

Visit Note

Kirloskar Brothers Ltd.

We visited Kirloskar Brothers Limited's (KBL) Sanand plant which manufactures all types of submersible pumps of diverse diameters used in agricultural and domestic households. The plant is equipped with a state-of-the-art machining setup, cathodic electro deposition coating setup, computerised testing setup and semi-mechanised assembly setup for pump manufacturing. The key takeaways from the senior management meeting are as follows.

Focus on improving product mix in the domestic business

KBL is one of the oldest pump manufacturers in India with significant technical expertise and proven track record across all segments of centrifugal pumps. While the Indian pump market is highly fragmented, KBL has ~15% market share in the small pumps category and has heritage of serving customers for over 130 years. Post successful shift from low margin, lumpy and working capital intensive EPC project business to building a strong product portfolio, KBL continues to focus on enhancing the product mix. The share of EPC business in standalone entity reduced from 75% in FY10 to 6% in FY22 depicting a decent CAGR of 12.3% in high margin products business over FY10-22.

Recent sharp fall in commodity prices to boost overseas business performance

With an ambition of building a global company KBL acquired businesses across Europe, South Africa and Asia in the past decade which were much smaller in size and successfully built them. Although operationally KBL succeeded in most of the geographies, its financial performance weakened due to various reasons such as higher operating costs, weak demand and currency risks. Weak performance from these 100% foreign subsidiaries was a drag on consolidated performance however over last few years company has taken sustained initiatives to improve performance, which resulted in strong FY21 registering EBITDA margins of 9%. However again in FY22 rising commodity costs impacted its performance which is expected to improve on significant correction in commodity prices such as steel and copper. There were few operating issues in South Africa and Thailand which are resolved now and both subsidiaries are expected to improve their performance in FY23.

Leveraging the localized global presence for growth

KBL is leveraging the localized global presence through cost synergies, duty free access and local sourcing norms. Its global presence across continents provides it opportunity for local value addition in terms of components, maintenance services & processes. With sufficient experience in global territories KBL plans to expand and deepen the existing geographic presence possibly through suitable inorganic growth in future as its balance sheet is stronger now. Cost optimization across domestic and international subsidiaries is another focus going forward.

Valuation and View

KBL is a net debt free company having improved focus on profitability and cash flows over last few years. Although domestic business revenue growth seems weak over a decade, there is a decent 12.3% CAGR in high margin product business as KBL took conscious decision to reduce lumpy projects business gradually post GFC in 2008. With recent sharp fall in commodity prices, margins are expected to improve pushing its return ratios higher in near to medium term. KBL has successfully built its global businesses using own technological expertise and consistently gaining market share across regions. KBL's efforts to streamline its global operations towards achieving sustainable profitability can make the stock attractive in the long term. At CMP of INR 316, stock is trading at EV of 11.6x FY22 EBITDA and PER of 26.6x FY22 consolidated EPS of INR 11.9.

Financial Summary

Year to March (INR crore)	FY18	FY19	FY20	FY21	FY22
Net revenue	2,775	3,349	3,135	2,717	3,058
EBITDA	150	128	207	241	206
Adjusted PAT	50	3	72	161	94
EBITDA margin (%)	5.4	3.8	6.6	8.9	6.7
PAT margin (%)	1.8	0.1	2.3	5.9	3.1
EPS basic (INR)	6.3	0.4	9.0	20.2	11.9
Diluted P/E (x)	24.3	368.8	14.3	16.3	26.6
EV/EBITDA (x)	9.4	11.0	5.5	10.6	11.6
RoCE (%)	10.3	8.4	15.1	18.0	11.8
RoAE (%)	5.3	0.3	7.6	14.5	8.0

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 Research Analyst
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CMP: INR 319
Rating: Not Rated
Date: July 05, 2022

QUICK DATA

Face Value (INR)	2
Div. Yield (%)	0.95
No of shares (in Cr)	7.95
52-week High/Low (INR)	248 / 499
NSE Symbol	KIRLOSBROS
BSE Code	400241
Bloomberg Code	KKB
Market cap (INR Cr)	2,534

SHAREHOLDING PATTERN (%)

Promoters	65.95%
FIIs	1.67%
MFs & DIIs	8.87%
Others	23.50%

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Kirloskar Brothers Ltd.

About the Company:

Kirloskar Brothers Limited (KBL) is a pump manufacturing company with expertise in engineering and manufacture of systems for fluid management. Established in 1888, KBL is the flagship Company of the USD 2.2 billion Kirloskar Group. KBL provides complete fluid management solutions for large infrastructure projects in the areas of water supply, power plants, irrigation, oil & gas and marine & defense. KBL engineer and manufacture industrial, agriculture and domestic pumps, valves and hydro turbines. Over last few decades, KBL has developed expertise to manufacture over 75 types of pumps with a flow capacity up to 120,000 m3/hr head up to 1200 m and EPC capabilities, making it the leader in producing world’s widest range of energy efficient pumps, including the smallest and the largest pumps in the world.

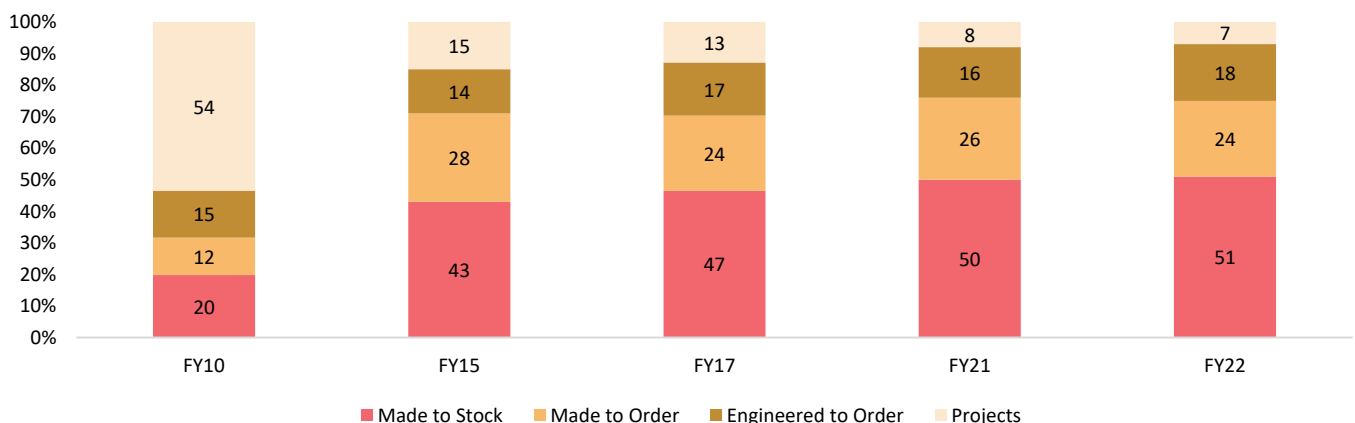
Manufacturing presence across continents

