



SEBI Research Analyst Registration No: INH000009843

## Monte Carlo Fashions Ltd (MCFL)

### Initiating Coverage

15<sup>th</sup> December, 2022

**CMP: 726.15 | Target Price: 871.38**

**Upside Potential: 20% | Duration: 1 Year**

**Market Capitalisation: ₹1,505 Cr**



Research Analysts – Ajinkya Jadhav, Tushar Raghatate

Investors are advised to refer through important disclosures made at the end of the Research Report.

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## ABOUT

Monte Carlo Fashions Ltd was launched in 1984 by Oswal Woolen Mills Ltd, the flagship company of Nahar group. The launch was a significant step in the evolution of branded garment industry in India. Since then, it has been catering to the ever-growing demands of the Clothing and Fashion industry. It is known for its winterwear offering.

Monte Carlo has pushed the envelope on high street fashion. The products offered under brand Monte Carlo, apart from Woolen knitted garments, include T-Shirts, Shirts, Linen Shirts, Denim, Trousers, Dresses, Shorts, Tunics, Sportswear & much more for men, women and tweens (8-14 years age group). The main objective of the Company is to stand up to the buyers' expectations with consistent quality, backed by R&D divisions equipped with latest technology and a team of highly qualified technocrats.

The brand has gained the ISO 9001: 2000 certifications and has been felicitated by the International Wool Secretariat with the prestigious Best Exhibited Product award. It has also emerged as the No. 1 brand in the men's wear category in a survey conducted in the summer of 2009 by Images-ORG-MARG. In 2014, Monte Carlo was honored as one of ASIA'S BEST MARKETING BRANDS by World Consulting & Research Corporation (WCRC).

The Company's products reach the end user through different channels i.e. through Exclusive Brand Outlets (Formats: Company Owned Company Operated, Franchisee Owned Franchisee Operated), Multi Brand Outlets, National Chain Stores, Large Format Stores and Online. As of H1FY23 Monte Carlo is available through more than 336 Exclusive Brand Outlets, over 1900 Multi Brand Outlets and Distributors, 687 National Chain Stores, 325 Shop in Shops and Online retailers like Ajio, Amazon, Flipkart, First Cry, Myntra, Jabong and Kapsons.

## MILESTONES

- **2008** - Incorporation of Monte Carlo Fashions Ltd.
- **2011** - Scheme of arrangement and **demerger** with **OWML**.
- **2012** - Private equity investment by **Samara Capital** Partners Fund Limited, through its subsidiary **KIL**, in the Company. Forayed into **women's** apparel with the introduction of the apparel range '**Alpha**'.
- **2013** - Forayed into **kids wear** segment with the introduction of the apparel range '**Tweens**', in the men's **premium wear** segment with the introduction of the apparel range '**Platine**' and in the men's **economy wear** segment with the introduction of the apparel range '**Cloak and Decker**'
- **2013** - Expanded **manufacturing facility** pursuant to the commencement of operations at new manufacturing facility situated at G.T. Road, Sherpur, **Ludhiana**.
- **2014** - **In-house manufacture of cotton** apparel at manufacturing facility situated at G.T. Road, Sherpur, **Ludhiana**.

## PROMOTERS AND MANAGEMENT TEAM

- **JAWAHAR LAL OSWAL, CHAIRMAN, MANAGING DIRECTOR**



Mr. Jawahar Lal Oswal is the **Non-Executive Chairman** but belongs to the promoter category. He is a Graduate having rich **business experience of 46 years** in Textile and Woollen industry.

- **DINESH OSWAL, MANAGING DIRECTOR**



He is the Managing Director of the Company and belongs to the promoter category. He is a **commerce graduate** having **business experience of 25 years** in Textile and Financial Activities. His directorships in Public Companies are not more than 15. He is holding two chairman positions and one membership position in Board level committees of public companies.

- **KAMAL OSWAL, NON-EXECUTIVE INDEPENDENT DIRECTOR**



He is non-executive Director of the Company and belongs to the promoter category. He is a **commerce graduate** and has good experience of managing business. His directorships in Public Companies are not more than 15. He is holding two chairman positions and two membership positions in Board level committees of public companies.

- **DINESH GOGNA, NON-EXECUTIVE DIRECTOR**



He is **B.A., L.L.B** and having **31 years of experience** in Corporate Finance and Taxation. He is holding directorships position in 10 Public Companies. He is holding five membership positions in Board level committees of public companies.

- **SK Sharma, NON-EXECUTIVE DIRECTOR**



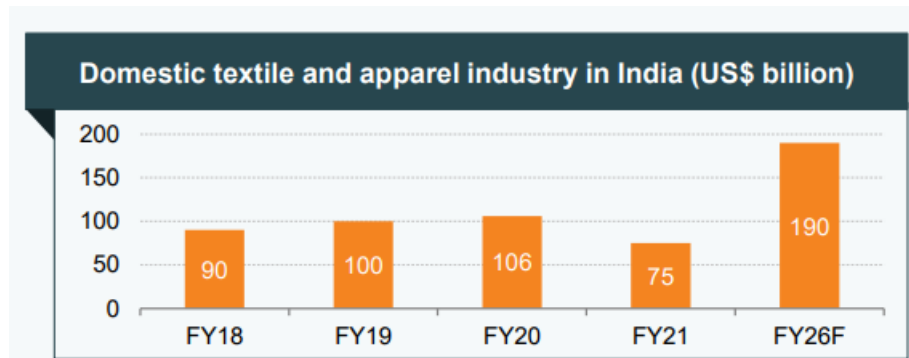
He is an **MBA** and having more than **28 years of experience as Corporate Executive**. He is holding directorship positions in 2 Public Companies. He is holding two chairman positions and two membership positions in Board level committees of public companies.

## REVENUE GUIDANCE GIVEN BY THE MANAGEMENT AND ACTUAL RESULTS POSTED

Guidance given for topline of the year	Guidance given	Actual results	Variance	Variance (%)
	(All figures are in ₹ Cr)			
FY23	1084-1130	Awaited (TTM is 986)	NA	NA
FY22	715-746	904	158	25%
FY21	581	622	41	6%
FY20	754	726	-28	-4%
FY19	663-680	656	-7	-1%
FY18	664-680	576	-88	-15%
FY17	673	577	-87	-14%

# INDUSTRY ANALYSIS

## INDIAN TEXTILES AND APPARELS INDUSTRY

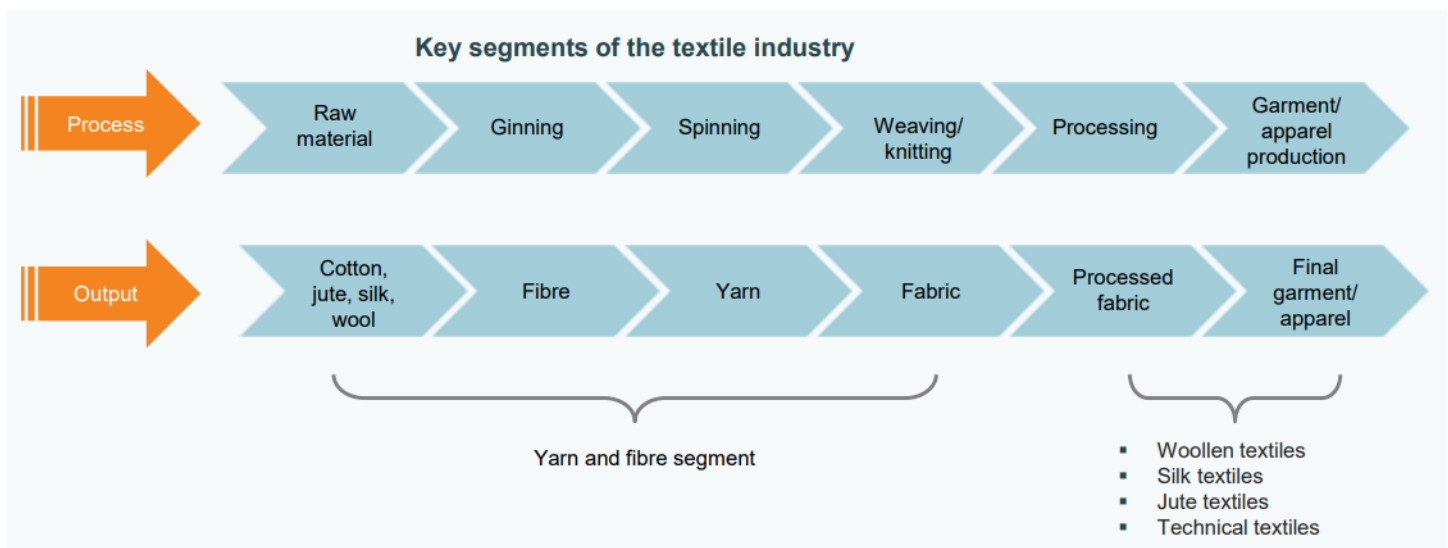


India is the world's second-largest producer of textiles and garments. It is also the sixth-largest exporter of textiles spanning apparel, home and technical products. India has a 4% share of the global trade in textiles and apparel.

The textiles and apparel industry contribute 2.3% to the country's GDP, 13% to industrial production and 12% to exports. The textile industry has around 45 million workers employed in the textiles sector, including 3.5 million handloom workers.

