

# CRISIL IER Independent Equity Research



**KRBL Ltd**

**Q3FY13 Results Update**

Enhancing investment decisions



## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

### About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

### About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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**Last updated: March 07, 2013**

### Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Fundamental Grade	3/5 (Good fundamentals)
Valuation Grade	5/5 (CMP has strong upside)
Industry	Food products

KRBL Ltd's (KRBL's) Q3FY13 revenues, up by 10.3% y-o-y to ₹5 bn, were in line with CRISIL Research's estimates. Highly volatile market prices for basmati rice led to lower export volumes, resulting in slower growth compared to H1FY13. Steep increase in prices of paddy also resulted in 141 bps contraction in EBITDA margin during the quarter. With prices stabilising in the current quarter and decline in basmati production during FY13, we expect KRBL to post healthy growth over the next two to three quarters as demand for basmati rice remains strong. We maintain our fundamental grade of **3/5**, indicating that the fundamentals are **good** relative to other listed securities in India.

### Domestic sales offset decline in exports

Revenues from domestic sales of basmati rice increased by nearly 59% y-o-y aided by 43% growth in sales volumes. Export revenues (excluding non basmati rice) declined by 23% due to lower volumes. Dip in production of basmati paddy in 2012 (over 30% lower compared to 2011) has led to over 50% increase in market prices of basmati rice since October 2011. In our opinion, buyers have postponed their purchases owing to volatility in prices, leading to lower export volumes during Q3FY13. As prices stabilise in subsequent quarters, we expect KRBL's basmati export sales volumes to rebound. The company's blended realisation (ex non-basmati) grew by only 4% y-o-y due to comparatively larger proportion of domestic volumes, which command lower realisation vis-a-vis exports.

### EBITDA margin contracts by 141 bps y-o-y; expect margins to be higher going forward

EBITDA margin contracted y-o-y in Q3FY13, on account of higher raw material costs and higher proportion of low-margin domestic sales. Paddy prices have increased in line with basmati rice prices due to decline in production of basmati paddy during 2012. Domestic sales (lower margins compared to exports) contributed 74% to KRBL's basmati sales during the quarter. We expect operating margin to improve going forward on account of higher export contribution as well as stable paddy prices. The company posted a mark-to-market forex loss of ₹157 mn, which is expected to reverse over the next few quarters. Adjusted PAT margin declined by 128 bps y-o-y to 7.3%.

### Valuation: Current market price has strong upside

We have revised our revenue estimates upwards by 2.1% for FY13. EBITDA margin estimate has been lowered by 50 bps (to 15.0%) to reflect increased raw material costs. We broadly maintain our EPS estimates for FY13 and FY14. We also introduce our estimates for FY15. We have used price to earnings method (P/E) to value KRBL and rolled forward our valuation by one year. We have applied a P/E multiple of 5x to KRBL's FY15 EPS of ₹7.0 and arrived at fair value of ₹35 per share. At the current market price of ₹24, our valuation grade is **5/5**.

### KEY FORECAST

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Operating income	15,391	16,229	21,092	21,667	24,115
EBITDA	2,277	2,292	3,159	3,252	3,499
Adj Net income	1,128	1,009	1,481	1,610	1,702
Adj EPS (₹)	4.6	4.1	6.1	6.6	7.0
EPS growth (%)	(9.8)	(10.6)	46.8	8.7	5.7
Dividend Yield (%)	1.5	1.5	1.7	2.1	2.1
RoCE (%)	14.3	11.5	15.6	14.9	14.9
RoE (%)	19.1	14.8	18.8	17.3	15.8
PE (x)	5.2	5.8	3.9	3.6	3.4
P/BV (x)	0.9	0.8	0.7	0.6	0.5
EV/EBITDA (x)	6.5	6.6	4.8	4.6	4.4

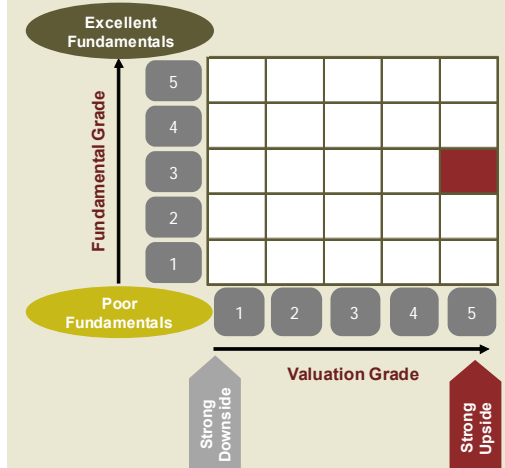
NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

