



**RESEARCH REPORT**  
**KRONOX LAB SCIENCES LTD**  
**Sector: SPECIALITY CHEMICALS**

25<sup>th</sup> Nov 2024

**BSE : KRONOX**

**BSE: 544187**

**View - BUY**

CMP : Rs. 167

Target Price: Rs 240 (In next 12 to 15 mths)

**BUSINESS BACKGROUND**

Kronox Lab Sciences Ltd (KLSL) was incorporated as 'Kronox Lab Sciences Pvt. Ltd on November 18, 2008 & manufactures High Purity Speciality Fine Chemicals for diversified end user industries which include pharmaceuticals, scientific and laboratory research, nutraceuticals, biotech, agrochemicals, personal care, metallurgy and animal health

KLSL has a aggregate installed capacity of 7,242 TPA, which are situated at Vadodara in Gujarat close to the seaports of Mundra, Kandla, Hazira and Nhava Sheva

**INVESTMENT HIGHLIGHTS**

**Strong Financial Performance for FY24 –**

KLSL reported a strong set of FY24 numbers with Total Revenues at Rs 90 crs vs Rs 96 crs last year, as the management stated that it discontinued low margin products and focussed more on high profitable products which saw the EBIDTYA at Rs 28 crs from Rs 22 crs last year with the PAT placed at Rs 21 crs from Rs 18 crs

**KLSL enjoys a niche product base & marquee customers –**

KRONOX manufactures High Purity Speciality Fine Chemicals for diversified end user industries. These chemicals are used mainly as reacting agents and raw material in the manufacturing of Active Pharmaceutical Ingredients (APIs); excipients in pharmaceutical formulations; reagents for scientific research and laboratory testing; ingredients in nutraceuticals formulations; process intermediates and fermenting agents in biotech applications; ingredients in agrochemical formulations; ingredients in personal care products; refining agents in metal refineries; & ingredients in animal health products

**KEY DATA**

FACE VALUE	Rs	10.00
DIVD YIELD %		0.30
52 WK HI/LOW		201/138
NSE CODE		KRONOX
BSE CODE		KRONOX
MARKET CAP		RS 617 CRS

**SHAREHOLDING PATTERN**

PROMOTERS	-	74%
BANKS, MFs & DIIs	-	3%
FIIs	-	%
PUBLIC	-	23%

**KEY FUNDAMENTALS**

YE	FY25	FY26	FY27
Income Gr%	22	25	75
EBIDTA Gr%	37	25	64
PAT Gr%	29	33	55
EPS (Rs)	7.30	9.73	15.14
ROE %	33	32	36
ROCE %	32	26	31
P/E(x)		17	11

## **Kronox Lab Sciences Group Profile & its Execution abilities –**

Kronox Lab Sciences Ltd (KLSL), was promoted by Jogindersingh Jaswal, Ketan Ramani & Pritesh Ramani in 2008 at Gujarat for manufacturing high Purity Speciality Fine Chemicals for diversified end user industries which include pharmaceuticals, scientific and laboratory research, nutraceuticals, biotech, agrochemicals, personal care, metallurgy and animal health

Jogindersingh Jaswal is one of the Promoters and is the MD of the Company. He has been a director of the Company since incorporation. He looks after production, quality control and human resource activities in the Company. Previously, he worked with Ranbaxy Laboratories Ltd and Ranbaxy Fine Chemicals Ltd from the year 1994 till 2001. He has over three decades of experience in the chemical industry

Ketan Ramani is one of the Promoters and Whole-time Director of the Company. He has been a director of the Company since incorporation. He oversees finance, purchase and administration in the Company. He has over 3 decades of experience in the chemical industry.

Pritesh Ramani is one of the Promoters and Whole-time Director of the Company. He looks after sales and marketing in the Company. He has been a director of the Company since incorporation. He has over 2 decades of experience in the chemical industry.

