Motherson Sumi Systems Limited

Current Price	₹ 359.50
Target Price	₹ 411
Recommendation	BUY
Upside	14%

Market Cap (₹) 748 Billion	P/E 34.10
3M Average Volume 2.22M	P/B: 17.62
52-Week Range 373.65 – 185.57	Dividend Yield 0.56%
TTM EPS 4.5	Book Value 20.16

Annual Ratios (%)	2017	2016	2015
Growth			
Revenue Growth	18%	8%	10%
Book Value	124%	-23%	10%
Average			
Operating Margin %	19.58	16.99	16.67
Profit Margin	13.03	13.40	10.32
RONW	14.25	29.33	24.60
ROCE	11.78	26.54	20.91
ROA	9.99	18.57	13.77
RONW	30.54	30.78	30.91
ROI	35.75	37.07	33.83

SHARE HOLDING PATTERN (%)

	Current
Promoters	75
MF's, FI's, BKs	-
FIIs	11.22
Others	13.78

Motherson Sumi Systems Ltd

BSE: 517334 | NSE: MOTHERSUMI | ISIN: INE775A01035
SECTOR: AUTO ANCILLARIES

About the Company

Founded in 1975, Motherson Sumi Systems Ltd (MSSL) is a world-class supplier of high performance components, modules and systems. The company is the largest supplier of EDS to the Indian automotive industry. They offer a range of products in the fields of electrical distribution systems, plastic molding, elastomers processing, tooling, metal machining, automotive rear view mirrors and integrated modules. They also provide a range of services from design to manufacturing, supplies to logistics to its customers in India and abroad.

The company as a supply partner provides complete solutions to their customers right from product design to mass supplies. They have developed a network of manufacturing bases, design centres, logistics centres, marketing support and sourcing hubs across a diversified geographical base. The company has their presence in 20 countries which include India (Noida, Gurgaon, Faridabad, Manesar, Pune, Lucknow, Bangalore, Chennai, Kandla, & Pondicherry), UAE, Sri Lanka, Singapore, China, Korea, Japan, Germany, UK, Czech Republic, Austria, Hungary, Italy, Spain, France, Ireland, USA, Mexico, Australia & Mauritius to provide timely and quality delivery to our customers worldwide.

Company Management

The company is led by a strong, cohesive cross-culture management team from India and Japan. This synergy has helped give MSSL the edge over its peers. The critical understanding of the Indian and Japanese Automotive industries has helped it stay agile and adapt to new markets as well. The technology transfer between the Indian and Japanese partners has been the driving force behind the stellar success of MSSL.

Name	Designation
Vivek Chaand Sehgal	Chairman
Toshimi Shirakawa	Director
Arjun Puri	Independent Director
Pankaj K Mital	Whole Time Director & COO
Laksh Vaaman Sehgal	Director
G N Gauba	Chief Finance Officer & CS
Sushil Chandra Tripathi	Independent Director
Gautam Mukherjee	Independent Director
Noriyo Nakamura	Director
Geeta Mathur	Independent Director
Naveen Ganzu	Independent Director

Shortlisting Methodology

Indian market has close to **8000** companies listed as part of National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) out of the total **38729** registered companies. We shortlisted the **5** companies based on the below methodology.

- **Step 1**: We took the entire super set of the companies listed in India on the major stock exchanges NSE and BSE. The count of listed companies including dormant/closed companies was **7836**. (Source- Prowess Dx: http://prowessdx.cmie.com/)

- **Step 2**: Then we filtered out the companies for which we did not have sufficient data for the last 5 years and that have not traded actively, bringing down the list to about **1946** companies. The rationale behind this step is that we strongly believe that we need at least **5-year history** of the company to perform valuation of the company.

- **Step 3:** Further, we apply the criteria of **Piotroski 'F Score'** (9 points) and **Internal Growth Indicator** score **(11 points**) – which provides a composite score of recent financial health of the firm.

  Internal Growth Indicator Score of 11 points was based on the following criteria:

CAGR of PAT > 20%	3 points
CAGR of Revenue > 20%	1 point
No negative growth in PAT for last 5 years	1 point
No negative growth in Revenue for last 5 years	1 point
Minimum PAT margin of 7% in last 5 years	2 points
Minimum RONW of 10%	1 point
Minimum ROCE of 10%	1 point

  A minimum score of 16 out of 20 points gave us a list of 24 potential companies.

- **Step 4**: Out of the above **24** companies that were zeroed down to, further analysed the market valuation to see how the market has priced them. We picked up the **5** stocks with a strong intrinsic value, from the diversified sectors, and solid potential to grow over the next few months and years. **PEG Ratio** was used as metric to in this step to filter for valuation and growth potential.

- **Step 5**: Of the 5 stocks we further researched and identified **Motherson Sumi Systems Limited** as our top pick to pitch, which has over the last **42** odd years consistently perform good business in comparison to peers. Good fundamentals, strong future line up of diversified products, positive macro factors are working in the favour of identified **Motherson Sumi Systems Limited**.

Motherson Sumi Systems Limited – Company Financials

MSSL continues to enjoy a positive credit rating from leading ratings agencies. This has helped build confidence with suppliers and customers alike.

