

Auto Ancillary | Q4FY23 Result Update

Growth drivers remain intact

- SSWL displayed weak margin performance in Q4FY23 due to weaker geography mix, lower contribution from alloy wheels and higher raw material prices. Revenue grew by 7.1% QoQ to Rs.10.04bn led by strong domestic demand partially offset by weaker export. EBITDA grew 0.5 % QoQ to Rs.1.08bn. EBITDA margin contracted 70 bps QoQ to 10.8%.
- Demand Outlook-** Management expects to outperform industry growth with 12-15% volume growth. Management is confident about achieving export revenue of Rs.5- 6bn FY24E vs 2.9bn in FY23. However we expect improvement in export revenue to be gradual.
- We expect earnings to grow at CAGR of 20% from FY23-25E led by 1) healthy demand in the PV and CV segment and shift in volume in SUVs, 2) Rising share of Exports, 3) Increasing presence in the high margin alloy wheels (PV) segment, 4) De-leveraging balance sheet due to strong FCF generation and 5) Improvement in return ratios leading to multiple re-rating. **We value the stock at Rs.215 (based on 12X FY25E EPS) and Recommend BUY.**

Domestic Revenue to see gradual recovery

PVs and CVs contribute more than 80% of revenue in overall domestic business while 95% in export business. The company has a strong market share of more than 50% in PVs and CVs. In PVs the key customers of the company include names like Maruti Suzuki, Hyundai, Mahindra, Honda, MG Motors, and Kia in the steel and alloy wheels' segment. In the domestic MHCV market, Ashok Leyland & Tata Motors are major customers for the company.

Poised to leverage SUV acceleration

Realization in SUV segment is higher as wheel size is bigger compared to other 4Ws, Realization difference for Cars and SUVs-for steel segment is Rs.300-400/wheels. As the company has a very strong presence in the SUV segment, realization is expected to be strong in the 4W segment. Currently, the key models that the company caters to Brezza, Nexon, Creta, XUV 700, MG Hector KIA Seltos, Sonet, Scorpio N etc.

Q4FY23 Result (Rs Mn)

| Particulars | Q4FY23 | Q4FY22 | YoY (%) | Q3FY23 | QoQ (%) |
|-------------------|--------|--------|---------|--------|---------|
| Revenue | 10,049 | 10,633 | (5.5) | 9,384 | 7.1 |
| Total Expense | 8,965 | 9,519 | (5.8) | 8,306 | 7.9 |
| EBITDA | 1,085 | 1,114 | (2.6) | 1,079 | 0.5 |
| Depreciation | 200 | 189 | 5.4 | 202 | (1.3) |
| EBIT | 885 | 924 | (4.2) | 877 | 1.0 |
| Other Income | 67 | 55 | 22.3 | 20 | 228.0 |
| Interest | 227 | 195 | 16.5 | 220 | 3.0 |
| EBT | 725 | 785 | (7.7) | 677 | 7.1 |
| Tax | 252 | 295 | (14.6) | 243 | 3.9 |
| RPAT | 473 | 490 | (3.4) | 434 | 8.9 |
| APAT | 473 | 489 | (3.2) | 434 | 8.9 |
| | | | (bps) | | (bps) |
| Gross Margin (%) | 34.5 | 36.5 | (208) | 37.1 | (267) |
| EBITDA Margin (%) | 10.8 | 10.5 | 32 | 11.5 | (70) |
| NPM (%) | 4.7 | 4.6 | 10 | 4.6 | 8 |
| Tax Rate (%) | 34.8 | 37.6 | (285) | 35.8 | (107) |
| EBIT Margin (%) | 8.8 | 8.7 | 12 | 9.3 | (53) |

| | | | |
|--------------------------|-----------------|-----|------|
| CMP | Rs 148 | | |
| Target / Upside | Rs 215 / 45% | | |
| NIFTY | 18,534 | | |
| Scrip Details | | | |
| Equity / FV | Rs 156mn / Rs 1 | | |
| Market Cap | Rs 23bn | | |
| | USD 281.3mn | | |
| 52-week High/Low | Rs 185 / 128 | | |
| Avg. Volume (no) | 116,254 | | |
| Bloom Code | SSW IN | | |
| Price Performance | | | |
| 1M | 3M | 12M | |
| Absolute (%) | (9) | (1) | (4) |
| Rel to NIFTY (%) | (15) | (8) | (16) |

Shareholding Pattern

| | Sep'22 | Dec'22 | Mar'23 |
|-----------------|--------|--------|--------|
| Promoters | 62.6 | 62.9 | 62.9 |
| MF/Banks/FIs | 0.0 | 0.0 | 0.0 |
| FIs | 0.1 | 0.1 | 0.1 |
| Public / Others | 37.3 | 36.1 | 36.1 |

