

# FMCG



## Dull quarter with stable margin

### Extended Winter and continued weak demand drags volume

In Q4FY24, demand for FMCG products faced ongoing challenges, dampening volume growth. There was no meaningful change in the rural growth trends. Factors, such as low farm income and the rise of small regional competitors, are adversely affecting larger companies. A delayed Winter is likely to impact seasonal categories, such as beverages. We note Chyawanprash sales lost steam in Q3, due to delayed Winter and have not recovered in Q4. Food categories continue to outperform home and personal care products. Reviving rural demand is crucial for the FMCG sector, with companies pinning hopes on a favourable Monsoon, which could stimulate the rural economy.

### FMCG universe to report low single-digit value and volume growth

We expect our FMCG coverage universe to report revenue and volume growth of 2.8% YoY and 3.6% YoY, respectively, in Q4FY24E with a five-year CAGR of 8.8% vs 9.0% in Q3FY24. In Q4, companies such as BECTORS, TATACONS, CLGT, and JYL saw stronger revenue growth. Regional firms, particularly in sectors, such as biscuits and laundry, continue to challenge larger competitors due to favourable commodity prices. This fierce competition is dragging companies such as HUVR and BRIT. However, JYL and BECTORS stand to gain from enhanced distribution. VBL and DABUR might encounter hurdles from slow beverage demand in the domestic market, due to a delayed Winter. TATACONS' growth stems from robust performance in new ventures, increased volume in salt, and the acquisition of Capital Foods. CLGT is expected to achieve high single-digit growth through aggressive promotional offers in modern trade and premiumization while for GCPL we estimate double-digit growth in the domestic business, aided by Raymond Consumer Care (RCC) acquisition (ex-RCC ~3% YoY).

### Most key RM are stable

In Q4, essential commodities, such as crude and palm oil, have witnessed a sequential increase. However, it has not been significant to impact margin as YoY growth remains subdued. Companies focus have been focused on offering higher schemes to drive volume and there have been no incremental price cuts.

### Margin to remain in a same range as in Q3

For Q4FY24E, we expect gross margin expansion of 185bp YoY and flat QoQ (ex-ITC, up 260bp YoY & flat QoQ), and EBITDA margin gains of 20bp YoY but flat QoQ (ex-ITC, up 80bp YoY and flat QoQ), led by benign input prices, partly offset by higher spend on advertising. We expect our FMCG coverage universe to post EBITDA growth of 3.5% YoY (ex-ITC growth of 7.2% YoY). Except for BRIT, ITC, BECTORS and HUVR, which could experience a decline in EBITDA margin, other companies are expected to achieve margin expansion. Companies, such as CLGT, NEST, GCPL and DABUR, are anticipated to achieve margin expansion exceeding 250bp YoY.

Our preferred picks are Mrs. Bectors, Godrej Consumer and Tata Consumer.

| Price performance (%)        | 3M     | 6M     | 12M    |
|------------------------------|--------|--------|--------|
| Nifty                        | 4.3    | 14.9   | 28.9   |
| Hindustan Unilever           | (13.1) | (8.3)  | (10.7) |
| ITC                          | (10.9) | (3.3)  | 12.9   |
| Nestle India                 | (4.1)  | 14.4   | 29.6   |
| Varun Beverages              | 20.4   | 59.0   | 108.7  |
| Britannia Industries         | (8.0)  | 7.5    | 11.8   |
| Godrej Consumer Products     | 1.8    | 19.8   | 23.3   |
| Tata Consumer Products       | 3.2    | 28.4   | 56.1   |
| Dabur India                  | (3.6)  | (4.1)  | (3.0)  |
| Marico                       | (8.7)  | (13.8) | 3.4    |
| Colgate Palmolive            | 12.3   | 41.5   | 83.7   |
| Emami                        | (19.4) | (18.0) | 21.6   |
| Jyothy Labs                  | (7.9)  | 21.0   | 136.6  |
| Mrs Bectors Food Specialties | (4.3)  | 7.8    | 97.4   |
| Bajaj Consumer Care          | 3.1    | 0.3    | 51.7   |