International Rating	
Rating	**Moody's ***
Long Term	Baa3 / Stable Outlook

****Moody's has assigned first time Issuer Rating in May 2017***

Domestic Rating		
Rating	**ICRA**	**CRISIL**
Long Term	AA / Stable Outlook	AA / Stable Outlook
Short Term	A1+	A1+

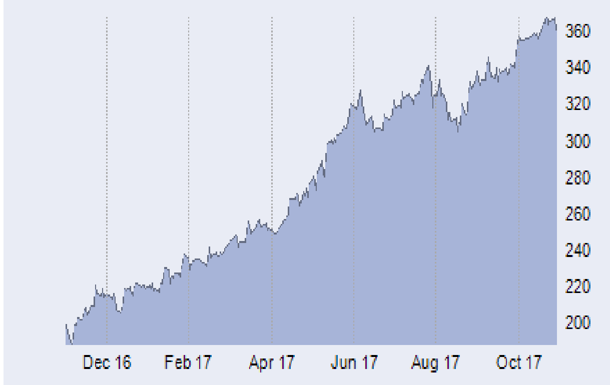
MSSL reported a good set of numbers in the Q2FY18 quarter ending September 2017. Net profit of Motherson Sumi Systems rose 23.67% to INR 593.45 Crore in the quarter ended September 2017 as against INR 479.85 Crore during the previous quarter ended September 2016. Sales rose 33.14% to INR 13338.21 Crore in the quarter ended September 2017 as against INR 10018.09 Crore during the previous quarter ended September 2016.

Particulars	Quarter Ended		
	Sep. 2017	Sep. 2016	% Var.
Sales	13338.21	10018.09	**33**
OPM %	9.38	9.91	**-**
PBDT	1229.69	954.68	**29**
PBT	831.86	690.37	**20**
NP	593.45	479.85	**24**

(Rs in Millions)

Quote		
	BSE	NSE
Last	355.30 -5.90(-1.63 %)	355.45 -6.00(-1.66 %)
Previous	361.20	361.45
Open	362.45	362.00
High	368.80	369.10
Low	351.35	350.85
Traded Date	10 Nov 2017 | 00:00 IST	10 Nov 2017 | 00:00 IST
Volume	308078	3670600
52 W High	373.30	373.65
52 W Low	185.33	185.57

One Year Close Price Graph



Financial Data

Financial Data		TTM Figures	[201709-201612]	Stock Cues [As on 10-11-2017]			
Year End	201703	Sales	66700.60	Equity	2105.29	FV(Rs.)	1.00
Sales	70632.00	Adj.NP	9483.90	Market Capitalization	748009.40	1 Year Return	63.30
Adj. NP	7730.20	PBIDT	13655.90	Promoters Holdings	63.11%	TSR	63.98
Enterprise Value	759054.40	EPS(TTM)	4.16	Book Value	27.56	Beta-Sensex	1.3867
EPS ADJ	3.93	P/E(TTM)	85.41	P/BV	12.89	Beta-Nifty	1.403
PE	63.29	EV/EBIDTA	55.58	Dividend Yield-%	0.68	Sector P/E	82.77
Equity Dividend	0.00	EV/Sales	11.38	Sensex	33314.56(63.63)(0.19%)	Nifty	10321.75(12.80)(0.12%)

Quarters	201709	201706	201703	201612
Adj.NP	2715.10	1912.00	2727.20	2129.60

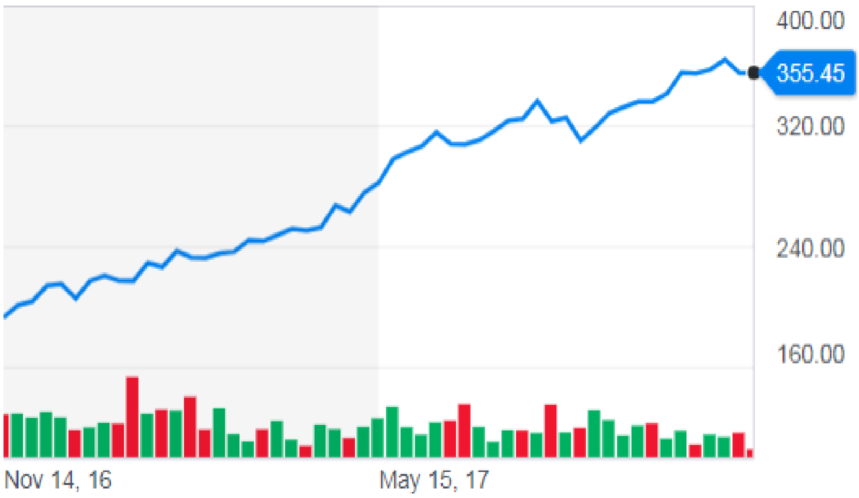


Chart 1: Stock price Analysis FY16-17 (Source : Capitaline)