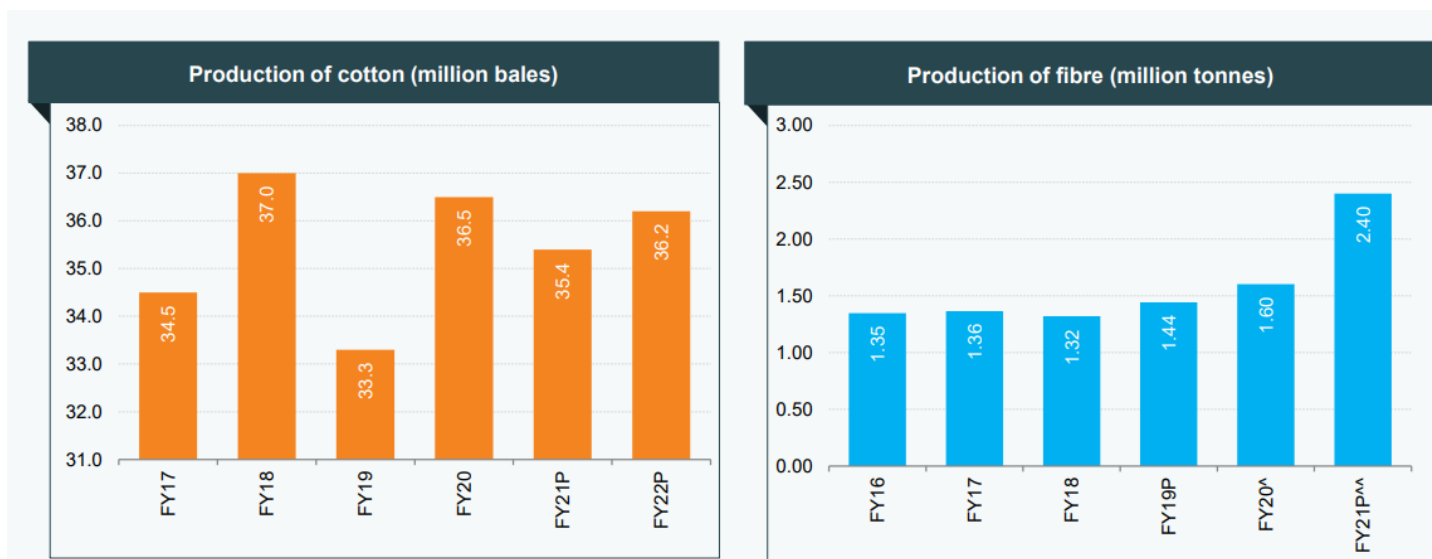
The Indian textile and apparel industry is expected to grow at 10% CAGR from 2019-20 to reach \$190 billion by 2025-26. The Indian apparel market is expected to grow at **27.5% CAGR**, from \$40 billion in 2020 to \$135 billion in 2025.

On the other hand, the winter wear market in India has seen the emergence of a wide variety of materials, designs, and styles over the last few decades to accommodate the shifting lifestyles and preferences of modern customers. Thus, like other areas of the fashion business, casual, lightweight clothing is becoming more popular for winter use. The increased popularity of knitwear is primarily due to this trend towards informal looks and comfort wearing.



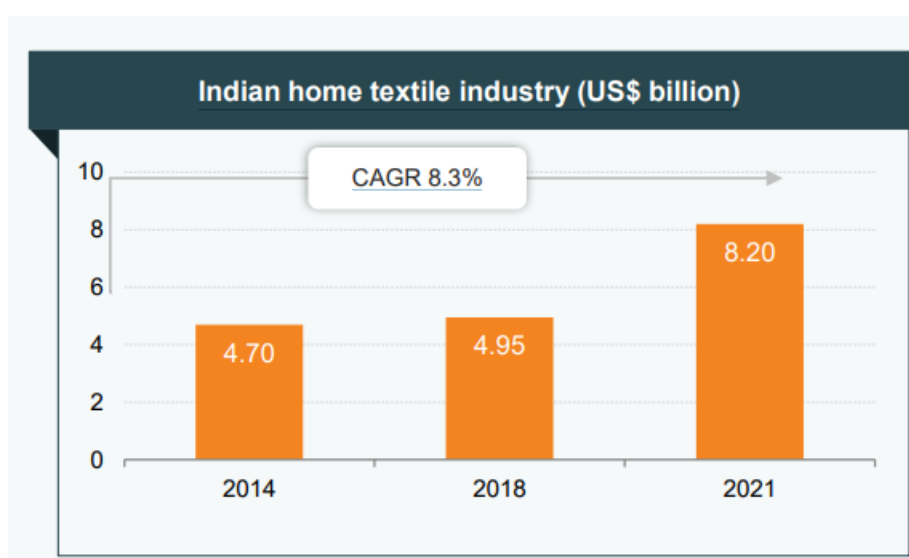


## RAW COTTON AND MMF PRODUCTION INCREASING



- India is the world's largest producer of cotton. Estimated production stood at 362.18 lakh bales during cotton season 2021-22.
- Cotton and fibres are the two major segments in this category. Production of man-made fibre has also been on an upward trend.
- In FY19, the production of fibre in India stood at 1.44 million tonnes, which reached 2.40 million tonnes in FY21 (until January 2021).

## HOME TEXTILES



India's home textile industry expanded at a CAGR of 8.3% during 2014-21 and reached \$8.2 billion in 2021 from \$4.7 billion in 2014. The growth in home textiles is driven by growing household income, increasing population and growth of end use sectors like housing, hospitality, healthcare, etc.

## POLICY SUPPORT

- 100% FDI (automatic route) is allowed in the Indian textile sector.
- Under Union Budget 2022-23, the total allocation for the textile sector was Rs. 12,382 crores. Out of this, Rs.133.83 crore is for Textile Cluster Development Scheme, Rs. 100 crore for National Technical Textiles Mission, and Rs. 15 crore each for PM Mega Integrated Textile Region and Apparel parks scheme.
- **Production Linked Incentive Scheme:** In October 2021, the government approved a PLI scheme worth Rs. 4,445 crores to establish seven integrated mega textile parks and boost textile manufacturing in the country.
- **Production Linked Incentive Scheme for MMF:** Incentives will be provided to manufacture and export specific textile products made of man-made fibres. The government approved Rs. 10,683 crore (US\$ 1.44 billion) for man-made fibre and technical textiles.

# THE COMPANY

Monte Carlo Fashion Limited is a well-known brand having a basket of diversified products, which includes Woolen, Cotton, Kids and Home Furnishing product. Monte Carlo Fashions is recognized as a “Superbrand” for woolen knitted apparel in each edition of Consumer Superbrands India.

The Company has a presence across India through a judicious mix of EBOs, MBOs and Shops in shops, distributors and national chain stores and online, Located in 21 states & 4 union territories. It has a strong design team of over 30 professionals closely tracking the trending global fashion.







The products offered under the brand Monte Carlo, apart from woolen knitted garments, include T-Shirts, Shirts, Linen Shirts, Denim, Trousers, Dresses, Shorts, Tunics, Sportswear & much more for men, women, and tweens (8-14 years age group). This diversified strategy of the Company helps in catering for the apparel demands of various seasons.

## The Company has a Range of Products under the “Monte Carlo” brand:

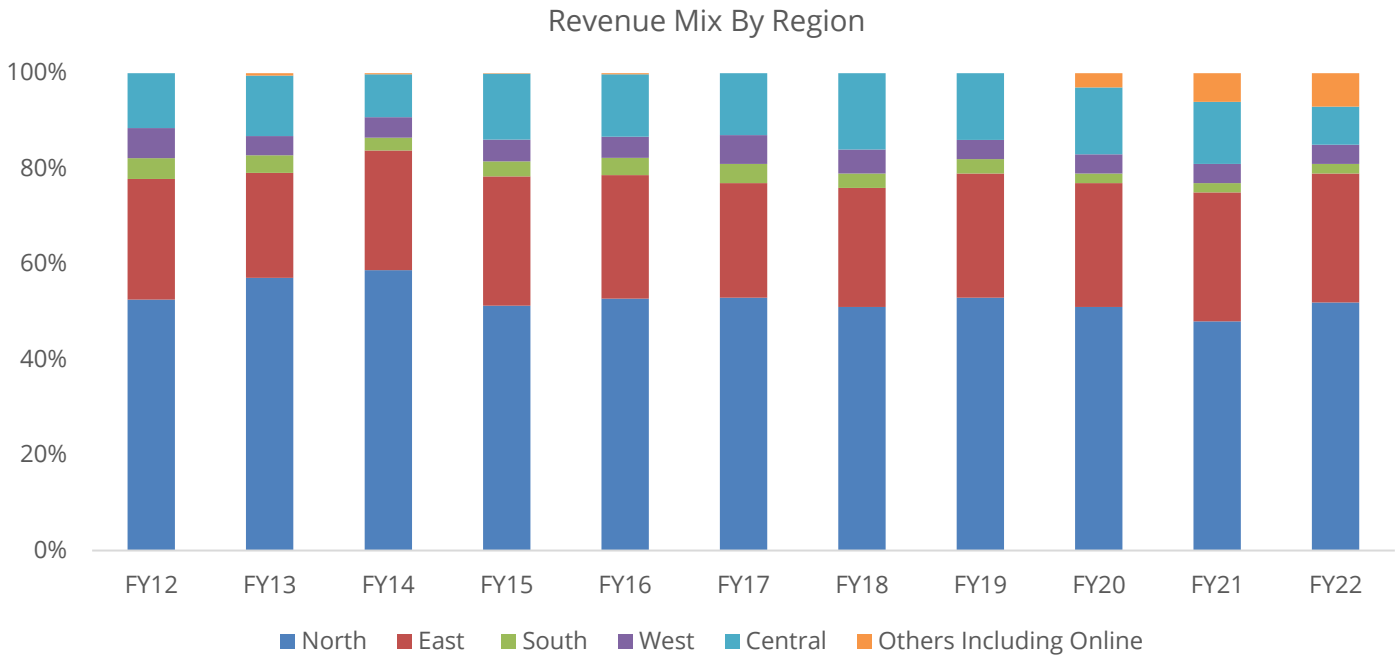
- ‘Luxuria’ is the premium range for Menswear.
- ‘Denim’ is an exclusive range of denim apparel.
- ‘Alpha’ is the exclusive range of Womenswear.
- ‘Tweens’ is an exclusive range of Kidswear.
- ‘Cloak & Decker’ is the economy range for Menswear.
- ‘Rock-It’ is the premium range for Sports & Fitness wear

