

06 January, 2025

PICK OF THE MONTH

VOL-11, NO-01

Industry: Industrial Products

Lloyds Engineering Works Limited

BUY

CMP: Rs.85

TARGET PRICE: Rs.105

TIME : 12 months

Incorporated in 1994, Lloyds Engineering Works Ltd (LEWL), (earlier known as Lloyds Steels Industries Ltd) is a completely customised process plant equipment provider with offerings including all from engineering and infrastructure solution packages by carrying out design, engineering, manufacturing, fabrication, and installation.

LEWL products cover various categories in heavy equipment, machinery and systems for the carbon sector, oil & gas, steel plant equipments, power plants, nuclear plant boilers and turnkey projects. Its facilities have been approved by various authorities like Industrial Boiler Regulatory Authority, SGS UK, Petroleum and Explosives Safety Organisation etc. The company has state-of-the-art manufacturing facilities at Murbad, Thane, headquartered in Mumbai. The single location of the plant with centralized raw material procurement system, with all workshops adjacent to each other helps in better absorption of overhead costs; as shared infrastructure brings agility in the execution of projects.

We **initiate coverage** on LEWL with a **BUY** rating for a TP of Rs105 implying an upside of ~23%. LEWL is well equipped to capitalize on the opportunities that are emerging across the different sectors/industries that the company caters to.

Growth through latest tie-ups: In Oct, 2024; the company has signed an MoU to acquire the **engineering assets of Bhilai Engineering Corporation Ltd (BECL)**; a key player in providing engineering solutions across various industries. It is complementary to LEWL's existing product lines, enhancing its overall production capabilities. The company has also acquired **~77% of Techno Industries Pvt. Ltd (TI)**, for Rs1.75bn on 15th October, 2024; marking its strategic entry into the fast-growing electrical engineering sector. It is the only elevator company in Gujarat having such a big set up and with ~16% market share. LEWL also intends to extend its stake further to 100% in three years on pre-agreed terms.

Order Book Positioning: LEWL has been gradually increasing its order book positioning. As a matter of prudence, the company has maintained an order book-to-revenue ratio of 1.45x, protecting it from the prospect of overburdening and under-delivery. The order book as of 30th September 2024, stood at Rs13658.6mn (addition of Rs8091.2mn worth of orders in H1FY25) as against Rs9043.2mn as on 1st April 2024.

Sectoral Presence: Most the key segments of the economy are catered by LEWL; which also reduces its concentration risks. The company has developed a host of capabilities to deliver superior and customised solutions to its clients across the different segments.

SNAPSHOT	
52 week H/L	Mcap (INR mn)
93/42	99,220
Face value: 1	
BSE Code	NSE CODE
539992	LLOYDSENGG

Shareholding Pattern as on 15th Oct, 2024		
Parameters	No of Shares	%
Promoters	655,294,195	56.3
Institutions/MF	27,460,623	2.3
Public	479,480,308	41.2
TOTAL	1,162,235,126	100.0

Quarterly Performance				
Parameters (Rs mn)	Dec-23	Mar-24	Jun-24	Sept-24
Sales (Net)	2,014	1,879	1,354	2,121
EBITDA	357	268	252	318
EBITDA (%)	17.7	14.2	18.6	15.0
Other Income	12	30	18	58
Interest	7	13	13	17
Depreciation	11	15	20	21
PAT	271	211	212	279
Equity (Rs mn)	1,079	1,145	1,145	1,145

Source: Annual Report, Progressive Research

Annual Performance				
(Rs mn)	FY22	FY23	FY24	FY25E
Total Revenue	501	3,126	6,242	8,034
EBITDA	47	522	1,010	1,366
EBITDA (%)	9.4	16.7	16.2	17.0
Other Income	98	58	74	94
Interest	10	39	42	54
Depreciation	13	24	40	85
PBT	121	517	1,002	1,321
PAT	59	368	798	1,070
Equity (Rs mn)	899	989	1,145	1,162
EPS (INR)	0.1	0.4	0.7	1.0

Ratio Analysis				
Parameters (Rs mn)	FY22	FY23	FY24	FY25E
EV/EBITDA (x)	-	190.6	97.6	72.2
EV/Net Sales (x)	197.9	31.9	15.8	12.3
M Cap/Sales (x)	198.1	31.7	15.9	12.4
M Cap/EBITDA (x)	-	189.9	98.2	72.6
Debt/Equity (x)	0.2	0.3	0.2	0.1
ROCE (%)	9.3	30.4	32.8	29.1
Price/Book Value (x)	56.7	43.2	23.8	19.8
P/E (x) (TTM)	-	60.5	61.0	92.7

Note: Data calculated as on 03rd January, 2025

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Industry Overview: The **global engineering services** market size is estimated at USD3.26tn in 2023 and is growing at a CAGR of ~5.5% from 2024 to 2030 (as per market reports). Growth across the engineering services market is attributed to the sustained growth across developed/developing nations led by the growing infra development, technological expansions catering to the need for sustainable solutions. The key drivers include adopting automation, artificial intelligence (AI), and Internet of Things (IoT), which helps enhance productivity and efficiency. Rapid urbanization, government investments in infrastructure and the push for eco-friendly practices due to stringent environmental regulations are also propelling the market. In addition, globalization, the trend of outsourcing services, and the rise of industry 4.0 and smart manufacturing are expanding market opportunities. India's **engineering services market** was valued at USD65.3bn in 2023 and expected to reach USD88.77bn by 2028, growing at a CAGR of ~6.4% during the forecast period (as per LEWL Annual Report 2024). Engineering is the largest industrial sector in India, accounting for ~27% of the total factories in the industrial sector and represents ~63% of the foreign collaborations. The demand for engineering sector services is driven by capacity expansions across industries like infrastructure, electricity, mining, oil & gas, refinery, steel, automobiles and consumer durables to mention a few. India's engineering goods are exported to key markets like the US, Europe and China. Engineering exports in FY24 rose to USD109.31bn from USD107.04bn in FY23, registering a growth of ~2.1%. North America and the European Union (EU) remained India's top destinations for engineering exports with a share of ~20% and ~19% respectively (as per LEWL Annual Report 2024).