Valuation (x)

| | FY23A | FY24E | FY25E |
|-----------|-------|-------|-------|
| P/E | 11.9 | 9.2 | 8.3 |
| EV/EBITDA | 6.6 | 5.6 | 4.8 |
| ROE (%) | 18.6 | 20.0 | 18.3 |
| RoACE (%) | 14.8 | 15.8 | 15.4 |

Estimates (Rs bn)

| | FY23A | FY24E | FY25E |
|-----------|-------|-------|-------|
| Revenue | 40.4 | 41.4 | 43.2 |
| EBITDA | 4.4 | 4.9 | 5.2 |
| PAT | 1.9 | 2.5 | 2.8 |
| EPS (Rs.) | 12.4 | 16.1 | 17.9 |

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Alloy wheels- Revenue and margin driver

Revenue contribution from alloy wheel has increased from 7% in FY20 to ~33% in FY23. Earlier OEMS like Hyundai and Kia used to import alloy wheels but now they are sourcing material domestically and SSWL received a huge business for alloy wheels from Hyundai and Kia.

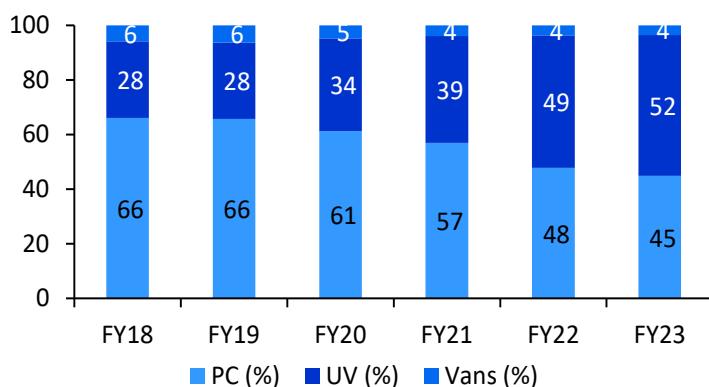
Alloy wheel industry penetration 30% in 4W and likely to increase rapidly in next two years due to increasing SUV proportion. Realization in alloy wheels is 3-4x higher than steel wheels. Moreover, Alloy wheels have 8-10% higher gross margin vs steel wheels.

Going ahead Alloy wheels is expected to be a big revenue and margin driver. Alloy Wheels capacity will increase from 3mn units in FY23 to 4.5-5mn in the next 18-24 months in phases. This new capacity will be utilized to cater customer in domestic as well as export market which will further increase company's market share in alloy wheels segment. In export Market Company expect Rs.800-1,000mn revenue from alloys exports. Company also strengthening its position of alloy wheels in aftermarket and currently in discussion with many OEMS to supply the same.

Export to be medium to long term growth driver

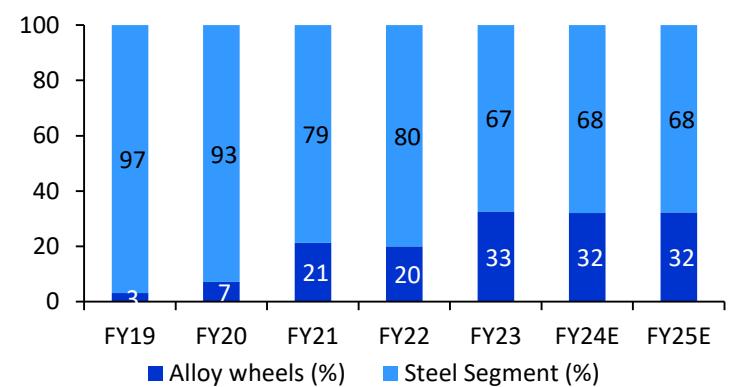
Exports revenue dropped by ~65% to Rs.2.9bn in FY23, the company aims to clock Rs.5-6bn export sales in FY24. Decline was mainly due to sluggish demand in American market on account of lower production by OEMs. Company is selected as preferred supplier for two large OEMS in America and it will supply both type of wheels to these. Company is benefitting from antidumping duty levied on Chinese and Moroccan player in American and European market. Key clients in exports on the OEMs side are PSA, Jaguar and BMW. Except for OEMS, SSWL also supplies wheels to Trailer manufacturers.

Exhibit 1: Increasing share of UVs in PV Industry



Source: Company, DART

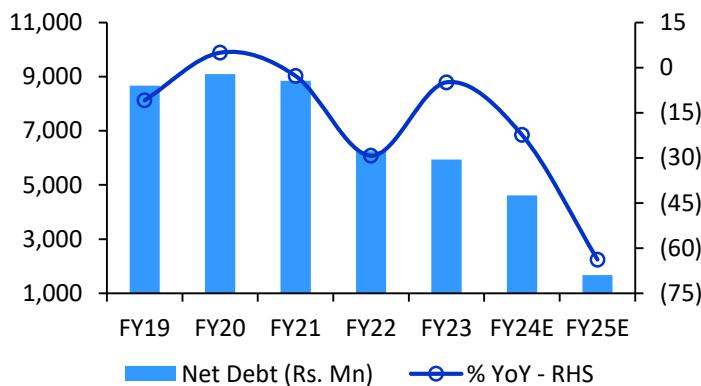
Exhibit 2: Increasing Alloy contribution in SSWL