Source: Bloomberg

| Company                      | Revenue (INR mn) |         |         |
|------------------------------|------------------|---------|---------|
|                              | FY24E            | FY25E   | FY26E   |
| Hindustan Unilever           | 606,370          | 651,109 | 713,991 |
| ITC                          | 686,117          | 736,584 | 800,661 |
| Nestle India                 | 190,211          | 205,242 | 227,157 |
| Dabur India                  | 127,875          | 139,382 | 152,213 |
| Britannia Industries         | 168,269          | 183,353 | 201,840 |
| Godrej Consumer Products     | 140,672          | 152,599 | 169,808 |
| Varun Beverages              | 160,426          | 207,621 | 256,145 |
| Tata Consumer Products       | 152,791          | 181,011 | 199,324 |
| Marico                       | 95,987           | 103,911 | 113,194 |
| Colgate Palmolive            | 56,565           | 61,210  | 66,159  |
| Emami                        | 35,682           | 39,088  | 43,053  |
| Jyothy Labs                  | 28,120           | 31,201  | 34,436  |
| Bajaj Consumer Care          | 9,831            | 10,623  | 11,582  |
| Mrs Bectors Food Specialties | 16,330           | 19,135  | 22,419  |

| Company                      | Adjusted PAT (INR mn) |         |         |
|------------------------------|-----------------------|---------|---------|
|                              | FY24E                 | FY25E   | FY26E   |
| Hindustan Unilever           | 103,012               | 112,619 | 124,894 |
| ITC                          | 194,329               | 214,539 | 237,980 |
| Nestle India                 | 30,044                | 35,724  | 40,342  |
| Dabur India                  | 19,625                | 21,938  | 24,572  |
| Britannia Industries         | 21,187                | 23,483  | 25,887  |
| Godrej Consumer Products     | 19,601                | 23,874  | 28,429  |
| Varun Beverages              | 20,559                | 27,271  | 34,565  |
| Tata Consumer Products       | 15,833                | 17,119  | 21,732  |
| Marico                       | 14,477                | 15,985  | 17,721  |
| Colgate Palmolive            | 13,263                | 14,677  | 16,171  |
| Emami                        | 7,887                 | 8,695   | 9,809   |
| Jyothy Labs                  | 3,965                 | 4,504   | 5,015   |
| Bajaj Consumer Care          | 1,616                 | 1,761   | 1,956   |
| Mrs Bectors Food Specialties | 1,406                 | 1,729   | 2,079   |

Note: \*Nestle & Varun Beverages' valuation ratios are for CY22E, CY23E and CY24E, pricing as on 3 April 2024