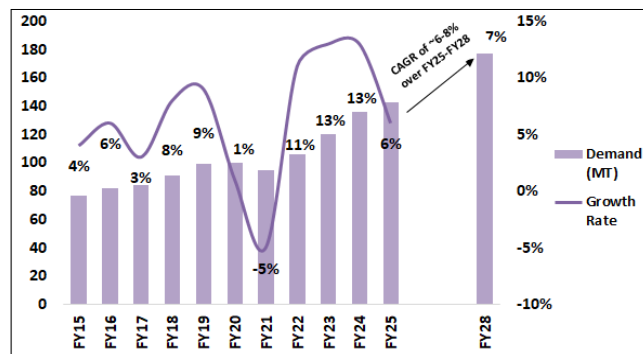
Growth Drivers: **Urbanization**, has led to increasing demand for sustainable and modern infrastructure in cities which includes development of smart cities, urban transport networks like metro rail services and green infrastructure. **Major projects** like Bharatmala, Sagarmala and the DFCs are towards upgrading transportation; and their initiatives are providing business opportunities for project development, operations and logistics. The budgetary allocation has been granted by the GOI towards infrastructure capex (Rs10lk-cr in 2023-24 budget). **Investment in engineering R&D** sector is expected to reach USD6.3bn by 2025. India's engineering R&D landscape comprises of Global Capability Centres (GCCs), Engineering Service Providers (ESPs), start-ups and India-based manufacturing companies. There is rapid adoption of **advance technologies** as modern construction, design and engineering projects have become complex and require engineers for essential inputs from vivid background along with advance technologies like AI, IoT and IT solutions such as engineering analytics (as per IBEF Report).

Focus Industries:

Steel: The India steel market (2nd largest producer of crude steel) size stood at 135.81MT in 2024 and is expected to reach 209.93MT by 2029, growing at a CAGR of ~9.2% during 2024-2029 (as per Mordor Intelligence Report). The domestic steel demand grew at a healthy CAGR of ~6.6% between FY20-24 despite the pandemic impact. Rapid recovery due to pent-up demand and increased government spending on infra and related sectors led to three consecutive years of double digit demand growth {~11.4% in FY22, ~13.4% in FY23 and ~13.4% (provisional) in FY24}. Growth of the Indian steel industry market size is highly driven by the domestic availability of raw materials and govt.'s focus on accelerating infrastructural projects. As indicated in LEWL Annual Report 2024, as India industrialises, there will be a bigger urgency to plug the gap between the per capita steel consumption in India (estimated at ~90kg in FY24) and the global average (~219kg in FY24). While growth momentum is expected to slowdown in FY25 to ~5-6%, it should remain healthy at a CAGR of ~6-8% over FY25-28. The strong momentum of infrastructure is likely to continue, led by government spending, primarily across its flagship schemes such as PM Gati Shakti and the National Infrastructure Pipeline (NIP). There is a larger drive towards indigenising steel grades; steel makers are gearing up for large investments with PLI scheme supporting this growth. All the prospective investments would have a larger localised share with respect to critical equipment and components, as well as the engineering and manufacturing requirements for setting up plants. In view of the demand pull, India is likely to remain one of the fastest growing steel markets in the world. In this environment, steel companies will either expand or new companies will commission fresh capacity; expected to generate a growing appetite for specialised engineering competencies.

Nuclear Power: The Central Govt. has asked states to set up nuclear power plants to reduce the dependency on fossil fuels; leading to increased focus on clean energy. India currently has 24 nuclear power plants (as of Nov'24) in operation with the current power generation from nuclear plants at ~8GW. The GOI has initiated steps to increase nuclear power capacity from 8180MW to 22480MW by 2031-32 (as per PIB Govt. data). India aims to add 500GW of renewable energy to its grid by 2030 and be net zero carbon emission by 2070. The construction and commissioning of ten reactors (8000MW) is underway in Gujarat, Rajasthan, TN, Haryana, Karnataka and MP. GOI has also accorded in principle approval to set up a nuclear power plant in cooperation with the USA at Kovvada in Srikakulam, Andhra Pradesh. The govt. aims to build 11,000MW of new nuclear power generation capacity by 2040.

Exhibit 01: Steel Demand & Outlook



Source: Industry Reports, Progressive Research

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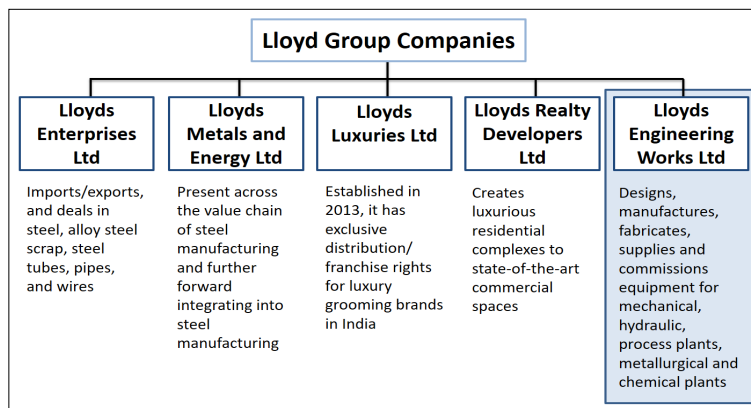
TIME : 12 months

Industry Overview (contd.):

Marine: Maritime Amrit Kaal Vision 2047 was launched in October 2023; major fillip to the blue economy. The long-term target for the Indian maritime sector includes strategic initiatives aimed at enhancing port facilities, promoting sustainable practices and facilitating international collaborations. In a major move towards achieving India's goal of becoming the 'Global Hub for Green Shipbuilding' by 2030; GRSE has signed an MoU in November 2023 with Shift Clean Energy, Seatech Solutions International and the American Bureau of Shipping, to develop electric tugs E-volt 50; which aims to reduce carbon emissions. The Ministry of Ports, Shipping and Waterways (MoPSW), under the Amrit Kaal Vision, has identified a total potential of 1,300MTPA of cargo movement through coastal shipping by 2047E. India plans to invest USD82bn in port projects by 2035E. The Sagarmala program is working towards port-led development with over 800 projects, estimated at Rs5.5lk-cr, slated for execution between 2015-2035E. **Oil & Gas:** As per IBEF Report, the oil demand in India is projected to register ~2x growth to 11 million barrels per day by 2045E. India's economic growth is closely related to its energy demand, therefore, the need for oil & gas is projected to increase, thereby making the sector quite conducive for investments. Diesel demand in India is expected to double to ~163MT by 2029-30, with diesel and gasoline covering ~58% of India's oil demand by 2045E. Consumption of natural gas in India is expected to grow by 25 billion cubic metres (BCM), registering an average annual growth of ~9% until 2024. According to the IEA (India Energy Outlook 2021), primary energy demand is expected to nearly double to 1,123 million tonnes of oil equivalent. The industry is expected to attract USD25bn investments in exploration and production. India is already a refining hub with 23 refineries and expansion is planned for tapping foreign investment in export-oriented infrastructure, including product pipelines and export terminals.

