



SMC Ranking
 ★★☆☆☆ (1.5/5)

Issue Highlights

Industry	Diversified Commercial services
Offer for sale (Shares)	8,000,000
Fresh Issue (Shares)	13,333,333
Net Offer to the Public	21,333,333
Issue Size (Rs. Cr.)	597-640
Price Band (Rs.)	280-300
Offer Date	25-Sep-23
Close Date	27-Sep-23
Face Value	10
Lot Size	50

Issue Composition

	In shares
Total Issue for Sale	21,333,333
QIB	16,000,000
NIB	3,200,000
Retail	2,133,333

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	80.57%	58.47%
QIB	17.95%	32.35%
NIB	1.48%	5.98%
Retail	0.00%	3.20%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

1. Repayment and /or prepayment of certain borrowings availed by the company.
2. Funding the working capital requirements.
3. Pursuing inorganic initiatives.
4. General corporate purposes.

Book Running Lead Manager

- IIFL Securities Limited
- Motilal Oswal Investment Advisory Limited
- SBI Capital Markets Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 1990, Updater Services Limited (UDS) offers facility management services (IFM) and business support services ("BSS"). The company operates in the Business-to-Business ("B2B") services space offering a spectrum of business services, which are broadly classified into the two following segments: 1. IFM & Other Services Segment; and 2. BSS Segment. In IFM & Other Services Segment it offers services like, Production Support Services, Soft Services, Engineering Services, Washroom and Feminine Hygiene, Warehouse management, General Staffing and more. In the BSS segment, the company offers Audit and Assurance services through the Subsidiary, Matrix. UDS also offer employee background verification check services, airport ground handling services, sales enablement services and more through its subsidiaries. As of June 30, 2023, UDS served 2,797 customers across various sectors, including certain global and Indian customers such as Procter & Gamble Home Products Limited ("P&G"), Aditya Birla Fashion and Retail Limited ("ABFRL"), Microsoft, Hyundai Motor India Limited ("Hyundai"), Saint-Gobain India Private Limited and more. Updater Services Limited is a pan India player, with a widespread network consisting of 4,667 locations (excluding staffing locations) managed from 125 points of presence with 112 offices situated in India and 13 offices situated overseas as of June 30, 2023. As on March 2023, Integrated Facility Management Services segment accounts for 71.52% of the total revenue and Business Support Services accounts for 28.48%.

Strength

Leading integrated business services platform, operating across diverse segments:

It commenced operations over 30 years ago as a Chennai based facilities management organisation and have since, grown to have a pan India presence and become the second largest company in the IFM space across the country. Within the IFM & Other services segment, it operates across service lines such as soft services, production support services, engineering services, warehousing management, pest control and horticulture that have been added by it organically, over a period of time. It has also grown inorganically through multiple acquisitions and have expanded its services portfolio over the years by venturing into higher margin services such as mailroom management and niche logistics solutions, Audit and Assurance services, employee background verification check services, washroom and feminine hygiene care solutions and sales enablement services, to now become one of the leading integrated business services platforms. It is the second largest player in the highly fragmented soft services segment market in India with a share of 4.1% in the Financial Year ended March 31, 2023, and is also one of the leading companies providing services to healthcare segment. Within the PSS segment, it is the market leader in India in this extremely fragmented segment with a market share of 2.0% in the Financial Year ended March 31, 2023, and is one of the leading PSS providers to the automotive segment in India. Within BSS segment, it offer employee background verification check services through its Subsidiary, Matrix, which is the third largest company in India in the segment with a share of 5.4% in the Financial Year ended March 31, 2023. According to F&S Report, Matrix is also a leading Audit and Assurance Company for dealer / distributor audits, and retail audits and its strong branch reach and field associate reach has driven the company to reach the top spot in India, with a market share of 19.2% in the Financial Year ended March 31, 2023. From the Financial Year ended March 31, 2021 to the Financial Year ended March 31, 2023, its growth in total income has primarily been driven by a growth in its BSS segment, which grew at a CAGR of 96.87%. This is on account of its keen focus on expanding the relatively higher margin BSS segment.