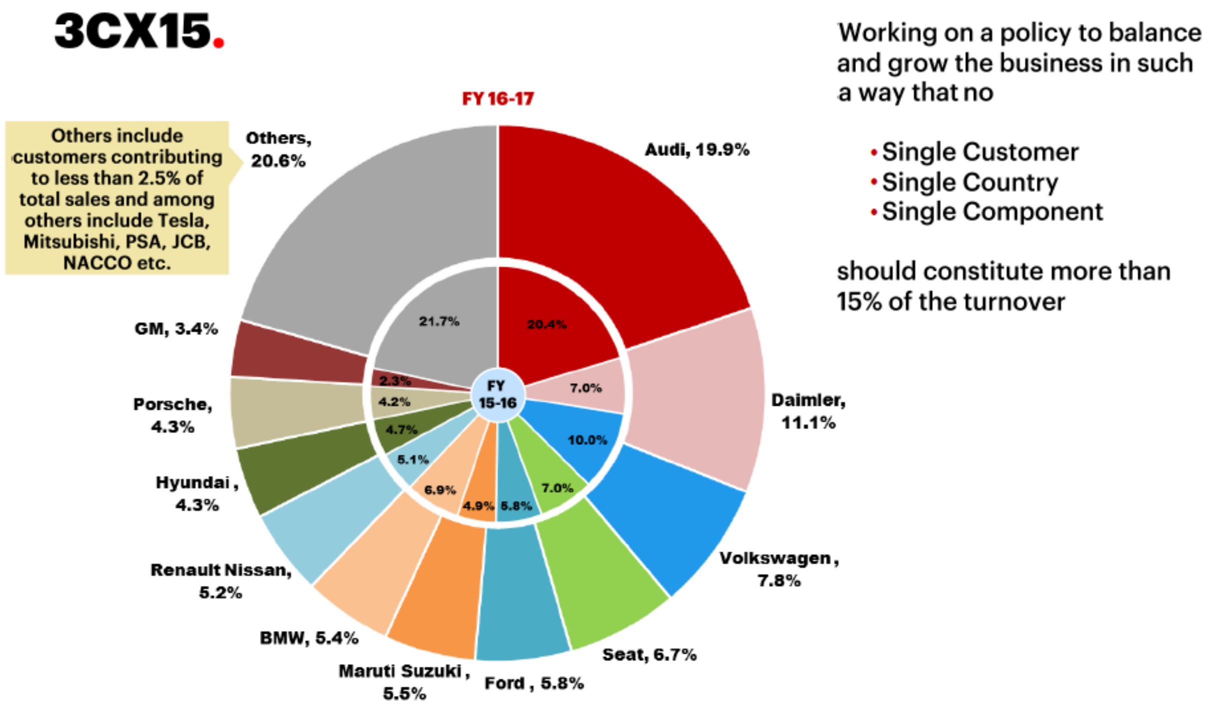
Key growth drivers and Strengths – Why we chose MSSL?

1. The Business outlook:

MSSL follows a cohesive growth strategy that intelligently balances risk while maximizing shareholder wealth. One of the key distinguishing factors that led us to select MSSL is its unique philosophy – **3CX15**. In 3CX15, the business continuously works to balance itself in such a way that…

- No single Customer
- No Single Country
- No Single Component

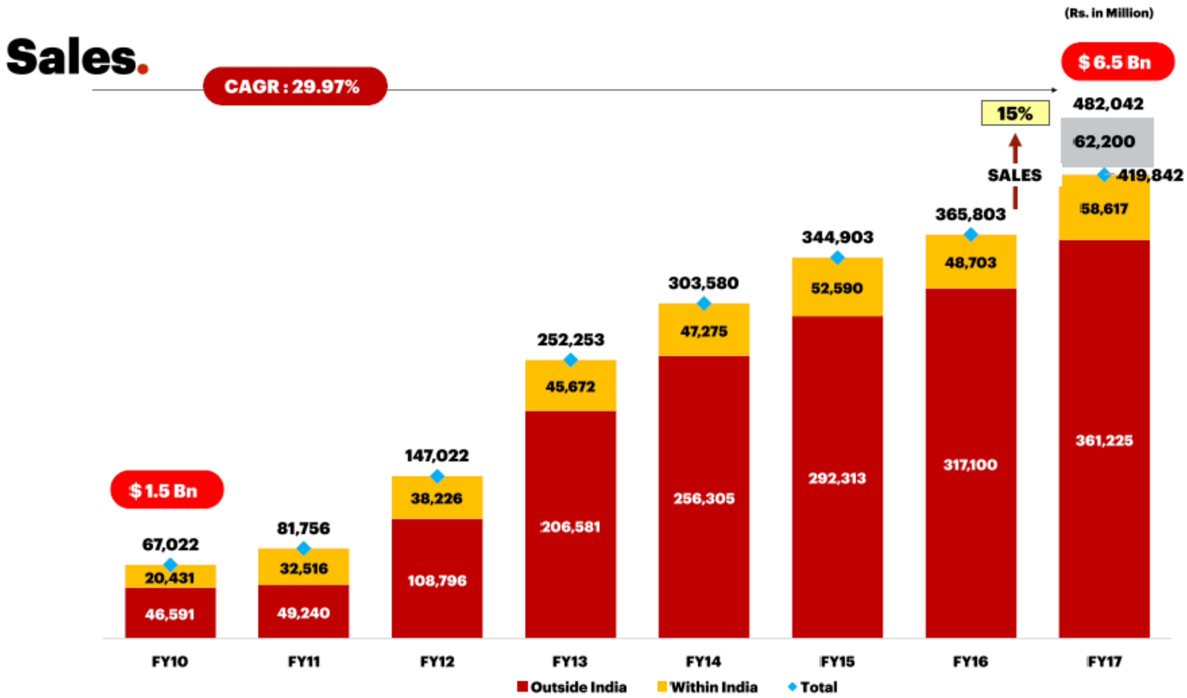
…contributes more than 15% of the turnover.