About the Company: Incorporated in 1994, Lloyds Engineering Works Ltd (LEWL), (earlier known as Lloyds Steels Industries Ltd) is a completely customised process plant equipment provider. The company provides engineering and infrastructure solutions package by carrying out design, engineering, manufacturing, fabrication, and installation. Its products cover various categories in heavy equipment, machinery and systems for the carbon sector, oil & gas, steel plant equipments, power plants, nuclear plant boilers and turnkey projects. Its facilities have been approved by Industrial Boiler Regulatory Authority, SGS UK, Petroleum and Explosives Safety Organisation etc. The company has state-of-the-art manufacturing facilities at Murbad, Thane, Mumbai. The single location of the plant with centralized raw material procurement system, with all workshops adjacent to each other helps in better absorption of overhead costs; as shared infrastructure brings agility in the execution of projects. Mr. Mukesh Gupta is the Chairman & Whole Time Director.

Exhibit 02: Group Companies



Source: Company, Progressive Research

Investment Rationale:

(A) Industry Tailwinds: The NIP aims to boost the economy, provide better infrastructure, enhance ease of living and make growth more inclusive. NIP will enable better project preparation, reduce aggressive bids/failure in project delivery and ensure enhanced access to sources of finance. Key sectors of the projected infrastructure investments include energy, roads, urban and railways. The Indian manufacturing sector is anticipated to grow more than ~6x by 2025 (reach USD1tn), led by the country's growing demand, an aim to diversify the production of international manufacturing corporations by establishing low cost factories outside of China. India is about to embark on a multi-year capex cycle driven by govt. funded infrastructure, similar to FY03-12. The target for projects in 22-33 stood at USD356bn, with govt. financed infrastructure (USD277bn), privately funded infrastructure (USD51bn), real estate (USD21bn), and industries (USD8bn) leading the way. LEWL is well placed to capitalize on the long term play in the structural growth story; with key industry tailwinds favouring LEWL.

Exhibit 03: NIP Opportunities (FY20-25)

Sectors	Opportunities (Rs in trn)
Ports, Roads, Railways	36.66
Energy & Power	26.90
Industrial & Other Infrastructure	25.44
Social & Rural Infrastructure	25.44
Total Infra Investments	114.44

Source: LEWL June 2024 PPT, Progressive Research

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Investment Rationale (contd.):

Industry Tailwinds (contd.):

Exhibit 04: Business Segments

Segments	Steel	Boiler	Hydrocarbon	Naval Equipment	Marine Loading Arm
Attributes	Fabrication of equipments for steel melting shop, equipment in hot rolling & cold rolling mill, rotary dryer, pickling and other equipment for iron & steel making	Design and manufacture thermal power plants and various equipments like boiler, condensers, heaters etc.	Manufacture & supply of process equipments, pressure vessels, columns, heat exchangers, waste heat recovery boilers	Manufacture & supply products like fin stabiliser required to setup various Navy warships, the electro hydraulic steering gear for marine ships	Leading manufacturer of truck/wagon loading arms for handling different products
% of Rev	68.4	12.9	9.7	1.8	0.6
% of OB	41.7	39.5	10.1	5.9	0.8

Rev= Revenue; OB= Orderbook; Data as of FY24

Source: Company, Progressive Research

(B) Business Segments:

(i) **Steel:** This is the **key business** segment and the **major revenue** contributor (~68.5% to the total revenues in FY24) for LEWL. Despite being the second largest steel producing country; India still remains to be under-penetrated on a per capita basis. With India expected to enhance the manufacturing capacity from 140MT to 300MT by 2030; opportunities are emerging for customised engineering service providers, with LEWL being no exception. Many of the products are not manufactured by the Indian steel sector thereby providing attractive indigenization potential for their engineering and manufacturing. In this background, most of the leading steel companies plan to deepen their investments to increase steel capacity. This is providing a widening landscape for LEWL to provide services to the growing sector. The company has worked on a range of products locally and globally (iron ore processing plant components, iron making plant components, steel making plant components, casting & rolling plant components).

LEWL had addressed an overseas project supplied to one of the Russia's largest companies viz; **Ural Mash in Ekaterinburg**. The steel plant was designed for the first time in India by the technology provider at (-40) degrees centigrade. The company manufactured and supplied all critical components like water cooled parts etc. for the electric arc furnace-based steel making plant well within the contractual deliveries with the highest quality. Overall, with the intend to move from commoditized and strengthen its specialization end, the company has been focusing on lesser addressed niche segments of the steel sector; targeting companies that have prominent mines for additional projects which would help enhance the customer wallet share in the growing sector. The extension from its validated presence in India to international geographies would widen the revenue mix going forward; which is coupled with enhanced focus on value-added products to strengthen the margins and cash flows.

Exhibit 05: Steel Plants Equipment



Source: LEWL Sept 2024 PPT

Investment Rationale (contd.):

(B) Business Segments:

Eco Pickled Surface (EPS) is a process applied to hot rolled sheet steel to remove all the surface oxides (mill scale) and clean the steel surface. It uses no acid but just ordinary water and fine steel; it generates no harmful waste products; a sunrise concept in the flat steel sector. EPS accomplishes mechanical removal of scale using a unique 'slurry blast' technology, in which a mixture of carrier liquid (water) and abrasive material impinges against the moving strip of steel. The force, angle and uniformity of the slurry impact against the steel strip is precisely controlled to achieve complete scale removal, with no meaningful erosion of the steel substrate. The positioning of the company as one of the specialised engineering companies in India was validated when the company entered the increasingly relevant EPS space.