March 11, 2013

Fair Value ₹35  
CMP ₹24

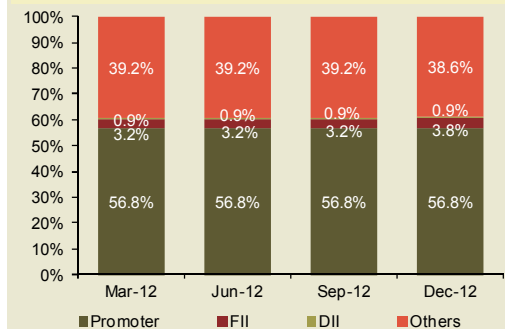
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY/SENSEX	5946/19683
NSE/BSE ticker	KRBL
Face value (₹ per share)	1
Shares outstanding (mn)	244
Market cap (₹ mn)/(US\$ mn)	5,845/107
Enterprise value (₹ mn)/(US\$ mn)	15,232/280
52-week range (₹)/(H/L)	29/17
Beta	1.3
Free float (%)	43.2
Avg daily volumes (30-days)	399,565
Avg daily value (30-days) (₹ mn)	10.2

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
KRBL	-9%	-10%	8%	33%
NIFTY	1%	1%	11%	14%

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### Client servicing desk

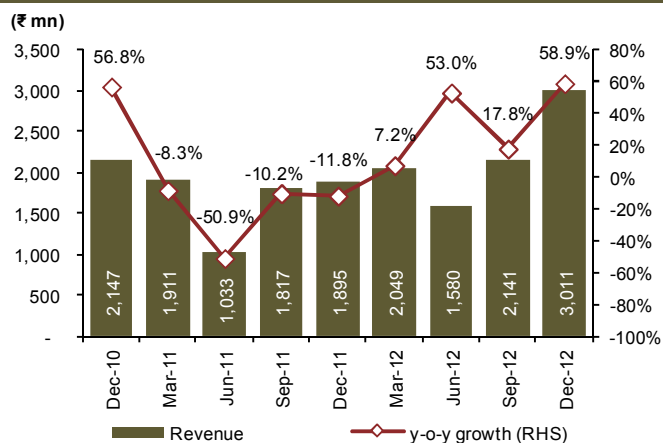
+91 22 3342 3561 [clientservicing@crisil.com](mailto:clientservicing@crisil.com)

Q3FY13 Results Summary

(₹ mn)	Q3FY13	Q2FY13	Q3FY12	q-o-q (%)	y-o-y (%)	9MFY13	9MFY12	y-o-y (%)
<b>Operating income</b>	<b>5,000</b>	<b>5,715</b>	<b>4,532</b>	<b>(12.5)</b>	<b>10.3</b>	<b>15,881</b>	<b>11,586</b>	<b>37.1</b>
Consumption of Raw Materials	3,829	4,397	3,354	(12.9)	14.2	11,906	8,666	37.4
Raw material as a % of sales	77%	77%	74%	(35) bps	257 bps	75%	75%	18 bps
Other expenses	109	107	92	2.1	18.3	313	263	19.0
Employee Cost	367	476	392	(23.0)	(6.4)	1,266	1,011	25.1
<b>EBITDA</b>	<b>696</b>	<b>736</b>	<b>695</b>	<b>(5.4)</b>	<b>0.2</b>	<b>2,396</b>	<b>1,646</b>	<b>45.6</b>
<b>EBITDA margin</b>	<b>13.9%</b>	<b>12.9%</b>	<b>15.3%</b>	<b>104 bps</b>	<b>(141) bps</b>	<b>15.1%</b>	<b>14.2%</b>	<b>88 bps</b>
Depreciation	130	128	116	1.2	12.0	381	330	15.3
<b>EBIT</b>	<b>566</b>	<b>607</b>	<b>579</b>	<b>(6.8)</b>	<b>(2.2)</b>	<b>2,015</b>	<b>1,316</b>	<b>53.2</b>
Interest and finance charges	133	208	167	(36.0)	(20.2)	570	488	16.8
<b>Operating PBT</b>	<b>433</b>	<b>399</b>	<b>412</b>	<b>8.4</b>	<b>5.1</b>	<b>1,445</b>	<b>827</b>	<b>74.7</b>
Other Income	16	17	35	(6.0)	(54.6)	56	82	(31.3)
Extraordinary Income/(expense)	(157)	355	(151)	NM	NM	28	(594)	NM
<b>PBT</b>	<b>292</b>	<b>771</b>	<b>296</b>	<b>(62.1)</b>	<b>(1.4)</b>	<b>1,530</b>	<b>315</b>	<b>385.2</b>
Tax	83	225	58	(63.0)	44.9	436	58	657.1
<b>PAT</b>	<b>208</b>	<b>545</b>	<b>238</b>	<b>(61.8)</b>	<b>(12.5)</b>	<b>1,093</b>	<b>258</b>	<b>324.5</b>
<b>Adj PAT</b>	<b>365</b>	<b>191</b>	<b>389</b>	<b>91.5</b>	<b>(6.1)</b>	<b>1,065</b>	<b>852</b>	<b>25.1</b>
<b>Adj PAT margin</b>	<b>7.3%</b>	<b>3.3%</b>	<b>8.6%</b>	<b>397 bps</b>	<b>(128) bps</b>	<b>6.7%</b>	<b>7.4%</b>	<b>(64) bps</b>
No of equity shares (mn)	244	244	244	-	-	244	244	-
<b>Adj EPS (₹)</b>	<b>1.5</b>	<b>0.8</b>	<b>1.6</b>	<b>91.5</b>	<b>(6.1)</b>	<b>4.4</b>	<b>3.5</b>	<b>25.1</b>