KBL has eight manufacturing facilities in India at Kirloskarvadi, Kondhapuri, Shirwal, Dewas, Sanand and Kaniyur, two subsidiaries/associate companies at Kirloskarvadi. In 2003, KBL had acquired UK’s SPP Pumps and eventually established subsidiary operations in the US, Netherlands and Thailand. In 2008, it incorporated Kirloskar Brothers Europe B.V., a joint venture (JV) between Kirloskar International B.V. and Industrial Pump Group, Netherlands. In 2010, KBL further consolidated its global position by acquiring Braybar Pumps, South Africa. SPP MENA was established in Egypt in 2012. In 2014, KBL acquired SyncroFlo, the largest independent fabricator of commercial and municipal domestic water booster pumps in the US. Today KBL has presence in over 80 countries and manufacturing facilities in the UK, USA, the Netherlands, South Africa and Thailand. It also has an assembly unit in Egypt. KBL gets ~50% of its business directly from consumers under the business-to-consumer route, and the rest half from the institutional buyers from business-to-business (B2B) and business-to-government (B2G) channels.

Focus on improving product mix in the domestic business

KBL is one of the oldest pump manufacturers in India with technical expertise and proven track record across all segments of centrifugal pumps. While the pump market is highly fragmented in India, KBL has ~15% market share in the small pumps category and has heritage of serving the customers for over 130 years. Post successful shift from low margin, lumpy and working capital intensive EPC projects business to building strong product portfolio, KBL has continued its focus on improving the product mix. The share of EPC business in standalone entity reduced from 75% in FY10 to 6% in FY22; which depicts decent 12.3% CAGR growth in products business over FY10-22. Over the last decade, KBL focused on improving its product mix by setting up two units for small pumps manufacturing and expanded retail touch points which aided increasing its market share. Share of made to stock increased from 43% in FY15 to 51% in FY22 while high margin Engineered to order share grew from 14% to 18% over FY15-22.

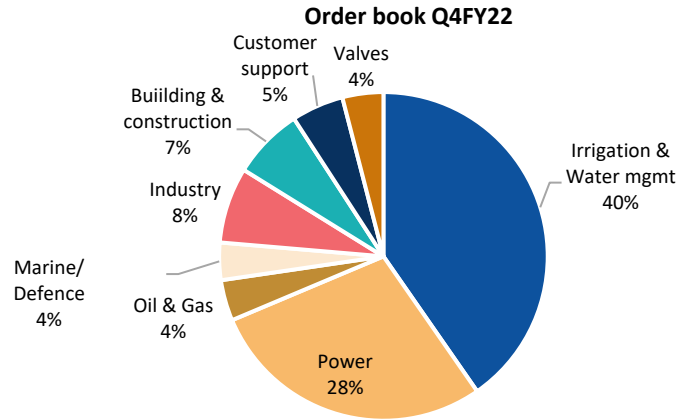
Exhibit 1: Improving product mix over last decade



Source: Edelweiss Wealth Research

At present 40% of its existing order book is from irrigation and water management segment followed by 28% from power. On consolidated basis, KBL has order book of INR 2,470 Cr pending as on 31st March 2022. With higher crude oil prices, capex in Oil & Gas segment is expected to increase which will significantly improve KBL’s order book in global subsidiaries.

Exhibit 2: Current order book as of 31st March 2022 (Standalone INR 1,711 Cr)



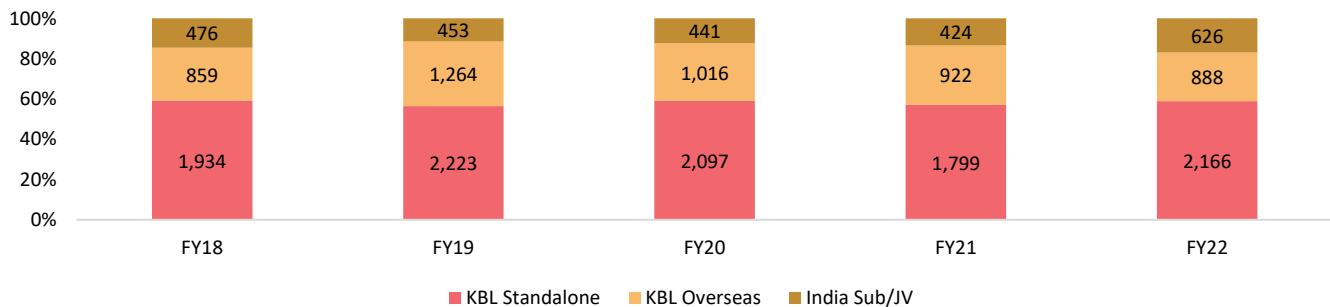
Source: Edelweiss Wealth Research

Recent sharp fall in commodity prices to improve overseas business performance

With an ambition of building a global company KBL acquired businesses across Europe, South Africa and Asia in the past decade which were much smaller in size and successfully built them. Although operationally KBL has succeeded in most of the geographies e.g. KBL is consistently gaining market share in UK and Netherlands, reaching market share in UK at 80% and company participated in most of the prestigious orders in Asia; financial performance keep on getting affected due to various reasons such as higher operating costs, weak demand and currency risks. Weak performance from these 100% foreign subsidiaries was a drag on consolidated performance however over last few years company has taken sustained initiatives to improve performance, which resulted in strong FY21. However again in FY22 rising commodity costs impacted its performance which is expected to surprise positively on significant correction in commodity prices such as steel and copper.