EPS Deal: LEWL signed an MoU with **The Material Works Ltd (TMWL)** in Sept'23 to transfer cutting-edge and environmental friendly technology; **EPS Gen 4** for pickling of all qualities of steel including stainless steel. This MoU grants LEWL the exclusive right to design, manufacture and sell EPS Gen 4 technology in India and Bangladesh, affirming LEWL's commitment to sustainable and technologically advanced manufacturing practices. The transfer of this technology over 3 years will empower LEWL to localize the manufacturing process in India, supporting the Make in India initiative. **EPS Gen 4** is a revolutionary pickling technology that offers several significant **benefits over traditional methods:** **Eco-friendly:** eliminates the need for hazardous acids, minimizes pollution, and provides a safer working environment, **Asset-light:** it is less expensive to operate than traditional pickling methods, reducing the operational costs and optimizing resource allocation for the user industry. Also in terms of costs, it is ~20-30% cheaper compared to acid pickling. The prospects of eco-pickling are pertinent to the growing need of the steel market; increasingly responsible in manufacturing processes. The company expects that of the four sets of eco-pickling setup being done, the first unit should be in place by March-April 2025. As indicated in LEWL Annual Report 2024, there are 150 marine lines in the country that could be potentially replaced by eco-pickling. The company is engaged in the process to manufacture a pilot manufacturing facility that validates the company's proposition.

Industries Catered: (i) **Auto:** pickled steel is extensively used in the auto sector to manufacture components like the body panels, chassis and structural parts. The pickled surface enables better welding and painting processes, contributing to production of high-quality vehicles with superior finish and durability,

(ii) **Construction & Infra:** pickled steel finds application in the fabrication of structural beams, columns and other components used in building construction, bridges and infra projects. The removal of scale and impurities ensures better weldability and improves the overall aesthetic appeal of steel structures,

(iii) **Appliance and Household:** pickled steel is used for producing items like kitchen appliances, furniture and HVAC systems. The clean surface obtained through pickling enhances the appearance and longevity of these products,

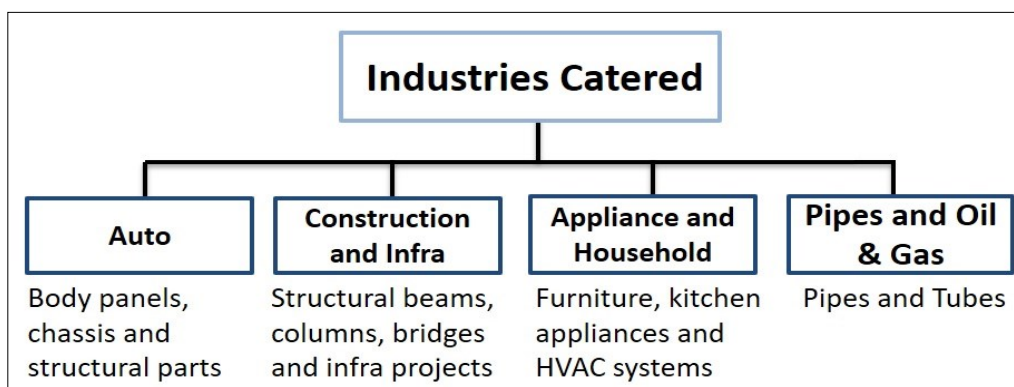
(iv) **Pipes and Oil & Gas:** pickled steel is employed in the production of pipes and tubing used in the oil & gas sector. The removal of surface oxides ensures the integrity and performance of pipelines, facilitating the transportation of oil, gas, and other fluids.

Exhibit 06: Pickling-Acid & EPS



Source: LEWL Website

Exhibit 07: Pickling and Industries



Source: LEWL Website, Progressive Research

In Oct'24, the company has received an order worth Rs500mn for eco-pickling systems, aligning with the company's strategy to focus on niche, technologically advanced solutions.

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(B) Business Segments (contd.):

(ii) **Boilers:** play an essential role in process industries like refineries, petrochemicals, fertilisers, chemicals and textiles; application is in thermal plants for power generation. In India, there has been an overall shift in government's focus towards utilising renewable energy sources for power generation. However, the generation as well as use of thermal power in the steel industry is likely to sustain; as a crucial link between the fortunes of the boiler business and domestic steel production. Growth across hydrocarbons, refineries, petrochemicals, fertilisers, chemicals, cement and textile industries widens the market as well as substantial opportunities for the boiler manufacturers. The country's steel production is expected to grow from ~150MTPA to 300MTPA by 2030, driven by infrastructure sector demand; direct reduced iron (DRI) production is expected to constitute ~35% of this growth, widening the growth of the boiler market (as per news articles). LEWL had the boiler business which is spun-off into a full-fledged vertical, to enhance focus and specialisation with a range of competencies that makes it a single-point solution provider. LEWL has augmented automated 8 torch panel welding line and CNC tube bending machine; cutting-edge boiler fabrication equipment that has enhanced its capability to address complex orders. The boiler capabilities are also further enhanced from the longstanding presence in the hydrocarbon segment to the steel sector with multiple segments like kilns for DRI plants included as well. LEWL also possesses validated competencies in the fabrication of large and complex boilers and the flexibility to insource and outsource, making it an effective one-stop solution provider. The product line-up includes Atmospheric Fluidised Bed Combustion Boilers (AFBC) and Circulating Fluidised Bed Combustion Boilers (CFBC), opted for their energy efficiency. There is a growing need for **waste heat recovery boilers** that are customised around the need of steel plants, majorly for reducing carbon footprint; LEWL has strong competency in the same. There is also the growing **boiler retrofit market**, (legacy boilers upgraded without being scrapped) that can be addressed by the company. India has committed to become **net zero** by 2070. During this period, the companies will continue to enhance their thermal power capacity to address the growing consumption and base load requirement which indicates a growing demand for boilers.

Exhibit 08: Boilers



Source: LEWL Sept 2024 PPT

(iii) **Hydrocarbons:** The country's economic growth is closely related to its energy demand, therefore, the need for oil & gas is projected to increase going forward. The outlook for hydrocarbon sector continues to be optimistic. Oil demand in India is projected to register 2x growth to reach 11 million barrels per day by 2045. Also the diesel demand in India is expected to double to 163MT by 2029-30, with diesel and gasoline covering ~58% of India's oil demand by 2045 (as per IBEF). India is already a refining hub with 23 refineries and expansion is planned for tapping foreign investment in export-oriented infrastructure, including product pipelines and export terminals. India aims to increase its refining capacity from 267MMTPA to 450MMTPA by 2030. This should widen the demand for engineering services related to the hydrocarbons sector. Most of the petroleum and petrochemical companies in India are engaged in modernisation and expansion programs, creating new engagement opportunities for **focused service providers** like LEWL. The promoters of LEWL have been engaged in this vertical for **5 decades**, thereby mastering the knowledge of capital in products, processes and services; which in turn is leading to empanelment as a prospective vendor by virtually every large petroleum and petrochemical company. It has developed competence in delivery of products, deepening its sectoral respect as a trusted service provider. The company has invested in manufacturing infrastructure and equipment (tube sheet drilling machine) to enhance its capability. LEWL has been manufacturing and supplying process equipment such as pressure vessels, columns, reactors and heat exchangers to hydrocarbon, chemical, fertilizers, power and other core industries/companies such as IOCL, BPCL, HPCL, HMEL, EIL, NRL, BORL, PDIL, Utkal Alumina, GNFC, RCF, GSFC, HRRL, CPCL, GAIL, IFFCO, ISRO, NPCIL, etc. to mention a few. Amongst the initiatives for growth, the company continues to focus on the fabrication of products that are sophisticated and value-added thus strengthening its margins. It is also enhancing automation in equipment fabrication for better process yield along with leveraging its competencies in international geographies; bidding for specialized engineering projects among hydrocarbon customers in Africa and MENA.

