

**Escorts' Q3 margin performance was in line (up 61bps QoQ to 13.5%), largely on the back of operating leverage in the tractor division. The company downgraded its tractor volume guidance to a 6-7% dip for FY24E (vs. earlier guidance of -2% to +2%) amid high base; however, in our view, medium-to-long term growth prospects remain robust amid planned product/network expansion and strong opportunity for vehicle exports (by leveraging co-parent Kubota's global network; can scale up exports by 4x over the next 3-4 years) as well as component exports (as part of Kubota's global supply-chain diversification). We trim FY24E/FY25E EPS by ~3%/~2.5% on lowered tractor guidance; FY26E EPS is unchanged. We retain our BUY rating with an unchanged TP of Rs3,350/share (25x core PER + Rs220 cash/share).**

**Escorts: Financial Snapshot (Standalone)**

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	71,969	83,450	108,854	126,482	146,798
EBITDA	9,955	7,804	14,695	17,328	20,552
Adj. PAT	7,656	7,041	12,408	13,183	15,232
Adj. EPS (Rs)	58.0	53.4	110.9	117.8	136.1
EBITDA margin (%)	13.8	9.4	13.5	13.7	14.0
EBITDA growth (%)	(11.8)	(21.6)	88.3	17.9	18.6
Adj. EPS growth (%)	(32.9)	(20.7)	141.1	6.2	15.5
RoE (%)	11.6	8.6	13.9	13.3	13.9
RoIC (%)	32.7	19.2	32.4	27.9	28.9
P/E (x)	50.5	55.0	26.4	24.9	21.5
EV/EBITDA (x)	34.0	46.7	20.8	17.4	14.5
P/B (x)	4.9	4.6	3.5	3.2	2.9
FCFF yield (%)	(0.8)	(0.7)	(0.2)	1.1	1.7

Source: Company, Emkay Research

**Lower railway revenues affect the top line; margins in line**

Revenue grew 2.5% YoY to Rs23.2bn (below estimates); EBITDA margin rose 61bps QoQ at 13.5% (in-line); margins were supported by increased tractor volumes. The **agri segment's revenue** dipped 3% YoY to Rs16.5bn; realizations increased 5% YoY/1% QoQ to Rs637K/unit and EBIT margin was higher by ~160bps QoQ at 13.2%, led by softer RM, improved realizations, and cost controls. **Construction Equipment's (CE)** revenue grew 49% YoY to Rs4.5bn; EBIT margin declined 190bps QoQ to 8.3%. **Railway Equipment's (RED)** revenue was lower by 18% YoY to Rs2bn; EBIT margin was stable sequentially at 18.4%; order book stands at Rs9bn vs. Rs8.7bn as of Sep-23. Overall, PAT grew 49% YoY to Rs2.7bn (above estimate) on higher-than-expected other income.

**Earning call KTAs**

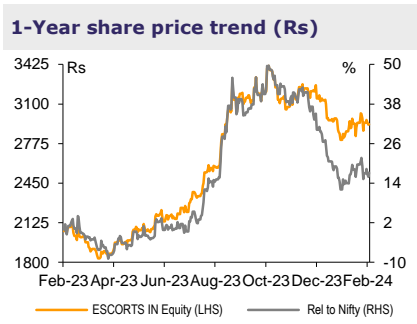
i) Management expects the tractor industry to decline by 6-7% in FY24 (vs. -2% to +2% expectations earlier; implying a 12-13% dip in Q4) due to high base, erratic and deficient rainfall in the West and South regions, and upcoming elections; maintains long-term growth expectations of a 6-8% CAGR; ii) Inventory levels are currently comfortable at 35-38 days; iii) Tractor exports have strong runway ahead; work is underway to streamline distribution between Escorts and Kubota networks; sees the possibility for current 7-8K units/year run rate to increase to 25-30K units/year over the coming 3-4 years and aims to be the second largest exports player; iv) Has already identified components for exports to global Kubota operations as part of the latter partly diversifying sourcing to India; v) Decline in railways revenue in Q3 is transient (due to reduced ordering from Indian Railways); CE outlook is also strong post-elections; vi) Escorts is targeting network expansion in the West to improve tractor positioning; vii) Implementation of TREM-V norms for sub-50hp categories has been shifted to Apr-26; viii) Operations of the captive financing arm could commence in FY25E; ix) NCLT clearance for the merger of Kubota entities can happen in 2-3 months; ix) Bulk of RM softening is behind; pricing environment is stable.

Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	14.2
CMP (08-Feb-24) (Rs)	2,932.7

Stock Data	Ticker
52-week High (Rs)	3,440
52-week Low (Rs)	1,808
Shares outstanding (mn)	110.5
Market-cap (Rs bn)	324
Market-cap (USD mn)	3,906
Net-debt, FY24E (Rs mn)	-23,171

ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	991.7
ADTV-3M (USD mn)	12.0
Free float (%)	30.4
Nifty-50	21,718
INR/USD	83.0
<b>Shareholding, Dec-23</b>	
Promoters (%)	67.7
FPIs/MFs (%)	5.0/10.5

Price Performance			
(%)	1M	3M	12M
Absolute	2.8	(6.8)	47.9
Rel. to Nifty	1.8	(16.6)	21.7



**Chirag Jain**

chirag.jain@emkayglobal.com  
+91 22 6624 2428

**Jaimin Desai**

jaimin.desai@emkayglobal.com  
+91 22 6612 1334

**Vijay Naraharisetty**

vijay.naraharisetty@emkayglobal.com  
+91 22 6612 1306

**Exhibit 1: Quarterly results snapshot – Revenue up 2.5% YoY, with margins sequentially improving by ~61bps**

Rs mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Change YoY (%)	Change QoQ (%)
<b>Revenue</b>	<b>22,637</b>	<b>21,830</b>	<b>23,277</b>	<b>20,462</b>	<b>23,204</b>	<b>2.5</b>	<b>13.4</b>
Expenditure	20,733	19,471	20,008	17,829	20,077	(3.2)	12.6
As a % of sales	91.6	89.2	86.0	87.1	86.5		
Consumption of RM	16,871	15,615	16,252	13,846	16,092	(4.6)	16.2
As a % of sales	74.5	71.5	69.8	67.7	69.4		
Employee Cost	1,527	1,565	1,484	1,675	1,635	7.1	(2.4)
As a % of sales	6.7	7.2	6.4	8.2	7.0		
Other expenditure	2,336	2,291	2,272	2,309	2,349	0.6	1.8
As a % of sales	10.3	10.5	9.8	11.3	10.1		
<b>EBITDA</b>	<b>1,903</b>	<b>2,358</b>	<b>3,269</b>	<b>2,633</b>	<b>3,127</b>	<b>64.3</b>	<b>18.8</b>
<b>EBITDA margin (%)</b>	<b>8.4</b>	<b>10.8</b>	<b>14.0</b>	<b>12.9</b>	<b>13.5</b>		
Depreciation	376	380	402	407	415	10.5	2.0
EBIT	1,528	1,978	2,868	2,226	2,712	77.5	21.8
Other Income	913	763	945	950	1,035	13.3	8.9
Interest	26	28	27	24	24	(9.8)	1.3
PBT	2,414	2,714	3,786	3,152	3,723	54.2	18.1
Total Tax	550	676	958	802	950	72.7	18.4
Adjusted PAT	1,864	2,038	2,828	2,350	2,773	48.7	18.0
Extraordinary items Loss/(Gain)	0	183	0	0	0		
Reported PAT	1,864	1,855	2,828	2,350	2,773	48.7	18.0
<b>Adjusted EPS (Rs)</b>	<b>14.1</b>	<b>18.2</b>	<b>25.3</b>	<b>21.0</b>	<b>24.8</b>	<b>75.4</b>	<b>18.0</b>
<b>Margins (%)</b>	<b>Q3FY23</b>	<b>Q4FY23</b>	<b>Q1FY24</b>	<b>Q2FY24</b>	<b>Q3FY24</b>	<b>Change YoY (bps)</b>	<b>Change QoQ (bps)</b>
EBIDTA	8.4	10.8	14.0	12.9	13.5	507	61
EBIT	6.7	9.1	12.3	10.9	11.7	494	81
EBT	10.7	12.4	16.3	15.4	16.0	538	64
PAT	8.2	9.3	12.1	11.5	11.9	372	46
Effective Tax rate	22.8	24.9	25.3	25.4	25.5	273	7