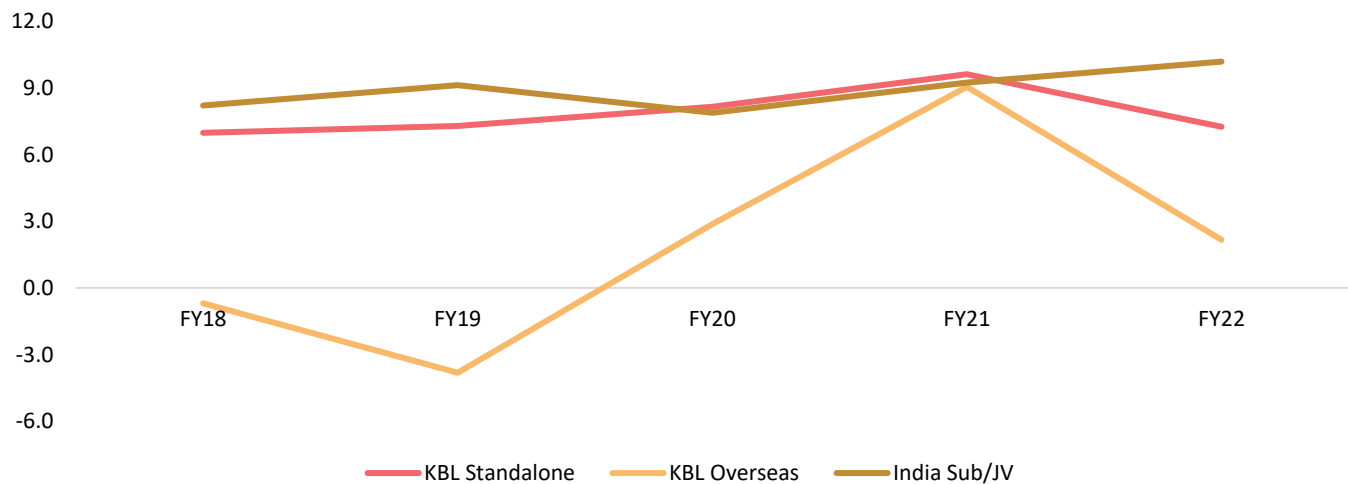
There were few operating issues in South Africa and Thailand which are resolved now and both subsidiaries are expected to improve their performance in FY23. UK and US business is doing good and expected to do well as company keep on gaining market share and approach is shifted from product-based company to service based company. It is improving its focus on maintenance service businesses since FY17, diversifying product profile and UK is leading digital and innovative initiatives for entire KBL group.

Exhibit 3: Trend in Revenue Composition



Source: Edelweiss Wealth Research

Exhibit 4: Trend in EBITDA margins across businesses



Source: Edelweiss Wealth Research

Leveraging the localized global presence for growth

KBL is leveraging the localized global presence through cost synergies, duty free access and local sourcing norms. Its global presence across continents provides it opportunity for local value addition in terms of components, maintenance services & processes. With enough experience in global territories KBL plans to expand and deepen the existing geographic presence which may be by suitable inorganic growth in future as its balance sheet is stronger now. Besides India, KBL has manufacturing facilities in the UK, USA, the Netherlands, South Africa and Thailand. And in Egypt, it has an assembly facility. Cost optimization across domestic and international subsidiaries is another focus going forward.

Developing new source of revenue with the use of emerging technologies

Having enough experience in Pump and valves industry, KBL proactively scout for new market trends, expectations and emerging technologies to make its products and operations more customer centric and future ready. KBL explored new emerging technologies such as Augmented Reality, Virtual Reality and artificial intelligence for different use cases which aided its customers during critical periods of Covid-19. In global markets, KBL is shifting gradually from pure product-based company to service based company by launching new services such as “KirloSmart” which is an IOT (Internet of Things) product with unique capability of measuring and transmitting the field parameters for “Remote Monitoring” and generating alerts for the probable cause leading to failure of the pump/ motor. This service is based on monthly subscription concept and can work on any brand of pumps in the project.

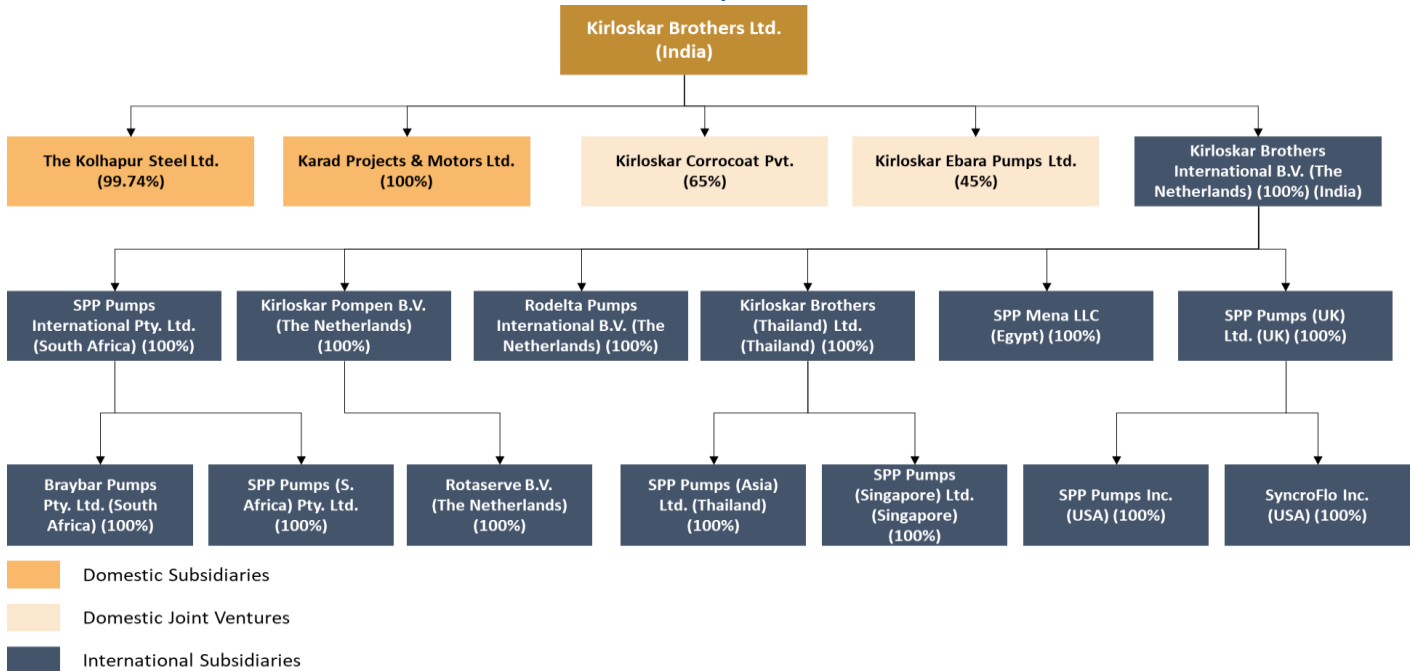
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Valuation and View

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Exhibit 5: Group structure:



Source: Edelweiss Wealth Research

Exhibit 6: Brief profile of Overseas and Indian Subsidiaries

Company Name	Product Profile	Geographies catered	Industries catered
SPP Pumps, UK	Lowest Life Cycle Pumps for water supply and Industrial, Fire fighting, Transformer oil pumps	Europe, USA, UAE, Asia, Canada, Mexico	Fire, Upstream Oil & Gas, Chemicals, Power, Commercial Building
Rodelta, Netherlands	API Pumps conforming to API-610 standards, Concrete Volute Pumps, Bi-directional Axial Flow Pumps	China, UAE, Europe, Asia	Oil & Gas, Power, Paper, Irrigation, Chemicals, Water
KBL, Thailand	Fire fighting pumps, Chemical pumps, Water supply pumps	Asia, Cambodia	Chemicals, Mining, Power, Water, Commercial Buildings
Braybar, S Africa	Fire fighting, Mine de-watering, Chemical, Water supply pumps	South African countries	Mining, Water, Chemicals, Commercial Buildings
Karad Projects	Stamping, Motors, Components	India, Europe, USA, China	Pumps, Healthcare, Compressors, Elevators
Kirloskar Ebara	Pumps, Turbines	India, Europe, CIS, Asia, Middle East	Oil & Gas, LNG, Power, Fertilizers, Nuclear Energy
Kolhapur Steel	Steel Alloy castings, Valves, Turbines, Pumps	India, South Korea	Turbomachines, Power, Earth Moving, Mining, Heavy Engg,
Kirloskar Corrocoat	Corroglass, Corrocoat, Plasmnet, Fluiglidle	India	Oil & Gas, Power, Steel, Water