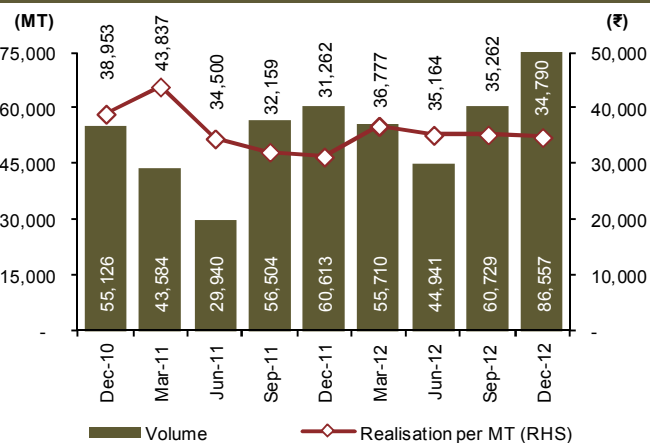
Source: Company, CRISIL Research

Domestic revenues grew 58.9% y-o-y...



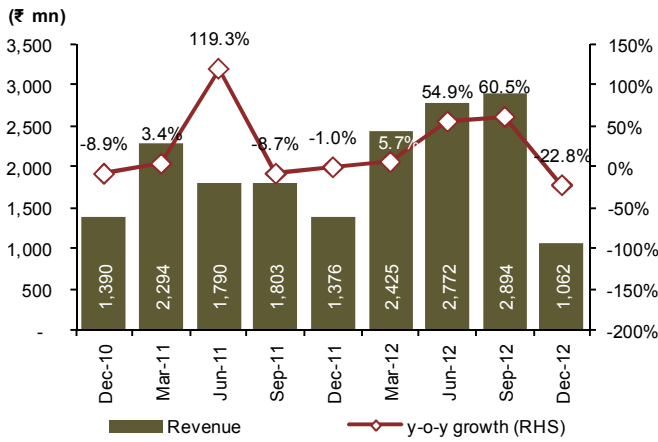
Source: Company, CRISIL Research

... driven by surge in volumes and realisations



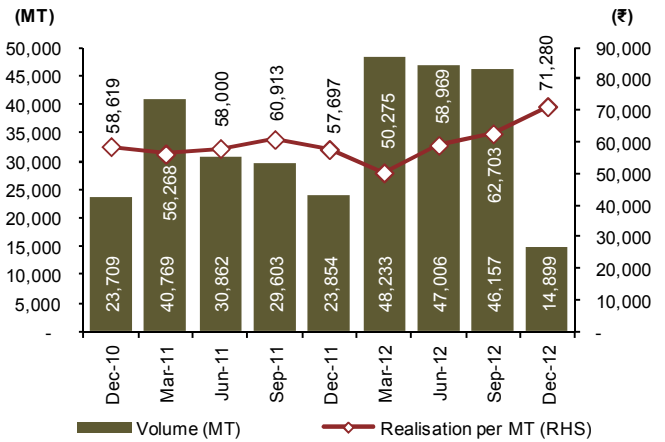
Source: Company, CRISIL Research

**Export revenues declined 23% y-o-y...**



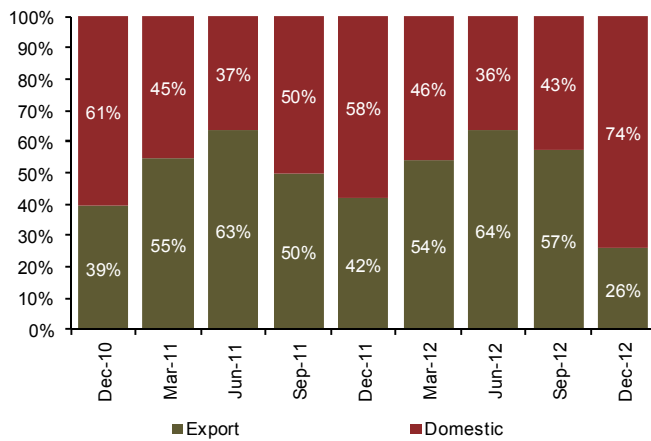
Source: Company, CRISIL Research

**... due to lower volumes**



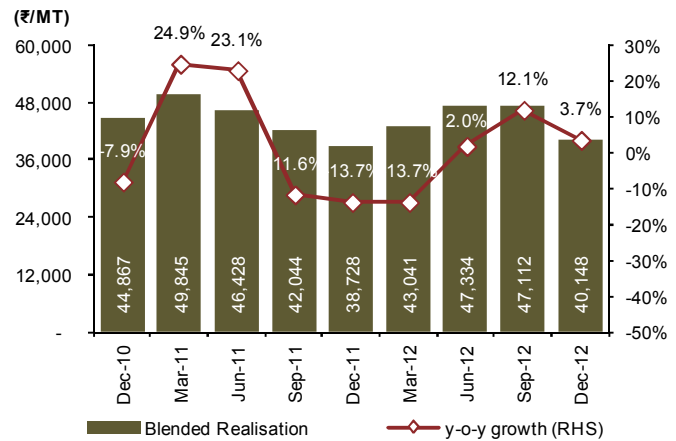
