

## Stock Note

# Shivalik Bimetal Controls Ltd.

September 1, 2022





# Shivalik Bimetal Controls Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Industrials	Rs. 599	Buy in Rs. 595-605 band and add more on dips in Rs. 535-545 band	Rs. 665	Rs. 715	2 quarters

HDFC Scrip Code	SHIBIMEQNR
BSE Code	513097
NSE Code	SBCL
Bloomberg	SBC.IN
CMP (Aug 30, 2022)	599
Equity Capital (RsCr)	7.7
Face Value (Rs)	2
Equity Share O/S (Cr)	3.8
Market Cap (RsCr)	2300
Book Value (Rs)	50
Avg. 52 Wk Volumes	93522
52 Week High	643
52 Week Low	166.4

Share holding Pattern % (Jun, 2022)	
Promoters	60.61
Institutions	0.21
Non Institutions	39.18
Total	100.0



**HDFCsec Retail research  
stock rating meter**

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

Shivalik Bimetal Controls Ltd. (SBCL) is engaged in the business of manufacturing & sales of Thermostatic Bimetal /Trimetal strips and Components, Current Sense Metal Strip Shunts/Resistors, SMD Current Sense Resistors and other electron beam welded products. The company specializes in joining of metals by various methods such as diffusion bonding, electron beam welding, continuous brazing and resistance welding. The company offers precision manufactured components specific to the application requirements of its customers.

Application for thermostatic bimetal/trimetal strips is mainly in switching components used in electrical, electronics, automotive, agricultural, medical, defence, and industrial use while shunt resistors find use in the high growth automotive and industrial equipment segments. The rising demand for switchgear, battery management and smart metering systems are also conveying strong long-term prospects for SBCL's product lines. With its unique business model based on proprietary bimetal technologies and niche solutions that OEMs demand, SBCL thrives in an industry with high entry barriers. Today, as a valued vendor, the company is making a mark in supplying high-quality bimetals and shunt resistors to the fast-emerging electric vehicles and customizable smart meters of the future.

### Valuation & Recommendation:

Outlook for the SBCL's business in the medium to long-term remains positive given the diverse usage of its products. Government's conducive policies towards the growth of Smart Metering, EVs and Switchgear market is a major promising sign. While healthy growth is foreseen in all the sectors catered to by SBCL, (switchgear, metering, power electronics and automotive) the most promising market for the company will be the EV sector in the medium term as company's products find many applications not only in the Electric Vehicle itself, but also in the charging stations given the charging stations will require both Switchgear as well as Current Sense Resistors.

SBCL's board has announced bonus in the ratio of 1:2 at its board meet on Aug 29, 2022.

**We think the base case fair value of the stock is Rs 665 (32x FY24E EPS) and the bull case fair value of is Rs 715 (34.5x FY24E EPS). Investors can buy the in stock Rs 595-605 band (29x FY24E EPS) and add more on dips in Rs 535-545 band (26x FY24E EPS) band.**



## Financial Summary

Particulars (Rs Cr)	Q1FY23	Q1FY22	YoY-%	Q4FY22	QoQ-%	FY21	FY22P	FY23E	FY24E
Operating Income	110.8	70.3	58%	89.3	24%	204	324	447	519
EBITDA	25.4	15.9	60%	19.3	32%	36	73	102	117
APAT	21.7	11.6	87%	14.5	50%	25	55	71	80
Diluted EPS (Rs)	5.7	3.0	87%	3.8	50%	6.6	14.4	18.5	20.8
RoE-%						20.0	33.3	31.5	26.9
P/E (x)						90.3	41.7	32.5	28.9
EV/EBITDA						64.0	31.9	22.8	19.3

(Source: Company, HDFC sec)