Source: Edelweiss Wealth Research

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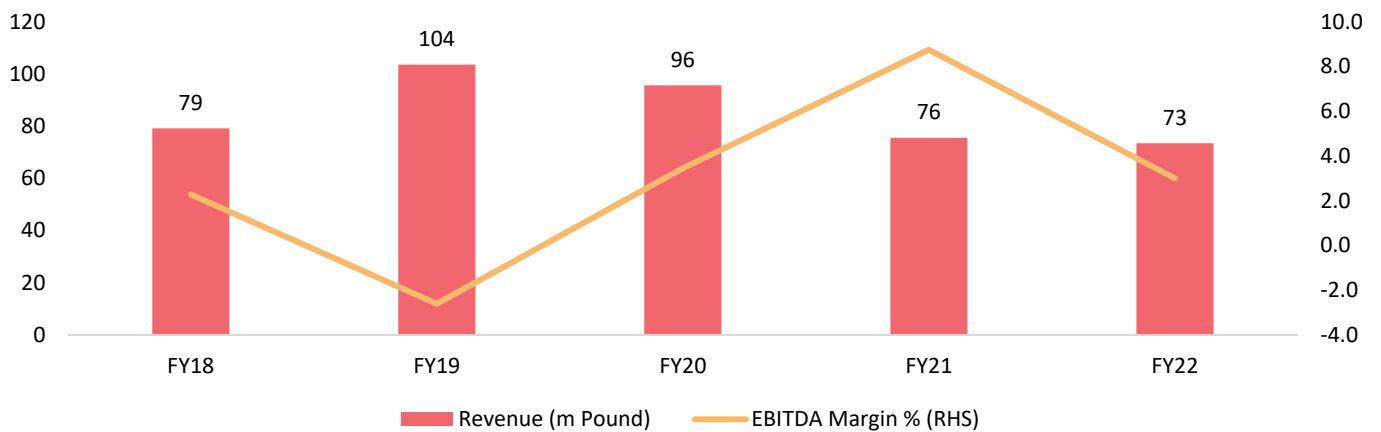
Kirloskar Brothers Ltd.

Financial Performance of Overseas Subsidiaries

SPP Pumps Ltd, UK

Acquired in 2003, SPP Pumps is 100% subsidiary of KBL and has R&D, manufacturing and test facilities in UK. It is largest international subsidiary having highest market share in fire pump packages business. It is leading digital and innovative initiatives for KBL group. In March 2014, SPP acquired SyncroFlo Inc. an Atlanta based manufacturer and pioneer in pre-assembled pumping systems giving them access to US market.

Exhibit 7: SPP Pumps, UK

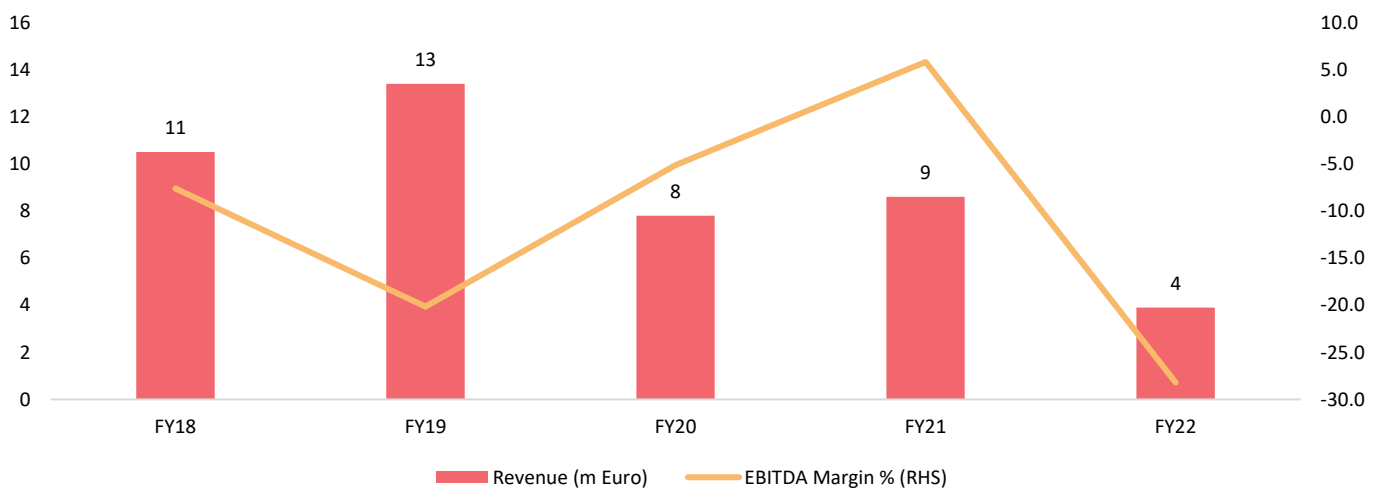


Source: Edelweiss Wealth Research

Rodelta Pumps Ltd, UK

Acquired in 2015, Rodelta Pumps is 100% subsidiary of KBL and is leading manufacturer of API and non-API pumps. It has launched niche products such as fish-friendly pumps and OH5 pumps for Hydrogen production. Higher crude oil prices are expected to benefit this subsidiary as capex in sector increases.