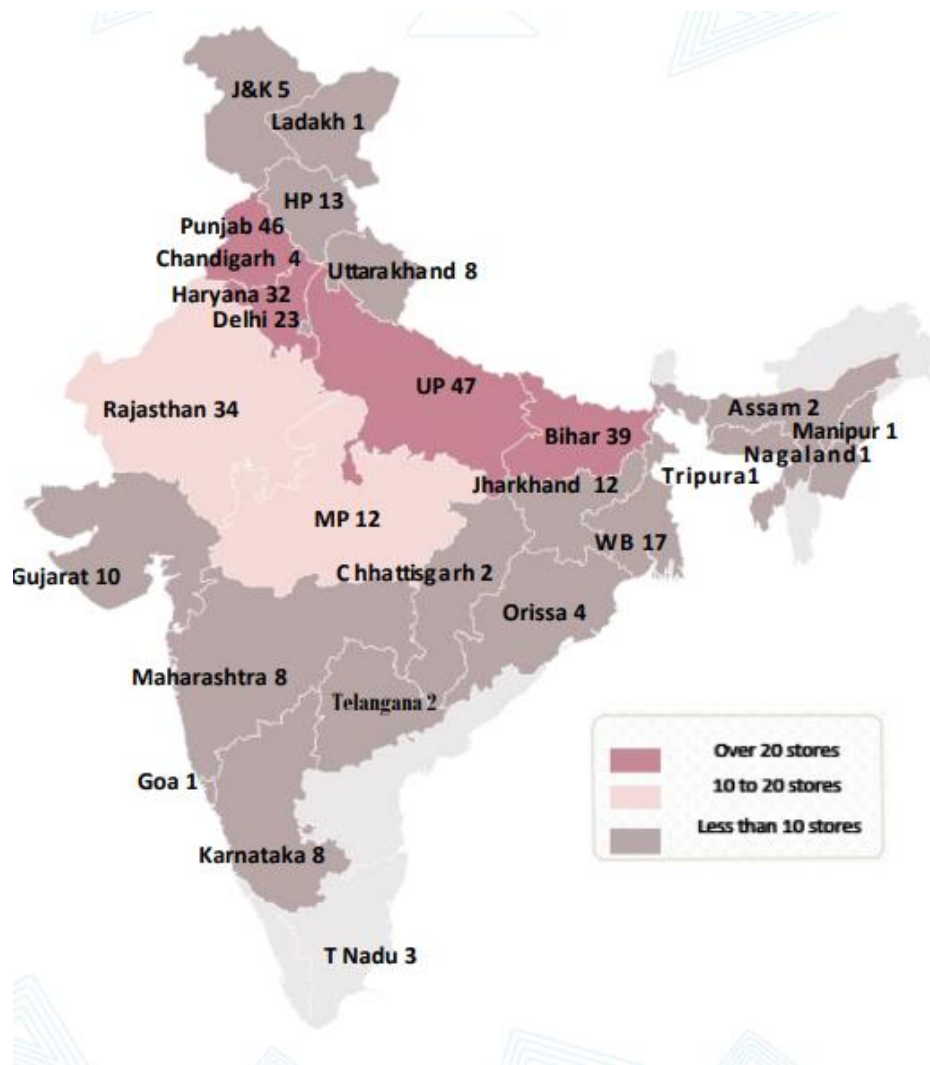


TRENDY AND PREMIUM QUALITY APPROACH TO CLOTHING

Range	Woollen	Cotton	Home Furnishing	Kids	
Monte Carlo Mid Premium / Premium	Sweaters, Pullovers thermals, woollen accessories (caps, mufflers, shawls, stoles)	Shirts, trousers, t-shirts, track-suits and jackets	Mink blankets, bed sheets and quilts	-	
Luxuria - Mid Premium / Premium	Cash wool sweaters , blazers ,coats	Cotton Shirts, trousers and t-shirts	-	-	
Denim- Mid Premium / Premium	-	Denim Trouser (jeans) and Shirts	-	-	
Alpha – Women wear	Sweaters, cardigans	Shirts, Tshirts, Trousers , jackets and sweat-shirts	-	Sweat - Shirts	
Tweens – Kids wear (7-13 years)	-	-	-	Sweaters, Cardigans, Shirt , T-Shirts and Bottoms	
Cloak & Decker– Men’s wear	Sweaters, cardigans	Cotton and cotton blended Tshirts	-	-	
Rock It – Sports wear	-	Tank, Polo T-Shirt, Shorts, Track Pants	-	-	

## REVENUE MIX BY GEOGRAPHY





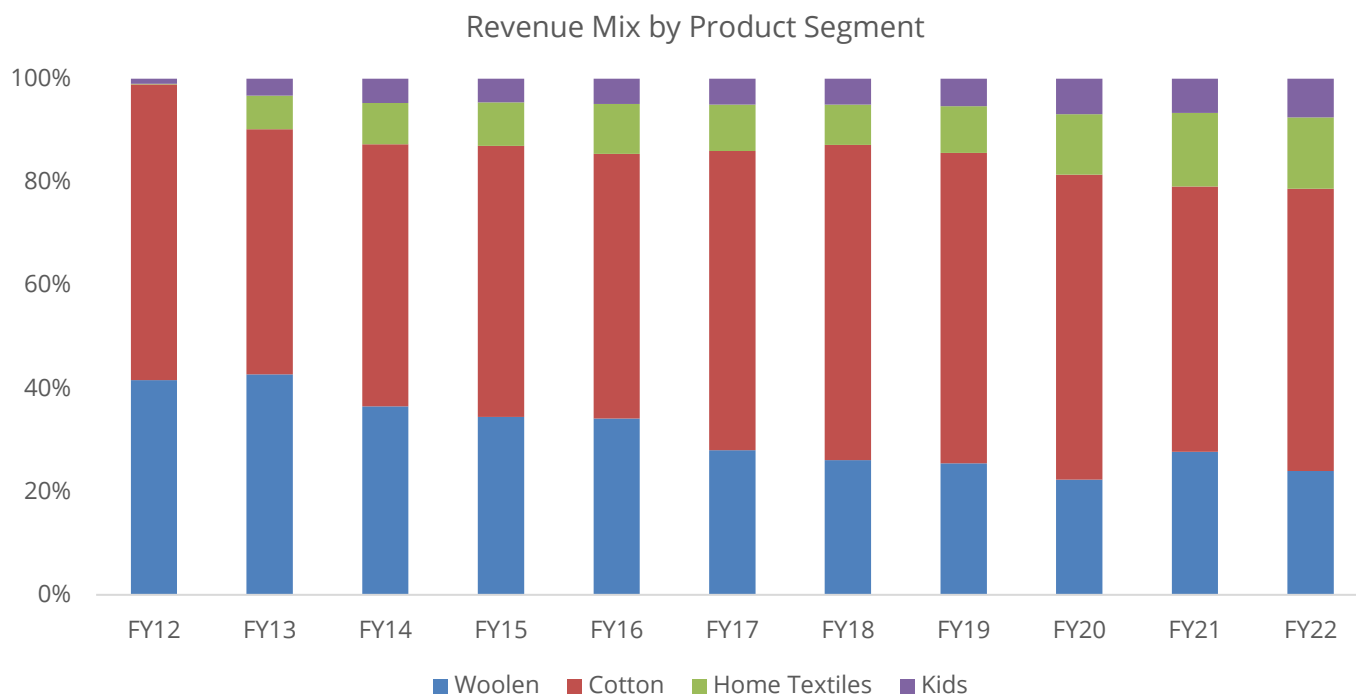
Pan India presence

- **NORTH** – North India has been the major contributor to Monte Carlo’s revenues (52% in FY22). Revenue in this region has grown by 10.6% CAGR in the last 10 years. (FY12: 176 cr; FY22: 4870.4 cr).
- **EAST** – East India has been the 2<sup>nd</sup> largest contributor to Monte Carlo’s revenues (27% in FY22). Revenue in this region has grown by 11.4% CAGR in the last 10 years. (FY12: 84.7 cr; FY22: 249.5 cr).
- **CENTRAL** – Central India has been the 3<sup>rd</sup> largest contributor to Monte Carlo’s revenues (8% in FY22). Revenue in this region has grown by 6.7% CAGR in the last 10 years. (FY12: 38.5 cr; FY22: 73.9 cr).
- **WEST** – West India has been a laggard and 5<sup>th</sup> largest contributor to Monte Carlo’s revenues (4% in FY22). Revenue in this region has grown by 5.8% CAGR in the last 10 years. (FY12: 21.1 cr; FY22: 37 cr).
- **SOUTH** – South India has been the smallest contributor to Monte Carlo’s revenues (2% in FY22), Monte Carlo have struggled to capture market in this region. Revenue in this region has grown by 2.3% CAGR in the last 10 years. (FY12: 14.1 cr; FY22: 18.5 cr).

- **OTHERS (incl. Online)** – Online sales have picked up after COVID and has been the 4<sup>th</sup> largest contributor to Monte Carlo’s revenues (7% in FY22) in a very short span of time. Revenue through this channel has grown from 21.7 cr in FY20 to 64.7 cr in FY22.

