikar@elaracapital.com	+91 22 6164 8562
Rounak Ray	Associate	Media & Entertainment, Alcobev, QSR, Internet	rounak.ray@elaracapital.com	+91 22 4204 8684
Seema Nayak	Associate	IT Services, Internet	seema.nayak@elaracapital.com	+91 22 4204 8687
Shweta Roy	Associate	Economics	shweta.roy@elaracapital.com	+91 22 6164 8500
Subhankar Sanyal	Associate	Economics	subhankar.sanyal@elaracapital.com	+91 22 4204 8688
Tanvi Tambat	Associate	Real Estate	tanvi.tambat@elaracapital.com	+91 22 6164 8537
Ujwal Wadighare	Associate	Agrochemicals, Fertilisers, Hotels, Sugar	ujwal.wadighare@elaracapital.com	+91 22 4204 8684
Vaibhav Chechani	Associate	IT Services, Internet	vaibhav.chechani@elaracapital.com	+91 22 4204 8682
Vidhi Puj	Associate	Building Materials, FMCG, Paints	vidhi.puj@elaracapital.com	+91 22 4204 8692
Vinayak Patil	Database		vinayak.patil@elaracapital.com	+91 22 6164 8510
Priyanka Sheth	Editor		priyanka.sheth@elaracapital.com	+91 22 6164 8568
Prakriti Singh	Editor		prakriti.singh@elaracapital.com	+91 22 6164 8500
Gurunath Parab	Production		gurunath.parab@elaracapital.com	+91 22 6164 8515
Jinesh Bhansali	Production		jinesh.bhansali@elaracapital.com	+91 22 6164 8537

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### Elara Securities (India) Private Limited

Registered Office Address: One International Center, Tower 3, 21st Floor, Senapati Bapat Marg, Elphinstone Road (West) Mumbai – 400 013, India Tel : +91 22 6164 8500

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Investor Grievance Email ID: [investor.grievances@elaracapital.com](mailto:investor.grievances@elaracapital.com) - Tel. +91 22 6164 8509

Compliance Officer: Mr. Anand Rao - Email ID: [anand.rao@elaracapital.com](mailto:anand.rao@elaracapital.com) - Tel. +91 22 6164 8509