## Q1FY23 Result Update

SBCL reported 58% YoY growth in its topline which stood at Rs. 111 Cr in Q1FY23. Revenue growth was on account of robust volume growth over last year and higher realization on consolidated basis. All business segments witnessed secular solid growth in double digits: thermostatic bimetal/trimetal strips grew by 44.08% YoY to reach Rs. 49.06 Cr and grew sequentially by 9.76% QoQ; while shunt resistors grew by 34.24% YoY to reach Rs. 48.60 Cr and grew sequentially by 8.78% QoQ. In Q1FY23, revenues from thermostatic bimetal/trimetal strips comprised 49.09% of the total revenue, while shunt resistors accounted for 48.63% of overall revenues. EBITDA margins for Q1FY23 stood at 21.6% (+139 bps/ 39 bps YoY/QoQ) while EBITDA increased by 60% YoY to Rs 25 Cr led by higher operating leverage and increased sales volume. APAT stood at Rs 22 Cr. Other Income includes fair valuation gains aggregating to Rs 512.44 Lakhs on existing stake in SEPPL & SBEPL. Based on encouraging demand trajectory SBCL has initiated further capex project. This is mostly balancing and finishing equipments to support capacity/quality enhancement.

## Key Triggers

### SBCL: well placed as suppliers of key components in varied industries

SBCL was incorporated in June 1984 by technocrat promoters: Mr. S.S. Sandhu and Mr. N.S. Ghumman, for manufacturing of thermostatic bimetal/tri-metal strips. It manufactures different grades of thermostatic-type bimetal and tri-metal strips and parts (both clad and electron beam welded).

The company was earlier into manufacturing of cathode ray tube (CRT), however, during FY11-14, the company faced major setbacks as supply to CRT, which contributed around 30% of its revenue in FY11, dwindled due to a change in technology (post introduction of LED and LCD television) resulting in virtually no demand for the product. The share of the same in SBCL's total revenue fell to almost nil in FY14.



Coming out of woods, SBCL's management pivoted its business model relatively quickly and in FY14-15, it utilised the capacity for manufacturing CRT components to manufacture shunts and to carry out job works for the ordinance factories of the ministry of defence (MoD). It also set up a new manufacturing unit in the same premises for manufacturing of high-quality bimetal and tri-metal parts.

***Dominant player in niche bimetal segment:***

Being one of the few manufacturers of bimetal parts and shunt resistors in India, SBCL faces limited competition. It is a single vendor to many OEMS since last 30+ years. The company caters to a broad spectrum of applications, including switchgears, energy meters, and electrical applications, and automotive and electronic devices.

**Thermostatic Bimetal Parts/Strips**

A thermostatic bimetal consists of two or more layers of different alloys firmly bonded together, having different coefficient of thermal expansion result i.e. high expansion and low expansion. One layer consists of an alloy having a high coefficient of expansion while the other layer is one with a lower coefficient of expansion.

Thermostatic Bimetals have a wide array of applications but these can be classified under the following broad headings:

**Temperature indication** - Bimetals are used for temperature indication as in the spiral or helix actuated pointer thermometers. Such thermometers help measure temperatures in offices, refrigerators, and even on aircraft wings.

**Temperature control** - Bimetals are utilised as a means to control the temperature, as in room temperature thermostats. In such devices, a bimetal blade holds a current-carrying contact point that is linked to a coupled static contact point. This allows for the automatic switching of circuits to control heating and cooling of electrical devices as the blade arches when a certain temperature is reached.

**Tube and pipe couplings** - For cryogenic, non-magnetic, and nuclear applications where metal properties must be switched reliably, bimetallic couplings are used to enable direct connection and transition for pipes and tubes with different CTEs. These fittings may also be used in other thermal transfer applications.

**Function Control** - By introducing heat to a bimetal – or what is known as auxiliary heating – the function of a device containing the bimetal can be controlled. Circuit breakers and time delay devices (including smoke alarm, appliances such as electrical stoves, ranges, toasters, toaster ovens, electrical griddles, etc.) are examples of these devices. Relative functions such as current and time can be controlled by installing the bimetal piece as the active element in the device.

SBCL has a near monopoly in this market, domestically, and has around 80-85% of the market share. As a result, this segment has served as a cash cow for the company over the years.



## **SMDs / Shunt Resistors**

A shunt resistor (also a bimetal strip) is a device that creates a low-resistance path for electric current, to allow it to pass around another point in the circuit. Resistors are widely used to reduce current flow, adjust signal levels, divide voltages and terminate transmission lines. Main use of these Shunt Resistors are found in Energy Meters (to measure the current), Battery Management System (BMS) or Intelligent Battery Sensor (IBS) for vehicles AC/DC Converters, Inverters, UPS etc. It is manufactured by Electron Beam Welding method by SBCL. This gives a very high quality bonding needed for critical and high temperature continuous application with precision. Shunt resistors are also used in switchgears and protective relays.