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(B) Business Segments (contd.):

(iv) **Naval:** this business segment comprises of products and components manufactured for the **Indian Navy**. It is a specialised space that needs to account for marine realities, customising products around saline influences, corrosion resistance and rolling sea conditions which needs a specialised insight into the navy's specific requirements. The potential of this business is undergoing a substantial shift following the announcement by the Indian Navy to supplement and replace its existing fleet seafaring and coastguard fleet. A substantial number of vessels are expected to be added to the existing fleet in the coming decade, creating a disproportionate opportunity for specialised engineering companies focused in its space. LEWL is attractively placed to build on its established competence in the supply of **critical vessels products** like electro-hydraulic steering gear and fin stabilisers (vessel stabilisers in rough weather). Although currently, this segment has a limited share in the overall revenues; LEWL has more than 35 years of experience of providing products for the Indian Navy, backed by the delivery of spares and services, converting a one-off transaction into an annuity engagement. However, the company aims to generate a **large proportion** of its revenues from precision value-added products and components. LEWL demonstrates the capability in development of products with counter-obsolescence capability, aiding overall customer satisfaction. The company has been empaneled as a **registered vendor** with the Indian Navy and shipyards. As highlighted in LEWL Annual Report 2024, the company seeks to **bid for precision engineering projects** which would deepen its recall around specialization. It intends to widen its portfolio, accounting for a larger share of a vessel's spending; positioning it as a specialist as well as enter into multiple technology alliances; which is expected to widen the company's competence and bid for a higher vessel share. Furthermore, to counter the growing presence of the Chinese in the Indian Ocean region; the Indian Navy placed orders for 68 warships and vessels worth approx. Rs21k-cr to strengthen its blue-water force. The orders include next-generation corvettes, submarines, survey vessels and multi-purpose vessels. The Navy aims to achieve a force level of **155-160 warships by 2030**, with a **long-term goal** of 175-200 warships by 2035. LEWL would select to work on those products, enter into technology alliances to indigenise them and carve out a relatively protected share coming out of the sector.

Exhibit 09: Ports, jetties/Marine/Defence



Source: LEWL Sept 2024 PPT

(v) **Marine Loading Arm:** With impetus on building capacity to move to clean fuels, a large proportion of it is expected to be imported. *The import of these clean fuels warrants material transfers (loading and unloading) through the deployment of electro-hydraulic systems that enhance transfer stability from tanker or ship to the port and vice versa. These systems ensure that the gas or liquid is transferred without a compromise on throughput speed or safety.* The increasing number of active ports both major and minor has increased the room for liquid and gas imports into the country. Besides, with the India growth story picking up with a corresponding growth in the national appetite for fuels, there will be a bigger premium on timely imports, widening the relevance of material transfers. LEWL has established the competence to manufacture material transfer systems helping customers to deal in a range of fuels and materials (ammonia, petrochemicals, acids, oil and crude oil). The effectiveness of the company's solutions makes it possible for ports to enhance their throughput and revenue coupled with a reputation for safety. Thereby, the **success** of the company's specialised engineering products is linked to port effectiveness. The company has selected to be present in a relatively unexplored niche which is protected from cut-throat competition. It possesses the capability to manufacture swivel joints for small truck/rail loading arms as well as marine loading arms. It has also entered into a technology alliance with **TBG Niigata**, a **Japanese** technology company for access to specialised know-how while it plans to progressively indigenise components of imported origin (more than 70%). **TBG Niigata:** TB Global Technologies Ltd. (TBG) was established through the merger of Tokyo Boeki Machinery Ltd. (that supplies equipment required for loading and unloading of petroleum products, chemicals, gases and liquefied natural gas etc., including after sales services); and Tokyo Boeki Engineering Ltd. (that provides the development and manufacturing of the above mentioned products). The product portfolio consists of energy related machinery and equipment, including loading arms and swivel joints, which are fluid handling devices indispensable for the distribution of energy resources. TBG is **renowned** for its expertise in supplying equipment for the oil & gas sector, holding a significant **market share** in Japan for its essential products of loading arms and swivel joints.

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(B) Business Segments (contd.):

(v) Marine Loading Arm (contd.):

TBG Niigata: The collaboration allows LEWL to offer products under the brand **TBNIIGATA Lloyds** in India, expanding its product portfolio and boosting its position in the industry. The company supplies the loading arm, which accounts for the **largest share** of the Japanese market with an extensive track record in global sales, along with other energy related products to its valuable customers. The company is working to leverage the TBG Niigata alliance to indigenise products manufactured. LEWL has been supplying loading arms in the Indian market and is empaneled with significant companies. *TBG loading arms are not limited to marine transportation but extend to land transportation, used for loading and unloading tank containers for tank lorries and rail tankers. Specifically designed to handle oil, gas, petrochemicals and a wide range of fluids across high to cryogenic temperatures; these loading arms are set to convincingly meet India's rising demand for oil & gas containers.* India is the world's 4th largest importer of liquefied natural gas. This demand is expected to grow ~4.9% annually between 2022-2050. India's net natural gas imports could grow faster than domestic production, increasing from 3.6 billion cubic feet per day (Bcf/d) in 2022 to 13.7 (Bcf/d) in 2050. This will widen the demand for port infrastructure that makes it possible to transfer gas and liquids with stability and security. LEWL expects to capitalise on this phenomenon through engineering of niche products that facilitate these transfers for the benefit of refineries. In **Oct'24**, LEWL has received an order of ~Rs93mn for marine loading arm, marking a significant tipping point in the company's growth trajectory.