Source: Company, CRISIL Research

**Revenues from domestic sales higher during Q3FY13**



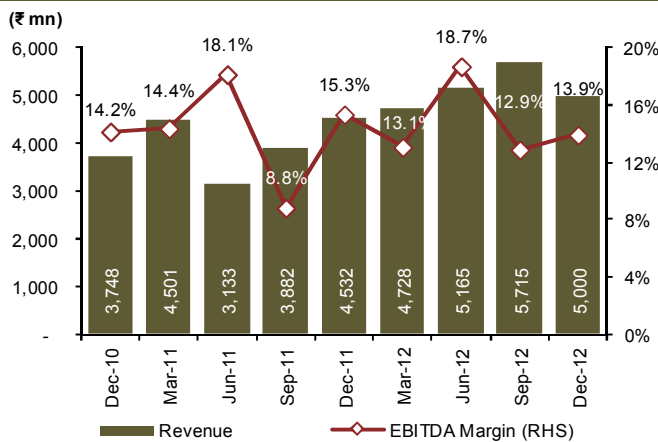
Source: Company, CRISIL Research

**Blended realisation (ex-non basmati) grew 4% y-o-y**



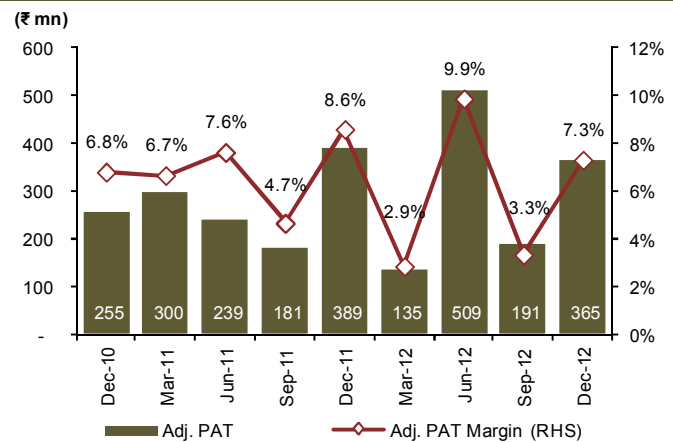
Source: Company, CRISIL Research

**EBITDA margin lower by 141 bps y-o-y...**



Source: Company, CRISIL Research

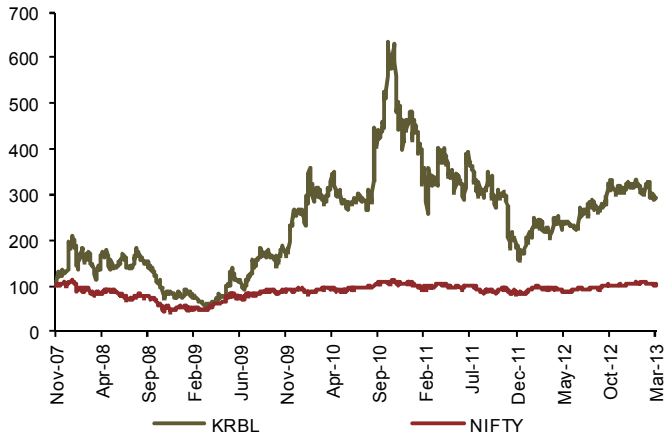
**... leading to 128 bps y-o-y decline in PAT margin**