SBCL is focused on manufacturing Ultra-Low Ohmic shunt resistors in which it faces limited competition. It is the only Indian manufacturer whose resistors have been approved for use in meters by state electricity distribution companies (discoms) such as Uttar Pradesh Power Corporation Ltd (UPPCL) and Paschim Gujarat Vij Company Ltd (PGVCL).

Post the introduction of shunt resistors in 2014, as discussed above, they have been the key growth driver for SBCL due to applications across electric vehicles and energy meters.

## **Reputed and diversified client base**

Over the years the company has built a strong reputation for itself in the bimetal/trimetal and shunt resistor industry both in the domestic and export market. Due to its long track record of operations, the company has a strong relationship with its clients and boasts of a strong and credible client base comprising of major domestic players as well as international players. Vendor approval in the automotive industry is a lengthy process (3-4 years) and this acts as a natural barrier to entry for competitors. Precision welding is an important factor for the performance of shunt resistors. SBCL's long experience of operating in this area has enabled it to develop shunt resistors that are qualitatively better than those of its competitors as they have higher power carrying ratio to size, according to its management. The company also claims that there are only four vendors in the world who can manufacture low ohmic shunt resistors having the same qualitative factors that the company manufactures.

Some of the clients of SBCL in bimetal space include Schneider Electric (India) Private Limited, Havells India Limited, Larsen & Toubro etc. In the EV space, BMS manufacturers like Continental Engineering Servicer, Marquadt, Hella and Denso act as tier-1 suppliers to original equipment manufacturers (OEMs) and companies like Vishay Intertechnology, Isabellenheute and Rohm act as tier-2 suppliers. Shivalik acts as a tier-3 manufacturer and its customers largely consist of tier-2 manufacturers. Vishay Intertechnology is Shivalik's largest customer as per its export data. In FY21, exports (to more than 40 countries) constituted ~69% of sales. More than half of exports are directed to US, about a quarter to Europe. China+1 policy adopted by many countries could benefit the likes of SBCL going forward.



## Multiple industry tailwinds to drive SBCL's growth

SBCL caters to a broad spectrum of applications which include Switchgears, Energy Meters, Industrial, Electrical applications, Automotive & Electronic Devices. It is a promising sign that the government's plans and policies are conducive towards the growth of the smart meters. The most promising market for the company will be the EV sector as its products find many applications not only in the Electric Vehicle itself, but also in the charging stations. The charging stations will require both switchgear as well as Current Sense Resistors.

**Electrical Industry:** The Electronics System Design & Manufacturing (ESDM) marketing India is anticipated to increase at a CAGR of 16.1% between 2019 and 2025, owing to strong demand, supportive government policies and increased digitalization. The Government of India attributes high priority to electronics hardware manufacturing as it is an important pillar of Make in India, Digital India and Start-up India programmes

The Electrical Consumer Durables (ECD) segment in India is likely to grow owing to a demographic profile with higher disposable income, access to easy finance options, increasing electrification of rural areas, rapid urbanization and growth of nuclear families, and emerging consumer trends.

**Switchgear Industry:** The Global Switchgear Manufacturing Market is expected to exceed more than USD 137.10 bn by 2024 at a CAGR of 6.3 % in the given forecast period. The global switchgear market is enrolling solid growth because of expanding access to power in developing nations and growing investments in smart grid networks in developed economies. The worldwide switchgear manufacturing market is growing because of expanded interest for cutting edge switchgear from power age and dissemination organizations and manufacturing companies. These elements alongside innovative advances, for example, smart grids and IoT technologies is expected to drive the switchgear manufacturing sector globally.

The Indian switchgear market is expected to see high demand due to exponential growth in residential, commercial, and industrial sectors that the country is witnessing. With the expansion of smart grids, the need for quality power is also increasing. Therefore, for smart grids to function optimally the communication between the switchgears, other network equipment and operators also become progressively important.

**Smart Meter:** Global Smart Meters Market is expected to grow at ~7.3% CAGR during the forecast period, 2021–2027. Global Smart Meters Market is expected to witness high growth due to the rise in demand for devices in every sector.