Source: Company, Emkay Research

**Exhibit 2: EBITDA margin improvement on the back of higher volumes in tractors despite RM costs rising by ~170bps**

Year to March (%)	Q3FY24	Q3FY23	bps change	Q2FY24	bps change
Raw material	69.4	74.5	(518)	67.7	168
Staff costs	7.0	6.7	30	8.2	(114)
Other expenses	10.1	10.3	(19)	11.3	(116)
EBITDA	13.5	8.4	507	12.9	61
Reported PAT	11.9	8.2	372	11.5	46
Tax rate	25.5	22.8	273	25.4	7

Source: Company, Emkay Research

**Exhibit 3: Tractors – EBIT margin expanded by ~166bps QoQ; Railways margin intact; CE margin down by ~190bps**

Segment EBIT	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Agri Machinery Products (EBIT)	1,424	1,547	2,236	1,698	2,296
<b>Agri Machinery Products (EBITM)</b>	<b>8.3</b>	<b>9.9</b>	<b>13.4</b>	<b>12.2</b>	<b>13.8</b>
Agri Machinery Products (EBIT Cont.)	78.3	70.6	71.4	66.5	75.2
Railway Equipment (EBIT)	326	331	623	433	377
<b>Railway Equipment (EBITM)</b>	<b>13.1</b>	<b>14.0</b>	<b>20.9</b>	<b>18.5</b>	<b>18.4</b>
Railway Equipment (EBIT Cont.)	17.9	15.1	19.9	16.9	12.4
Construction Equipment (EBIT)	69	312	273	424	380
<b>Construction Equipment (EBITM)</b>	<b>2.2</b>	<b>8.1</b>	<b>7.6</b>	<b>10.2</b>	<b>8.3</b>
Construction Equipment (EBIT Cont.)	3.8	14.2	8.7	16.6	12.4

Source: Company, Emkay Research

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**Exhibit 4: Actual vs. Estimates (Q3FY24)**

Rs mn	Actual	Emkay Est.	Var. (%)	Consensus	Var. (%)
Net sales	23,204	24,252	(4.3)	24,067	(3.6)
EBITDA	3,127	3,274	(4.5)	3,221	(2.9)
EBITDA margin (%)	13.5	13.5	(2) bps	13.4	9 bps
Adj. net income	2,773	2,469	12.3	2,715	2.1
FDEPS (Rs)	24.8	22.1	12.3	24.3	2.1

Source: Company, Bloomberg, Emkay Research

**Exhibit 5: Revenue model: We build in a 37% EPS CAGR over FY23-26E**

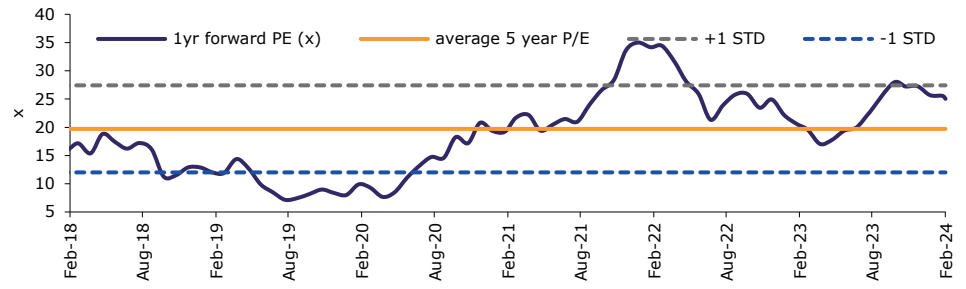
Rs mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Tractor volumes (units)	86,018	106,742	94,228	103,290	120,353	129,460	140,876
Growth (%)	(10.8)	24.1	(11.7)	9.6	16.5	7.6	8.8
Construction Equipment	4,042.0	3,913.0	4,117.0	4,620.0	6,263.7	7,029.8	7,750.1
YoY (%)	(27.1)	(3.2)	5.2	12.2	35.6	12.2	10.2
Segmental revenue							
Tractors	44,376	56,673	56,293	63,971	81,025	90,133	101,884
Growth (%)	(6.5)	27.7	(0.7)	13.6	26.7	11.2	13.0
Railway revenue	4,772	4,790	6,362	8,419	11,365	12,502	13,721
Growth (%)	21.1	0.4	32.8	32.3	35.0	10.0	9.7
Construction equipment	8,398	7,761	9,868	11,790	16,464	18,847	21,194
Growth (%)	(20.3)	(7.6)	27.1	19.5	39.6	14.5	12.5
Segmental EBIT margin (%)							
Tractors	13.0	18.2	15.3	9.3	14.0	14.5	15.0
Railways	18.0	16.0	14.8	13.8	20.0	21.0	21.5
Construction equipment	3.6	3.6	2.4	2.9	6.4	6.9	7.4
<b>Total revenue</b>	<b>57,610</b>	<b>69,293</b>	<b>71,969</b>	<b>83,450</b>	<b>108,854</b>	<b>126,482</b>	<b>146,798</b>
Growth (%)	(7.0)	20.3	3.9	16.0	30.4	16.2	16.1
EBITDA	6,758	11,292	9,955	7,804	14,695	17,328	20,552
<b>EBITDA margin (%)</b>	<b>11.7</b>	<b>16.3</b>	<b>13.8</b>	<b>9.4</b>	<b>13.5</b>	<b>13.7</b>	<b>14.0</b>
EBITDA growth (%)	(7.8)	67.1	(11.8)	(21.6)	88.3	17.9	18.6
EBITDA/unit (Rs)	78,567	105,791	105,651	75,556	122,101	133,848	145,886
EBIT	5,816	10,335	9,902	7,508	14,002	15,600	18,577
EBIT margin (%)	10.1	14.9	13.8	9.0	12.9	12.3	12.7
<b>EPS (Rs)</b>	<b>40</b>	<b>65</b>	<b>58</b>	<b>53</b>	<b>111</b>	<b>118</b>	<b>136</b>