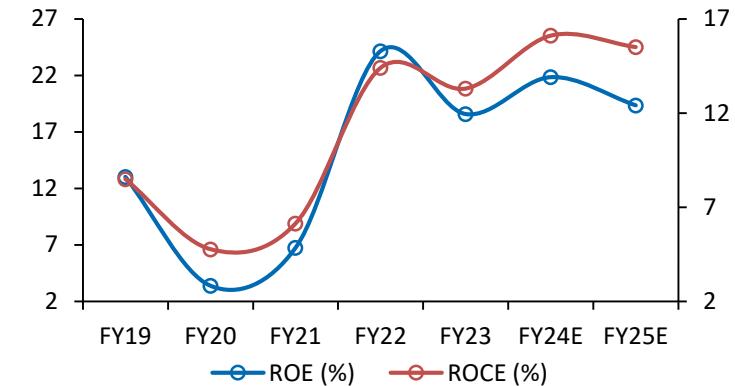
Source: Company, DART

Deleveraging balance sheet

The company paid Rs.1.5bn debt in FY23 and the debt repayment schedule is Rs.600mn in FY24 and we expect strong FCF generation of around Rs.6bn over FY23-25E to help further reduce debt of the company and lead to stronger ROE and ROCE.

Exhibit 3: Net Debt to reduce from FY24 onwards


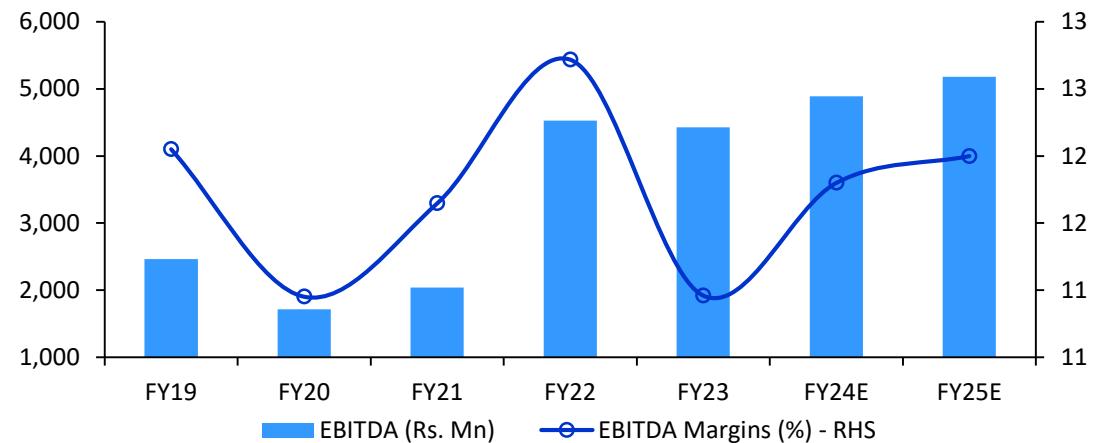
Source: Company, DART

Exhibit 4: Improvement in return ratio


Source: Company, DART

Diversification

Company is developing controller for EVs with Redler technologies and is in the process of signing definitive agreement shortly. It has already started production of this product for sample and supply will start in next 4-5 months. Apart from this it is also developing aluminium casting product for EV 4Ws. For aluminium casting business visibility is strong as it is an import substitute and are being developed with OEM's approval. Supply for this product will start from next year onwards.

Exhibit 5: EBITDA Margins to improve gradually


Source: Company, DART

Exhibit 6: Summary of quarterly performance

| Particulars | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | FY24E |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net sales (Rs.mn) | 6,999 | 6,781 | 9,580 | 8,605 | 10,633 | 10,161 | 10,811 | 9,384 | 10,049 | 41,428 |
| % YoY | 81 | 464 | 137 | 64 | 52 | 50 | 13 | 9 | (5) | 2.5 |
| % QoQ | 33 | (3) | 41 | (10) | 24 | (4) | 6 | (13) | 7 | |
| Materials | 4,536 | 4,319 | 5,707 | 5,096 | 6,749 | 6,794 | 7,354 | 5,901 | 6,587 | 26,928 |
| % sales | 64.8 | 63.7 | 59.6 | 59.2 | 63.5 | 66.9 | 68.0 | 62.9 | 65.5 | 65.0 |
| Employee cost | 574 | 474 | 521 | 555 | 637 | 652 | 661 | 739 | 785 | 2,817 |
| % sales | 8.2 | 7.0 | 5.4 | 6.4 | 6.0 | 6.4 | 6.1 | 7.9 | 7.8 | 6.8 |
| Other op cost | 1,027 | 1,010 | 1,982 | 1,888 | 2,133 | 1,621 | 1,624 | 1,666 | 1,592 | 6,794 |
| % sales | 14.7 | 14.9 | 20.7 | 21.9 | 20.1 | 16.0 | 15.0 | 17.8 | 15.8 | 16.4 |
| EBITDA (Rs.mn) | 861 | 978 | 1,370 | 1,066 | 1,114 | 1,093 | 1,172 | 1,079 | 1,085 | 4,888 |
| % YoY | 174.0 | 4074.9 | 175.1 | 62.7 | 29.4 | 11.8 | (14.5) | 1.2 | (2.6) | 10.4 |
| Margin (%) | 12.3 | 14.4 | 14.3 | 12.4 | 10.5 | 10.8 | 10.8 | 11.5 | 10.8 | 11.8 |