Source: http://www.motherson.com/motherson-sumi-systems-limited.html

2. History of High Growth –

MSSL has maintained a consistent Sales growth of more than 29%:



Source: http://www.motherson.com/motherson-sumi-systems-limited.html

3. **Product Portfolio**

MSSL has a strong product portfolio diversified across multiple sectors. This has helped it cushion the impact of changing industrial cycles.

4. **Implementation of the GST in India**

The Indian Automotive ancillaries industry is classified in organized and unorganized sectors. GST transition led to inventory destocking by dealers and increase in discounts, resulting in a negative impact on revenue and margin performance. Moreover, most companies were also affected by higher input prices due to their inability to take price hikes. Over the past quarter, auto companies and customers have factored in the price rise and demand is picking up on the back of improved customer sentiment. With the Auto industry accounting for nearly 7% of India's GDP, the Indian automotive component sector is expected to become the third largest in the world. (https://www.ibef.org/industry/autocomponents-india.aspx)

5. **Recent developments in GST**

These are exciting times in India ever since the GST came into force. As per the 23rd GST council meeting on **10th Nov, 2017**, tax on many daily use items has been lowered from 28% to 18%. This includes paints, glass, plastic and rubber – key raw materials for MSSL, This 35% reduction in inputs costs is expected to boost the margins for MSSL. (http://indianexpress.com/article/india/here-is-a-full-list-of-items-under-revised-gst-tax-rates-4932333/)

6. **Unravelling of the 7th Pay commission – A stimulus for the Auto sector**

The implementation of the 7th pay commission recommendation is expected to benefit over 10 million government employees and pensioners in India. The union cabinet has approved has approved an overall pay hike of 23.5%. Historically, this has resulted in a stimulus to the auto sector with a bigger customer base for Automotive companies. (http://www.thehindu.com/news/national/Cabinet-clears-23.5-hike-in-pay-for-Central-govt.-staff/article14410160.ece)

7. **Good Monsoon**

India has just come off on the back of a good monsoon season. Bountiful rain in India benefits the rural segment. Improving rural economy, urbanization will lift the demand for public and private transportation. Demand for farm equipment and commercial vehicles is also expected to rise. (https://economictimes.indiatimes.com/news/economy/indicators/rain-fed-rural-india-to-drive-countrys-consumption-growth-this-year/articleshow/59586142.cms)

8. **Make in India initiative**

India's GDP is expected to maintain a consistent GDP growth of 7% at least amid glocal economic headwinds. The 'Make in India' aims to promote the 25 sectors identified for investment in manufacturing. With the country already witnessing an increase in FDI by nearly 44% since the launch of such initiatives, India seems on its way to achieving its stated target with the government leading the way. 'Make in India' is the proof that the nation is willing to embrace growth by adopting changes on the journey to becoming an economic superpower. With the world's large youth population and ambitious programs such as the Make in India initiative, the Purchasing power of the India consumer has surged benefitting the Auto sector.
(http://www.thehindubusinessline.com/news/india-has-worlds-largest-youth-population-un-report/article6611138.ece)

(http://www.makeinindia.com/article/-/v/make-in-india-embracing-growth-and-change)

Valuation

Motherson Sumi Systems Ltd valuation using the DCF method is expected to be INR 444. Due to this valuation we are projecting a nearly 23% rise in the stock price.

1. The regression of the variation of the 5 year monthly returns from Motherson Sumi Stock with respect to the Nifty index returns gives the value of Beta for the scrip.
2. Yields from the 10 year Government of India Zero Coupon Bond is 7.79%. This gives the risk free rate for the market.
3. Five Year compounded returns from the Nifty index is 12%. The difference between the Nifty 50 annual returns and the Zero Coupon bonds issued by the Govt. Of India gives the risk premium demanded by the market. The Risk Premium is therefore 4.21%. Subsequently using these values the Cost of Equity is calculated.
4. The above value along with the Debt and Equity values (Debt-Equity Ratio) is used to calculate the Weighted Average Cost of Capital (WACC).
5. The stock has a target price of INR 427 and with an expected upside of 19%.
6. The details of the DCF valuation are elaborated in the Annexure below.

DCF Summary:

DCF Summary	in INR crores
Cost of Debt	7.79%
Equity Beta (Levered)	1
Debt to Equity ratio	21%
Cost of Equity	12%
WACC	11.27%
PV from cash flow, years 1 to 6	12,191
PV horizon value	50,173
PV of company	62,364
PV of Debt	1,220
Present Value of Equity (INR Million)	61,144
No. of outstanding shares	1,403,526,327
Forecasted Value per share	**436**

Peer Comparison

Motherson Sumi Systems Limited (MSSL) has a high PE, but the nominal PE for its segment is 71. Hence MSSL has still some headroom to grow from its current PE of 34.

MSSL has made acquisitions this year and entered into agreements which have its implications on the balance sheet. However, given the successful execution of projects, it is expected that with the operating margin of ~20% it will be able to generate future cash flows.

MSSL Divided yield is lower compared to its peers. This shows that the management is retaining earnings for expansion.

MSSL P/E & P/B ratios clearly reflect investor confidence in the Company's expansion and diversification.