## **KLSL's Business Model includes –**

KLSL manufactures High Purity Speciality Fine Chemicals of various grades in particle sizes ranging from 10 mesh to 100 mesh. The company's 185+ products span across the family of phosphate, sulphate, acetate, chloride, citrate, nitrates, nitrites, carbonate, EDTA derivatives, hydroxide, succinate, gluconate, among others are supplied to customers in India and more than 20 countries globally. The products are manufactured in accordance with industry standards like IP, BP, EP, JP, USP, FCC, LR, AR, GR and ACS in addition to custom manufacturing specifications required by customers in select cases

The company has expanded its scale of operations and global footprint across 20 countries which include United States, Argentina, Mexico, Australia, Egypt, Spain, Turkey, United Kingdom, Belgium, United Arab Emirates, China, among others. The company has served more than 592 customers in the last 3 financial years

## KLSL's Product Basket –

Product Family	Product Group	No of Products
Phosphate	Ammonium, Calcium, Magnesium, Potassium, Sodium, Others	36
Sulphate	Aluminium, Ammonium, Calcium, Copper, Magnesium, Nickel,	28
Chloride	Barium, Calcium, Copper, Magnesium, Nickel, Zinc, Manganous,	15
Acetate	Ammonium, Barium, Calcium, Copper, Lead, Magnesium,	12
Nitrate and Nitrite	Barium, Calcium, Copper, Lead, Magnesium, Nickel, Potassium,	11
Citrate	Ammonium, Magnesium, Potassium, Sodium, Zinc, Others	10
Carbonate	Ammonium, Calcium, Magnesium, Potassium, Sodium, Others	9
EDTA Derivatives	Potassium, Sodium, Others	6
Hydroxide	Barium, Calcium, Magnesium, Potassium, Sodium, Others	4
Succinate & Gluconate	Sodium, Zinc, Others	3
Others	Aluminum, Ammonium, Calcium, Copper, Lead, Magnesium	54
Total		185

Source - Co

## Key Products & there Applications –

### Citrate Industry

The versatility of citrate and its products makes it a key compound used in a variety of industrial applications. Natural citric acid exists in plants such as lemons, citrus, pineapples, and other fruits, and in animals' bones, muscles, and blood. Citrates include sodium citrate, potassium citrate, calcium citrate, zinc citrate, etc

Citrate's primary role in the food and beverage industry is as a flavouring agent to improve mouthfeel alongside as a pH control agent. For example, it is used for gel control, buffering, and enhancing preservatives and as a chelating agent to enhance the effect of antioxidants and prevent seafood from getting spoiled. It also improves flavour and ensures the accuracy of the acidity in drinks

Citrate works by reducing the amount of acid in the body. Therefore, they prevent and treat high acid levels in the body. It may also be used to help prevent gout or kidney stones (conditions caused by high uric acid levels). Whereas it regulates pH and acts as an effective buffering system. Furthermore, it can be employed in effervescent tablets and preparations to enhance the palatability of drugs.

## **Carbonate Industry –**

A carbonate is a salt of carbonic acid ( $\text{H}_2\text{CO}_3$ ). It is found in nature in various forms including minerals, rocks, and living organisms. Carbonate rocks, such as limestone and marble, are made up of carbonate minerals.

Further, carbonates are found in the shells of many marine animals, such as molluscs and corals. They have a wide range of industrial and commercial uses. They are used in the manufacture of cement, glass, paper, and rubber. Carbonates are also used as food additives and in pharmaceuticals.

Acids can be neutralised by carbonates, which are weak bases. Many reagent applications, including buffer solution production and pH-sensitive chemical stabilisation, make use of this characteristic. Further, metal ions from aqueous solutions can also be precipitated using carbonates since a majority of metal carbonates are water insoluble. This characteristic is helpful in many synthetic and analytical applications, including the separation of metal ions and water purification.

## **Phosphate Industry –**

Phosphate rock, primarily sourced from countries like China, Morocco, the United States, and Russia, serves as the main reservoir of phosphorus, an essential element for the growth of plants and animals.

In the pharmaceutical industry, phosphates are employed as excipients and active ingredients in drug formulations. They serve as disintegrants, binders, and fillers in tablet and capsule production. Additionally, some phosphate compounds have therapeutic uses, such as potassium phosphate for electrolyte replacement in intravenous solutions.

Phosphates are incorporated into nutraceutical products, which combine nutritional and pharmaceutical characteristics. They are used as dietary supplements to provide essential phosphorus and other minerals to promote bone health and overall well-being. Phosphate salts are a common source of phosphorus in nutraceuticals, supporting various bodily functions.

Phosphates are used in the personal care and cosmetics industries as additives in various products. They may be found in shampoos, conditioners, and other hair care products, as well as in some skincare formulations.