Source: Company, DART

Exhibit 7: Key Assumptions

| (RS.mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|-----------------------|---------------|--------|--------|--------|--------|
| Domestic Sales | 13,180 | 22,725 | 34,964 | 34,958 | 36,121 |
| % YoY | 9.2 | 72.4 | 53.9 | (0.02) | 3.3 |
| Export Sales | 2,729 | 5,411 | 2,932 | 4,212 | 5,019 |
| % YoY | 23.2 | 98.3 | (45.8) | 43.6 | 19.2 |
| Others | 1,585 | 4,590 | 2,509 | 2,258 | 2,032 |
| % YoY | 18 | 190 | (45) | (10) | (10) |
| Total Sales | 17,494 | 35,600 | 40,406 | 41,428 | 43,173 |
| % YoY | 12 | 103 | 14 | 3 | 4 |

Source: Company, DART

Exhibit 8: Change in estimates

| Particulars (Rs.mn) | FY24E | | | FY25E | | |
|---------------------|--------|----------|---------|--------|----------|---------|
| | New | Previous | Chg (%) | New | Previous | Chg (%) |
| Revenue | 41,428 | 44,406 | (6.7) | 43,173 | 48,113 | (10.3) |
| EBITDA | 4,888 | 5,418 | (9.8) | 5,181 | 5,966 | (13.2) |
| EBITDA margin (%) | 11.8 | 12.2 | (40) | 12.0 | 12.4 | (40) |
| APAT | 2,521 | 2,847 | (11.4) | 2,796 | 3,317 | (15.7) |
| EPS | 16.2 | 18.2 | (11.4) | 17.9 | 21.3 | (15.7) |

Source: Company, DART

Earnings call KTA

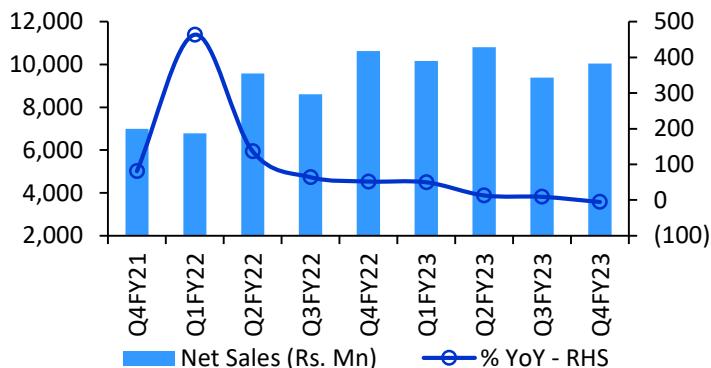
- **Outlook-** Management expects 15% volume growth in FY24 revenues to touch Rs.46bn (with EBITDA of Rs.4.5bn) lead by healthy growth in CVs, and PVs, higher export and more contribution from alloy wheels' business. Company expects to outperform industry on account of higher export, richer product mix (higher contribution of alloy wheels), capacity expansion of alloy wheels and launching of new EV products.
- **Export-** Company exports declined in FY23 to Rs.2.92bn. Decline was mainly due to sluggish demand in American market on account of lower production by OEMs. Import duty on Chinese product is still benefitting company in American market. As demand have already bottomed out in export market. Company expect better export in FY24 (FY24 company has ambitious target to achieve Rs.5-6bn revenue from export).
- **Margin-** Going ahead company expects margin to be steady on account of more value added products, softening commodity prices, higher contribution of Alloy wheels and cost cutting measures. In export shipping cost is straight pass through to the customers.
- **Alloy Wheels-** The current capacity is 3mn alloy wheels per annum which is fully utilised and plans to take it to 4.8-5 mn by FY25. New capacity will be utilised to cater customer in domestic as well as export market which will further increase company's market share in alloy wheels segment. In export market, company have already supplying alloy wheels in aftermarket and currently in discussion with many OEMS to supply the same. Management expects alloy wheels revenue to grow in high single digit in FY24 (expect Rs.1bn revenue in FY24). However in alloy wheels Aftermarket Company is facing tough competition from Chinese players.
- **New Products (EV)-** In EV Company have developed EV 2 W wheels. In future it is planning to develop integrated powertrain with complete assembly of wheel Motor and controller. Company is also developing aluminium casting product for EV 4Ws. In the aluminium casting business is secured as company is developing this product with OEMS approval. By the end of June quarter's company will start production for samples and from supply will start from next year onwards.
- **Capex and Debt-** Planned capex for FY24 is Rs.1.5bn. The total debt (including WC) stood at Rs.6.38bn Vs. Rs.7.77bn in FY22. The long term debt reduced by 1.52bn to Rs.2.22bn. Company maintains Debt/ equity at 0.5x. Company will be focus on deleveraging and improving ROCE while going ahead.
- **Current capacity utilisation** stands at 96%.