Source: Company, CRISIL Research



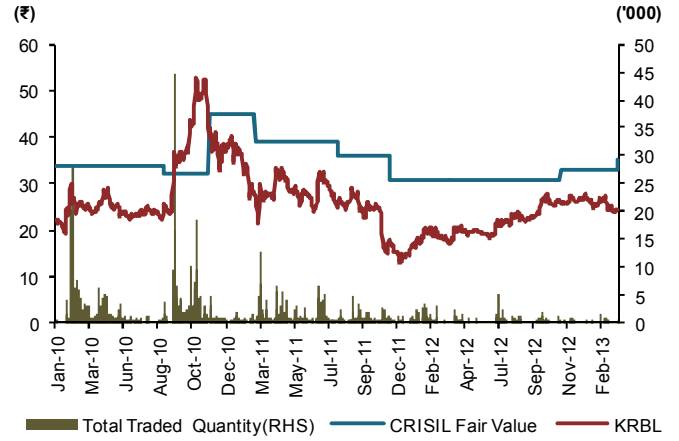
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

## Earnings Estimates Revised

Particulars	Unit	FY13E			FY14E		
		Old	New	% change	Old	New	% change
Revenues	(₹ mn)	20,656	21,092	2.1%	21,667	21,667	
EBITDA	(₹ mn)	3,193	3,159	-1.1%	3,252	3,252	
EBITDA margin	%	15.5%	15.0%	(48) bps	15.0%	15.0%	No Change
PAT	(₹ mn)	1,496	1,481	-1.1%	1,610	1,610	
PAT margin	%	7.2%	7.0%	(22) bps	7.4%	7.4%	
EPS	₹	6.1	6.1	-1.1%	6.6	6.6	

Source: CRISIL Research estimates

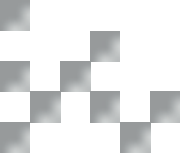
## Reasons for changes in estimates

Line item	FY13E	FY14E
Revenues	We have revised our revenue estimates upwards, in expectation of improvement in exports going forward. With strong domestic demand, we expect Q4FY13 revenues to be higher compared to Q3FY13	No change
EBITDA margins	Revised downwards to factor in KRBL's performance in 9MFY13. We also expect Q4FY13 EBITDA margin to be lower than 15%	No change. We expect margins to remain at FY13 levels due to dip in production of basmati in 2012 and strong demand in both exports and domestic markets. This will aid branded basmati players such as KRBL.
PAT margins	Lowered in line with EBITDA margin	No change

## FY15 estimates introduced

Particulars	Unit	FY15E
Revenues	(₹ mn)	24,115
EBITDA	(₹ mn)	3,499
EBITDA margin	%	14.5%
PAT	(₹ mn)	1,702
PAT margin	%	7.1%
EPS	₹	7.0

Line item	FY15E
Revenues	We expect revenues to grow by 11%, driven by volumes as well as realisation growth.
EBITDA margins	EBITDA margin will be lower compared to FY14. We expect normal basmati production in 2013; prices of basmati rice to decline due to increase in supply
PAT margins	We expect EPS to grow around 6.4% over FY14. Growth is slower due to lower PAT margin