Source: Company, Emkay Research

**Exhibit 6: We trim FY24E/FY25E EPS by ~3%/2.5%, led by lowering of tractor volume guidance; FY26E EPS unchanged**

Rs mn	FY24E				FY25E				FY26E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Volumes	125,535	120,353	(4.1)	16.5	135,222	129,460	(4.3)	7.6	144,804	140,876	(2.7)	8.8
Net Sales	112,401	108,854	(3.2)	30.4	129,769	126,482	(2.5)	16.2	147,085	146,798	(0.2)	16.1
EBITDA	15,174	14,695	(3.2)	88.3	17,778	17,328	(2.5)	17.9	20,592	20,552	(0.2)	18.6
Margin (%)	13.5	13.5	(0) bps	415 bps	13.7	13.7	0 bps	20 bps	14.0	14.0	(0) bps	30 bps
APAT	12,791	12,408	(3.0)	76.2	13,523	13,183	(2.5)	6.2	15,262	15,232	(0.2)	15.5
Adj. EPS (Rs)	114.3	110.9	(3.0)	107.8	120.9	117.8	(2.5)	6.2	136.4	136.1	(0.2)	15.5

Source: Emkay Research

**Exhibit 7: One-year forward P/E at 25x; higher than five-year average of 19.7x**

Source: Company, Emkay Research

## Escorts : Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>71,969</b>	<b>83,450</b>	<b>108,854</b>	<b>126,482</b>	<b>146,798</b>
Revenue growth (%)	3.9	16.0	30.4	16.2	16.1
<b>EBITDA</b>	<b>9,955</b>	<b>7,804</b>	<b>14,695</b>	<b>17,328</b>	<b>20,552</b>
EBITDA growth (%)	(11.8)	(21.6)	88.3	17.9	18.6
Depreciation & Amortization	1,298	1,484	1,643	2,678	2,924
<b>EBIT</b>	<b>8,658</b>	<b>6,320</b>	<b>13,052</b>	<b>14,650</b>	<b>17,627</b>
EBIT growth (%)	(14.6)	(27.0)	106.5	12.2	20.3
Other operating income	0	0	0	0	0
Other income	1,688	2,806	2,643	2,996	2,723
Financial expense	127	103	185	185	175
<b>PBT</b>	<b>10,219</b>	<b>9,023</b>	<b>15,510</b>	<b>17,461</b>	<b>20,175</b>
Extraordinary items	0	(972)	0	0	0
Taxes	2,563	1,982	3,102	4,278	4,943
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>7,656</b>	<b>6,070</b>	<b>12,408</b>	<b>13,183</b>	<b>15,232</b>
PAT growth (%)	(12.4)	(20.7)	104.4	6.2	15.5
<b>Adjusted PAT</b>	<b>7,656</b>	<b>7,041</b>	<b>12,408</b>	<b>13,183</b>	<b>15,232</b>
<b>Diluted EPS (Rs)</b>	<b>58.0</b>	<b>53.4</b>	<b>110.9</b>	<b>117.8</b>	<b>136.1</b>
Diluted EPS growth (%)	(32.9)	(20.7)	141.1	6.2	15.5
<b>DPS (Rs)</b>	<b>7.0</b>	<b>7.0</b>	<b>22.2</b>	<b>29.5</b>	<b>40.8</b>
<b>Dividend payout (%)</b>	<b>12.1</b>	<b>15.2</b>	<b>20.0</b>	<b>25.0</b>	<b>30.0</b>
EBITDA margin (%)	13.8	9.4	13.5	13.7	14.0
EBIT margin (%)	12.0	7.6	12.0	11.6	12.0
Effective tax rate (%)	25.1	22.0	20.0	24.5	24.5
<b>NOPLAT (pre-IndAS)</b>	<b>6,487</b>	<b>4,932</b>	<b>10,442</b>	<b>11,061</b>	<b>13,309</b>
Shares outstanding (mn)	131.9	131.9	111.9	111.9	111.9