Others

- **Market Share-** In domestic market, company holds 50% market share in PV segment, 53% in MHCV Segment, 44% in tractor segment, 70% in OTR segment and 30% in 2/3 wheelers.
- **In volume terms** (in lakhs) 2W &3W- 22.8, PV-110, OTR-0.9, CV-26.6, Tractor-15.8. In Value terms (in cr) 2W &3W- 83.69, PV- 1925, OTR-48, CV-1236, and Tractor-495.
- Company expects **effective tax rate** of 25% from next financial year.
- For FY23, Company have sold 176.2 L steel wheels.

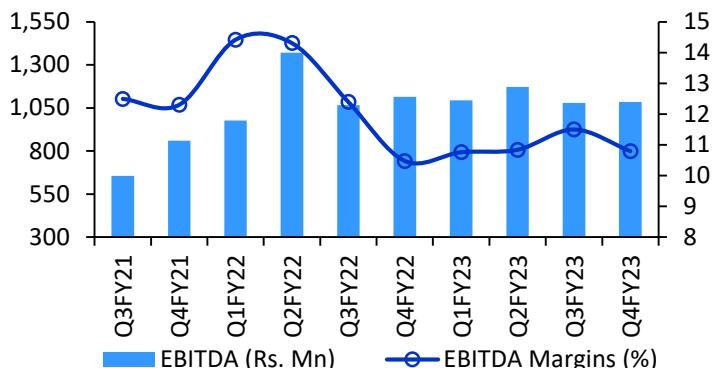
Story in charts

Exhibit 9: Revenue grew QoQ



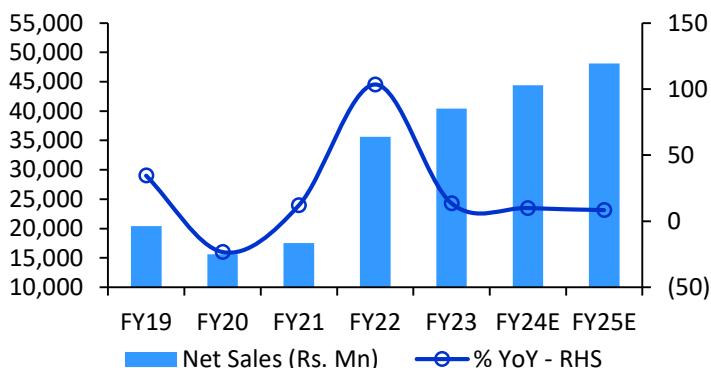
Source: Company, DART