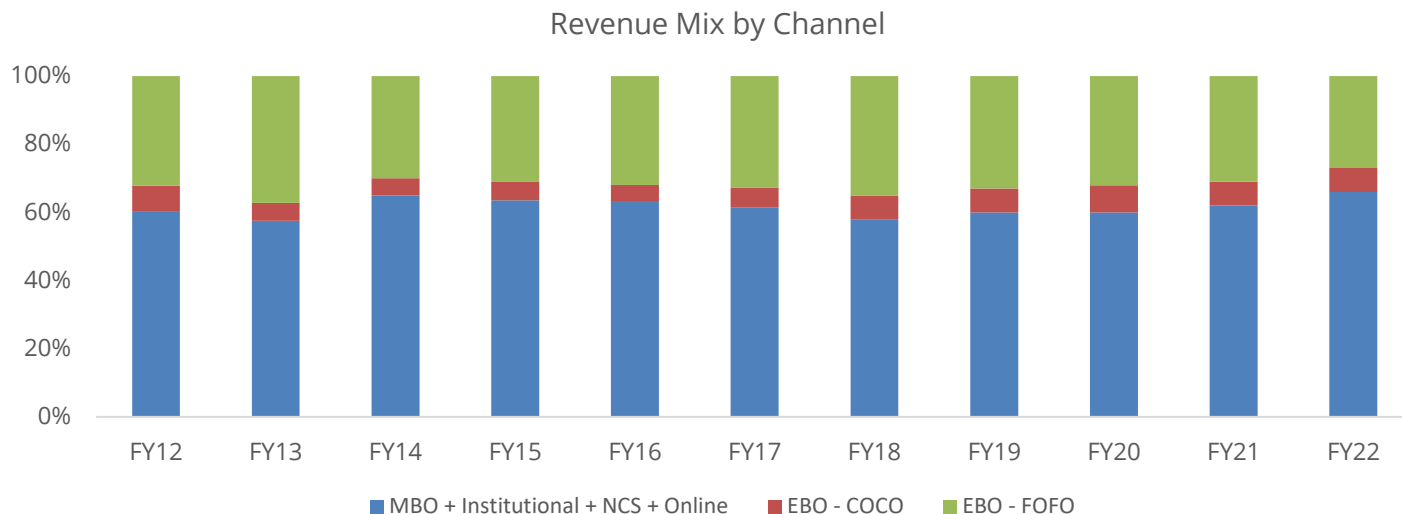
Monte Carlo has made a significant mark in the North and Eastern regions of India as winter in these parts of India are comparatively severe with respect to other parts of India.

## REVENUE MIX BY PRODUCT SEGMENT



- **WOOLEN** – Although Monte Carlo is majorly recognized as a pure winter brand, woollen segment contributed only 24% to its revenues in FY22. Woolen segment has grown at 4.8% CAGR with the slowest growth in the last 10 years. (FY12: 139.2 cr; FY22: 221.7 cr).
- **COTTON** – Cotton segment contributed 54.7% to its revenues in FY22 and has been continuously gaining share vs woolen products. Cotton segment has grown at 10.2% CAGR in the last 10 years. (FY12: 191.8 cr; FY22: 505.4 cr).
- **HOME TEXTILE** – Home textile segment contributed 13.8% to its revenues in FY22. This segment has registered the fastest growth in the last 10 years at 81.2% on a low base. (FY12: 0.3 cr; FY22: 127.5 cr).
- **KIDS** – Kids segment contributed 7.5% to its revenues in FY22. This segment has registered the 2<sup>nd</sup> fastest growth in the last 10 years at 35.4% CAGR. (FY12: 3.3 cr; FY22: 69.3 cr).

## REVENUE MIX BY CHANNEL



**MBO + Institutional + NCS + Online:** MBO with other channels have been the largest contributor to Monte Carlo's revenues at 66% in FY22. Revenues through this channel have grown at 7.7% CAGR in the last 10 years.

**EBO – COCO:** Company Owned and Company Operated stores have been the smallest contributor to its sales (FY22: 7%). This is a smart move as COCO channel has high inventory write-off risk, at the same time these stores are necessary to improve its brand presence.

**EBO – FOFO:** Franchisee Owned and Franchisee Operated stores have been the 2<sup>nd</sup> largest contributor to its revenues at 27% in FY22. Inventory risk is fairly lower in this channel.

## STORE MIX BY CHANNEL





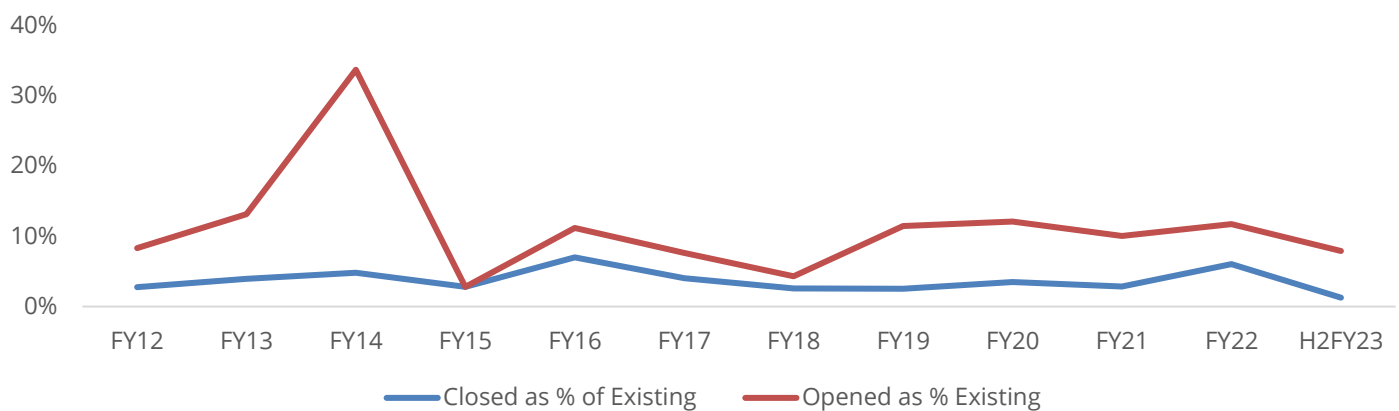
National chain stores and Shop in Shops have grown significantly from FY19 to H1FY23.

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	H1FY23
<b>MBO</b>	1400	1500	2000	2300	2500	2500	2500	1777	2108	1927
<b>NCS</b>	89	89	164	198	283	306	566	622	740	687
<b>EBO - COCO</b>	20	20	20	21	21	27	37	43	55	65
<b>EBO - FOFO</b>	194	194	202	211	214	229	241	256	260	271
<b>SIS</b>						85	126	153	287	325

## EBO DATA

EBO	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	H1FY23
<b>Existing</b>	144	152	166	214	214	223	231	235	256	278	298	315
<b>Opened</b>	12	20	56	6	24	17	10	27	31	28	35	25
<b>Closed</b>	4	6	8	6	15	9	6	6	9	8	18	4
<b>Total</b>	<b>152</b>	<b>166</b>	<b>214</b>	<b>214</b>	<b>223</b>	<b>231</b>	<b>235</b>	<b>256</b>	<b>278</b>	<b>298</b>	<b>315</b>	<b>336</b>

Stores opened vs Closed as a % of existing



## EFFECT OF STORE FORMAT ON THE BUSINESS

	MBO and Distributors	NCS	Shop In Shop	EBO-COCO	EBO –FOFO
<b>Distribution Sale Model</b>	Pre-Booking of orders Outright Sales	SOR – Sale or Return / Outright Sales	Pre-Booking of orders Outright Sales	Inventory owned by Company	Pre-Booking of orders Outright sale
<b>Goods Return Risk</b>	No	Yes	No	N.A	Minimal 5% - 10 % of Products Return Allowed
<b>Discount Sharing</b>	No	Yes	Yes	Yes	Yes Range of 5% - 17.5%
<b>Payment Collection Credit Risk</b>	Exclusive commissioned agents are liable to pay	Reputed retail chains	Exclusive commissioned agents are liable to pay	-	Bank guarantee's and PDC taken from franchise



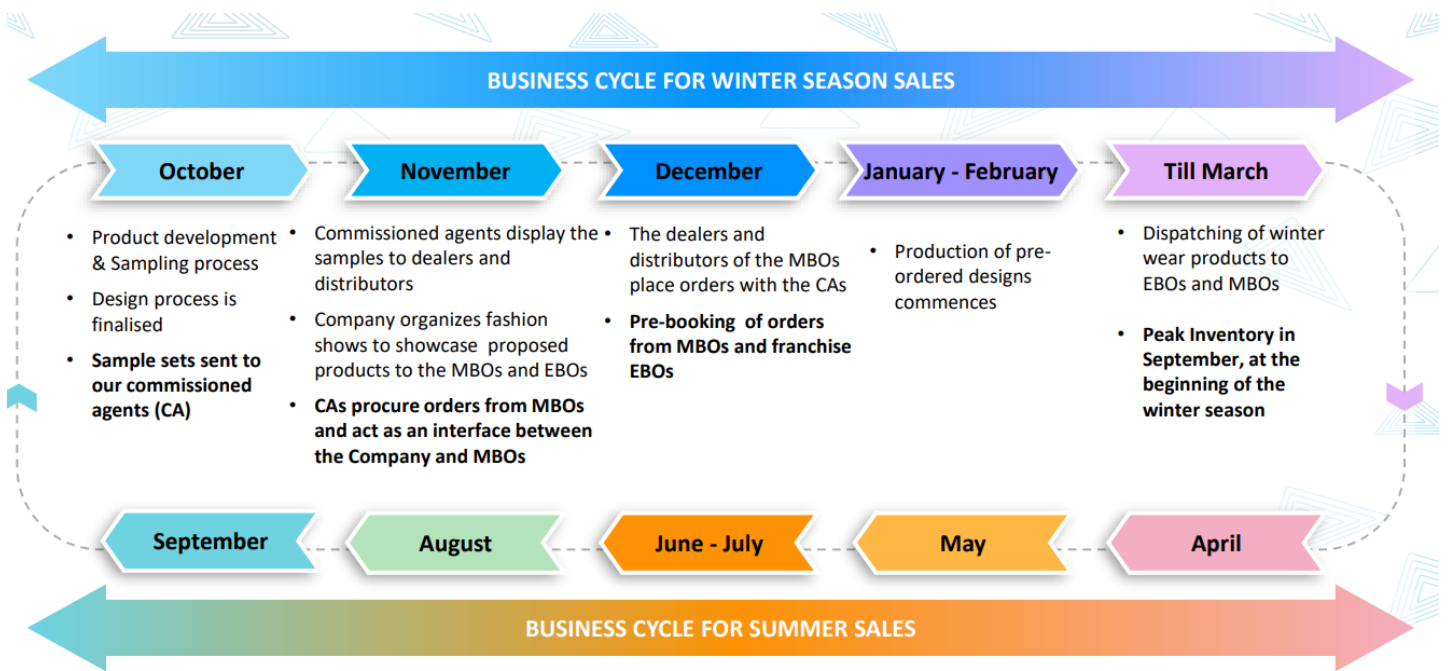
# MANUFACTURING FACILITIES

- Unit-1 (Sweater Division), Ludhiana
- Unit-2 (Woven Division), Ludhiana
- Unit-4 (Textile Division), Ludhiana

## TECHNOLOGY UPGRADATION

To meet the standards of technology up-gradation and modernization, the Company has installed the automatic whole-garment state-of-art manufacturing facility at the existing Ludhiana unit. This technology can knit an entire piece which provides a seam free fit and comfort unmatched by any other knitwear. This helps in the elimination of multiple manufacturing processes, thereby reducing wastage and increasing efficiency. The Company currently has 30 professionals closely tracking the trending global fashion.