Longstanding relationship with customers across diverse sectors leading to recurring

business: It primarily provides IFM & Other services and BSS to customers across a diverse range of industries and sectors. Within the IFM & Other services segment, it offered its services to industries including such as healthcare, manufacturing, automobile, BFSI and consumer products with some of its marquee customers being TTK Healthcare Limited within healthcare, Saint-Gobain within manufacturing, Hyundai, Honda Motorcycle and Eicher Motors Limited within automobile, Shriram Transport, SBI Life Insurance and IIFL Finance within BFSI, and Sony within consumer products, among others. Within the BSS segment, it offered its services to industries including such as retail, IT / ITeS, consumer products, global technology, IT and electronics, airlines, and telecom and communications with some of its marquee customers being More Retail Private Limited and ABFRL within retail, TCS and Mindtree within IT / ITeS, P&G and Hershey India Private Limited within consumer products, Microsoft within global technology, Logitech (Electronics) India Private Limited within IT and electronics, SpiceJet Limited and AIX Connect Private Limited within airlines sector and Tata Communications within telecom and communications. Such a diverse base of customers has allowed it to not only reduce its vulnerabilities to economic cycles but also its dependence on any particular set of customers. Its top five customers accounted for 26.57%, 29.17%, and 27.47% of its total income amounting to Rs. 322.17 crore, Rs. 474.66 crore and Rs. 578.5c crore, respectively, in the Financial Years ended March 31, 2021, 2022 and 2023, respectively.

Track record of successful acquisition and integration of high margin business segments:

It has historically introduced operating efficiencies, revenue growth and has increased profitability of its acquired businesses, resulting in increased operating margins on a consolidated level. It has significantly grown the business and improved the financial performance of Matrix and Denave following their acquisition. It has established a track record of successful inorganic growth through strategic acquisitions to supplement its business segments, diversify revenue streams, and integrate such acquired businesses to further strengthen its services portfolio. It has pursued selective strategic acquisitions as a means to expand the operations, enhance global competitive position and capitalise on potential operational synergies. The focus has been to acquire companies and businesses whose offerings are complementary and supplementary to the company. All its acquisitions have added either a new customer segment, new service line, or a new geography. Cumulative payout by the Company for the respective stake in the acquisition of Matrix and Denave (which is a new acquisition to diversify into Business Services Segment) from April 1, 2019 until March 31, 2023, is Rs. 118.37 crore in the aggregate. Total EBITDA of these acquisitions for the Financial Year ended March 31, 2022 and for the Financial Year ended March 31, 2023 is Rs. 47.13 crore and Rs. 67.20 crore, respectively. This demonstrates its track record to engage in value accretive acquisition at reasonable valuations.

Pan India presence with large and efficient workforce coupled with strong recruitment capabilities:

As of June 30, 2023, It had a widespread network consisting of 4,667 locations (excluding staffing locations) managed from 125 points of presence with 112 offices situated in India and 13 offices situated overseas. These offices are spread across 25 states in India, comprising 22 offices in north India, 45 offices in south India, 14 offices in east India and 31 offices in west India, giving it a nation-wide presence as well as 13 locations overseas. This nation-wide presence enables it to offer services to customers who prefer a single service provider for their operations at multiple locations. A pan India presence enables it to recruit, train and deploy resources at various customer locations within a short span of time and enables it to respond to changing customer requirements, efficiently and effectively. This presence also allows it to monitor the work of its employees at various customer locations and to administer to the needs of its employees quickly and in a manner relevant to them. In the Financial Years ended March 31, 2021, 2022 and 2023 and in the three months period ended June 30, 2023, It recruited 35,972 employees, 40,689 employees, 57,699 employees and 15,486 employees, respectively. Its attrition rate was 77.78%, 65.80% and 77.60% in the Financial Years ended March 31, 2021, March 31, 2022, and March 31, 2023, respectively.