Exhibit 10: EBITDA margin contracted QoQ



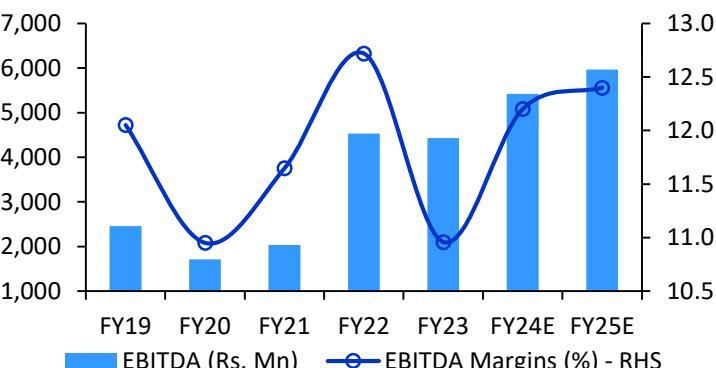
Source: Company, DART

Exhibit 11: Revenue growth remain healthy



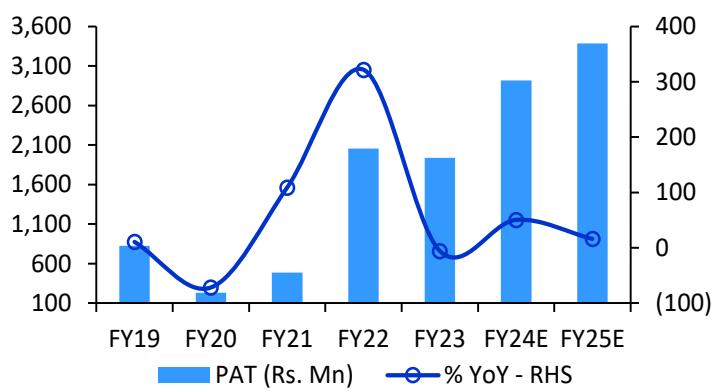
Source: DART, Company

Exhibit 12: EBITDA to improve gradually



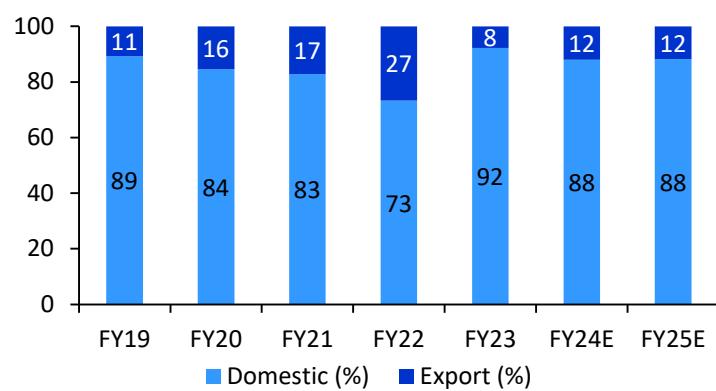
Source: DART, Company

Exhibit 13: Exhibit 12: PAT CAGR of 20% from FY23-25E

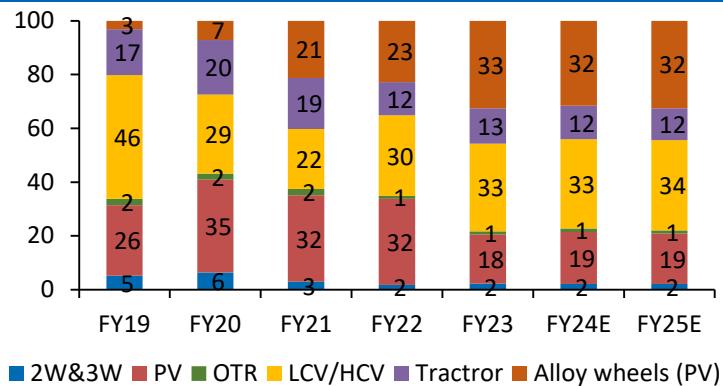


Source: DART, Company

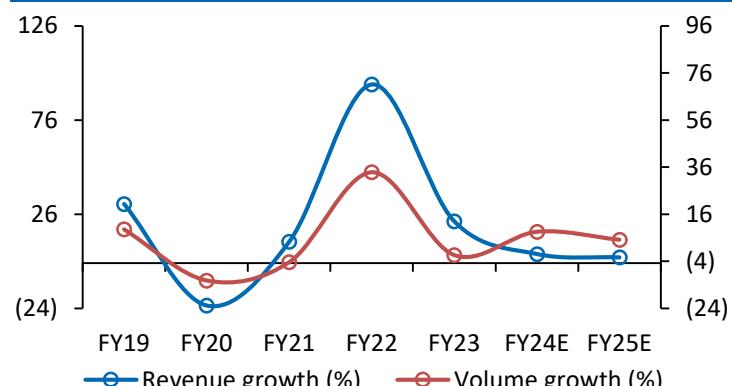
Exhibit 14: Sales mix



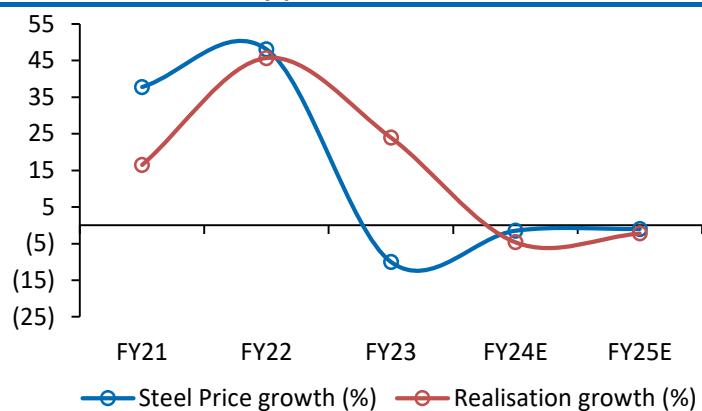
Source: DART, Company

Exhibit 15: Improving Segment mix (%)