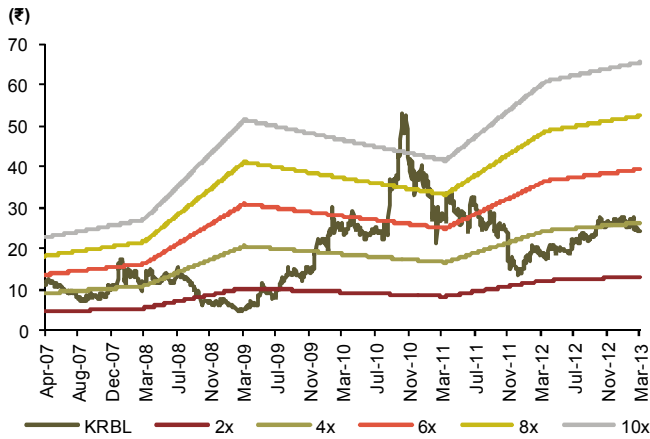


**Valuation**

**Grade: 5/5**

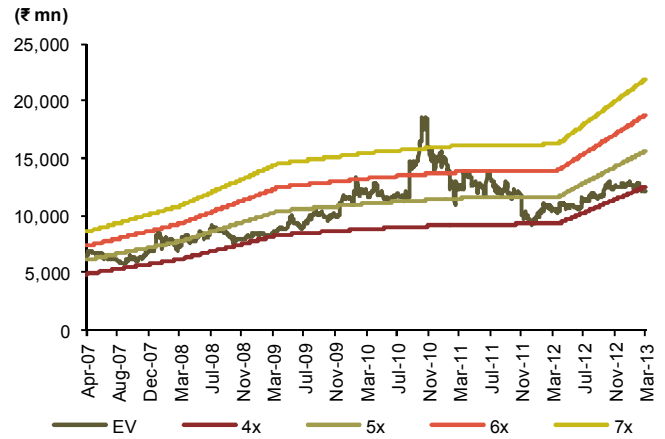
We have used P/E multiple method to value KRBL and have rolled forward our valuation by one year. We have applied a P/E multiple of 5x to KRBL's FY15 EPS and arrived at revised valuation of ₹35 per share (₹33 earlier) Based on the current market price, the assigned valuation grade is 5/5.

**One-year forward P/E band**



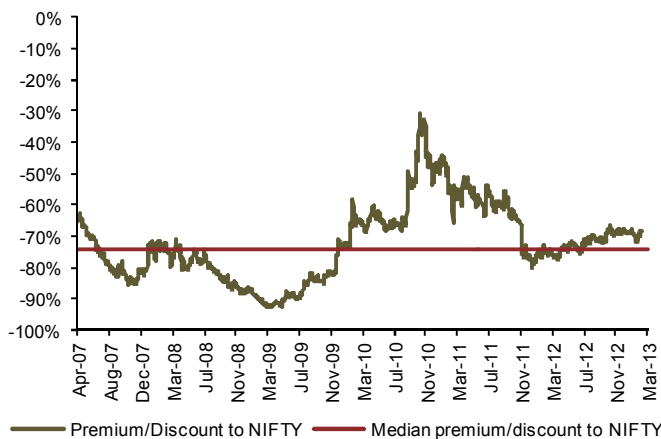
Source: NSE, CRISIL Research

**One-year forward P/B band**



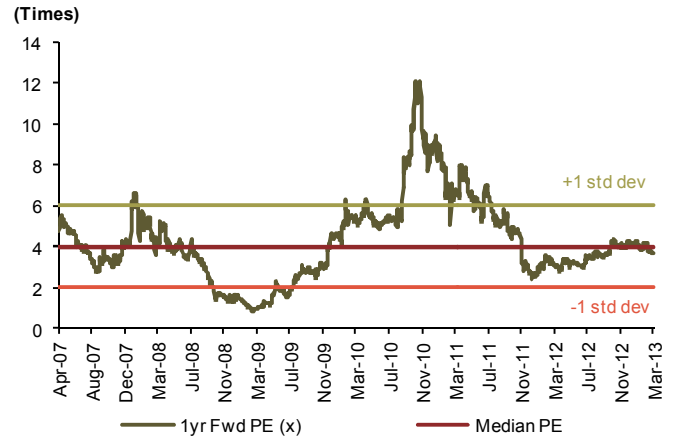
Source: NSE, CRISIL Research

**P/E – premium / discount to NIFTY**



Source: NSE, CRISIL Research

**P/E movement**



Source: NSE, CRISIL Research



## CRISIL IER reports released on KRBL Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
11-Jan-10	Initiating coverage	3/5	₹34#	5/5	₹22#
01-Feb-10	Q3FY10 result update	3/5	₹34#	5/5	₹19#
02-Jun-10	Q4FY10 result update	3/5	₹34	5/5	₹24
19-Aug-10	Q1FY11 result update	3/5	₹32	5/5	₹24
22-Nov-10	Q2FY11 result update	3/5	₹45	4/5	₹38
24-Feb-11	Q3FY11 result update	3/5	₹39	5/5	₹24
20-Apr-11	Detailed Report	3/5	₹39	4/5	₹32
01-Jun-11	Q4FY11 result update	3/5	₹39	5/5	₹28
12-Aug-11	Q1FY12 result update	3/5	₹36	5/5	₹27
29-Nov-11	Q2FY12 result update	3/5	₹31	5/5	₹18
16-Feb-12	Q3FY12 result update	3/5	₹31	5/5	₹20
17-Apr-12	Detailed Report	3/5	₹31	5/5	₹20
12-Jun-12	Q4FY12 result update	3/5	₹31	5/5	₹19
21-Aug-12	Q1FY13 result update	3/5	₹31	5/5	₹22
12-Nov-12	Q2FY13 result update	3/5	₹33	5/5	₹26
11-Mar-13	Q3FY13 result update	3/5	₹35	5/5	₹24