Exhibit 8: Rodelta, Netherlands



Source: Edelweiss Wealth Research

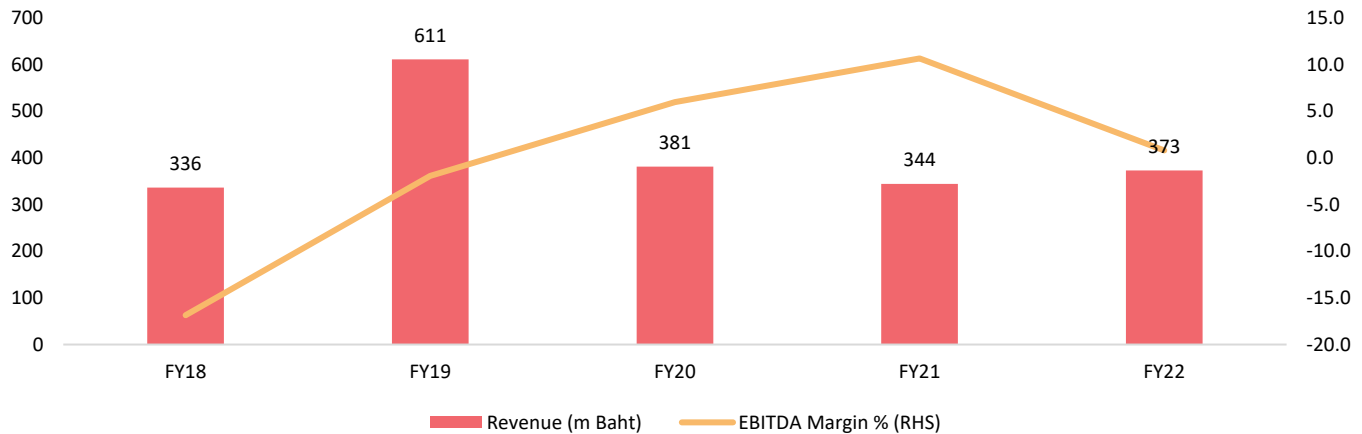
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Kirloskar Brothers (Thailand) Ltd.

This 100% subsidiary company is into sales and packaging of centrifugal pumps with focus on South-East Asian markets. It provides duty free access to fast growing ASEAN region through value addition done in Thailand.

Exhibit 9: KBL, Thailand

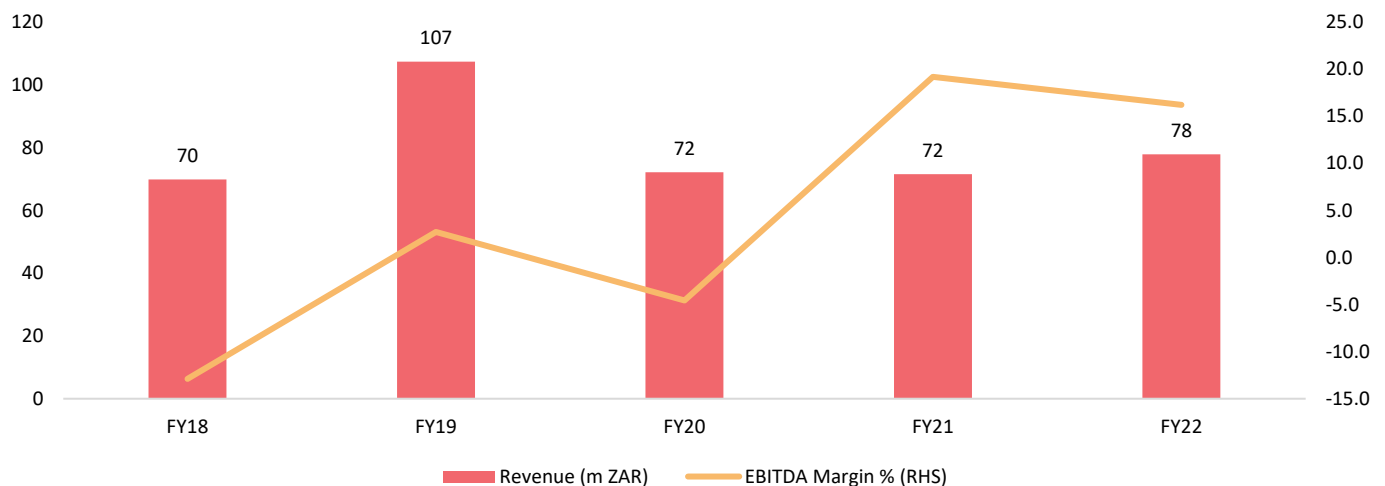


Source: Edelweiss Wealth Research

Braybar Pumps Ltd, South Africa

KBL acquired Braybar Pumps, South Africa in 2010 involved in the manufacturing of rubber lined slurry pumps and high head multistage pumps at an acquisition cost of INR 110 million which gave them an opportunity to set foot in South African mining industry. Over last three years, KBL has successfully overcome the BBBEE regulations and turned around the business by improving product mix.

Exhibit 10: KBL Braybar, South Africa



Source: Edelweiss Wealth Research

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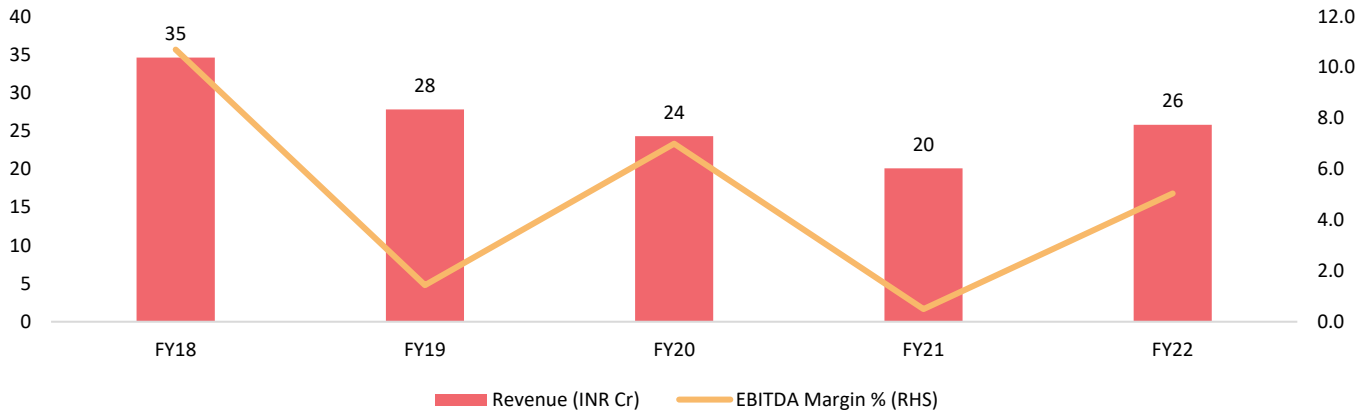
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Financial performance of Indian Subsidiaries and associate companies

Kirloskar Corrocoat P Ltd

Kirloskar Corrocoat is a subsidiary joint venture between KBL (65% stake) and Corrocoat Ltd. U.K. which manufactures coatings in a state-of-the-art plant at Kirloskarvadi, Maharashtra. It undertakes turnkey projects for supply and application of coatings on variety of equipment.