## **Acetate Industry –**

Acetate is a salt or ester of acetic acid. It is a versatile compound with a wide range of uses in many different industries. An acetate is a salt formed by the combination of acetic acid with a base. Acetates are used as food additives to preserve food, adjust acidity, and enhance flavour. Also, they are used in a variety of cosmetic products, such as nail polish removers, hairsprays, and deodorants

Numerous dietary supplements include acetates. This is because of its health advantages which include their capacity to strengthen the immune system, lower inflammation, and enhance cardiovascular health.

Analytical chemistry often uses acetates as buffers as buffers are pH-resistant solutions and they are ideal for use in processes where a steady pH is needed. Acetates are also useful in chromatography as ion-pairing reagents. In chromatographic systems, ion-pairing chemicals are employed to enhance the separation of charged molecules

## **Sulphate Industry -**

Sulphates are inorganic ions found in nature and synthesized for industry. In the natural world, they occur as aerosols from biomass combustion and as part of the sulphur cycle of some microorganisms

Sulphates are also the salts and esters of sulphuric acid, a highly corrosive acid. These compounds are valuable in many industries because they are excellent detergents, emulsifiers, and foaming agents

Sulphur is a highly effective and powerful nutrient for soil. Sulphate is one of the sulphur fertilizers, highly effective and well-suited for fast-growing crops. There are also some sulphates with special benefits like ferrous sulphate. It can be used as a pesticide and is more suitable for flowers and trees

Sulphate is widely used in industrial applications in glass, papermaking, textiles, dyes, non-ferrous metal smelting, leather, detergents, cement, enamel, and other industries. It can also be used to produce other chemical products such as sodium sulfide and sodium silicate

## **Gluconate Industry –**

Gluconates are salts of gluconic acid, a naturally occurring organic acid. They are produced by fermenting glucose, a sugar derived from corn or other starch-based crops. They are used in a variety of products, including food & beverages, pharmaceuticals, personal care products, and industrial applications

Gluconate is often employed to address mineral deficiencies. Gluconates are also utilized in nutraceuticals to provide essential minerals like calcium, magnesium, and zinc in a form that the body can easily absorb. They enhance the nutritional value of dietary supplements, functional foods, and beverages, contributing to overall health and well-being. Their solubility and minimal taste impact make them popular in nutraceutical products.

Gluconate is a frequently utilized food additive and dietary supplement in the food and beverage sector. It serves to modify flavours and enhance the nutritional content of various food and beverage products

Kronox gives strong importance to Research & Development and Quality Control. R&D leads to new product development required for growth of business and profitability while QC helps to achieve customer quality standards for the continued supply of products required by the end user industries.

Further, Custom manufacturing of products requires substantial R&D before production. For example, the company recently achieved quality specifications for calcium chloride and magnesium chloride for drinking water, calcium acetate for pharma applications, ammonium fluoride, tri-potassium phosphate, potassium hydroxide, potassium acetate, potassium chloride for diversified applications

**KLSL’s future business strategy going ahead –**

Kronox will be expanding product portfolio, increasing the supply of products to existing customers and tap new customers in existing and new geographies. The company’s experience and expertise of 15+ years in the industry has helped it to capitalize on new opportunities offered by the customers. The company has expanded its product portfolio to more than 185 products spread across diverse applications. Further, the company is working towards new products forming a part of the family of acetate, adipate, ascorbate, aspartate, benzoate, citrate, EDTA, gluconate, glycinate, lactate, malate, orotate, propionate, sorbate and succinate, among others.

**Some Key Products which are in various phases of R & D by KLSL –**

Product Group	Number of Products	Applications
Acetate	12	Pharmaceuticals, Nutraceuticals, Food
Adipate	2	Pharmaceuticals, Nutraceuticals, Food
Ascorbate Derivatives	6	Pharmaceuticals, Nutraceuticals
Aspartate Derivatives	8	Pharmaceuticals, Nutraceuticals
Citrate Derivatives	22	Pharmaceuticals, Nutraceuticals, Food
EDTA Derivatives	13	Pharmaceuticals, Nutraceuticals, Food
Gluconate Derivatives	18	Pharmaceuticals, Nutraceuticals
Glycinate Derivatives	18	Pharmaceuticals, Nutraceuticals

**Source – co**

## **KLSL also plans to expand the capacity for existing products and diversifying into new products by setting up a new manufacturing facility –**

As on date the company's aggregate installed capacity is 7,242 TPA across three Manufacturing Facilities. To meet requirements of new customers, the company intends to establish a new manufacturing unit at GIDC Dahej – II Industrial Estate and the company have acquired land admeasuring to 20,471 sq. meters for the said facility