Technology at the forefront of its current and future business:

Technology has been an integral part of its business. It believe that technology is a huge enabler in driving speed, accuracy, efficiency, customer satisfaction, better service delivery and as a result, deriving revenue and profitability. The Company as well as its Subsidiaries have adopted and developed appropriate technology that not only helps them become more efficient and effective but also drive customer satisfaction and market competitiveness. It has a well developed technology function with its group Chief Technology Officer

and an in-house operating team driving many initiatives such as building cloud based digital attendance and onboarding platform for the workforce in order to help optimize productivity and improve cost efficiencies as well as digital transformation to re-platform and upgrade the current background verification application underpinning the core platform for its Subsidiary Matrix. It is also selectively investing in such technology platforms and businesses to stay ahead of the curve. It has recently made a minority investment in a company Aubotz Lab Private Limited which is engaged in manufacturing autonomous robotic platforms for a variety of applications such as floor cleaning, material handling, amongst others.

Strategy

Retain, strengthen and grow customer base with a focus on deepening relationships with existing customers: The contracts with most of its customers are for a period of at least one year which subsequently gets renewed, on an ongoing basis. As a result, its business is on an annuity-based model where a customer once secured, generates revenue over a long period of time. It has over the years established long-term relationships with its customers leading to recurrent business engagements with them. It has been able to retain existing customers and attract new customers because of its brand, strong market position and delivery of quality services. It focuses on quality customer service delivery and operational excellence on a daily basis, thus delivering superior customer service and satisfaction. It believes that its customer retention levels reflect its ability to provide high quality services, and its consistent customer servicing standards have enabled it to increase its customer dependence on the company. This also allows it to cross-sell its offerings to its customers thus resulting in a higher wallet share from its customers.

Grow market share in key segments: It has strong business development team with experienced individuals who focus on acquiring new customers across its business segments. As on June 30, 2023, It has 70 employees forming part of this business development team. It seek to grow its business through the acquisition of new customers across industry segments such as commercial real estate, industrial facilities, warehousing and public infrastructure such as airports, amongst others. It intends to acquire new customers by becoming more competitive quality of services, technology and persistent customer development efforts. The outsourced IFM market accounts for 39.3% of the total market in India and is expected to increase over the forecast period. Commercial, industrial and infrastructure segments are the major end user verticals focusing more on outsourcing the IFM services. Further, increase in real estate investments would drive the demand for various hard services and the market is expected to grow at a CAGR of 17.0% from the Financial Year ended March 31, 2023 to the Financial Year ended March 31, 2028 and reach Rs. 20,148.6 crore. The soft services segment market is also forecast to grow at a CAGR of 16.1% from the Financial Year ended March 31, 2023 to the Financial Year ended March 31, 2028 and reach Rs. 40,881.5 crore.

Introduce new products and services catering to existing and new customer segments: It intend to further grow its position in the market and towards this end, it aim to introduce new products and services to fill gaps in its current portfolio or to enter new segments which it sees as potentially large and margin accretive. Some of the new products and services that it is currently evaluating and that are in various stages of development and introduction are:

- Value added BPO and back-office process outsourcing services across segments;
- Building infrastructure design, installation, maintenance and monitoring in areas such as fire systems and security systems;
- Expansion of Audit and Assurance related services in other areas of product and process audits, testing, training, compliance and certification;
- Specialized staffing services including IT staffing;
- Expansion of airport based services;
- Value added human resource and employee services; and
- Innovative revenue and demand generation services by leveraging digitization and new emerging technologies including software, IoT and robotics.

According to the management each of these areas already command a large market or are expected

to gain market share and accordingly, the company intend to be prepared to capitalise on this growth opportunity.

Pursue inorganic growth through strategic acquisitions of high margin businesses supplemental to its operations: Over the years, it has focused on moving up the value chain of complexity and specialization by enhancing its product and service portfolio, including through acquisitions, in order to be able to provide diversified and more complex services to its customers. As its service capabilities evolve, it intends to increase its focus on further diversifying its services portfolio and providing higher value added and consequently, higher margin services to its customers. It has grown its business, geographical presence and service portfolio over time, through strategic acquisitions in the past which have further enhanced its business operations, growth, margin profile and future prospects. Certain of its recent acquisitions comprise the acquisition of Matrix, Washroom Hygiene Concept, Global Flight Handling, Denave and Athena.