Particulars	**Motherson Sumi**	**Bosch**	**Exide Ind**	**Amara Raja Batt**	**WABCO India**
Enterprise value (EV)	53,310.12	67,757.13	19,186.41	15,082.21	5.20
Enterprise value to EBIDTA (EV/EBIDTA)	38.55	26.28	16.17	16.77	5.33
Price to Earnings (PE)	34.1	-	-	29.25	57.09
Price to Book (PB)	9.02	7.9	3.84	5.86	5.33
Dividend Yield	0.02	0.03	0.04	0.03	0.03
ROCE	11.78	18.98	13.42	16.93	16.52

DCF valuation indicates that stock can move upside 19 %. Peer comparison also reveals there is a momentum for MSSL. It is expected that MSSL has a 19% gain target from present levels and is considered a BUY.

Annexure I

Company Valuation based on the **Discounted Cash Flow (DCF)** method.

	Current	Forecast						Terminal Value
	0	1	2	3	4	5	6	7
Cash from Operations	707	813	935	1075	1236	1422	1635	1749
Investment in fixed assets	18	98	37	51	98	45	-26	-17
Cash Flow From Returns to new Investments	899	1034	1189	1368	1573	1809	2080	2226
Net cash Flow	1588	1749	2088	2392	2712	3186	3742	3993
Discounted Cash Flow	1588	1572	1686	1736	1769	1868	1972	105944

PV from cash flow, years 1 to 6	12,191
PV horizon value	50,173
PV of company	62,364
PV of Debt	1,220
Present Value of Equity (INR Million)	61,144
No. of outstanding shares	1,403,526,327
Forecasted Value per share	**436**

Assumptions								
Sales growth %	15%	15%	15%	15%	15%	15%	15%	7.0%
ROCE %	20%	20%	20%	20%	20%	20%	20%	20%
Long term growth forecast %	7.5%							
WACC	11.27%							

DCF Summary

DCF Summary	in INR crores
Cost of Debt	7.79%
Equity Beta (Levered)	1
Debt to Equity ratio	21%
Cost of Equity	12%
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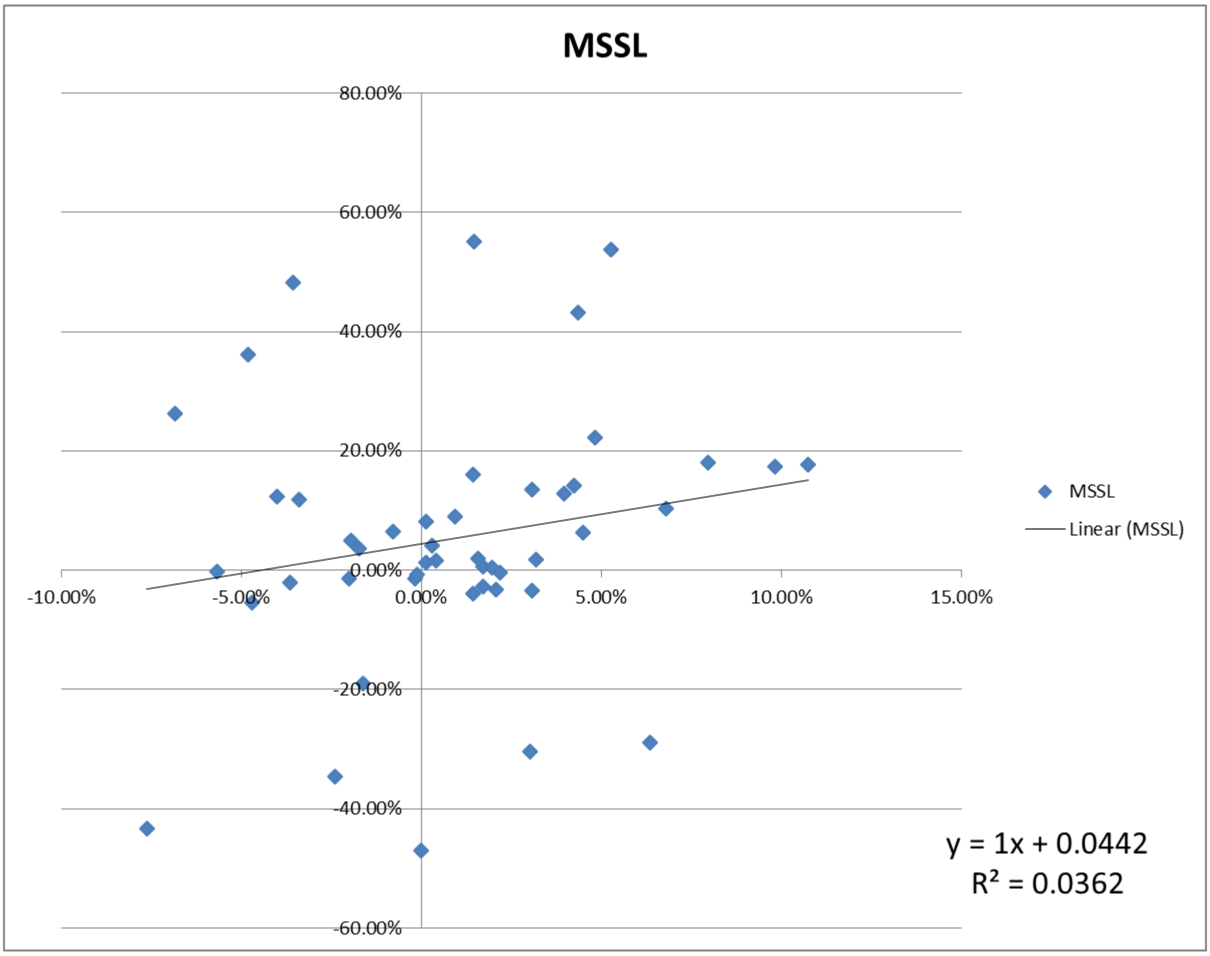
PV of Debt	1,220
Present Value of Equity (INR Million)	61,144
No. of outstanding shares	1,403,526,327
Forecasted Value per share	**436**