Company has got all the approvals for starting the new unit at Dahej which will cost around Rs 60-70 crs and where the phase 1 will start by December 25 onwards with a initial capacity of 1500 tpa. The company expects that this unit will contribute significantly in FY27 where in it expects a revenue of Rs 300 crs which will largely cater to the Nutraceuticals segment

The entire funding for this unit will be financed by internal accruals and no fresh debt, Around Rs 30 crs will be spent in FY25 and the balance Rs 35 crs in FY26. However looking at the present operating cash flows we believe that some portion of this expansion may have to be funded by debt but looking at the high operating margins enjoyed by the company we believe that this incremental debt can easily be serviced by the company going ahead

## **KLSL also plans to explore newer applications for the existing products and developing new products that are in synergy with the current and future operations –**

KLSL believes that the growth in end-use industries such as APIs, pharmaceutical formulations, agrochemical formulations, nutraceuticals, personal care, scientific research and laboratory, metal refining, animal health, biotech, beverages, food, electronics and precision industrial products, among others, will lead to an increase in demand for its current and proposed products. Moreover, the expansion of its portfolio through existing and proposed manufacturing facility is expected to further strengthen the company's market position and will enable it to offer comprehensive solutions to its customers.

## **Some of the new products proposed to be launched by the company –**

<b>New Products</b>	<b>Industry</b>	<b>Est Global Market Size CY2022 US \$ Mn</b>
Glycinate	Pharmaceuticals, Nutraceuticals,	344
	Scientific Research and Laboratory Testing,	
	Food and Beverages and Animal Feed	
Succinate	Pharmaceuticals, Nutraceuticals,	144
	Scientific Research and Laboratory	
	Testing and Food	
Gluconate	Pharmaceuticals, Nutraceuticals	698
	Food and Beverages and Construction	

Source – Co

The global nutraceuticals market is expected to grow from \$418 billion in 2023 to over \$703 billion by 2033. The market is growing due to a number of factors, including:

- **Health awareness**

Consumers are becoming more aware of health and wellness, and are seeking preventive healthcare options.

- **Chronic disease prevalence**

The prevalence of chronic diseases is increasing, and the associated costs are projected to reach \$47 trillion by 2030.

- **Aging population**

The geriatric population is increasing, and there is a growing use of dietary supplements among adolescents.

- **Natural and organic ingredients**

Consumers are increasingly preferring natural and organic ingredients.

The nutraceuticals market is segmented in a number of ways, including:

- Product type: Dietary supplements, functional foods, and functional beverages
- Distribution channel: Supermarkets/hypermarkets, convenience stores, online retail, and others
- Indication: Digestive and immune health, energy & alertness health, heart health, bone & joint, cognitive health, and beauty health

The United States is a leader in the global nutraceuticals market, and is expected to maintain its dominance

The global nutraceutical market was valued at USD 451.7 billion in 2023 and is expected to grow at a CAGR of 4.7% from 2024 to 2032. This growth is driven by increasing consumer awareness of health and wellness, with more people seeking preventive healthcare options

The India nutraceutical market size was estimated at USD 26.87 billion in 2023 and is expected to reach USD 30.36 billion in 2024. The nutraceutical industry encompasses three main segments which include functional foods, dietary supplements, and herbal/natural products.



The dietary supplements market in India is valued at USD 3924.44 million in 2020 and reports say that it will reach USD 10,198.57 million by 2026 that is 22% growth rate year on year.

The ongoing pandemic and the rising importance about preventive healthcare has led to the exponential growth of this sector.