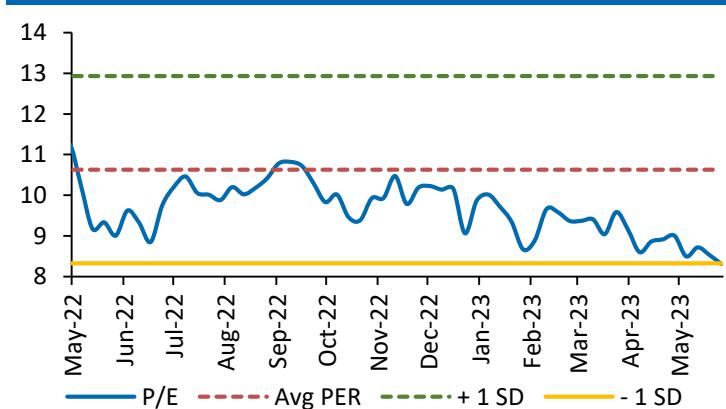
Source: DART, Company

Exhibit 16: Revenue vs Volume growth (%)


Source: DART, Company

Exhibit 17: Commodity prices vs realization


Source: DART, Company

Exhibit 18: 1 year Forward PE band


Source: DART, Company

Financial Performance

Profit and Loss Account

| (Rs Mn) | FY22A | FY23A | FY24E | FY25E |
|--|---------------|---------------|---------------|---------------|
| Revenue | 35,600 | 40,406 | 41,428 | 43,173 |
| Total Expense | 31,072 | 35,977 | 36,539 | 37,992 |
| COGS | 21,871 | 26,636 | 26,928 | 28,063 |
| Employees Cost | 2,187 | 2,837 | 2,817 | 2,849 |
| Other expenses | 7,014 | 6,504 | 6,794 | 7,080 |
| EBIDTA | 4,528 | 4,428 | 4,888 | 5,181 |
| Depreciation | 769 | 804 | 871 | 915 |
| EBIT | 3,759 | 3,624 | 4,017 | 4,266 |
| Interest | 854 | 835 | 665 | 533 |
| Other Income | 130 | 124 | 150 | 150 |
| Exc. / E.O. items | 0 | 0 | 0 | 0 |
| EBT | 3,035 | 2,912 | 3,502 | 3,883 |
| Tax | 981 | 974 | 981 | 1,087 |
| RPAT | 2,055 | 1,938 | 2,521 | 2,796 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Profit/Loss share of associates | 0 | 0 | 0 | 0 |
| APAT | 2,055 | 1,938 | 2,521 | 2,796 |

Balance Sheet

| (Rs Mn) | FY22A | FY23A | FY24E | FY25E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Sources of Funds | | | | |
| Equity Capital | 156 | 156 | 156 | 156 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Reserves & Surplus | 9,362 | 11,191 | 13,712 | 16,508 |
| Net Worth | 9,518 | 11,347 | 13,868 | 16,664 |
| Total Debt | 6,828 | 6,383 | 5,183 | 4,083 |
| Net Deferred Tax Liability | 1,706 | 1,716 | 1,716 | 1,716 |
| Total Capital Employed | 18,052 | 19,445 | 20,766 | 22,462 |

Applications of Funds

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Net Block | 13,596 | 13,485 | 14,920 | 14,806 |
| CWIP | 969 | 1,634 | 634 | 634 |
| Investments | 2 | 42 | 42 | 42 |
| Current Assets, Loans & Advances | 12,448 | 12,653 | 14,030 | 16,141 |
| Inventories | 6,470 | 7,339 | 6,810 | 7,097 |
| Receivables | 3,923 | 3,487 | 5,108 | 5,323 |
| Cash and Bank Balances | 579 | 440 | 688 | 2,253 |
| Loans and Advances | 264 | 269 | 252 | 237 |
| Other Current Assets | 1,212 | 1,117 | 1,173 | 1,231 |
| Less: Current Liabilities & Provisions | 8,964 | 8,368 | 8,859 | 9,160 |
| Payables | 6,591 | 6,948 | 6,810 | 7,097 |
| Other Current Liabilities | 2,373 | 1,420 | 2,049 | 2,063 |
| <i>sub total</i> | | | | |
| Net Current Assets | 3,485 | 4,284 | 5,171 | 6,981 |
| Total Assets | 18,052 | 19,445 | 20,766 | 22,462 |