It intends to pursue similar opportunities to undertake acquisitions

- (i) That allow it to enhance its scale and market position;
- (ii) That allow it to achieve operating leverage in key markets by unlocking potential efficiency and synergy benefits;
- (iii) That provide it with a platform to extend its reach to new geographic markets within India and selected overseas markets, particularly for sales enablement, audit and assurance as well as employee background check services; and
- (iv) That add new services complementary to its service offerings or that allow us to enter strategic businesses to capture additional revenue opportunities from its existing customer base to better its margin profile.

To this end, it intends to utilise a portion of the proceeds of the Fresh Issue towards funding acquisitions.

Risk factor

- The risks involved in managing large workforce.
- Its reputation is dependent upon the performance of the personnel placed in its customer's workplaces and the services rendered by such personnel.
- Trade receivables constitute a significant portion of its total assets.
- High working capital requirement.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Teamlease Services Limited	8162.20	111.22	66.21	38.20	5.35	472.38	10.00	2529.10	4323.94
SIS Limited	11644.33	353.47	24.25	17.54	2.66	160.11	5.00	425.45	6200.20
Qness Corp Limited	17779.29	211.02	11.46	36.92	2.44	173.30	10.00	423.15	6272.33
Updater Services Limited**	2098.89	34.60	5.19	57.83	2.54	118.11	10.00	300.00	2001.08

*Peer Comparison company financials are based on TTM.
** Financials are related to FY23

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.300, the stock is priced at pre issue P/E of 46.27x on FY23 EPS of Rs.6.48. Post issue, the stock is priced at a P/E of 57.83x on its EPS of Rs.5.19. Looking at the P/B ratio at Rs.300, pre issue, book value of Rs. 72.67 of P/Bvx 4.13x. Post issue, book value of Rs. 118.11 of P/Bvx 2.54x.

Considering the P/E valuation, on the lower end of the price band of Rs.280, the stock is priced at pre issue P/E of 43.18x on FY23 EPS of Rs.6.48. Post issue, the stock is priced at a P/E of 53.97x on its EPS of Rs.5.19. Looking at the P/B ratio at Rs.280, pre issue, book value of Rs. 72.67 of P/Bvx 3.85x. Post issue, book value of Rs. 118.11 of P/Bvx 2.37x.

Industry Outlook

IFM market in India has been growing steadily over the last decade and is set to witness significant growth momentum over the next 5 years. The total IFM market in India in the Financial Year ended March 31, 2023 is valued at Rs. 100,386.7 crore and around 39.3% of this is outsourced to 3rd party companies. Between the Financial Year ended March 31, 2018 and the Financial Year ended March 31, 2023, the outsourced Indian IFM market grew at a CAGR of 9.5%. In the Financial Year ended March 31, 2023 the outsourced IFM market was estimated to be worth Rs. 39,480.0 crores. The demand for IFM services has increased as people's references for a safe, clean, and secure environment have grown. The outsourced IFM market is expected to grow at a CAGR of 17.0% from the Financial Year ended March 31, 2023 – the Financial Year ended March 31, 2028 and reach Rs. 86,442.0 crore. Indian IFM market is highly fragmented with close to 270 – 300 companies operating across the country. There are around 8 large companies comprising of Tier 1 category and have their presence across geographies and control about 19.6% of the total market in Financial Year ended March 31, 2023. The market for BSS is valued at Rs. 7,115 crores in the Financial Year ended March 31, 2023. The market recorded a CAGR of 8.0% from the Financial Year ended March 31, 2018 to the Financial Year ended March 31, 2023. The BSS market is expected to grow at a CAGR of 15.3% from the Financial Year ended March 31, 2022 – the Financial Year ended March 31, 2028 and reach Rs. 14,477.6 crores.