Exhibit 11: Kirloskar Corrocoat

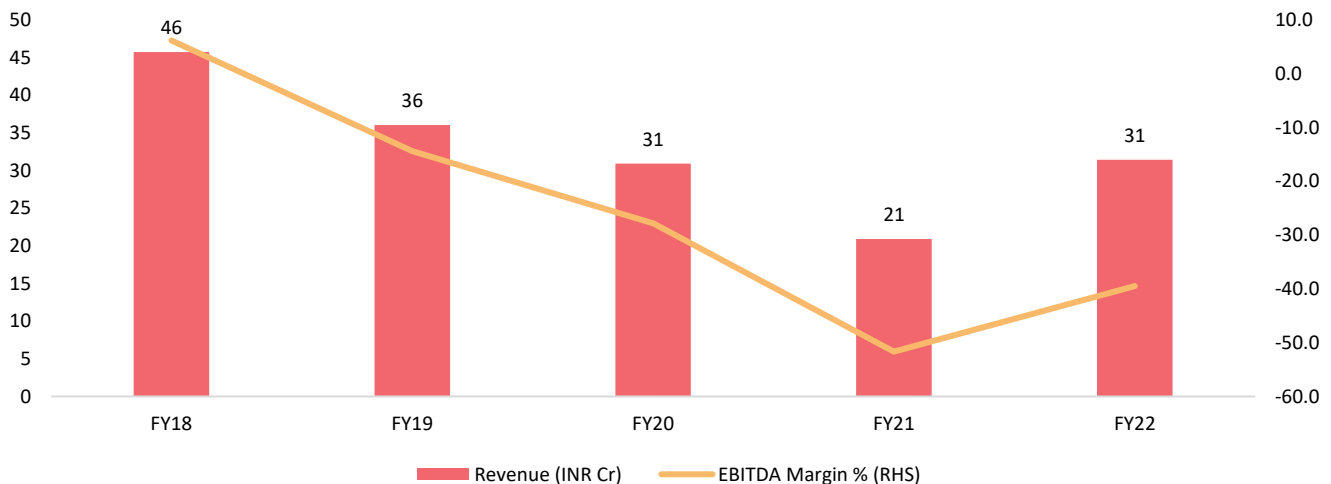


Source: Edelweiss Wealth Research

The Kolhapur Steel Ltd

Kolhapur Steel is a 99.74% subsidiary of KBL acquired in 2007. Established in 1965, TKSL is a foundry manufacturing steel casting for various industries, viz. power. However with investments in coal fired Power plants is declining, it is going through tough times. KBL is shifting its focus on shipping, earth moving and other sectors to make it profitable.

Exhibit 12: Kolhapur Steel



Source: Edelweiss Wealth Research

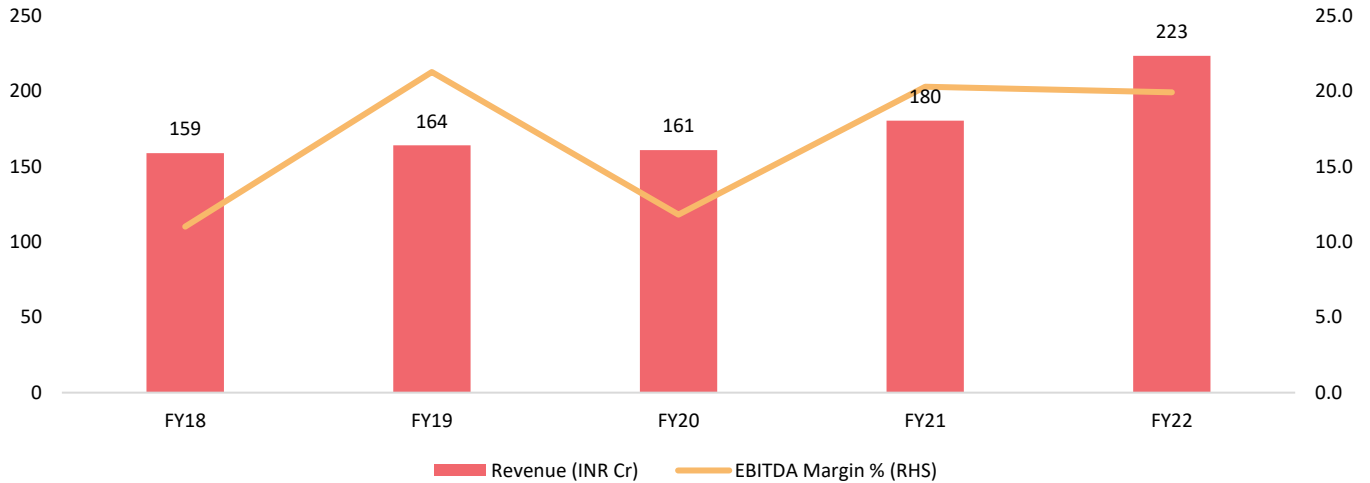
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Kirloskar Ebara Pumps Ltd

Kirloskar Ebara Pumps was established on 13th January 1988 as a Joint Venture promoted by KBL (45% stake) and Ebara Corporation with a mission to manufacture and supply rotary equipment like process pumps, boiler feed water pumps, steam turbines for mechanical drive and steam turbine generators etc. required for critical applications in Hydrocarbon Processing Industries and for power projects.

Exhibit 13: Kirloskar Ebara Pumps

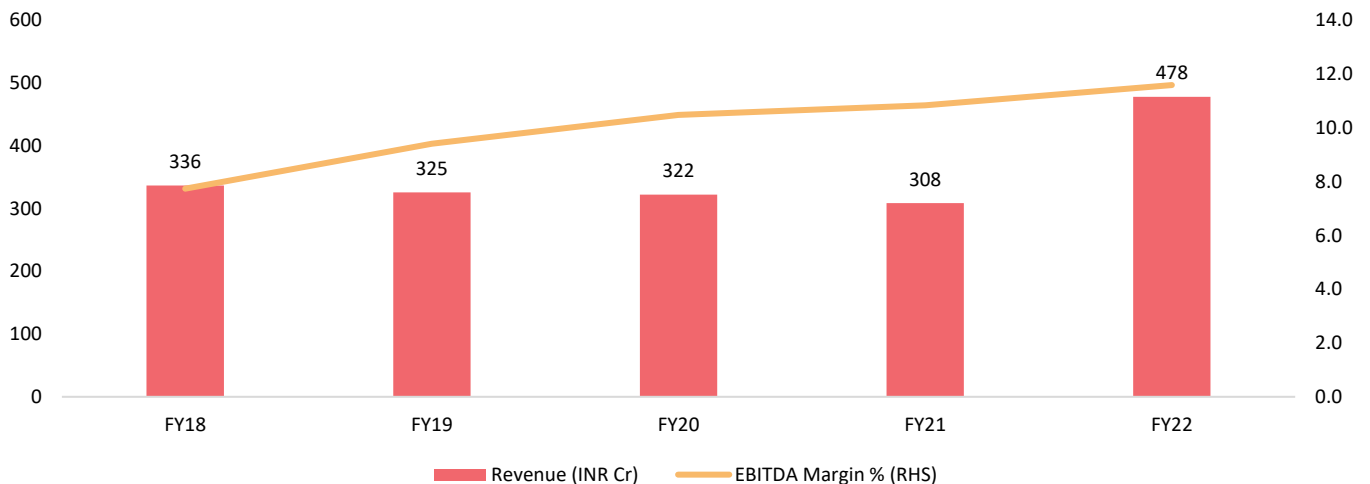


Source: Edelweiss Wealth Research

Karad Projects & Motors Ltd

KPML is a wholly owned subsidiary of KBL which manufactures stators, rotors and electric motors required for internal consumption in manufacturing of pumps for KBL.