Annexure II

The following chart represents the beta calculation measuring the MSSL stock price variation vis-à-vis NSE index for the periods FY2014-15 to FY2016-17:



PART II – OTHER INVESTMENT IDEAS

A. Avanti Feeds

Company Profile

- Industry: Aquaculture
- Traded in: Bombay Stock Exchange (BSE) and National Stock Exchange(NSE), India
- Market cap : INR 130billion
- Current Share Price: INR 2888 (NSE)
- Target Price: INR 3443
- Expected Gain: 20%

Avanti Feeds has been consistently generating profits over several years. In the present year, it has undertaken major capex and hence the cash flows have been affected due to this. However, the performance of the stock is expected to perform well in view of the decent margins of its historical ventures. Also the company has lower debt hence risk perception is low.

Shareholding Pattern

- Shareholding Pattern : More than 99% Equity

Promoter Group	43.94%
FII	0%
Institutional Investors	33.32%
Retail Investors	22.74%
Total	**100.00%**

- Subsidiary: Avanti Frozen Foods Pvt. Ltd. (AFFPL)

Company Performance

Parameter	**2017**	**2016**	**2015**	**2014**	**2013**
Return on Net worth / Equity (%)	34.12	41.17	44.82	40.16	25.18
Return on Capital Employed (%)	33.27	40.05	42.08	36.38	22.23
Return on Assets (%)	22.73	25.61	24.52	17.77	12.47

B. 8KMiles

Company Profile

8K Miles or 8000 Miles is the diameter of the earth. Expedition 8K Miles to leave no path uncovered and unleash the true power of the cloud, un-mask the myths and help organizations accelerate their transformation to the cloud. That's the fundamental theme of "8K Miles software services". Their ability to grow organically and at the same time acquire leading edge technologies and companies has helped them to maintain and grow their leadership position.

Through the right blend of skills combined with expertise in Application Development, Automation, Security and Compliance they optimize cloud solutions that meets business requirements.

Industry outlook

Cloud computing is projected to increase from $67B in 2015 to $162B in 2020 attaining a compound annual growth rate (CAGR) of 19%. Gartner predicts the worldwide public cloud services market will grow 18% in 2017 to $246.8B, up from $209.2B in 2016. 74% of Tech Chief Financial Officers (CFOs) say cloud computing will have the most measurable impact on their business in 2017.

Cloud platforms are enabling new, complex business models and orchestrating more globally based integration networks in 2017 than many analyst and advisory firms predicted. Combined with Cloud Services adoption increasing in the mid-tier and small & medium businesses (SMB), leading researchers including Forrester are adjusting their forecasts upward. The best check of any forecast is revenue. Amazon's latest quarterly results released show Amazon Web Services (AWS) attained 43% year-over-year growth, contributing 10% of consolidated revenue and 89% of consolidated operating income.

8K miles is placed right and poised for growth. With specialization in Pharma and Healthtech industry, 8KMiles is a third party audited AWS Managed Services provider, preferred Health & Life Sciences Competency Partner delivering services to premium pharma customers around the world. 8K Miles has purpose built CloudEzRx solution for Pharmaceutical and Lifesciences customers to securely embrace public cloud. The platform defines a enterprise wide solution for enabling the consumption of Cloud Services, by consumers in a self-service and automated manner inside a Pharma & Lifesciences enterprise.

Company Performance

8K miles is listed in both NSE and BSE stock exchanges of India.

Vitals	FY 2016-17	Change
Revenue	534.52 crores	97% Improvement
PAT	125.6 crores	137% Improvement
EBITDA	186.34 Crores	108% improvement
EPS	34.13 Crores	88% Improvement
RoE	31%	63% Improvement
RoCE	38%	52% Improvement

Quick ratio	6.56
Current ratio	6.56
Debt Equity ratio	0.06

The investments made in research and development and in building IP over time have formed a strong base for the Cloud Competency Center and this Cloud Competency Center is a strong pillar for the success and growth of the company. Promoters hold over 60% of the shares with rest distributed between public, FIIs and DIIs.

C. Ajanta Pharma

Company Profile

Ajanta Pharma is a specialty pharmaceutical company engaged in development, manufacturing and marketing of quality finished dosages. Their business includes Branded Generics in emerging markets of Asia and Africa, Generics in the developed markets of USA and Institution sales. The branded generics business is spread in India and more than 30 emerging countries across Africa, CIS, the Middle East and South East Asia. They have designed customized basket of products for each of these markets and serve wide range of therapeutic segments. They are gradually building a meaningful presence in the US market with select product portfolio, which include complex technology products to get the competitive advantage in the market place.