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	10,219	9,023	15,510	17,461	20,175
Others (non-cash items)	0	0	0	0	0
Taxes paid	(2,539)	(1,864)	(3,118)	(4,295)	(4,963)
Change in NWC	(6,538)	(3,447)	(2,328)	(2,913)	(3,474)
<b>Operating cash flow</b>	<b>(1,277)</b>	<b>(442)</b>	<b>10,066</b>	<b>10,187</b>	<b>12,200</b>
Capital expenditure	(1,593)	(2,110)	(10,577)	(7,000)	(7,000)
Acquisition of business	918	(26,840)	(500)	(500)	(500)
Interest & dividend income	1,046	114	0	0	0
<b>Investing cash flow</b>	<b>(27,429)</b>	<b>3,242</b>	<b>(8,434)</b>	<b>(5,504)</b>	<b>(8,777)</b>
Equity raised/(repaid)	(29)	0	(201)	0	0
Debt raised/(repaid)	0	0	1,820	(1,820)	0
Payment of lease liabilities	(61)	(70)	0	0	0
Interest paid	(127)	(103)	(185)	(185)	(175)
Dividend paid (incl tax)	(924)	(924)	(2,482)	(3,296)	(4,570)
Others	19,205	326	1,772	814	1,274
<b>Financing cash flow</b>	<b>18,126</b>	<b>(700)</b>	<b>726</b>	<b>(4,486)</b>	<b>(3,471)</b>
Net chg in Cash	(10,581)	2,100	2,357	197	(48)
OCF	(1,277)	(442)	10,066	10,187	12,200
Adj. OCF (w/o NWC chg.)	5,261	3,005	12,394	13,100	15,674
FCFF	(2,870)	(2,552)	(511)	3,187	5,200
FCFE	(1,951)	(2,541)	(696)	3,003	5,024
OCF/EBITDA (%)	(12.8)	(5.7)	68.5	58.8	59.4
FCFE/PAT (%)	(25.5)	(41.9)	(5.6)	22.8	33.0
<b>FCFF/NOPLAT (%)</b>	<b>(44.2)</b>	<b>(51.7)</b>	<b>(4.9)</b>	<b>28.8</b>	<b>39.1</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,319	1,319	1,119	1,119	1,119
Reserves & Surplus	77,462	83,029	93,170	103,057	113,719
<b>Net worth</b>	<b>78,782</b>	<b>84,348</b>	<b>94,288</b>	<b>104,176</b>	<b>114,838</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	379	651	636	618	598
<b>Total debt</b>	<b>0</b>	<b>0</b>	<b>1,820</b>	<b>0</b>	<b>0</b>
<b>Total liabilities &amp; equity</b>	<b>79,161</b>	<b>84,999</b>	<b>96,744</b>	<b>104,794</b>	<b>115,436</b>
Net tangible fixed assets	16,922	17,299	25,171	29,494	0
Net intangible assets	227	284	284	284	0
Net ROU assets	346	502	502	502	0
Capital WIP	878	1,137	1,400	1,400	1,400
Goodwill	0	0	0	0	0
Investments [JV/Associates]	6,315	33,154	33,654	34,154	34,654
<b>Cash &amp; equivalents</b>	<b>48,431</b>	<b>22,634</b>	<b>24,991</b>	<b>26,188</b>	<b>30,139</b>
Current assets (ex-cash)	20,509	27,896	36,479	42,386	49,195
Current Liab. & Prov.	14,557	18,082	25,914	29,790	34,483