E – Estimates

Important Ratios

| Particulars | FY22A | FY23A | FY24E | FY25E |
|---|--------|--------|--------|--------|
| (A) Margins (%) | | | | |
| Gross Profit Margin | 38.6 | 34.1 | 35.0 | 35.0 |
| EBIDTA Margin | 12.7 | 11.0 | 11.8 | 12.0 |
| EBIT Margin | 10.6 | 9.0 | 9.7 | 9.9 |
| Tax rate | 32.3 | 33.5 | 28.0 | 28.0 |
| Net Profit Margin | 5.8 | 4.8 | 6.1 | 6.5 |
| (B) As Percentage of Net Sales (%) | | | | |
| COGS | 61.4 | 65.9 | 65.0 | 65.0 |
| Employee | 6.1 | 7.0 | 6.8 | 6.6 |
| Other | 19.7 | 16.1 | 16.4 | 16.4 |
| (C) Measure of Financial Status | | | | |
| Gross Debt / Equity | 0.7 | 0.6 | 0.4 | 0.2 |
| Interest Coverage | 4.4 | 4.3 | 6.0 | 8.0 |
| Inventory days | 66 | 66 | 60 | 60 |
| Debtors days | 40 | 32 | 45 | 45 |
| Average Cost of Debt | 10.5 | 12.6 | 11.5 | 11.5 |
| Payable days | 68 | 63 | 60 | 60 |
| Working Capital days | 36 | 39 | 46 | 59 |
| FA T/O | 2.6 | 3.0 | 2.8 | 2.9 |
| (D) Measures of Investment | | | | |
| AEPS (Rs) | 13.1 | 12.4 | 16.1 | 17.9 |
| CEPS (Rs) | 18.1 | 17.5 | 21.7 | 23.7 |
| DPS (Rs) | 0.7 | 0.8 | 0.8 | 0.8 |
| Dividend Payout (%) | 5.7 | 6.4 | 5.0 | 4.5 |
| BVPS (Rs) | 60.9 | 72.5 | 88.7 | 106.5 |
| RoANW (%) | 24.2 | 18.6 | 20.0 | 18.3 |
| RoACE (%) | 15.9 | 14.8 | 15.8 | 15.4 |
| RoAIC (%) | 21.2 | 19.9 | 20.6 | 21.2 |
| (E) Valuation Ratios | | | | |
| CMP (Rs) | 148 | 148 | 148 | 148 |
| P/E | 11.3 | 11.9 | 9.2 | 8.3 |
| Mcap (Rs Mn) | 23,116 | 23,116 | 23,116 | 23,116 |
| MCap/ Sales | 0.6 | 0.6 | 0.6 | 0.5 |
| EV | 29,364 | 29,059 | 27,610 | 24,945 |
| EV/Sales | 0.8 | 0.7 | 0.7 | 0.6 |
| EV/EBITDA | 6.5 | 6.6 | 5.6 | 4.8 |
| P/BV | 2.4 | 2.0 | 1.7 | 1.4 |
| Dividend Yield (%) | 0.5 | 0.5 | 0.5 | 0.5 |
| (F) Growth Rate (%) | | | | |
| Revenue | 103.5 | 13.5 | 2.5 | 4.2 |
| EBITDA | 122.2 | (2.2) | 10.4 | 6.0 |
| EBIT | 186.0 | (3.6) | 10.9 | 6.2 |
| PBT | 371.3 | (4.0) | 20.2 | 10.9 |
| APAT | 317.1 | (5.7) | 30.1 | 10.9 |
| EPS | 317.1 | (5.7) | 30.1 | 10.9 |

E – Estimates

Cash Flow

| Particulars | FY22A | FY23A | FY24E | FY25E |
|--|----------------|----------------|----------------|----------------|
| Profit before tax | 3,035 | 2,912 | 3,502 | 3,883 |
| Depreciation & w.o. | 769 | 804 | 871 | 915 |
| Net Interest Exp | 854 | 835 | 665 | 533 |
| Direct taxes paid | (981) | (974) | (981) | (1,087) |
| Change in Working Capital | 1,309 | (942) | (638) | (246) |
| Non Cash | 16 | 57 | 83 | 84 |
| (A) CF from Operating Activities | 5,002 | 2,693 | 3,503 | 4,081 |
| Capex {(Inc.)/ Dec. in Fixed Assets n WIP} | (1,649) | (1,358) | (1,500) | (800) |
| Free Cash Flow | 3,353 | 1,335 | 2,003 | 3,281 |
| (Inc.)/ Dec. in Investments | 0 | (40) | 0 | 0 |
| Other | 226 | 53 | 318 | 125 |
| (B) CF from Investing Activities | (1,423) | (1,345) | (1,182) | (675) |
| Issue of Equity/ Preference | 0 | 0 | 0 | 0 |
| Inc./ (Dec.) in Debt | (2,545) | (445) | (1,200) | (1,100) |
| Interest exp net | (854) | (835) | (665) | (533) |
| Dividend Paid (Incl. Tax) | (117) | (125) | (125) | (125) |
| Other | (17) | (82) | (83) | (85) |
| (C) CF from Financing | (3,533) | (1,487) | (2,073) | (1,843) |
| Net Change in Cash | 46 | (139) | 248 | 1,564 |
| Opening Cash balances | 532 | 579 | 440 | 688 |
| Closing Cash balances | 579 | 440 | 688 | 2,252 |

E – Estimates

Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

| | |
|-------------------|-----------|
| Buy | > 20% |
| Accumulate | 10 to 20% |
| Reduce | 0 to 10% |
| Sell | < 0% |

Rating and Target Price History



| Month | Rating | TP (Rs.) | Price (Rs.) |
|--------|--------|----------|-------------|
| Oct-22 | BUY | 254 | 161 |
| Feb-23 | BUY | 255 | 144 |

*Price as on recommendation date

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