Source: Company, Elara Securities Estimate

**Key financials**

| Company                       | Revenue (INR mn) |         |         |         |         |                 | EBITDA (INR mn) |         |         |         |         |                 | Adjusted net profit (INR mn) |         |         |         |         |                 |
|-------------------------------|------------------|---------|---------|---------|---------|-----------------|-----------------|---------|---------|---------|---------|-----------------|------------------------------|---------|---------|---------|---------|-----------------|
|                               | Q4 FY24E         | Q3 FY24 | Q4 FY23 | QoQ (%) | YoY (%) | 5-year CAGR (%) | Q4 FY24E        | Q3 FY24 | Q4 FY23 | QoQ (%) | YoY (%) | 5-year CAGR (%) | Q4 FY24E                     | Q3 FY24 | Q4 FY23 | QoQ (%) | YoY (%) | 5-year CAGR (%) |
| Hindustan Unilever            | 148,740          | 151,880 | 148,930 | (2.1)   | (0.1)   | 8.4             | 33,901          | 35,400  | 34,710  | (4.2)   | (2.3)   | 7.9             | 25,410                       | 25,410  | 24,710  | 0.0     | 2.8     | 9.8             |
| ITC                           | 166,400          | 164,833 | 163,980 | 1.0     | 1.5     | 6.8             | 61,010          | 60,243  | 62,094  | 1.3     | (1.7)   | 5.9             | 53,209                       | 55,721  | 50,140  | (4.5)   | 6.1     | 9.9             |
| Nestle India                  | 50,641           | 45,836  | 48,084  | 10.5    | 5.3     | 11.2            | 12,770          | 10,697  | 10,476  | 19.4    | 21.9    | 13.2            | 8,992                        | 7,629   | 7,366   | 17.9    | 22.1    | 14.2            |
| Dabur India                   | 28,650           | 32,551  | 26,778  | (12.0)  | 7.0     | 6.1             | 5,104           | 6,678   | 4,098   | (23.6)  | 24.5    | 2.2             | 3,851                        | 5,142   | 3,118   | (25.1)  | 23.5    | (2.9)           |
| Britannia Industries          | 41,088           | 42,563  | 40,232  | (3.5)   | 2.1     | 8.0             | 7,595           | 8,211   | 8,009   | (7.5)   | (5.2)   | 11.7            | 5,139                        | 5,593   | 5,587   | (8.1)   | (8.0)   | 11.8            |
| Godrej Consumer Products      | 32,323           | 36,596  | 32,002  | (11.7)  | 1.0     | 5.7             | 7,320           | 8,407   | 6,409   | (12.9)  | 14.2    | 4.8             | 5,122                        | 5,880   | 4,743   | (12.9)  | 8.0     | 4.6             |
| Varun Beverages               | 41,368           | 26,677  | 38,930  | 55.1    | 6.3     | 24.9            | 8,808           | 4,183   | 7,980   | 110.6   | 10.4    | 32.2            | 4,622                        | 1,320   | 4,291   | 250.2   | 7.7     | NA              |
| Tata Consumer Products        | 39,890           | 38,039  | 36,187  | 4.9     | 10.2    | 17.6            | 5,965           | 5,724   | 5,117   | 4.2     | 16.6    | 27.9            | 3,624                        | 3,704   | 2,750   | (2.2)   | 31.8    | 63.2            |
| Marico                        | 22,700           | 24,220  | 22,400  | (6.3)   | 1.3     | 7.1             | 4,349           | 5,130   | 3,930   | (15.2)  | 10.7    | 9.0             | 3,176                        | 3,830   | 3,020   | (17.1)  | 5.2     | 8.3             |
| Colgate Palmolive             | 14,500           | 13,864  | 13,417  | 4.6     | 8.1     | 4.8             | 5,338           | 4,592   | 4,430   | 16.2    | 20.5    | 12.0            | 3,828                        | 3,301   | 3,181   | 16.0    | 20.4    | 13.7            |
| Emami                         | 8,775            | 9,963   | 8,360   | (11.9)  | 5.0     | 6.5             | 2,103           | 3,149   | 1,998   | (33.2)  | 5.2     | 6.3             | 1,756                        | 2,877   | 1,835   | (39.0)  | (4.3)   | 7.7             |
| Jyothy Labs                   | 6,680            | 6,775   | 6,170   | (1.4)   | 8.3     | 5.3             | 1,133           | 1,186   | 913     | (4.5)   | 24.2    | 6.9             | 866                          | 909     | 590     | (4.7)   | 46.7    | 3.3             |
| Bajaj Consumer Care           | 2,385            | 2,358   | 2,445   | 1.2     | (2.5)   | -0.1            | 382             | 373     | 421     | 2.5     | (9.2)   | (11.9)          | 380                          | 376     | 410     | 1.0     | (7.3)   | (7.4)           |
| Mrs Bectors Food Specialities | 4,050            | 4,289   | 3,461   | (5.6)   | 17.0    | NA              | 571             | 612     | 482     | (6.7)   | 18.3    | NA              | 318                          | 346     | 277     | (8.2)   | 14.9    | NA              |