(vi) Theme-based Construction Business: The growing need for urban India to look better, warrants an investment in robust infrastructure, enhanced aesthetics and conveniences. LEWL is associated with prominent service providers beyond the core focus, widening its solution capabilities across commissioning and completion of **theme-based construction projects**. The company expects to leverage its competence and **first-mover advantage** to build larger visibility for the concept across urban India; capitalising on the fact that not only are municipal budgets growing but also accounting for a larger provision for aesthetics. LEWL has been working on enhancing its **recall** around one-stop solutions/brand visibility and also creating a market beyond nascence. LEWL has a track record of completed projects that are likely to validate its credentials. It has successfully transformed urban Mumbai pockets, creating a showcase for follow-on projects across the country. Some of the examples showing the acceptance of projects delivered include, (i) spirit of Mumbai clock tower at Mahim Bandra Junction, Mumbai, (ii) beautification of Sarkhel Kanoji Angre Samadhi & Udyan, Maharashtra and (iii) Atal Smruti Udyan, Mumbai. **Urban infrastructure** is the latest focus as it enhances urban pride, population retention, enhanced investments and stronger livelihoods. The Budget 2023-24 has also allocated ~Rs764.32bn for urban renewal; assigned for improving various urban sectors, including housing, transport, sanitation, and other infrastructure. The Urban Infrastructure Development Fund (UIDF) is established for supporting public agencies in strengthening infrastructure in tier-2 and tier-3 cities.

(C) Key Products and Clients:

Some of the **key products** of the company include,

- (i) industrial process plant equipment like high quality pressure vessels, columns, heat exchangers etc.,
- (ii) steel plant equipment such as blast furnace, coke oven, slab caster,
- (iii) waste heat recovery boilers including AFBC/CFBC boilers which are used to recover heat from waste flue gases produced in various industrial processes,
- (iv) gas/air dryers,
- (v) marine/truck/wagon loading arms,
- (vi) naval steering gear & stabilizer systems with controls

The company has developed host of capabilities to deliver superior and customized solutions to clients across different segments; thus adopting a client centric approach.

Exhibit 10: Clientele Range



Source: LEWL Sept 2024 PPT

(D) Strong Order Book: LEWL has been gradually increasing its order book positioning. The order book is generally liquidated in a span of ~12-15 months (~80% conversion ratio). As a matter of prudence, the company has maintained an order book-to-revenue ratio of ~1.45x, protecting it from the prospect of overburdening and under-delivery. As a bidding discipline, the company bids for projects around an Ebitda margin of ~17-18%. For FY24, ~41.7% of the order book comprised of the **steel vertical** (key contributor). The order book as of 30th Sept'24, stood at ~Rs13,658mn (addition of ~Rs8,091mn worth of orders in H1FY25) as against Rs9,043mn as on 1st April 2024) which is ~4.37x of FY23 sales and ~2.19x of FY24 sales. The company's order book has grown by ~51.0% (in H1FY25) on a y-o-y basis and is well-balanced among various sectors. Currently, around 60% of the order book is from Lloyds Metals which however the company is aiming to reduce to ~40% going forward. The order pipeline remains very encouraging and is expected to convert into firm orders in the near to medium term. With a more extensive base of the order book; the roadmap is relatively steady to deliver higher growth in the coming years.

06 January, 2025

PICK OF THE MONTH

VOL-11, NO-01

Industry: Industrial Products

Lloyds Engineering Works Limited

BUY

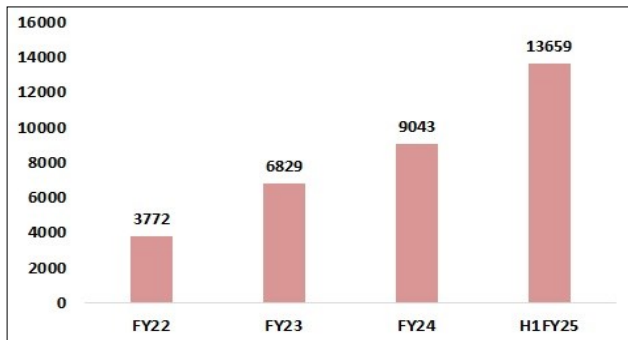
CMP: Rs.85

TARGET PRICE: Rs.105

TIME : 12 months

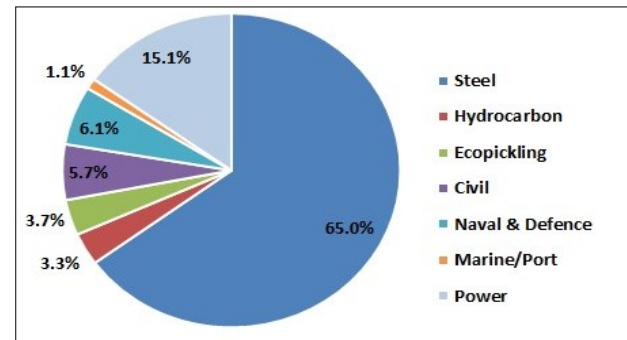
Investment Rationale (contd.): (D) Strong Order Book (contd.):

Exhibit 11: Incremental Order Book Positioning (Rs in mn)



Source: LEWL PPT, Progressive Research

Exhibit 12: Sectoral Bifurcation of Order Book (Sept'24)



Source: LEWL Sept 2024 PPT, Progressive Research

(E) Latest Tie-Ups: The latest technological tie-ups are further aiding the company in building a solid engineering product and solutions portfolio. **(i) LEWL presence in Defence/Navy through Bhilai Engineering:** In Oct'24, the company has signed an MoU to acquire the engineering assets of Bhilai Engineering Corporation Ltd (BECL), a key player in providing engineering solutions across various industries. **BECL:** was founded in 1960 with a strong presence across diverse sectors. It specialises in metallurgy, mining, railroads, space, nuclear, defence and high-tech machine tools for heavy and precise machining. The state-of-the-art integrated manufacturing facility is located at Bhilai, Chhattisgarh. It has hi-tech machine tools for heavy and precision machining. BECL is capable of working with exotic materials such as stainless steel, aluminium, manganese, alloy steels, and carbon steel. Its operations cover a considerable area (around 30,566 sq. mtrs). It also offers **location advantages** and is close to several steel industries thus giving cost advantages and benefits from a logistics point of view and in direct reach of all customers. **Synergy Benefits:** the MoU is complementary to LEWL's existing product lines, enhancing production capabilities. When combined, it will increase the company's overall factory floor and production space by ~2.4x. This acquisition broadens LEWL's product portfolio and strengthens its market position. There will be immediate value addition with assets capable of producing high-class engineering products. BECL has diversified experience in the supply of equipments to all core sectors of the economy, including nuclear, space, & defence. It is located in central India with proximity to the target customer base with an abundance of skilled labour available at a relatively lower cost. The estimated **payback** of this acquisition is ~3-4 years. The acquisition pertains to acquiring only the division's assets with no liabilities being taken over and it is to be funded without resorting to debt. Bhilai is expected to be integrated with LEWL by H2FY26; although with no substantial contribution to the topline in FY26E but profits are expected to increase. Overall, it will solidify LEWL's position as one of the leading players in the engineering sector, marking a new phase of growth and development.