# After adjusting for stock split of 10:1

## Annexure: Financials

Income statement						Balance Sheet					
(₹ m n)	FY11	FY12	FY13E	FY14E	FY15E	(₹ m n)	FY11	FY12	FY13E	FY14E	FY15E
<b>Operating income</b>	<b>15,391</b>	<b>16,229</b>	<b>21,092</b>	<b>21,667</b>	<b>24,115</b>	<b>Liabilities</b>					
<b>EBITDA</b>	<b>2,277</b>	<b>2,292</b>	<b>3,159</b>	<b>3,252</b>	<b>3,499</b>	Equity share capital	244	244	244	244	244
<b>EBITDA margin</b>	<b>14.8%</b>	<b>14.1%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>14.5%</b>	Reserves	6,226	6,928	8,295	9,762	11,321
Depreciation	359	445	452	463	466	Minorities	9	9	9	9	9
<b>EBIT</b>	<b>1,918</b>	<b>1,847</b>	<b>2,707</b>	<b>2,790</b>	<b>3,033</b>	<b>Net worth</b>	<b>6,478</b>	<b>7,180</b>	<b>8,547</b>	<b>10,014</b>	<b>11,574</b>
Interest	514	719	777	779	790	Convertible debt	-	-	-	-	-
<b>Operating PBT</b>	<b>1,403</b>	<b>1,128</b>	<b>1,930</b>	<b>2,011</b>	<b>2,243</b>	Other debt	9,020	9,380	9,530	9,430	9,780
Other income	105	100	127	121	121	<b>Total debt</b>	<b>9,020</b>	<b>9,380</b>	<b>9,530</b>	<b>9,430</b>	<b>9,780</b>
Exceptional inc/(exp)	76	(278)	-	-	-	Deferred tax liability (net)	131	162	162	162	162
<b>PBT</b>	<b>1,584</b>	<b>949</b>	<b>2,056</b>	<b>2,132</b>	<b>2,364</b>	<b>Total liabilities</b>	<b>15,630</b>	<b>16,722</b>	<b>18,239</b>	<b>19,606</b>	<b>21,515</b>
Tax provision	381	219	576	522	662	<b>Assets</b>					
Minority interest	-	-	-	-	-	Net fixed assets	3,834	4,169	3,866	3,554	3,238
<b>PAT (Reported)</b>	<b>1,203</b>	<b>730</b>	<b>1,481</b>	<b>1,610</b>	<b>1,702</b>	Capital WIP	259	130	130	130	130
Less: Exceptionals	76	(278)	-	-	-	<b>Total fixed assets</b>	<b>4,093</b>	<b>4,298</b>	<b>3,996</b>	<b>3,684</b>	<b>3,367</b>
<b>Adjusted PAT</b>	<b>1,128</b>	<b>1,009</b>	<b>1,481</b>	<b>1,610</b>	<b>1,702</b>	<b>Investments</b>	<b>90</b>	<b>72</b>	<b>72</b>	<b>72</b>	<b>72</b>
<b>Ratios</b>						<b>Current assets</b>					
	FY11	FY12	FY13E	FY14E	FY15E	Inventory	12,085	12,377	13,701	15,257	18,033
<b>Growth</b>						Sundry debtors	1,577	2,389	3,016	3,098	3,303
Operating income (%)	(3.4)	5.4	30.0	2.7	11.3	Loans and advances	840	765	1,055	1,083	1,206
EBITDA (%)	4.3	0.6	37.8	3.0	7.6	Cash & bank balance	51	168	151	267	119
Adj PAT (%)	(9.8)	(10.6)	46.8	8.7	5.7	Marketable securities	-	-	-	-	-
Adj EPS (%)	(9.8)	(10.6)	46.8	8.7	5.7	<b>Total current assets</b>	<b>14,553</b>	<b>15,700</b>	<b>17,923</b>	<b>19,705</b>	<b>22,661</b>
<b>Profitability</b>						<b>Total current liabilities</b>	<b>3,123</b>	<b>3,363</b>	<b>3,768</b>	<b>3,870</b>	<b>4,601</b>
EBITDA margin (%)	14.8	14.1	15.0	15.0	14.5	<b>Net current assets</b>	<b>11,430</b>	<b>12,336</b>	<b>14,155</b>	<b>15,835</b>	<b>18,060</b>
Adj PAT Margin (%)	7.3	6.2	7.0	7.4	7.1	Intangibles/Misc. expenditure	17	16	16	16	16