## BUSINESS CYCLE



# MARKETING INITIATIVES

The Company's products reach the end-user through different channels, i.e., through Exclusive Brand Outlets (EBOs) and Multi Brand Outlets (MBOs). Currently, Monte Carlo is available through more than 200 Exclusive Brand Outlets & over 1,500 Multi Brand Outlets. The Company has also featured as a Clothing partner in various Films and reality shows and even has strategic tie-ups with various Airlines and Multiplexes. The Company appointed Andre Russell (Cricketer) as Monte Carlo's new brand ambassador to feature in brand campaigns endorsing the 'Rock It', India's premium fitness brand across the country.

**Proven track record in building brands in India**

Clothing partner for the blockbuster Bollywood films Saaho, Barfi, Mary Kom, Bhaag Milkha Bhaag, and Student of the Year

**TIE-UPS WITH NATIONAL CHAIN STORES**

**TIE-UPS WITH ONLINE PLATFORMS**

**STRATEGIC TIE-UPS with Theatres, Air Lines & Digital Platforms**

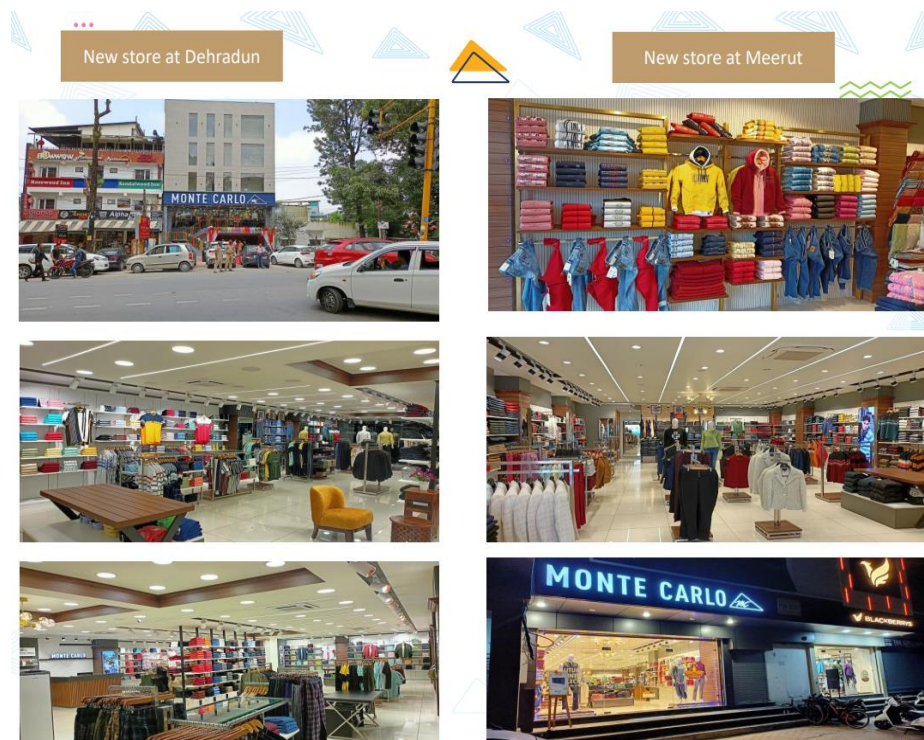
**DIGITAL**

**PRINT**

**OTHERS**

## STRENGTHS

- Monte Carlo is the **leading winterwear brand** in the Northern and Eastern parts of India and enjoys strong brand equity.
- Monte Carlo is able to **pass on prices to the consumers** as they have consistently maintained their gross profit margins. This shields MCFL from fluctuating raw material prices.
- MCFL is a **Low Net Debt** company, with their debt consisting mostly of Lease liabilities (Leased stores) in long term debt and they use short term borrowings to finance their working capital.
- The Company has featured as a Clothing partner in various Films and reality shows and even has strategic tie-ups with various Airlines and Multiplexes. The Company appointed Andre Russell (Cricketer) as Monte Carlo's new brand ambassador to feature in brand campaigns endorsing the 'Rock It', India's premium fitness brand across the country.
- MCFL's key strength is its **wide and growing distribution network** with a diversified presence across India. The Company has a presence through 336 Exclusive Brand Outlets, over 1900 Multi Brand Outlets and Distributors, 687 National Chain Stores, 325 Shop in Shops and Online retailers like Ajo, Amazon, Flipkart, First Cry, Myntra, Jabong and Kapsons.



- MCFL has a history of **rewarding its shareholders through dividends** and it has maintained consistency in paying out those dividends as their profits have grown. Average dividend payout ratio since 2015 stands at 26% with 2020 being an exceptional year where no dividend was paid.
- Its ability to maintain **high ROCE** consistently portrays **strong brand image** and management pedigree to execute growth without hurting its efficiency of returns.



# TRIGGERS

- **CAPACITY EXPANSION IN THE MMF (HOME TEXTILE) SEGMENT**

Board has approved the incorporation of a new subsidiary (Monte Carlo Home Furnishings) to make rugs and mink blankets for a total investment outlay of ₹350 crores throughout next 5 years with a revenue potential of ₹600 crores. Main aim is to drive exports of Rugs and Mink Blankets where the company is seeing huge opportunities due to China +1 strategy. The company has already been selected under the PLI scheme in MMF. First phase of this plant will be operational in Q3FY24 with a revenue potential ₹160 crores and capital outlay of 80 crores. MCFL currently trades in mink blankets but is dependent on China for its supply. **It will be expanding their existing operating margins from 15% previously to 20% once the manufacturing facility commences.** Home textiles have been a fast-growing segment for MCFL. The new plant will be opened up in the state of J&K. The benefits of setting up a plant in J&K are capital investment incentives, capital interest subvention, GST-linked incentives, a low rate of electricity, and other tax exemptions.

- **EXPANDING EBO NETWORK TO DRIVE GROWTH IN THE CORE BUSINESS**

MCFL plans to strongly grow its store network with 80% of their new stores coming up in the northern and eastern parts of India, 10% in central region of India and the remaining 10% will be opened up in southern and eastern parts of India. The growth plan mainly consists of expanding their EBO network under the franchisee model, this will pass on the inventory risk from the company to the franchisee as the number of franchisees grow. **The Company revised its guidance to open 40 to 45 stores in this FY, from 30 stores.**

- **DIVERSIFICATION IN THE LONG RUN TO REDUCE SEASONALITY**

Today, Monte Carlo Fashions has diversified across different product categories such as Cotton, Woolen, Kids and Home Furnishing. It has a comprehensive product and brand portfolio catering to varied segments such as kids, youth, middle and seniors. Management is focusing on improving its summer offerings over time to reduce the seasonality and dependency on winters. Cotton has already been contributing majorly but cotton offerings are mostly winterwear offerings, this is expected to change structurally in the long term.

- **NORMALISING MACRO BUSINESS ENVIRONMENT IN INDIA FOR TEXTILE/FASHIONS INDUSTRY AND INCREASED TRAVEL COUPLED WITH AIRLINE TRAFFIC RECOVERY**

Textiles industry suffered its first blow during demonetization, during this period company showed slow growth in its revenues. Implementation of GST in 2016/17 came as significant blow to the company and its growth plans which affected its revenue growth negatively in that year, finally when it started showing some strength in growth COVID hit the Global economy drastically. Despite of these challenges MCFL grew strongly post COVID and registered a 50% y-o-y revenue growth in FY22. Increased travelling and higher discretionary spending by consumers should aid MCFL to continue on this momentum of 20% CAGR in topline , sustainably driven by store expansion and in the longer run, capacity expansion in the home textiles segment.

Indian airports across the country handled 275 million passengers in 2019-20, but the following years saw a significant dip in air travellers due to the Covid-19 pandemic, the government data shows. Total domestic passengers in 2020-21 had declined by 61.7% to 105 million. The following year, 58.55% growth was seen as 167 passengers across domestic airports. In 2022-23 till October, 147 million domestic passengers have already travelled, 96.5% growth over the same period last year, Gen (Dr) VK Singh (Retd) said in a written reply in the Lok Sabha today.