Exhibit 14: Karad Projects & Motors



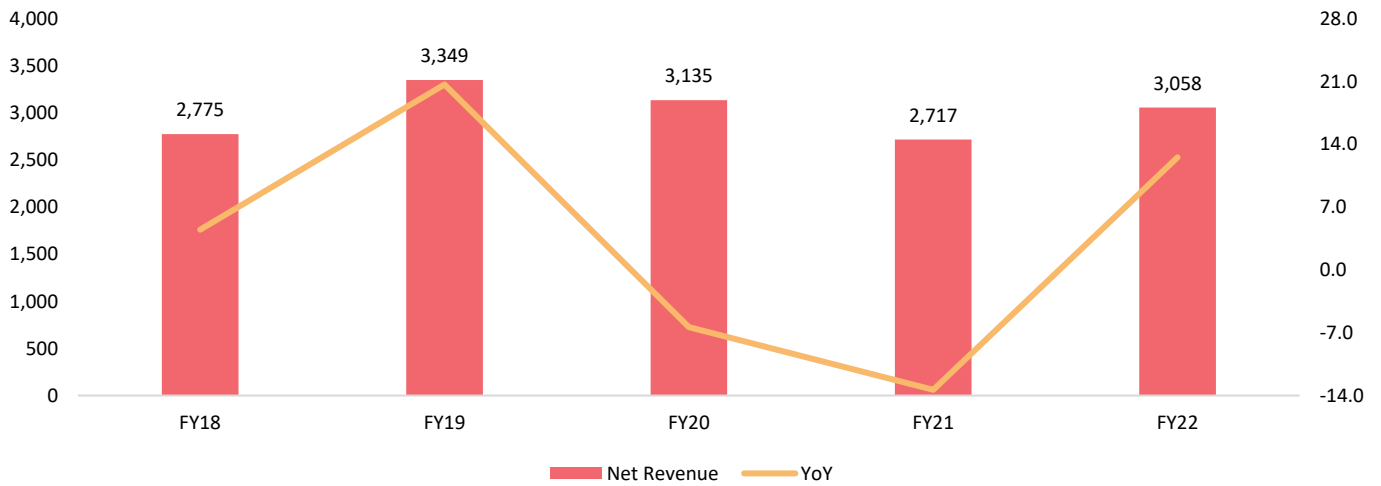
Source: Edelweiss Wealth Research

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Financial Performance

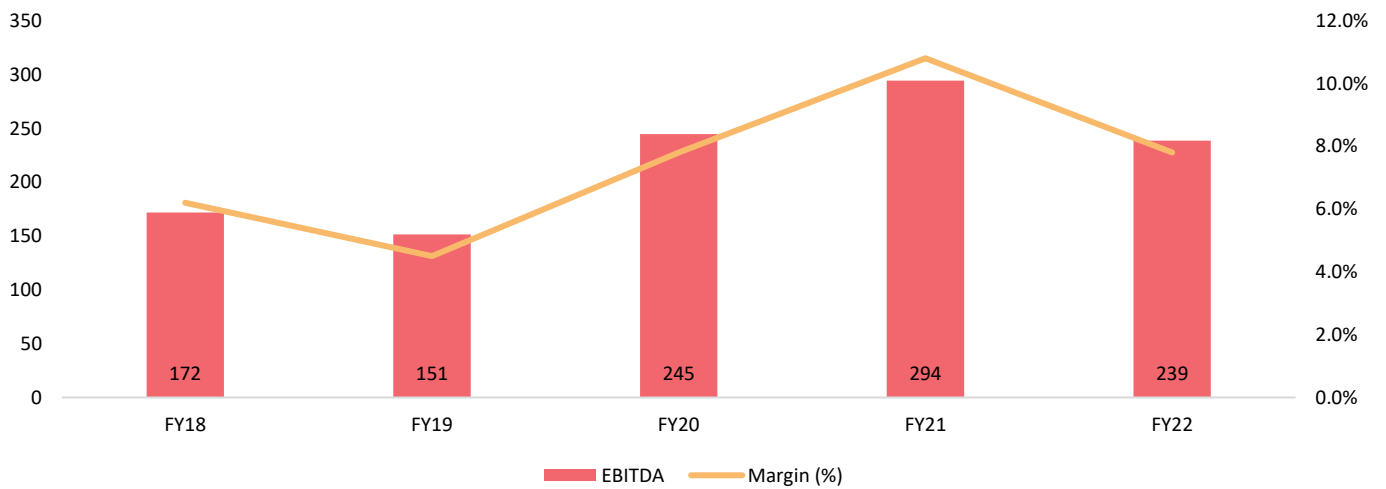
Kirloskar Brothers Consolidated

Exhibit 15: 3% CAGR in revenue over FY17-22



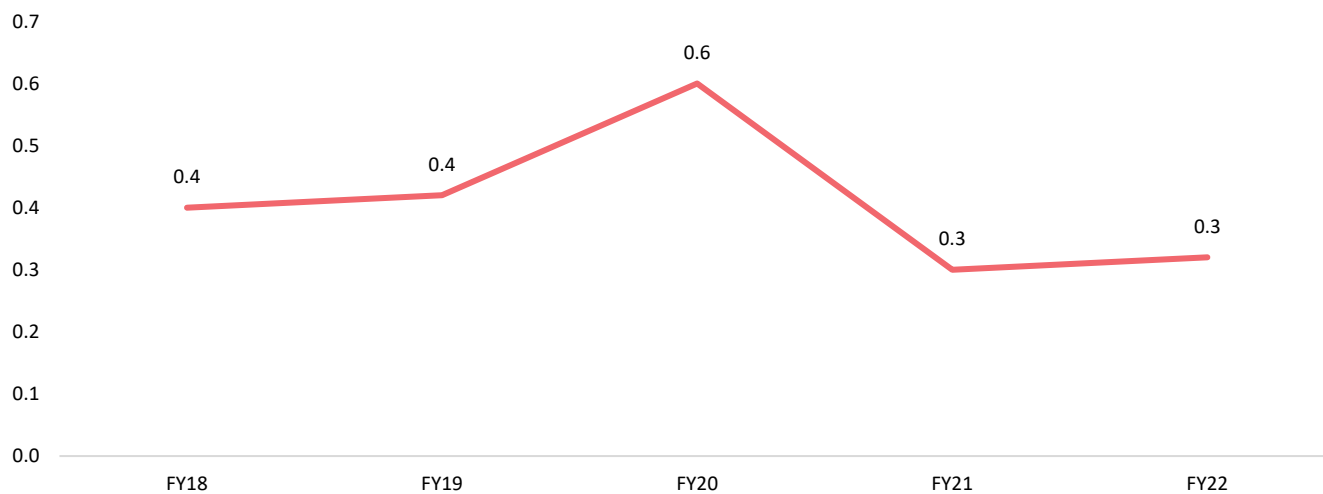
Source: Edelweiss Wealth Research

Exhibit 16: Improving margin profile on consolidated basis



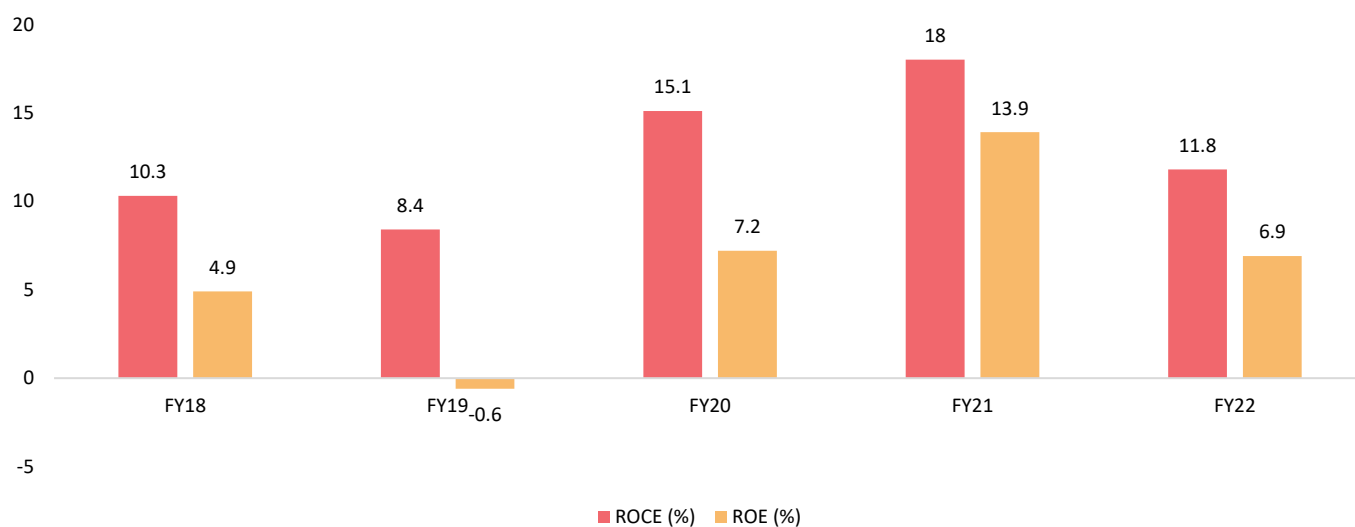
Source: Edelweiss Wealth Research

Exhibit 17: Leverage ratio (x)



Source: Edelweiss Wealth Research

Exhibit 18: Return ratios (%)



Source: Edelweiss Wealth Research

Financials

Income statement (Consolidated)

Year to March (INR Cr)	FY18	FY19	FY20	FY21	FY22
Income from operations	2775	3349	3135	2717	3058
Total operating expenses	2626	3221	2928	2476	2852
EBITDA	150	128	207	241	206
Depreciation and amortisation	59	64	71	68	70
EBIT	113	88	173	226	169
Interest expenses	40	47	52	44	34
Profit before tax	73	41	121	182	136
Provision for tax	27	46	53	28	54
Extraordinary items	0	0	0	0	0
Core profit	47	-5	68	154	81
Share in profit of JVs	4	8	4	7	13
Adjusted net profit	50	3	72	161	94
Diluted shares (Cr)	8	8	8	8	8
EPS (INR) fully diluted	6	0	9	20	12
Dividend per share	2.5	2.5	2.5	3.0	3.0
Dividend payout (%)	40	623	28	15	25

Common size metrics- as % of net revenues

Year to March	FY18	FY19	FY20	FY21	FY22
Operating expenses	94.6	96.2	93.4	91.1	93.3
Depreciation	2.1	1.9	2.3	2.5	2.3
Interest expenditure	1.4	1.4	1.7	1.6	1.1
EBITDA margins	5.4	3.8	6.6	8.9	6.7
Net profit margins	1.7	-0.2	2.2	5.7	2.7

Growth metrics (%)

Year to March	FY18	FY19	FY20	FY21	FY22
Revenues	10	21	-6	-13	13
EBITDA	57	-15	62	16	-14