India is expected to be an emerging market for smart meters. In comparison to the approximately 270 million traditional meters, India has only 3 million smart meters operational currently. On the other hand, the penetration is much higher for markets such as US (65-75%), China (40-55%) and France (60-70%). The main reason for this is the financial distress of discoms.



Under the Smart Meter National Programme, the government has aimed to replace the 25 crore conventional meters with smart meters. By providing real-time data to discoms, the smart metering system would help in spotting any theft or loss. The proposed Rs 3.5 trillion 'Reforms Linked Result Based Scheme for Distribution' is aimed at completing the compulsory smart metering ecosystem across all distribution points. Given the inevitability of the technology and current penetration levels, it definitely presents a major opportunity for industry in the coming years.

**Automotive Industries:** The global electric vehicle market size is projected to grow at a CAGR of 26.8% over 2021-30. Factors such as growing demand for low emission commuting and governments supporting long range, zero emission vehicles through subsidies & tax rebates have compelled the manufacturers to provide electric vehicles around the world. This has led to a growing demand for electric vehicles in the market. Countries around the world have set up targets for emission reductions according to their own capacity. In addition, projection for EV battery market is forecast to expand at a CAGR of 30% during the same period. This is a huge opportunity for India to not just achieve its sustainability targets but also emerge as a global EV manufacturing hub.

### Financial Analysis

SBCL dominates the niche industries of Shunt Resistors and Thermostatic Bi-metals. The company has ~90% market share in the domestic markets and ~15% market share in global markets for Thermostatic Bi-metals. Likewise, it is a leader in shunt resistors as well. The contribution from Shunt Resistors has increased from 14% in FY16 to ~50% in FY21. The company caters to a broad spectrum of applications, including switchgears, energy meters, and electrical applications, and automotive and electronic devices. Riding on the tailwinds for multiple sectors, we expect the company to report growth of 26.5% CAGR in its revenues over FY22-24E while the PAT is likely to increase by 20% over FY22-24E on the back of continued margin expansion.

### Key Concerns

**Foreign exchange fluctuation risk** - SBCL is exposed to volatility in foreign exchange risk as the company has substantial exports and imports. The risk is partially mitigated on account of natural hedging as the company is engaged in both import of raw materials and export of finished goods.

**Exposure to volatility in raw material prices:** With metals such as nickel and copper forming around 50% of overall cost, operating margin remains susceptible to volatility in commodity prices. Though metal prices may continue to fluctuate, this risk is mitigated by order-backed processing undertaken by SBCL on highly customised products.

**Working capital intensive nature of operations-** The operations of the company are working capital intensive in nature as evident by operating cycle which stood elongated at 156 days as on March 31, 2021. The high operating cycle can be pinned down to high inventory



days of 108 days and high collection period of 67 days as on March 31, 2021. This is due to nature of business. The company generally maintains raw material inventory of around 4 months as ~97% of the raw materials are imported and include variety of alloys.

**Resurfacing Covid-19:** Could lead to Supply chain disruptions with shortages of shipping container further stressing already stretched working capital cycle.

### Company Background

Shivalik Bimetal Controls Ltd. (SBCL) was incorporated on 1984 as a private limited company under the name Shivalik Bimetal Controls Private Limited. Later, in 1985, the Company was converted into a public limited company and consequently its name was changed to its present name. In February 1986, the Company came up with its Initial Public Offer. SBCL is engaged in the business of manufacturing & sales of Thermostatic Bimetal /Trimetal strips, Components, Spring Rolled Stainless Steels, EB welded products with multigauge, Cold Bonded Bimetal Strips and Parts etc. under one roof. The company specializes in joining of metals by various methods such as diffusion bonding, electron beam welding, continuous brazing and Resistance welding. The Company uses a mix of different metal alloys, including Nickel Based Alloys, Copper and other Resistance Alloys for manufacturing of its products. It offers Precision manufactured components specific to the application requirements of the customers. It is the largest manufacturer of multimetal products in the general power electronics industry, fuses its niche expertise and quality assurance to create cost competitive, energy-efficient, precision-manufactured components and surface-mount devices (SMDs). Its units are in Chambaghat, Himachal Pradesh.