Source: Company, Elara Securities Estimate

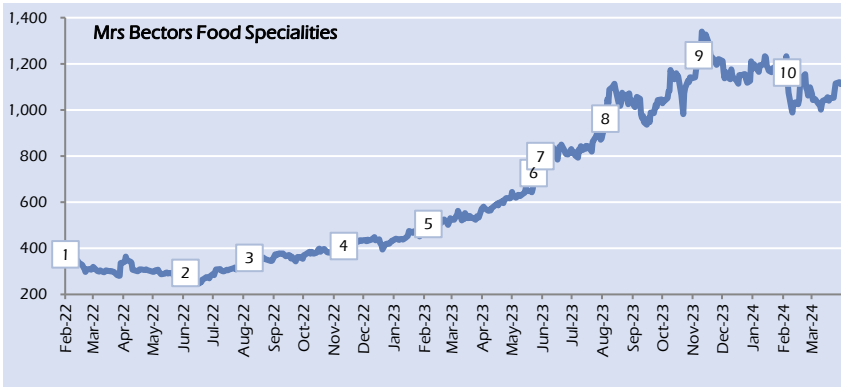
**Peer valuation**

| Company                       | Ticker      | Rating     | Mcaps    | CMP   | TP    | Upside | P/E (x) |       |       | EV/EBITDA (x) |       |       | ROE (%) |       |       |
|-------------------------------|-------------|------------|----------|-------|-------|--------|---------|-------|-------|---------------|-------|-------|---------|-------|-------|
|                               |             |            | (INR bn) | (INR) | (INR) | (%)    | FY24E   | FY25E | FY26E | FY24E         | FY25E | FY26E | FY24E   | FY25E | FY26E |
| Hindustan Unilever            | HUVR IN     | Reduce     | 5,324    | 2,266 | 2,600 | 15     | 51.7    | 47.3  | 42.6  | 36.6          | 33.7  | 30.6  | 20.7    | 22.9  | 25.9  |
| ITC                           | ITC IN      | Accumulate | 5,309    | 425   | 490   | 15     | 27.3    | 24.7  | 22.3  | 20.6          | 19.0  | 17.1  | 28.9    | 32.2  | 35.7  |
| Nestle India*                 | NEST IN     | Accumulate | 2,463    | 2,555 | 2,720 | 6      | 82.0    | 69.0  | 61.1  | 55.9          | 47.5  | 42.1  | 108.2   | 101.5 | 91.0  |
| Varun Beverages*              | VBL IN      | Accumulate | 1,918    | 1,476 | 1,463 | (1)    | 93.3    | 70.3  | 55.5  | 54.4          | 41.8  | 33.7  | 34.2    | 32.7  | 31.2  |
| Godrej Consumer Products      | GCPL IN     | Buy        | 1,221    | 1,194 | 1,400 | 17     | 62.3    | 51.1  | 43.0  | 42.6          | 35.6  | 30.2  | 14.1    | 16.3  | 17.6  |
| Britannia Industries          | BRIT IN     | Reduce     | 1,165    | 4,835 | 4,940 | 2      | 55.0    | 49.6  | 45.0  | 37.3          | 33.8  | 30.3  | 48.9    | 41.6  | 35.1  |
| Tata Consumer Products        | TATACONS IN | Accumulate | 1,067    | 1,120 | 1,246 | 11     | 67.4    | 64.2  | 50.6  | 45.7          | 36.4  | 30.8  | 8.8     | 7.8   | 8.8   |
| Dabur India                   | DABUR IN    | Accumulate | 941      | 531   | 596   | 12     | 47.9    | 42.9  | 38.3  | 37.8          | 34.1  | 30.5  | 20.5    | 20.2  | 19.9  |
| Colgate Palmolive             | CLGT IN     | Accumulate | 762      | 2,800 | 2,675 | (4)    | 57.4    | 51.9  | 47.1  | 40.0          | 36.4  | 33.1  | 74.9    | 75.3  | 71.2  |
| Marico                        | MRCO IN     | Accumulate | 642      | 496   | 580   | 17     | 44.2    | 40.0  | 36.1  | 31.3          | 28.6  | 26.0  | 36.2    | 36.0  | 35.8  |
| Emami                         | HMN IN      | Accumulate | 192      | 438   | 565   | 29     | 24.3    | 22.0  | 19.5  | 19.5          | 17.3  | 15.2  | 32.9    | 32.6  | 31.4  |
| Jyothy Labs                   | JYL IN      | Reduce     | 164      | 446   | 540   | 21     | 41.3    | 36.4  | 32.7  | 32.4          | 28.7  | 25.7  | 23.4    | 23.1  | 22.4  |
| Mrs Bectors Food Specialities | BECTORS IN  | Buy        | 66       | 1,127 | 1,414 | 25     | 47.1    | 38.3  | 31.9  | 27.6          | 22.8  | 19.1  | 22.9    | 22.4  | 21.6  |
| Bajaj Consumer Care           | BAJAJCON IN | Buy        | 33       | 233   | 270   | 16     | 20.6    | 18.9  | 17.0  | 16.7          | 15.0  | 13.1  | 19.9    | 20.4  | 21.2  |