<b>NWC (ex-cash)</b>	<b>5,952</b>	<b>9,814</b>	<b>10,565</b>	<b>12,596</b>	<b>14,712</b>
<b>Total assets</b>	<b>79,161</b>	<b>84,999</b>	<b>96,744</b>	<b>104,794</b>	<b>115,436</b>
Net debt	(48,431)	(22,634)	(23,171)	(26,188)	(30,139)
Capital employed	79,071	84,824	96,569	104,619	115,261
<b>Invested capital</b>	<b>23,448</b>	<b>27,899</b>	<b>36,523</b>	<b>42,877</b>	<b>49,067</b>
BVPS (Rs)	596.4	638.0	841.2	929.6	1,024.9
Net Debt/Equity (x)	(0.6)	(0.3)	(0.2)	(0.3)	(0.3)
Net Debt/EBITDA (x)	(4.9)	(2.9)	(1.6)	(1.5)	(1.5)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
<b>RoCE (%)</b>	<b>11.6</b>	<b>8.3</b>	<b>13.0</b>	<b>13.1</b>	<b>13.9</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	50.5	55.0	26.4	24.9	21.5
P/CE(x)	43.2	45.4	23.4	20.7	18.1
P/B (x)	4.9	4.6	3.5	3.2	2.9
EV/Sales (x)	4.7	4.4	2.8	2.4	2.0
EV/EBITDA (x)	34.0	46.7	20.8	17.4	14.5
EV/EBIT(x)	39.1	57.6	23.4	20.6	16.9
EV/IC (x)	14.4	13.1	8.3	7.0	6.1
FCFF yield (%)	(0.8)	(0.7)	(0.2)	1.1	1.7
FCFE yield (%)	(0.5)	(0.7)	(0.2)	0.9	1.5
Dividend yield (%)	0.2	0.2	0.8	1.0	1.4
<b>DuPont-RoE split</b>					
Net profit margin (%)	10.6	8.4	11.4	10.4	10.4
Total asset turnover (x)	1.1	1.0	1.2	1.3	1.3
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
<b>RoE (%)</b>	<b>11.6</b>	<b>8.6</b>	<b>13.9</b>	<b>13.3</b>	<b>13.9</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	9.0	5.9	9.6	8.7	9.1
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
<b>RoIC (%)</b>	<b>32.7</b>	<b>19.2</b>	<b>32.4</b>	<b>27.9</b>	<b>28.9</b>
<b>Operating metrics</b>					
Core NWC days	30.2	42.9	35.4	36.4	36.6
<b>Total NWC days</b>	<b>30.2</b>	<b>42.9</b>	<b>35.4</b>	<b>36.4</b>	<b>36.6</b>
Fixed asset turnover	2.5	2.7	3.0	2.8	2.8
Opex-to-revenue (%)	17.6	17.9	16.5	16.3	16.0

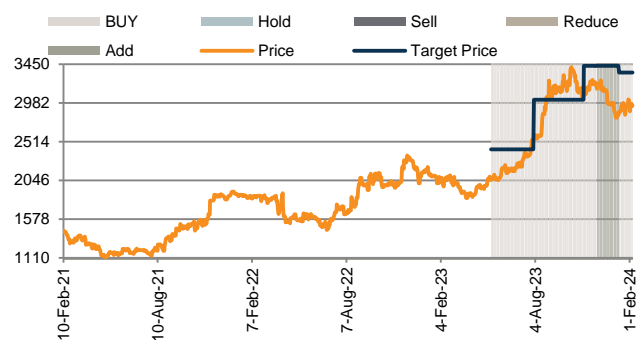
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
11-Jan-24	2,863	3,350	Buy	Chirag Jain
30-Nov-23	3,150	3,430	Add	Chirag Jain
05-Nov-23	3,076	3,430	Buy	Chirag Jain
01-Aug-23	2,564	3,020	Buy	Chirag Jain
11-May-23	2,070	2,420	Buy	Chirag Jain

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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<b>SELL</b>	<15% downside

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India  
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com



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