SBCL has acquired 17,10,900 Equity Shares (being 50% of total paid-up Capital) of its JV Company, Shivalik Engineered Products Private Limited( SEPPL) (formerly known as Checon Shivalik Contact Solutions Private Limited, where it already held 50% of the Equity share capital) on 12th of April, 2022 for Rs. 1,178.58 Lakhs from the JV Partner, Portwest Corporation (formerly known as Checon Corporation, USA). As such SEPPL has become WOS of the Company.

SBCL has acquired 2,72,250 Equity Shares (being 55% of total paid-up Capital) of its Associate Company, Shivalik Bimetal Engineers Private Limited (SBEPL) (where it already held 45% of the Equity share capital) on 12th of April, 2022 for an aggregate sum of Rs. 149.74 Lakhs from two shareholders. As such SBEPL has become WOS of the Company.

Construction of Unit IV Factory Building completed and trials runs began in H1FY23. Construction of Unit I Factory Building completed on adjoining land and was fully operational in H2FY22. These could lead to organic growth possibilities over FY23 and FY24.





# Shivalik Bimetal Controls Ltd.

## Financials

### Income Statement

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22P	FY23E	FY24E
<b>Net Revenues</b>	<b>193</b>	<b>187</b>	<b>204</b>	<b>324</b>	<b>447</b>	<b>519</b>
<b>Growth (%)</b>	<b>23</b>	<b>-3</b>	<b>9</b>	<b>59</b>	<b>38</b>	<b>16</b>
Operating Expenses	158	166	168	250	345	401
<b>EBITDA</b>	<b>36</b>	<b>21</b>	<b>36</b>	<b>73</b>	<b>102</b>	<b>117</b>
<b>Growth (%)</b>	<b>38.6</b>	<b>-41.6</b>	<b>74.2</b>	<b>103.4</b>	<b>39.3</b>	<b>14.5</b>
<b>EBITDA Margin (%)</b>	<b>18.4</b>	<b>11.1</b>	<b>17.7</b>	<b>22.7</b>	<b>22.9</b>	<b>22.6</b>
Depreciation	5	6	6	6	13	14
Other Income	5	4	4	5	14	11
<b>EBIT</b>	<b>36</b>	<b>19</b>	<b>34</b>	<b>73</b>	<b>104</b>	<b>115</b>
Interest expenses	4	3	2	3	9	8
<b>PBT</b>	<b>32</b>	<b>16</b>	<b>33</b>	<b>70</b>	<b>95</b>	<b>107</b>
Tax	10	4	9	18	24	27
<b>PAT</b>	<b>23</b>	<b>12</b>	<b>24</b>	<b>52</b>	<b>71</b>	<b>80</b>
Share of Asso./Minority Int.	2	1	2	4	0	0
<b>Adj. PAT</b>	<b>25</b>	<b>13</b>	<b>25</b>	<b>55</b>	<b>71</b>	<b>80</b>
<b>Growth (%)</b>	<b>49.0</b>	<b>-46.4</b>	<b>93.3</b>	<b>116.4</b>	<b>28.5</b>	<b>12.4</b>
EPS	6.4	3.4	6.6	14.4	18.5	20.8

### Balance Sheet

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22P	FY23E	FY24E
<b>SOURCE OF FUNDS</b>						
Share Capital	8	8	8	8	8	8
Reserves	97	108	132	184	251	327
<b>Shareholders' Funds</b>	<b>105</b>	<b>115</b>	<b>140</b>	<b>192</b>	<b>259</b>	<b>334</b>
Minority Interest	0	0	0	0	0	0
Total Debt	45	25	28	58	82	67
Net Deferred Taxes	6	5	4	5	5	5
<b>Total Sources of Funds</b>	<b>155</b>	<b>145</b>	<b>172</b>	<b>254</b>	<b>345</b>	<b>406</b>
<b>APPLICATION OF FUNDS</b>						
Net Block & Goodwill	46	43	44	85	105	109
CWIP	5	17	24	7	7	3
Investments	0	0	0	18	48	73
Other Non-Curr. Assets	11	14	18	5	13	13
<b>Total Non Current Assets</b>	<b>63</b>	<b>74</b>	<b>86</b>	<b>115</b>	<b>173</b>	<b>197</b>
Inventories	69	51	70	115	141	142
Debtors	35	31	43	59	77	85
Cash & Equivalents	0	0	16	12	23	52
Other Current Assets	9	6	6	14	14	17
<b>Total Current Assets</b>	<b>114</b>	<b>88</b>	<b>135</b>	<b>200</b>	<b>255</b>	<b>296</b>
Creditors	15	12	35	42	55	57
Other Current Liab & Provisions	7	6	13	12	20	23
<b>Total Current Liabilities</b>	<b>21</b>	<b>18</b>	<b>49</b>	<b>54</b>	<b>75</b>	<b>80</b>
Net Current Assets	92	70	86	146	180	216
<b>Total Application of Funds</b>	<b>155</b>	<b>145</b>	<b>172</b>	<b>254</b>	<b>345</b>	<b>406</b>