Source: Fortune India

## RISKS

- **Seasonality:** MCFL is a winterwear brand and so are its offerings. This makes the business dependent on severity of winters. If winters do not turn out to be severe enough their growth in sales is impacted and it also causes inventory pileup which reduces subsequent orders from dealers.
- **Geographical concentration:** Sales in northern and eastern parts of India contribute majorly to its sales. Climatic disruptions in those regions can affect MCFL's revenues. Also, their future growth plan relies on expanding in these regions, which further increases their geographical risk.
- **Low advertisement spends:** MCFL has planned to keep advertising costs range bound at 2% to 3% which is low for a brand that wants to grow. The company has not been focusing on advertising through brand ambassadors, they have a localized approach which has its own strengths. One of the growth legs of a brand is its marketing spends which is very low for Monte Carlo.
- **Outsourced manufacturing:** The company has control over woolen manufacturing which forms only 25% of its revenues. Majority of cotton products and home textiles are outsourced and some are manufactured in-house, this makes MCFL susceptible to price rises and at some point they might find it difficult to pass on these prices.
- **Generic manufacturing:** Manufacturers of MCFL do not have agreements in place to manufacture exclusively for Monte Carlo. This reduces the exclusivity of brand as the similar quality products might go around in the market under different brands.
- **Following the competitor:** Fashion industry is a price sensitive industry, if competitors are offering deep discounts, Monte Carlo is forced to follow suit and gives up on its pricing power in order to grow and maintain market share.
- **Socio-political risk:** Its new capacity of mink blankets is coming up in J&K. J&K is a politically sensitive region which may affect the operationality of the new facility.

## CHANNEL CHECKS BY KAMAYAKYA

- Share of winter wear is 60% and summer wear is 40%, specifically for Pune.
- Strong emphasis on good growth this year and consistent growth in coming years. Also, strong emphasis on no competition in winter wear(woollen).
- Cotton offerings have a lot of competition.
- Return policy – Company has no return policy; Only defective items are returned with a credit note or full cash return.
- Trade receivables policy – company allows 15 days or 45 days for credit sales. Every additional day in delay, the company charges interest on the receivable.
- Advertisements - company has tie ups with theatres and puts up advertisement hoardings, with a more localized approach.
- They have Marino Wool and their wool mark is apparently better than their competitor. And their competitor makes premium woollen sweaters which are priced higher than Rs 25,000 per sweater.
- As per Franchise Owners, Management needs to work on pitching and justifying why their product is better than others, which requires more marketing.
- Since Company has a sort off monopoly in the space, store manager was very confident on growth and has seen increased footfall from last year same time. So, the company will be able to grow at high rates in coming future. Expects Q3FY23 to be better than Q3FY22.
- **SOCIAL MEDIA PRESENCE**

Platform	Followers
Instagram	18,300
Facebook	1.14 million
Youtube	6,160

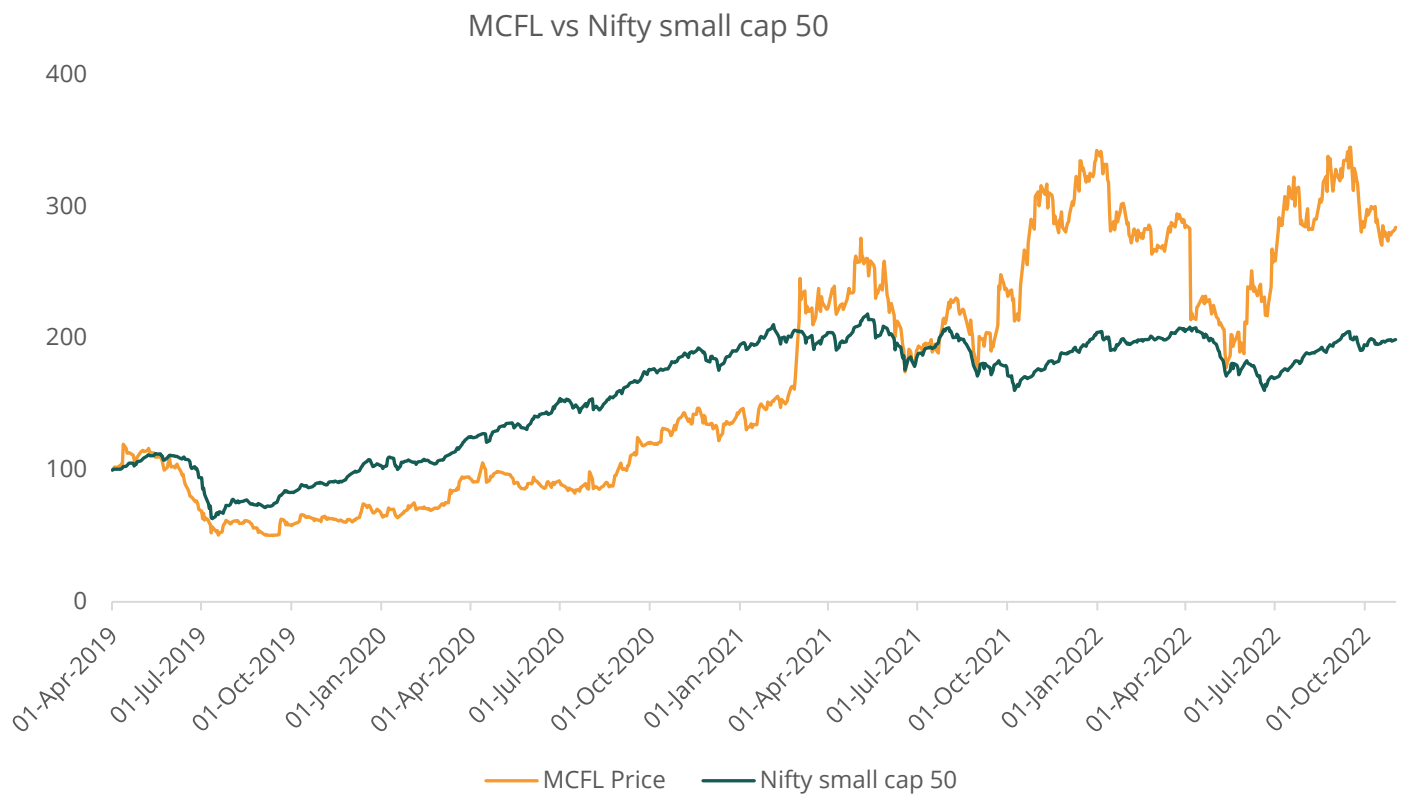
## SHAREHOLDING PATTERN

- **Promoter holding- 73.17% (September 2022)**

It has consistently gone up from 67.91% in December 2019 to 73.17% in September 2022.

- FII- 2.93%
- DII-0.65%
- Public- 23.25%

## PRICE HISTORY AND PERFORMANCE





# FINANCIALS

- FINANCIAL HIGHLIGHTS (STANDALONE)

## 1. PROFIT AND LOSS STATEMENT

(All figures are in crores unless mentioned otherwise)

P & L	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Sales	373.01	402.41	503.10	582.58	621.53	578.45	575.95	656.37	725.61	622.02	904.32
Total Expenditure	286.93	335.70	410.39	459.60	502.15	501.19	462.80	558.03	601.19	506.46	724.30
Gross Profit	191.47	193.12	242.72	290.32	309.73	250.53	283.74	311.98	342.48	291.03	436.52
GPM (%)	47.95	45.75	48.24	49.83	49.80	42.80	49.23	43.42	42.71	42.42	43.74
EBITDA	89.31	78.76	107.88	141.93	135.61	101.20	130.93	116.57	135.94	135.73	205.51
EBITDAM (%)	22.37	18.66	21.44	24.36	21.80	17.29	22.72	16.22	16.95	19.78	20.59
EBIT	83.36	71.94	91.67	108.52	106.34	76.46	109.97	97.47	102.54	101.53	168.26
EBITM (%)	22.35	17.88	18.22	18.63	17.11	13.22	19.09	14.85	14.13	16.32	18.61
PBT	76.83	68.26	82.35	91.45	90.10	64.71	102.25	88.53	85.53	88.02	152.58
PAT	51.92	45.94	54.40	59.77	58.94	44.16	67.91	59.60	62.69	66.30	114.04
PATM (%)	13.00	10.88	10.81	10.26	9.48	7.54	11.78	8.29	7.82	9.66	11.43

Source- Ace Equity, KamayaKya research

## 2. FUND FLOW ANALYSIS

Sources of Funds	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Profit	57.87	52.76	70.61	93.17	88.21	68.89	88.88	78.70	96.09	100.50	151.29
Equity Paid Up	18.86	21.73	21.73	21.73	21.73	21.73	21.73	20.73	20.73	20.73	20.73
Reserves & Surplus	135.85	303.92	358.32	391.64	424.33	474.16	489.68	462.99	524.44	583.36	666.63
Net Worth	154.71	325.65	380.05	413.38	446.06	495.89	511.42	483.72	545.17	604.09	687.36
Total Debt	64.39	88.90	118.02	128.74	98.49	65.43	55.72	47.52	36.36	34.81	68.42
Capital Employed	219.09	414.55	498.08	542.11	544.55	561.32	567.14	531.24	581.53	638.90	755.78
Application of Funds	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Gross Block	100.27	163.33	241.24	288.59	299.35	323.04	335.15	340.29	451.66	477.17	511.25
Investments	0.00	40.00	50.00	47.96	49.96	117.07	128.33	137.53	133.65	177.52	167.77
Cash and Bank balance	1.30	107.05	82.15	117.85	70.82	25.97	18.12	34.91	12.77	40.85	70.92
Net Current Assets	120.44	243.56	200.87	271.20	270.69	307.47	321.30	296.20	354.73	450.07	483.06
Total Current Liabilities	72.49	100.41	165.72	253.99	313.88	179.91	182.24	273.09	258.61	229.18	326.42
Total Assets	278.13	486.79	673.83	740.42	798.80	699.85	709.75	781.22	902.52	927.48	1108.93

Source- Ace Equity, KamayaKya research

### 3. CASH FLOW STATEMENT

Cash Flow	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Flow from Operations	-11.72	69.58	64.69	23.45	44.82	85.10	23.87	125.50	36.55	112.11	70.65
Cash Flow from Investing activities	-32.70	196.13	85.00	17.54	26.64	13.15	20.53	9.55	30.34	-82.20	-48.39
Cash Flow from Finance activities	45.69	127.13	19.61	-5.62	71.49	72.05	43.57	103.92	37.52	-30.81	-22.39
Free Cash flow	-54.38	-25.47	-1.09	25.39	32.15	70.42	17.33	112.49	2.85	86.68	40.87