(ii) Fincantieri S.p.A: LEWL has entered into a strategic partnership with Fincantieri S.p.A., (a global leader in shipbuilding) in Nov'24. This collaboration aims to jointly manufacture high-quality products for the Indian Navy and Coast Guard, enhancing India's **defence** manufacturing capabilities and supporting the country's self-reliance in this critical sector. **Fincantieri S.p.A.** headquartered in Italy, with over 230 years of shipbuilding history and more than 7,000 ships built; has expertise span across high-value segments, including cruise ships, defence vessels and specialized offshore vessels. The additional capabilities lie in ship repairs, conversions, mechanical and electrical systems, naval interiors, and marine infrastructure projects. LEWL has over three decades of expertise in defence manufacturing, supplying critical systems to the Indian Navy and Coast Guard. The defence sector currently accounts for ~6% of the company's order book. The strategic focus areas include product diversification in defence and aerospace manufacturing, investments in advanced technology for warship self-defence systems and development of systems integrating telecommunication, signal processing and aerospace engineering. The partnership product scope covers numerous ships for the Indian Navy and Coast Guard. The focus is on integrating advanced technologies to enhance value and competitiveness. LEWL continues to align with the GOI Make in India and Atmanirbhar Bharat initiatives. This collaboration underscores LEWL's dedication to innovation and its vision of expanding India's defence manufacturing capabilities. It also strengthens its role as a key contributor to India's self-reliance and sustainable growth in the defence sector. In Apr'24, the company received orders worth Rs810mn for the **Navy** reflecting positive momentum in the defence sector and signifies the positive trajectory, further strengthening the market positioning of LEWL. It is supplying only two naval components in the said navy ships viz; Ship Steering Gear Systems and Ship Stabiliser Systems for 11 different Naval ships. Besides, the GOI has been tendering contracts for more than 100 ships across naval defence and coast guards, which will create additional opportunities for the company. With this collaboration and the upcoming orders, a robust opportunity is poised for LEWL. Moreover, the collaboration scope is expected to expand across multiple product lines, further broadening the company's offerings.

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Investment Rationale (contd.):

(E) Latest Tie-Ups (contd.):

(iii) **Entry into Electrical Engineering:** LEWL acquired ~77% of Techno Industries Pvt. Ltd. (TI), for Rs1.75bn; (valued at ~1.2x sales) on 15th October, 2024; marking its strategic entry into the fast-growing electrical engineering sector. **Techno Industries:** established in 1986, TI has established itself as a leading player in the elevator and escalator space with significant presence in India's motor and pump industry. It is promoted by Mr. Bharat Patel, a technocrat with experience of more than three decades. It has a strong existing base of ~21k+ elevators, ~800k+ induction motors, and ~11.5mn+ pumps, with elevators installed nationwide, along with a wide base of motors and pumps. It is the only elevator company in Gujarat having such a big set up; with ~16% market share. LEWL also intends to extend its stake to 100% in three years' timeframe on pre-agreed terms. TI reported a turnover of ~Rs1.7bn for FY24. At this valuation, (equity valuation of Rs25mn, 9.625 million shares at a premium of Rs84.20) the acquisition is expected to be EPS accretive from the first year itself. LEWL has chalked ~Rs4-5bn sales annually over the next few years.

Exhibit 13: Brief Product Profile Across Verticals

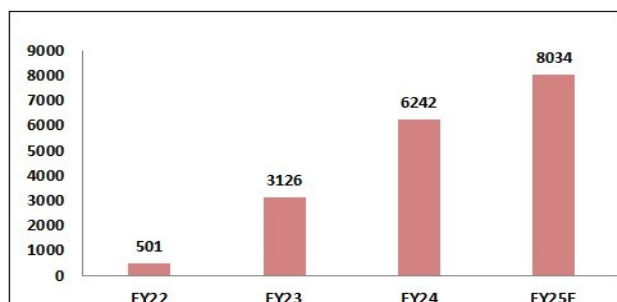
Parameters	Elevators	Motors & Pumps Division
Products and Services	Passenger Lifts	Fire Fighting Pumps
	Industrial Elevators	Solar Pumps
	Kits	Submersible Pumps
	AMC Services	Induction Motors
Key Customers	Offering for commercial and residential setups	Fire Fighting Motors
	High Tonnage Elevators for industrial setups	Long term contract with engine manufacturers to supply general purpose motors
	Kits sold outright to 3rd party vendors	Vast clientele, with existing empaneled clients for pumps
	AMC services for lifts and escalators	-

Source: LEWL June 2024 PPT, Progressive Research

Financials:

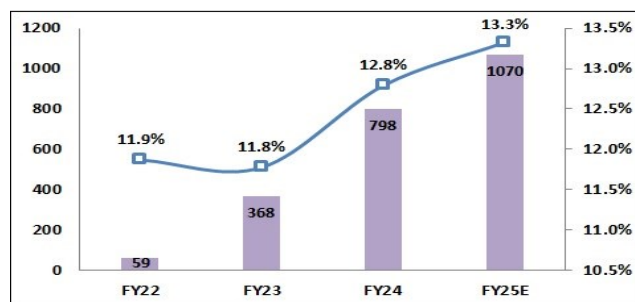
H1FY25 Highlights: H1FY25 continued its robust performance, with revenue growth of ~47.9% on a y-o-y basis led by efficient execution. The Ebitda for H1FY25 grew to Rs645.8mn; a robust growth of ~54.4% on a y-o-y basis; with healthy Ebitda margins at ~18.6%. These healthy margins are led by the timely booking of raw materials, efficient execution of order book, and better productivity. For Q2FY25, the consolidated revenues stood at Rs2,120mn compared to Rs1,280mn in comparative quarter. The consolidated PAT stood at Rs279mn as against Rs188mn a year ago. LEWL remains **net debt-free**, which further exhibits the company's inherent strength of execution and operations. It stands net cash with reassuring D/E ratio, portraying a robust financial positioning. This financial strength not only underscores the company's stability but also equips it with the flexibility to capitalize on strategic growth opportunities. With regard to **capex**, the company plans to invest ~Rs300mn over the next 3 years to expand capacities across verticals. The company follows **asset light approach** in business, fueling growth and strengthening the overall financial performance. Currently, the **WC** days stand at 120 days while the cash conversion cycle stood at 90-92 days.