# Shivalik Bimetal Controls Ltd.

## Cash Flow Statement

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22P	FY23E	FY24E
Reported PBT	34	17	34	73	95	107
Non-operating & EO items	-3	0	-2	-3	-8	0
Interest Expenses	4	3	1	3	9	8
Depreciation	5	6	6	6	13	14
Working Capital Change	-28	21	-2	-64	-23	-7
Tax Paid	-9	-6	-8	-17	-24	-27
<b>OPERATING CASH FLOW ( a )</b>	<b>4</b>	<b>41</b>	<b>30</b>	<b>-2</b>	<b>61</b>	<b>95</b>
Capex	-6	-14	-13	-22	-32	-14
Free Cash Flow	-2	27	17	-25	29	81
Investments	0	0	0	0	-30	-25
Non-operating income	-1	0	-2	-3	0	0
<b>INVESTING CASH FLOW ( b )</b>	<b>-7</b>	<b>-14</b>	<b>-15</b>	<b>-25</b>	<b>-62</b>	<b>-39</b>
Debt Issuance / (Repaid)	10	-20	4	29	25	-15
Interest Expenses	-4	-3	-2	-3	-9	-8
FCFE	3	4	17	-1	15	33
Share Capital Issuance	0	0	0	0	0	0
Dividend	-3	-2	-1	-3	-4	-4
<b>FINANCING CASH FLOW ( c )</b>	<b>3</b>	<b>-26</b>	<b>1</b>	<b>23</b>	<b>12</b>	<b>-26</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>0</b>	<b>1</b>	<b>16</b>	<b>-4</b>	<b>11</b>	<b>30</b>

## One-Year Share Price Chart



## Key Ratios

Particulars	FY19	FY20	FY21	FY22P	FY23E	FY24E
<b>Profitability Ratios (%)</b>						
EBITDA Margin	18.4	11.1	17.7	22.7	22.9	22.6
EBIT Margin	18.7	10.2	16.8	22.4	23.3	22.1
APAT Margin	12.7	7.0	12.5	17.0	15.9	15.4
RoE	26.2	12.0	20.0	33.3	31.5	26.9
RoCE	26.9	13.2	22.3	34.8	35.3	30.9
<b>Solvency Ratio (x)</b>						
Net Debt/EBITDA	1.2	1.2	0.3	0.6	0.6	0.1
Net D/E	0.4	0.2	0.1	0.2	0.2	0.0
<b>PER SHARE DATA (Rs)</b>						
EPS	6.4	3.4	6.6	14.4	18.5	20.8
CEPS	7.7	5.0	8.2	16.0	21.7	24.4
BV	27.3	30.0	36.3	49.9	67.3	87.1
Dividend	0.6	0.3	0.6	0.5	1.0	1.0
<b>Turnover Ratios (days)</b>						
Debtor days	64	64	66	58	56	57
Inventory days	104	117	108	104	104	100
Creditors days	30	26	42	43	40	39
<b>VALUATION</b>						
P/E	93.5	174.5	90.3	41.7	32.5	28.9
P/BV	21.9	20.0	16.5	12.0	8.9	6.9
EV/EBITDA	66.0	112.1	64.0	31.9	22.8	19.3
EV / Revenues	12.1	12.4	11.4	7.2	5.2	4.4
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2	0.2

(Source: Company, HDFC sec)



### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

### Disclosure:

I, **Harsh Sheth**, Research Analyst, **MCom**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

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