RoE (%)	19.1	14.8	18.8	17.3	15.8	<b>Total assets</b>	<b>15,630</b>	<b>16,722</b>	<b>18,239</b>	<b>19,606</b>	<b>21,515</b>
RoCE (%)	14.3	11.5	15.6	14.9	14.9	<b>Cash flow</b>					
RoIC (%)	13.3	11.5	14.0	13.6	13.0	(₹ m n)	FY11	FY12	FY13E	FY14E	FY15E
<b>Valuations</b>						Pre-tax profit	1,509	1,228	2,056	2,132	2,364
Price-earnings (x)	5.2	5.8	3.9	3.6	3.4	Total tax paid	(333)	(188)	(576)	(522)	(662)
Price-book (x)	0.9	0.8	0.7	0.6	0.5	Depreciation	359	445	452	463	466
EV/EBITDA (x)	6.5	6.6	4.8	4.6	4.4	Working capital changes	(3,882)	(787)	(1,836)	(1,564)	(2,373)
EV/Sales (x)	1.0	1.0	0.7	0.7	0.7	<b>Net cash from operations</b>	<b>(2,347)</b>	<b>697</b>	<b>97</b>	<b>508</b>	<b>(205)</b>
Dividend payout ratio (%)	7.1	11.6	6.6	7.6	7.2	<b>Cash from investments</b>					
Dividend yield (%)	1.5	1.5	1.7	2.1	2.1	Capital expenditure	(929)	(651)	(150)	(150)	(150)
<b>B/S ratios</b>						Investments and others	(86)	18	-	-	-
Inventory days	355	349	294	321	336	<b>Net cash from investments</b>	<b>(1,016)</b>	<b>(633)</b>	<b>(150)</b>	<b>(150)</b>	<b>(150)</b>
Creditors days	83	83	72	72	77	<b>Cash from financing</b>					
Debtor days	39	55	53	53	51	Equity raised/(repaid)	(2)	57	-	-	0
Working capital days	277	282	248	269	278	Debt raised/(repaid)	2,971	360	150	(100)	350
Gross asset turnover (x)	3.0	2.7	3.2	3.2	3.5	Dividend (incl. tax)	(85)	(85)	(114)	(142)	(142)
Net asset turnover (x)	4.3	3.9	5.1	5.7	6.9	Others (incl extraordinary)	85	(278)	-	-	-
Sales/operating assets (x)	4.0	3.9	5.1	5.6	6.8	<b>Net cash from financing</b>	<b>2,969</b>	<b>53</b>	<b>36</b>	<b>(242)</b>	<b>208</b>
Current ratio (x)	4.7	4.7	4.8	5.1	4.9	Change in cash position	(394)	118	(17)	115	(147)
Debt-equity (x)	1.4	1.3	1.1	0.9	0.8	Closing cash	51	168	151	267	119
Net debt/equity (x)	1.4	1.3	1.1	0.9	0.8	<b>Quarterly financials</b>					
Interest coverage	3.7	2.6	3.5	3.6	3.8	(₹ m n)	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
<b>Per share</b>						<b>Operating income</b>	<b>4,532</b>	<b>4,728</b>	<b>5,165</b>	<b>5,715</b>	<b>5,000</b>
Adj EPS (₹)	4.6	4.1	6.1	6.6	7.0	Change (q-o-q)	17%	4%	9%	11%	-12%
CEPS	6.1	6.0	7.9	8.5	8.9	<b>EBITDA</b>	<b>695</b>	<b>618</b>	<b>965</b>	<b>736</b>	<b>696</b>
Book value	26.6	29.5	35.1	41.1	47.5	Change (q-o-q)	103%	-11%	56%	-24%	-5%
Dividend (₹)	0.3	0.3	0.4	0.5	0.5	<b>EBITDA margin</b>	<b>15.3%</b>	<b>13.1%</b>	<b>18.7%</b>	<b>12.9%</b>	<b>13.9%</b>
Actual o/s shares (mn)	244	244	244	244	244	PAT	238	473	340	545	208
						<b>Adj PAT</b>	<b>389</b>	<b>135</b>	<b>510</b>	<b>191</b>	<b>365</b>
						Change (q-o-q)	115%	-65%	278%	-63%	91%
						<b>Adj PAT margin</b>	<b>8.6%</b>	<b>2.9%</b>	<b>9.9%</b>	<b>3.3%</b>	<b>7.3%</b>
						<b>Adj EPS</b>	<b>1.6</b>	<b>0.6</b>	<b>2.1</b>	<b>0.8</b>	<b>1.5</b>

Source: CRISIL Research

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