Exhibit 14: Revenue Trend (Rs in mn)



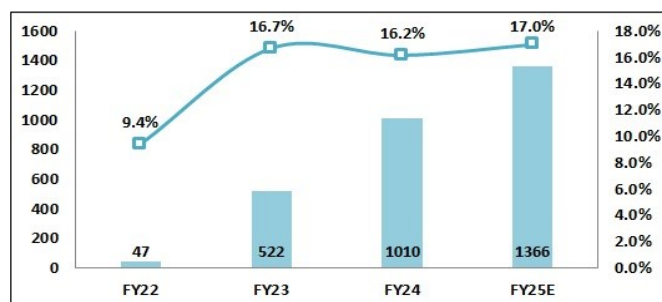
Source: Annual Reports, Progressive Research

Exhibit 15: PAT (Rs in mn) v/s PAT Margins



Source: Annual Reports, Progressive Research

Exhibit 16: Ebitda (Rs in mn) v/s Ebitda Margins



Source: Annual Reports, Progressive Research

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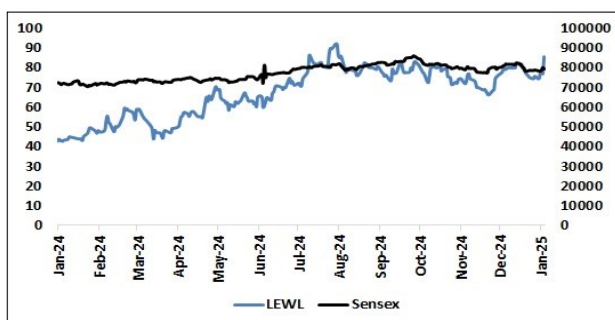
Risks and Concerns:

- Any slowdown in fructification of the **capex plans** across different industries would impact the product demand for LEWL
- Economic slowdown** would hamper the larger picture of growth and sustenance
- RM price fluctuations** and their pass through would be a concern to work on especially in steel and aluminium that has commoditized pricing pressure
- Technological upgradation** for skills, modernization is a continuous process for sustaining in the competitive industry
- Although with a strong orderbook; any delays, cost overruns or execution failures can significantly impact the company's financial performance and reputation
- Competition intensity** is prevalent from both the domestic and international players in the special purpose machinery manufacturing industry
- It is a **capital intensive** business and that could be a risk if not managed well

Outlook and Recommendations:

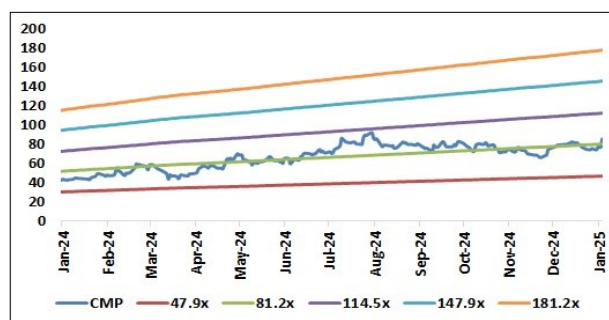
LEWL designs and manufactures equipments for the sectors of oil & gas, steel, nuclear power, marine, ports, jetty, and refineries leading to diversified products ranging across boilers, columns, dryers, marine loading/unloading arms, pressure vessels, power plant equipment and steel plant equipment. Poised to thrive in the infrastructure and capex sector; LEWL strategically aligns with the anticipated surge in government spending, demonstrating a foresight in capitalizing on opportunities within this burgeoning industry. Furthermore, through strategic technological collaborations with industry leaders like TMWL and TBG; LEWL is poised to innovate and diversify its product portfolio, ensuring a competitive edge in the evolving market landscape. LEWL's exclusive technical tie-up with TMWL for EPS Gen 4 technology grants a competitive edge, allowing LEWL to capture a larger market share in India and Bangladesh by offering advanced, eco-friendly pickling solutions, driving the revenue growth. The strategic agreement with TBG, Japan positions LEWL to expand its product offerings, tap into a broader market, and contribute to Atmanirbhar Bharat, fostering revenue growth through diversified solutions and increased market share. By acquiring assets of Bhilai Engineering, the company has added offerings to provide engineering solutions across industries. Furthermore, acquiring ~77% of TI marks its strategic entry into fast growing electrical engineering sector. Acquiring complementary businesses or entering new markets through strategic acquisitions can further diversify the revenue streams and strengthen LEWL's market position. LEWL actively engages with partners, suppliers and customers to co-develop innovative solutions, share best practices and expand its market reach. The company is looking at venturing into agro-chem space and is currently working on the same which has ~30-40% growth opportunity. The company showcases a formidable order book, standing at ~Rs13,658mn as of 30th Sept'24. LEWL anticipates a significant uptick in the order inflow which would translate into not only increased revenues but also higher profit margins. Also the increasing share of the order book across segments leads to better clarity and predictability of future revenues. Since the company is debt free it does not need to compromise on the margins by taking up smaller orders; hence the orders are filtered based on the margins (~17-18%) and the WC requirements. With regard to future strategies, with focus on the motors & pumps segment, the company is expanding capacities, adding new channel dealers, and leveraging pre-qualification with entities like NTPC, BHEL etc. to build a more robust clientele. In the elevators and escalators, LEWL is ramping up on export of elevators to UAE, USA and Africa and also expanding in industrial elevators space. The company is also working on expanding its existing parking lifts & parking systems aggressively. Efforts are towards catering to the growing demand for escalators due to upcoming metro and rail projects nationwide. LEWL is also expanding the AMC business which is recurring revenue in nature. With H2 generally being higher than H1; we can expect good growth for FY25. Overall, the company is well planned in terms of prospective avenues of growth and strategizing to maximise on the opportunities ahead. We initiate a Buy on the stock for a target of **Rs105** over 12 months horizon.

Exhibit 17: Price v/s Sensex



Source: Ace Equity, Progressive Research

Exhibit 18: One Year Forward P/E



Source: Ace Equity, Progressive Research

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