Source- Ace Equity, KamayaKya research

#### • QUARTERLY PROFIT & LOSS STATEMENT

P & L	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23
<b>Net Sales</b>	109.47	11.18	98.25	403.83	108.76	41.70	238.29	461.87	162.47	112.87	248.58
COGS	59.06	0.71	38.89	234.92	56.48	6.41	117.18	267.80	76.41	46.43	112.76
<b>Gross Profit</b>	50.41	10.48	59.36	168.90	52.29	35.29	121.11	194.07	86.06	66.44	135.82
<b>GPM (%)</b>	46.05	93.69	60.42	41.83	48.07	84.62	50.82	42.02	52.97	58.87	54.64
<b>Operating Costs</b>	50.33	24.81	44.39	51.00	53.57	43.94	68.42	78.61	63.74	62.06	85.05
<b>Misc. Expenses</b>	0.00	0.00	0.00	1.70	0.00	0.00	0.00	1.79	0.00	0.00	0.00
<b>EBITDA</b>	0.08	-14.33	14.98	116.20	-1.28	-8.65	52.69	113.67	22.32	4.38	50.77
<b>EBDTAM (%)</b>	0.07	128.19	15.24	28.77	-1.18	-20.74	22.11	24.61	13.74	3.88	20.42
Depreciation	8.95	7.91	8.73	8.71	8.86	7.95	9.12	10.22	9.97	9.16	9.39
<b>EBIT</b>	-8.88	-22.24	6.25	107.49	-10.14	-16.60	43.57	103.45	12.35	-4.77	41.38
<b>EBDTM</b>	-8.11	198.91	6.36	26.62	-9.32	-39.80	18.28	22.40	7.60	-4.23	16.65
Other Income	1.02	5.61	4.48	3.93	6.15	6.60	5.64	4.95	8.30	3.23	4.01
<b>Other Income</b>	1.02	5.61	4.48	3.93	6.15	6.60	5.64	4.95	8.30	3.23	4.01
Interest	3.31	3.01	3.53	3.54	3.44	2.85	4.34	4.28	4.22	3.79	5.48
<b>EBT</b>	-11.17	-19.63	7.20	107.88	-7.43	-12.85	44.87	104.12	16.43	-5.34	39.91
<b>EBTM (%)</b>	-10.20	175.60	7.33	26.71	-6.83	-30.81	18.83	22.54	10.12	-4.73	16.06
Tax	-0.95	-6.10	2.78	28.52	-3.47	-2.67	10.96	26.67	3.58	-1.42	9.59
<b>Profit after tax</b>	-10.22	-13.53	4.42	79.36	-3.96	-10.18	33.91	77.45	12.85	-3.92	30.32
<b>PATM (%)</b>	-9.34	121.02	4.50	19.65	-3.64	-24.42	14.23	16.77	7.91	-3.47	12.20

Source- Ace Equity, KamayaKya research

• **QUARTERLY PROFIT & LOSS ANALYSIS**

Particulars	Q2FY23	Q1FY23	QOQ	Q2FY22	YOY
<b>Net Sales</b>	<b>248.6</b>	<b>112.9</b>	120.24%	<b>238.3</b>	4.32%
(Increase) / Decrease In Stocks	-123.9	-48.4	155.93%	-87.3	42.04%
Cost of Services & Raw Materials	120.0	73.7	62.72%	76.3	57.24%
Purchase of Finished Goods	116.7	21.1	452.48%	128.2	-8.90%
COGS	112.8	46.4	142.88%	117.2	-3.77%
<b>Gross Profit</b>	<b>135.8</b>	<b>66.4</b>	104.42%	<b>121.1</b>	12.15%
<b>GPM</b>	<b>54.6</b>	<b>58.9</b>		<b>50.8</b>	
Operating & Manufacturing Expenses	49.5	36.6	35.21%	45.3	9.23%
Employee Cost	22.6	20.9	8.11%	19.5	15.94%
<b>Operating Costs</b>	<b>85.1</b>	<b>62.1</b>	37.05%	<b>68.4</b>	24.31%
<b>EBITDA</b>	<b>50.8</b>	<b>4.4</b>	1058.07%	<b>52.7</b>	-3.64%
<b>EBDTAM</b>	<b>20.4</b>	<b>3.9</b>		<b>22.1</b>	
Depreciation	9.4	9.2	2.56%	9.1	2.96%
<b>EBIT</b>	<b>41.4</b>	<b>-4.8</b>	-967.14%	<b>43.6</b>	-5.03%
<b>EBDTM</b>	<b>16.6</b>	<b>-4.2</b>		<b>18.3</b>	-8.96%
Other Income	4.0	3.2	24.30%	5.6	-28.90%
Profit On Sale Of Assets	0.0	0.0		0.0	
<b>Other Income</b>	<b>4.0</b>	<b>3.2</b>	24.30%	<b>5.6</b>	-28.90%
Interest	5.5	3.8	44.51%	4.3	26.27%
<b>EBT</b>	<b>39.9</b>	<b>-5.3</b>	-847.66%	<b>44.9</b>	-11.05%
<b>EBTM</b>	<b>16.1</b>	<b>-4.7</b>		<b>18.8</b>	
Tax	9.6	-1.4	-776.30%	11.0	-12.50%
<b>Profit after tax</b>	<b>30.3</b>	<b>-3.9</b>	-873.47%	<b>33.9</b>	-10.59%
<b>PATM</b>	<b>12.2</b>	<b>-3.5</b>		<b>14.2</b>	

Source- Ace Equity, KamayaKya research

## • RATIO ANALYSIS

Financial ratios	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Earnings Per Share (Rs)	27.53	21.14	25.03	27.5	27.12	20.32	31.25	28.75	30.24	31.98	55
Adjusted EPS (Rs.)	27.53	21.14	25.03	27.5	27.12	20.32	31.25	28.75	30.24	31.98	55
CEPS(Rs)	30.68	24.28	32.49	42.87	40.59	31.7	40.9	37.96	46.35	48.47	72.97
DPS(Rs)	0	0	0	10	10	10	12	0	5	15	20
Adj DPS(Rs)	0	0	0	10	10	10	12	0	5	15	20
Book Value (Rs)	82.04	149.8	174.9	190.2	205.3	228.2	235.3	233.3	263	291.4	331.5
Adjusted Book Value (Rs)	82.04	149.8	174.9	190.2	205.3	228.2	235.3	233.3	263	291.4	331.5
Tax Rate(%)	32.43	32.7	33.94	34.64	34.59	31.77	33.58	32.68	26.7	24.68	25.26
Dividend Pay Out Ratio(%)	0	0	0	36.36	36.87	49.22	38.4	0	16.54	46.91	36.36
GPM (%)	47.95	45.75	48.24	49.83	49.8	42.8	49.23	43.42	42.71	42.42	43.74
EBIDTM (%)	22.37	18.66	21.44	24.36	21.8	17.29	22.72	16.22	16.95	19.78	20.59
EBITM (%)	20.88	17.04	18.22	18.63	17.1	13.06	19.08	13.57	12.79	14.8	16.86
Pre Tax Margin(%)	19.24	16.17	16.37	15.7	14.49	11.05	17.74	12.32	10.67	12.83	15.29
PATM (%)	13	10.88	10.81	10.26	9.477	7.543	11.78	8.294	7.817	9.663	11.43
CPM(%)	14.49	12.5	14.04	15.99	14.18	11.77	15.42	10.95	11.98	14.65	15.16
ROA (%)	37.31	12.01	9.375	8.452	7.658	5.893	9.636	7.994	7.447	7.245	11.2
ROE (%)	67.1	19.13	15.42	15.07	13.72	9.376	13.48	11.98	12.19	11.54	17.66
ROCE (%)	76.08	22.71	20.09	20.87	19.57	13.83	19.49	17.75	18.43	16.64	24.13

Efficiency ratios	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Turnover(x)	2.87	1.104	0.867	0.824	0.808	0.781	0.818	0.964	0.953	0.75	0.98
Inventory Turnover(x)	3.58	3.83	4.046	3.597	3.065	2.763	3.07	3.941	3.937	3.285	4.068
Debtors Turnover(x)	5.447	5.704	6.16	5.582	4.576	3.928	3.428	3.507	3.398	2.849	4.035
Fixed Asset Turnover (x)	3.983	3.203	2.487	2.199	2.116	1.881	1.751	2.128	2.025	1.477	2.019
Sales(x)/Working Capital	3.315	1.733	2.505	2.148	2.298	1.904	1.794	2.426	2.261	1.524	2.066
Fixed Capital/Sales(x)	0.251	0.312	0.402	0.455	0.473	0.532	0.571	0.47	0.494	0.677	0.495
Receivable days	67.01	63.99	59.25	65.39	79.76	92.91	106.5	104.1	107.4	128.1	90.45
Inventory Days	102	95.3	90.22	101.5	119.1	132.1	118.9	92.62	92.7	111.1	89.72
Payable days	36.59	67.07	87.4	103.6	110.1	116.7	133.3	129.7	143.8	168.8	111.7
Cash conversion cycle	132.4	92.22	62.08	63.3	88.7	108.3	92.05	67.03	56.31	70.47	68.43

Growth Ratios	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Sales											
Growth(%)	0	7.883	25.02	15.8	6.686	-6.931	-0.434	13.96	10.55	-14.28	45.39
Core EBITDA											
Growth(%)	0	-11.81	36.97	31.56	-4.448	-25.38	29.38	-10.96	16.61	-0.156	51.41
EBIT Growth(%)	0	-13.7	27.42	18.39	-2.009	-28.1	43.83	-11.36	5.196	-0.983	65.72
PAT Growth(%)	0	-11.51	18.42	9.863	-1.39	-25.08	53.8	-12.25	5.192	5.752	72.01
Adj. EPS											
Growth(%)	0	-23.21	18.42	9.863	-1.39	-25.08	53.81	-8.016	5.192	5.752	72.01