Ajanta Pharma operates 7 state-of-the-art manufacturing facilities in India and Mauritius. 2 of the facilities in India have been successfully approved by US FDA. They employ over 6,500+ people worldwide. (Source: Ajanta Pharma)

Industry outlook

India's pharma industry is placed third in global ranking in terms of volume, but 14th in value. (Source: IBEF) Indian pharma companies have a well-diversified business model with an optimal business mix across all primary geographies – India, USA and Emerging Market. By FY 2020, India is likely to be among top three pharmaceutical markets by incremental growth and sixth largest market globally in absolute size. The overall market size is expected to grow to $100 billion by FY 2025, primarily due to rising customer spending, rapid urbanization and increasing healthcare insurance awareness. There is huge potential for growth in spending in emerging markets. Africa to be $45 billion market by FY 2020. The key challenges in emerging countries are currency volatility, internal disturbance, transfer restriction etc.

Shareholding Pattern

Promoter Group	71%
FII	12%
Institutional Investors	6%
Retail Investors	11%
Total	**100%**

Company Performance

- Revenue of FY 2017 is Rs. 2000 cr. 5 year CAGR for revenue is 21%
- EBITDA at the end of FY 2017 is Rs. 700 cr. EBIDTA margins for FY 2017 is 35%. 5 year CAGR for EBITDA is 33%.
- Net Profit is up by 46% in FY 2017 to Rs. 500cr. Net Margin stands at 25%. ROCE is 41% for the year 2017.
- It has free cash flow of Rs. 508 cr. Its dividend payout was 25% for the FY 2017

Year	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13
Key Ratios					
Debt-Equity Ratio	0.03	0.07	0.15	0.28	0.5
Long Term Debt-Equity Ratio	0.01	0.02	0.06	0.14	0.23
Current Ratio	2.46	2.22	1.74	1.37	1.26
Turnover Ratios					
Fixed Assets	2.37	2.64	2.85	2.60	2.22
Inventory	9.88	9.18	9.06	7.65	5.53
Debtors	5.31	5.32	6.55	7.16	6.49
Interest Cover Ratio	227.38	135.26	89.80	39.09	9.85
PBIDTM (%)	38.57	38.73	36.50	32.50	25.40
PBITM (%)	35.30	36.02	32.89	28.75	21.53
PBDTM (%)	38.41	38.46	36.14	31.77	23.21
ROCE (%)	47.39	54.83	58.62	55.59	38.12
RONW (%)	37.93	44	46.33	49.49	32.2

Ajanta Pharma has outperformed the Nifty Pharma index over the last 3 years. However, in the last year, there has been considerably decline and stock is trading at 52 years low. It faces challenges in all the markets where there has been US FDA ban on its drugs. There has been a decline in Africa sales where competitors have been aggressive, and economic uncertainty in emerging market has led to stagnant sales. Higher depreciation on account of commercialization of the Guwahati facility and lower-than-expected other income led to PBT growing at a lower rate than EBITDA for last year.

The past seems to be behind now for Ajanta Pharma. The company is aggressively targeting higher sales in US region and in FY 18, company targeting ANAD’s approval. In 4QFY17, AJP had successful 1st USFDA inspection at its Dahej facility. The USFDA issued one observation at its Paithan facility, which is minor in nature.

Key Risks

1. Delay in US FDA approvals pay impact the revenue for future years from US market.
2. There has been decline in Africa sales in last quarter.
3. Earlier than expected re-entry of competitors into the anti-malaria business in Africa may lead to some loss of market share.
4. Late recovery in the economic environment may delay revival in the branded generics business in Asia.

D. Deep Industries Limited (DIL)

Company Profile

DIL, a listed company based in Ahmedabad (Gujarat), was incorporated in 1991 and promoted by Mr. Paras S Savla and Mr. Rupesh K Savla. It has four main lines of business: gas compression, work-over rigs, marginal gas fields, and exploration of coal bed methane (CBM). DEL was incorporated in 2008-09 in the US to scout for oil-exploration opportunities in the overseas market. DNRL was incorporated in 2009-10 for exploration, production, and development of crude oil, CBM, and natural gas. PEPL was incorporated in 2009-10 for electricity generation by conventional and non-conventional methods.

Subsidiaries

- Prabha Energy Private Limited
- Deep Natural Resources Limited
- Deep Energy LLC
- Deep Onshore Drilling Services Private Limited

Company Performance

For 2016-17, DIL reported profit after tax (PAT) of Rs.74 Cr. on sales of Rs.277 Cr., against PAT of Rs.41 Cr. on sales of Rs.169 Cr. for 2015-16. For the three months ended June 30, 2017, the company reported PAT of Rs.21 Cr. (Rs.16 Cr. for the corresponding period of the previous year) on sales of Rs.74 Cr. (Rs.65 Cr.).