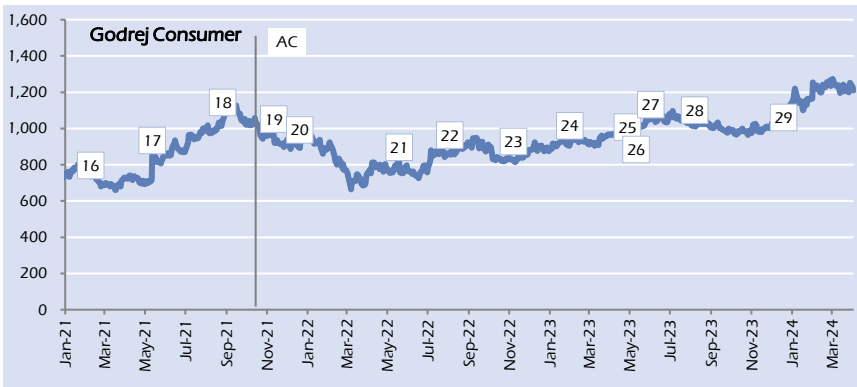
Note: \*Nestle and Varun Beverages valuation ratios are for CY23, CY24 and CY25, pricing as on 3 April 2024; TP and Ratings are as per our last published note

Source: Elara Securities Estimate

**Coverage History**

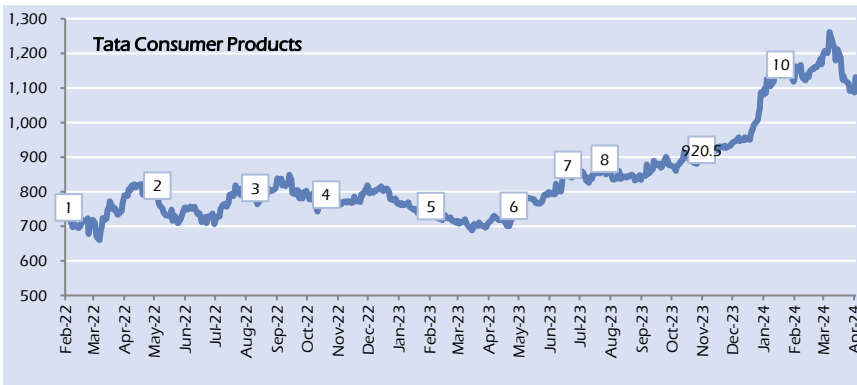


| Date          | Rating     | Target Price | Closing Price |
|---------------|------------|--------------|---------------|
| 5 8-Feb-2023  | Buy        | INR 640      | INR 495       |
| 6 26-May-2023 | Buy        | INR 852      | INR 717       |
| 7 2-Jun-2023  | Accumulate | INR 852      | INR 779       |
| 8 7-Aug-2023  | Accumulate | INR 1,106    | INR 944       |
| 9 10-Nov-2023 | Accumulate | INR 1,414    | INR 1,217     |
| 10 8-Feb-2024 | Buy        | INR 1,414    | INR 1,142     |



| Date           | Rating     | Target Price | Closing Price |
|----------------|------------|--------------|---------------|
| 24 31-Jan-2023 | Accumulate | INR 1,050    | INR 913       |
| 25 28-Apr-2023 | Accumulate | INR 963      | INR 908       |
| 26 11-May-2023 | Accumulate | INR 1,050    | INR 983       |
| 27 2-Jun-2023  | Reduce     | INR 1,050    | INR 1,061     |
| 28 7-Aug-2023  | Accumulate | INR 1,120    | INR 1,031     |
| 29 20-Dec-2023 | Accumulate | INR 1,230    | INR 1,050     |
| 30 31-Jan-2024 | Buy        | INR 1,400    | INR 1,164     |

AC=Analyst change



| Date           | Rating     | Target Price | Closing Price |
|----------------|------------|--------------|---------------|
| 5 3-Feb-2023   | Accumulate | INR 785      | INR 727       |
| 6 26-Apr-2023  | Accumulate | INR 822      | INR 747       |
| 7 19-Jun-2023  | Accumulate | INR 933      | INR 857       |
| 8 27-Jul-2023  | Accumulate | INR 963      | INR 850       |
| 9 31-Oct-2023  | Accumulate | INR 1,030    | INR 901       |
| 10 19-Jan-2024 | Accumulate | INR 1,246    | INR 1,147     |

\*stock split 10:5

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

|  |                                       |   |  |                         |
|--|---------------------------------------|---|--|-------------------------|
| <b>Harendra Kumar</b>  | <b>Managing Director</b>              |   | <b>harendra.kumar@elaracapital.com</b> | <b>+91 22 6164 8571</b> |
| <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 Jhunjhunwala  | Analyst                               | Textiles, Retail                                  | prerna.jhunjhunwala@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        |
| 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        |
| Kashish Thakur   | Associate                             | Healthcare, Pharmaceuticals                       | kashish.thakur@elaracapital.com        | +91 22 6164 8500        |
| 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        |
| 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        |
| 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