Liquidity ratio	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current Ratio(x)	2.662	3.426	2.212	2.068	1.862	2.709	2.763	2.085	2.372	2.964	2.48
Quick Ratio(x)	1.123	2.341	1.368	1.343	1.156	1.586	1.811	1.385	1.536	2.084	1.594

Solvency ratio	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Debt/Equity(x)	0.416	0.273	0.311	0.311	0.221	0.132	0.109	0.098	0.067	0.058	0.1
Interest Cover(x)	12.76	19.52	9.837	6.355	6.548	6.509	14.25	10.9	6.028	7.515	10.73
Total Debt/Mcap(x)	0	0	0	0.124	0.13	0.073	0.055	0.06	0.13	0.075	0.068

Valuation ratios	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Adjusted PE (x)	0	0	0	17.42	12.89	20.23	14.96	12.69	4.45	7.044	8.809
PCE(x)	0	0	0	11.17	8.613	12.97	11.43	9.607	2.903	4.647	6.64
Price / Book Value(x)	0	0	0	2.518	1.703	1.801	1.987	1.563	0.512	0.773	1.462
Dividend Yield(%)	0	0	0	2.088	2.86	2.433	2.566	0	3.716	6.659	4.128
EV/Net Sales(x)	0.22	0.009	0.115	1.806	1.267	1.612	1.83	1.171	0.417	0.741	1.108
EV/EBITDA(x)	0.917	0.045	0.534	7.411	5.806	9.217	8.049	6.593	2.225	3.396	4.876
EV/EBIT(x)	0.983	0.05	0.628	9.692	7.405	12.2	9.584	7.885	2.95	4.54	5.956
EV/CE(x)	0.295	0.007	0.085	1.421	0.986	1.333	1.485	0.984	0.335	0.497	0.904
M Cap / Sales	0	0	0	1.787	1.222	1.544	1.765	1.152	0.384	0.751	1.111

Cash Flow ratios	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Flow Per share	-6.214	32.02	29.77	10.79	20.63	39.16	10.98	60.54	17.63	54.08	34.08
Price to Cash Flow Ratio	0	0	0	44.4	16.95	10.5	42.58	6.024	7.631	4.166	14.22
Free Cash Flow per Share	-28.84	-11.72	-0.502	-11.68	14.8	32.41	7.974	54.26	1.374	41.81	19.72
Price to Free Cash Flow	0	0	0	-40.99	23.63	12.68	58.65	6.72	97.93	5.388	24.58
Free Cash Flow Yield	0	0	0	-0.024	0.042	0.079	0.017	0.149	0.01	0.186	0.041
Sales to cash flow ratios	-31.83	5.784	7.777	24.85	13.87	6.797	24.13	5.23	19.85	5.548	12.8

Du Pont analysis	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
PATM (%)	13	10.88	10.81	10.26	9.477	7.543	11.78	8.294	7.817	9.663	11.43
Sales / Total Assets(x)	2.87	1.104	0.867	0.824	0.808	0.781	0.818	0.964	0.953	0.75	0.98
Assets to Equity (x)	1.798	1.592	1.645	1.782	1.791	1.591	1.399	1.498	1.636	1.592	1.577
ROE (%)	67.1	19.13	15.42	15.07	13.72	9.376	13.48	11.98	12.19	11.54	17.66

Source- Ace Equity, KamayaKya research

## Financial Shenanigans

Year	2018	2019	2020	2021	2022	CAGR	Remark
Net Sales	575.95	656.37	725.61	622.02	904.32	9%	Grown slower than sales
Trade Receivables	189.97	219.85	252.17	229.50	265.13	7%	
Trade Receivables as % of sales	33%	33%	35%	37%	29%	-2%	
Inventories	173.54	191.16	216.18	201.54	289.08	11%	Grown slower than sales
Contingent Liabilities	0.69	0.04	0.04	0.00	0.00		Negligible
Equity	511.42	483.72	545.17	604.09	687.36		
Contingent Liabilities as % of equity	0.00	0.00	0.00	0.00	0.00		
Director's remuneration	3.56	2.58	5.04	6.86	11.98	27%	Remuneration as % of Net profit has increased
PAT	67.91	59.60	62.69	66.30	114.04	11%	
Director's remuneration as % of PAT	5%	4%	8%	10%	11%		
Auditor fees	0.27	0.27	0.32	0.32	0.32		Negligible
Auditor fees as % of sales	0%	0%	0%	0%	0%		

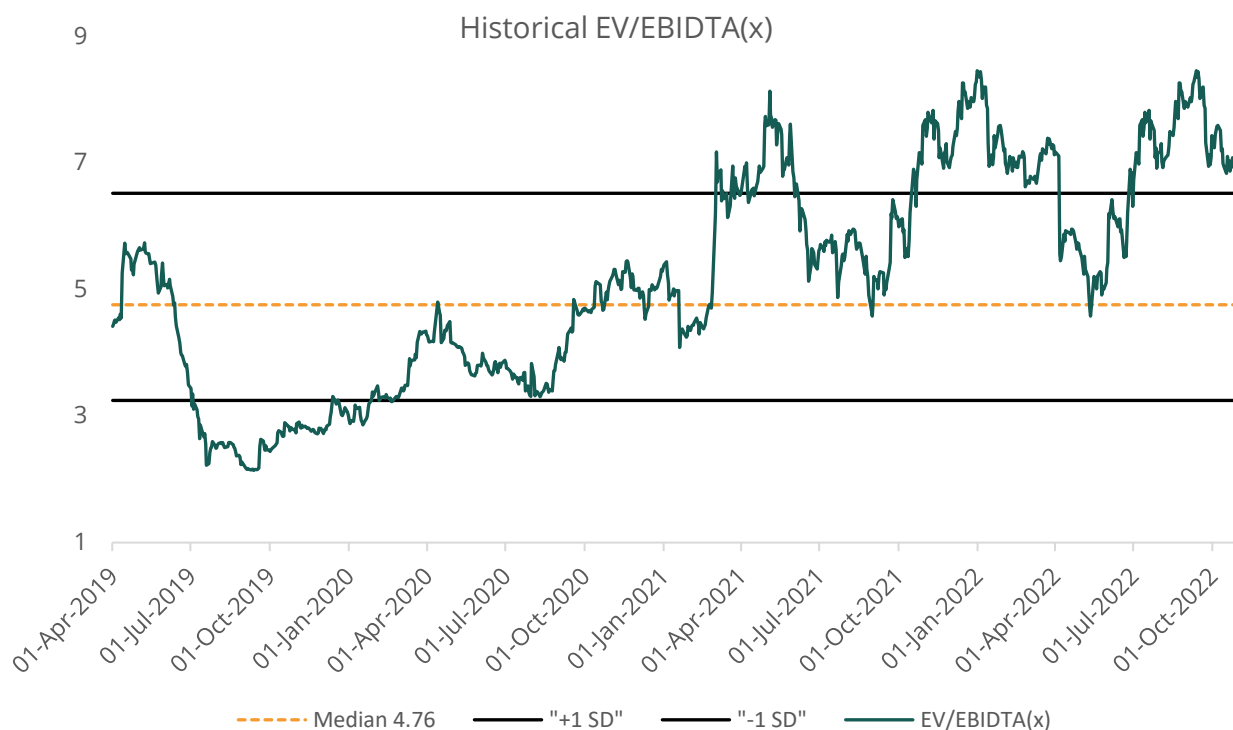
# VALUATIONS

(All figures are in crores unless mentioned otherwise)

Income statement	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	575.95	656.37	725.61	622.02	904.32	1085.19	1302.22
Total Expenditure	462.80	558.03	601.19	506.46	724.30	876.37	1051.64
EBITDA	130.93	116.57	135.94	135.73	205.51	206.19	247.42
EBITDAM (%)	22.72	16.22	16.95	19.78	20.59	19.00	19.00
EBIT	109.97	97.47	102.54	101.53	168.26	189.52	227.43
EBITM (%)	19.09	14.85	14.13	16.32	18.61	17.46	17.46
PAT	67.91	59.60	62.69	66.30	114.04	106.31	127.58
PATM(%)	11.78	8.29	7.82	9.66	11.43	9.80	9.80

Source- Ace equity, KamayaKya research

Expected EV/EBITDA	7.4
Enterprise value	1748
Net Debt	232
Expected M-cap	1789
Target price	871.38
Current M-cap	1505
Current price	726.15
Upside	18%
Expected Dividend Yield	2%
Total Upside Potential	20%



- Going forward, we estimate a 20% CAGR revenue, over FY22-24E. We expect MCFL to post 9.80% PAT margin during FY22-24E. Currently, MCFL is trading at a 8.69x EV/EBITDA multiple (FY22), we assign a Forward EV/EBITDA multiple of 7.4x as of Dec 2022. We arrive at a target of Rs. 872, an upside of 20% from ₹727, which includes an assumption of 2% dividend yield as the company has a regular dividend policy for shareholders. We believe that said upside potential can be achieved within 12 months.



# BIBLIOGRAPHY

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- KamayaKya research
- MCFL Annual reports since listing
- MCFL Investor presentations since listing
- MCFL Earning conference call transcripts since listing
- MCFL website
- MCFL – Notifications to BSE
- IBEF website

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**Compliance Officer:**

Aniket Kulkarni

E-mail Address: [aniket@kamayakya.com](mailto:aniket@kamayakya.com)

Phone Number: +91-9175939641



[contact@kamayakya.com](mailto:contact@kamayakya.com)

[www.kamayakya.com](http://www.kamayakya.com)