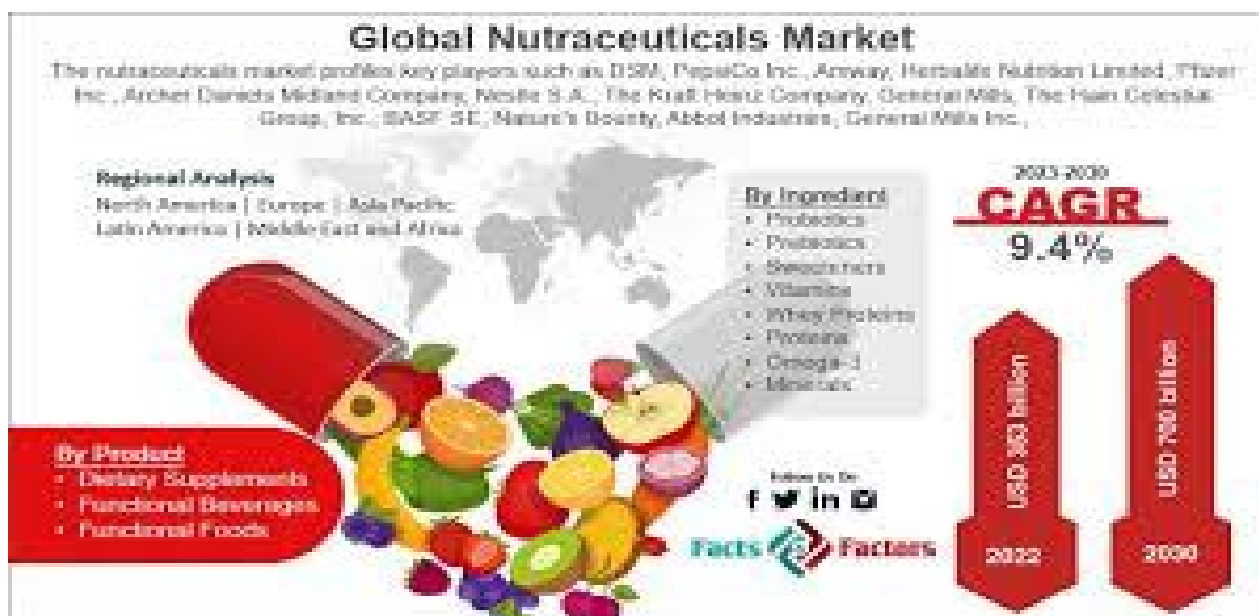
Indian population has begun to believe in immunity-boosting supplements and has led to a significant shift in buying patterns and market behaviour. Vitamin capsules, chewable tablets and gummies are examples of the open-minded buying behaviour of consumers of healthcare products.

The consumption of potential nutrients and micro-nutrients like Vitamin A, Vitamin D, Vitamin C, folate, selenium, zinc, etc. has substantially increased for better immunity

The urban population across India have become health and fitness conscious like never before. This is providing a massive growth opportunity for Nutraceuticals Industry in India. Due to which the market is expected to witness significant growth.

Nutraceutical manufacturers and marketers have come up with new ways to make the consumer aware about the product, its benefits and role in preventative healthcare as well as medical treatment.

We hence believe that Kronox with its strong R & D and rich expertise in this segment will benefit significantly going ahead over the next 2-3 years ahead.



## **KLSL's Key Competitive Strengths**

**Professional Competency** - The most important factor for any niche chemical inputs company is execution, and execution has been top-notch for Kronox. Specializing in providing customised solutions serving customers in high-growth segments with substantial untapped market potential, while maintaining a strategic focus on building quality service and consistent standards

**Scalable Business Model** – KLSL enjoys a business model which is scalable. The biggest positive KLSL enjoys is that it is a fully Indian-grown speciality Chemicals player which specializes in providing customized solutions across the value chain covering segments like animal feed, pharmaceuticals and nutraceuticals

**High entry and exit barriers due to long customer approval cycles and strict product standards** – The company's manufacturing process involves multi-step production and purification processes to manufacture fine chemicals. Further, given the nature of the application, its processes and products are subject to, and measured against established domestic and international standards and stringent specifications of customers. The manufacturing facilities are subject to on-site inspection by potential customers or its agencies/consultant, for adherence to good manufacturing practices (GMP), cleanliness, equipment maintenance, safety measures, and environmental regulations. Thus, customer acquisition involves a long process and gestation period is higher

**Dynamic Promoter** - The company's promoters and directors have collective experience of over seven decades in the chemical industry. The company's Promoter and Director, Jogindersingh Jaswal, was with the erstwhile Ranbaxy Laboratories Limited and Ranbaxy Fine Chemicals Limited from the year 1994 till 2001 and has over three decades of experience. Additionally KLSL has an excellent operations team, with many well qualified personnel on its board also.

### **Operating efficiency, key lever for profitability improvement going forward –**

To meet requirements of new customers, the company intends to establish a new manufacturing unit at GIDC Dahej – II Industrial Estate and the company have acquired land admeasuring to 20,471 sq. meters for the said facility

Company has got all the approvals for starting the new unit at Dahej which will cost around Rs 60-70 crs and where the phase 1 will start by December 25 onwards with an initial capacity of 1500 tpa. The company expects that this unit will contribute significantly in FY27 where in it expects a revenue of Rs 300 crs which will largely cater to the Nutraceuticals segment. We expect significant benefit of operating leverage to kick in going ahead

**Zero debt company with strong and consistent financial performance** – The company's enjoys robust balance sheet, positive operating cash flows coupled with zero debt position has enabled to fund its strategic initiatives, pursue opportunities for growth and better manage unanticipated cash flow variations.