Recently Credit ratings upgraded to “A” and “A1” for Long term and Short Term Bank Facilities by CARE Rating. CRISIL believes that the Deep group will continue to register a healthy operating margin of above 55 per cent over the medium term backed by its leadership position in the gas service business. The Deep group will continue to benefit from its leadership position in the gas compression service business over the medium term. The Deep group's financial risk profile will remain healthy over the medium term, backed by strong cash accruals and a comfortable capital structure. (Source: CRISIL)

Key Drivers

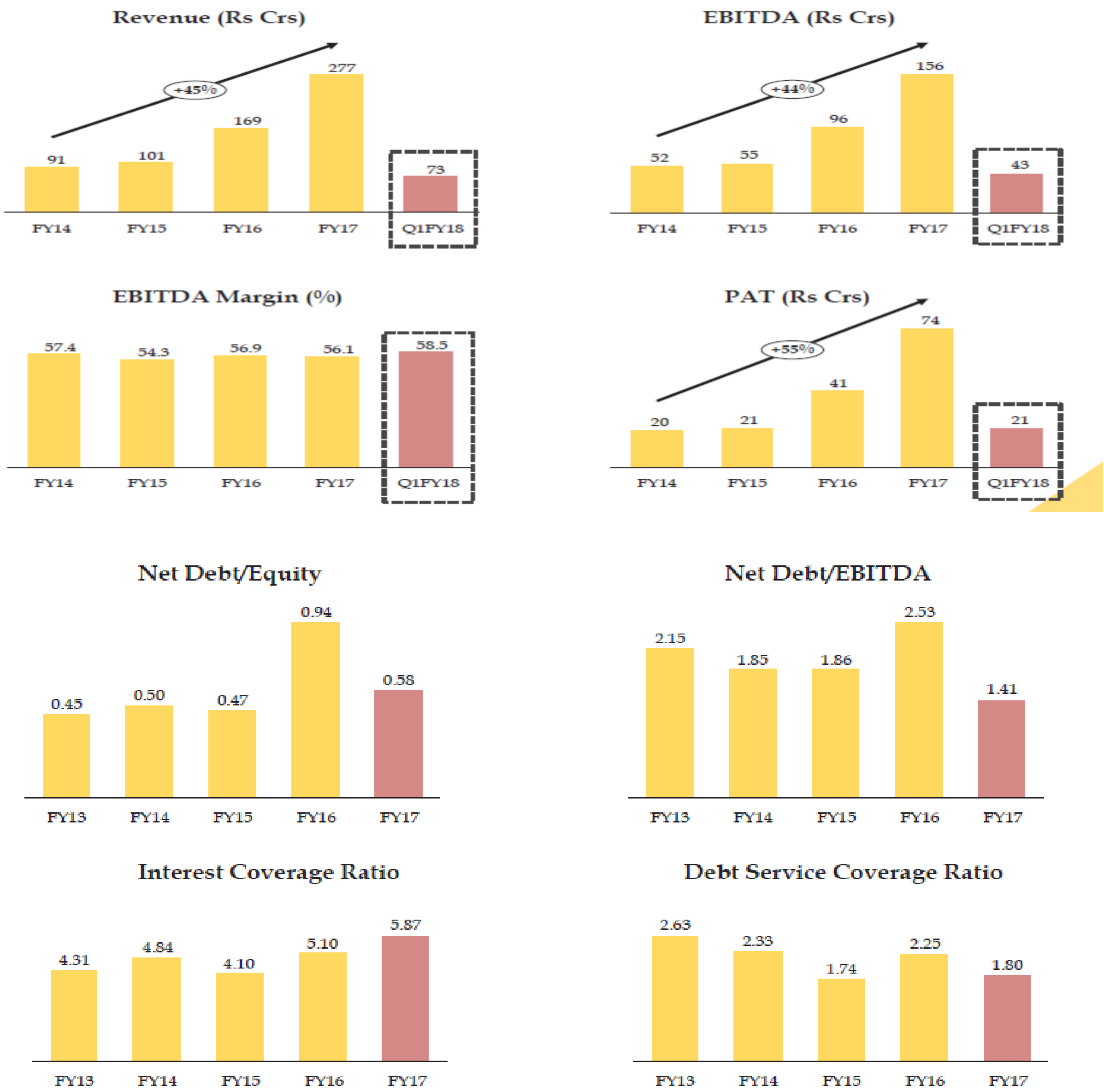
1. **Strengths**
   Strong growth prospects supported by leadership position in gas compression service business: The Deep group has been in the gas compression business for more than 10 years and has established itself in this business segment. The group has long-standing relationships with companies such as Oil and Natural Gas Corporation Ltd (ONGC), CAIRN, Reliance Industries etc. which has resulted in a sustained order flow. Benefits of expertise in the gas compression and dehydration business are reflected in the group's healthy profitability.

2. **Healthy financial risk profile**
   The Deep group's financial risk profile is marked by healthy gearing and net worth, and comfortable debt protection metrics. The group has maintained gearing backed by healthy accretion to reserves and judicious Capex against specific medium-to long-term contracts in the gas compression business. CRISIL believes that the Deep group's financial risk profile will remain

healthy over the medium term, backed by strong cash accruals and a comfortable capital structure.

3. Increasing Energy demand

India's rapid infrastructure growth is accompanied by a growing Energy appetite. Deep Industries is a customized solution provider in the Oil and Gas Value chain. With Long-term relationships in place with leading local players in the Energy business, Deep Industries is perfectly placed to maximize Shareholder returns. Crude oil forms the bulk of Indian imports and the Indian Government has been looking to move towards Energy security and self-sufficiency.



Key Risks:

1. Scale of operations is moderate making it prone to Macro headwinds.
2. Competition in the rigs business is intense and company relies on winning Government contracts.