Outlook

The company is the second largest company in the IFM space across the country with diverse client base. Over the years it has developed longstanding relationship with customers across diverse sectors leading to recurring business, this goes well for its business which is on an annuity-based model where a customer once secured, generates revenue over a long period of time. The company operates with very low margin and carries high receivables thus exposes it to liquidity risk. The opportunity for the organized segment of the sector for growth is huge in the long run thus investor may opt investing with long term objective.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	25-September-23
BID/ISSUE CLOSES ON	27-September-23
Finalisation of Basis of Allotment with the Designated Stock Exchange	04-October-23
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	05-October-23
Credit of Equity Shares to demat accounts of Allottees	06-October-23
Commencement of trading of the Equity Shares on the Stock Exchanges	09-October-23

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-232 (12 Months)	Period ended 31-Mar-21 (12 Months)
Revenue from operations	2098.89	1483.55	1210.03
Total expenditure	2006.30	1405.35	1143.97
Operating Profit	92.59	78.20	66.06
OPM%	4.41	5.27	5.46
Other Income	13.20	14.34	6.32
PBDIT	105.80	92.54	72.38
Depreciation	37.04	16.53	14.99
PBIT	68.75	76.01	57.40
Interest	14.57	5.07	2.97
Profit before tax	54.19	70.94	54.43
Tax expense	19.58	13.57	6.87
PAT	34.60	57.37	47.56

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-23	As on 31-Mar-22	As on 31-Mar-21
Non-current assets			
Property, plant and equipment	60.79	33.20	13.51
Capital work-in-progress	0.00	4.12	0.32
Goodwill	194.79	128.03	45.70
Right of Use Asset	40.21	12.04	3.67
Other intangible assets	63.61	31.13	12.02
Intangible assets under development	0.23	0.00	0.00
Contract Assets	22.16	18.48	10.83
Financial Assets			
Investments	0.01	0.01	0.01
Loans	0.13	0.16	0.00
Other financial assets	27.39	30.73	13.91
Deffered tax assets (net)	48.81	47.38	38.11
Non-current tax assets (net)	54.72	51.94	48.95
Other non-current assets	2.37	12.08	0.89
Total non-current assets	515.20	369.29	187.93
Current assets			
Inventories	6.99	6.33	5.01
Financial Assets			
Investments	3.80	0.00	4.03
Contract Assets	66.82	56.09	33.17
Trade receivables	427.73	347.49	268.94
Cash and cash equivalents	114.67	57.29	44.58
Bank balances other than cash and cash equivalents	50.43	13.73	19.23
Loans	0.74	0.63	0.46
Other financial assets	6.68	8.94	5.82
Other current assets	23.91	14.79	10.32
Total current assets	701.75	505.28	391.56
Total Assets	1216.95	874.57	579.49
Non-current liabilities			
Financial liabilities			
Borrowings	17.93	0.00	0.00
Lease Liabilities	28.42	7.87	2.32
Other financial liabilities	113.87	80.41	8.45
Net employee defined benefit liabilities	53.95	48.80	33.96
Deferred tax liabilities (net)	15.75	10.85	2.56
Total non-current liabilities	229.92	147.93	47.29
Current liabilities			
Financial Liabilities			
Borrowings	158.61	58.68	11.61
Lease Liabilities	14.90	4.77	2.18
Total outstanding dues of ME&SE	17.44	5.78	3.89
Total outstanding dues of creditors other than ME&SE	61.90	39.90	27.97
Other financial liabilities	232.19	178.06	117.43
Short term provisions	10.75	9.99	10.49
Net employee defined benefit liabilities	22.26	19.25	17.38
Other current liabilities	75.44	60.77	45.24
Current tax liabilities (net)	5.73	3.71	3.84
Total current liabilities	599.22	380.90	240.02
Total	829.14	528.83	287.30
NET Worth	387.81	345.74	292.19
Net worth represented by:			
Equity Share Capital	52.95	52.82	52.82
Retained earnings	255.43	222.71	168.36
Capital Redemption reserve	2.11	2.08	2.08
General Reserve	2.66	2.66	2.66
Employee stock option reserve	5.39	4.22	3.41
Security Premium	60.20	55.94	55.94
Foreign Currency translation Reserve	2.16	0.00	0.00
Non controlling interest	6.92	5.31	6.93
Net Worth	387.81	345.74	292.19

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com



Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park , A Wing 401 / 402 ,
4th Floor , Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court, Gate No.- 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

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