## **Strategically located manufacturing facilities providing supply chain efficiencies-**

The company has 3 strategically located Manufacturing Facilities which are located in Padra, Vadodara, Gujarat, in close proximity to several ports including Kandla, Mundra, Hazira and Nhava Sheva which ensures that the company has ready access to port facilities and is able expediently import its raw materials and export its products thereby providing the company with a cost and logistical advantage.

### **Key Weakness –**

Any loss of key customers can be a short term negative as company is largely catering to customized requirements of each of such customers

In case there are any quality issues this could also impact business negatively

## **KLSL enjoys a strong balance sheet with huge scalability potential going ahead**

–

KLSL runs a strong business model covering multiple product segments and a large product base and at the same customizing customer requirement in small to medium batches for both domestic and export customers

We expect that going ahead overall bottomline growth in the next 3 years starting FY25 onwards should increase at a CAGR of 28%

We expect the PAT to double in the next 3 years until FY27 to Rs 56 crs from Rs 21 crs in FY24.

Also EBIDTA is also expected to grow at a CAGR of 28% in the next 3 years to Rs 79 crs in FY27 from Rs 28 crs recorded in FY24

Going ahead the company is confident of improving its absolute absolute operating profits on higher business volumes & higher contribution from its new facility at DAhej plus additionally from product yield improvements in the coming years which will also improve in stronger OCFs in coming 2 years ahead

## Business Outlook & Stock Valuation –

On a rough cut basis, in FY25E & FY26E & FY27E Total Revenue is expected to touch Rs 109.80 crs, followed by Rs 137 crs in FY26E & Rs 240 crs in FY27E. On the bottomline level we expect the company to record a PAT of Rs 27 crs in FY25E & which is expected to bounce back to Rs 36 crs in FY26 & Rs 56 crs in FY27

The company management is confident of improving its profit margins in going ahead via operational efficiency, higher business from new branches and better pricing due to operating leverage benefits coming from higher revenues coming in from the new Dahej facility

What is commendable for the company is that it has funded this business largely from its own cash accruals with very little dependence on debt. Even going ahead the management is confident that all expansions will be funded by internal accruals and no fresh debt.

However looking at the present cash flows we have conservatively put in a small debt element but despite this ROCE and ROE in FY25 stands at 32% and 34% which will 31% and 36% in FY27 when the dahej unit is fully operational. We believe these numbers look very attractive as the company operates in a high margin product business where it customises requirements for select marquee customers. Finally if the company manages to not have any debt as it is targeting then financial numbers both the ROCE and ROE as well OCF will be even more robust

Looking at KLSL's steady financial track record, strong business domain and dominant market share and strong promoters we expect the stock to get re rated in future. Hence we believe that the KLSL stock should be purchased at the current price for a price target of around Rs 240 over the next 12 to 15 months

### FINANCIALS

For the Period Ended	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Sales	62.00	82.00	96.00	90.00	109.80	137.26	239.71
EBIDTA	15.00	20.00	22.00	28.00	38.43	48.04	79.10
EBIDTA %	24.19	24.39	22.92	31.11	35.00	35.00	33.00
Interest	0.00	0.00	0.00	0.00	0.70	1.75	1.80
Depreciation	2.00	2.00	2.00	1.00	1.40	1.65	2.00
Non OP Other Income	1.00	1.00	1.00	2.00	2.00	2.00	2.00
PBT	13.00	18.00	21.00	28.00	38.33	46.64	77.30
Core PAT	10.00	14.00	18.00	21.00	27.00	36.00	56.00
Diluted EPS (Rs) FY Rs 5)	416.67	583.33	4.86	5.68	7.30	9.73	15.14
Equity Cap	0.24	0.24	37.00	37.00	37.00	37.00	37.00
Reserves	27.00	40.00	8.00	29.00	56.00	92.00	148.00
Borrowings	4.00	3.00	0.00	0.00	7.00	15.00	15.00
Gross Block	9.00	11.00	16.00	26.00	51.00	76.00	91.00
Investments	2.05	2.91	3.56	3.64	3.65	3.65	3.65

Source Company our Estimates

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