PBT	346	-45	199	50	-26
Net profit	1289	-94	2154	124	-41
EPS	1289	-94	2154	124	-41

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Balance sheet (INR Cr)

As on 31st March	FY18	FY19	FY20	FY21	FY22
Equity share capital	16	16	16	16	16
Non controlling interest	4	3	3	3	3
Reserves & surplus	927	893	927	1089	1162
Shareholders' funds (After MI)	946	912	946	1107	1180
Total Debt	330	363	550	301	375
Deferred Tax Liabilities	-35	-46	-32	-47	-42
Sources of funds	1242	1230	1464	1361	1513
Net block	426	434	429	428	487
Capital work in progress	13	25	51	73	27
Total fixed assets	440	458	480	501	514
Intangible assets	14	6	55	36	31
Goodwill	18	14	14	14	14
Investments	52	60	107	197	238
Inventories	520	617	616	603	644
Sundry debtors	559	627	554	523	569
Cash and equivalents	92	74	321	175	259
Loans and advances	127	114	118	117	112
Other current assets	559	539	454	397	351
Total current assets	1856	1970	2063	1815	1934
Sundry creditors and others	1063	1190	1167	1123	1118
Provisions	75	89	88	80	100
Total CL & provisions	1138	1279	1256	1203	1218
Net current assets	718	691	808	612	716
Misc expenditure	0	0	0	0	0
Uses of funds	1242	1230	1464	1361	1513
Book value per share (INR)	119	115	119	139	148

Cash flow statement

Year to March	FY18	FY19	FY20	FY21	FY22
Net profit	50	3	72	161	94
Add: Depreciation	59	64	71	68	70
Add: Misc expenses written off	0	0	0	0	0
Add: Deferred tax	0	0	0	0	0
Gross cash flow	109	67	143	229	164
Less: Changes in W. C.	34	249	162	-167	-54
Operating cash flow	143	316	305	62	110
Less: Capex	-17	19	22	21	12
Free cash flow	159	298	283	41	97

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Ratios

Year to March	FY18	FY19	FY20	FY21	FY22
ROAE (%)	5	0	8	15	8
ROACE (%)	10	8	15	18	12
Debtors (days)	73	68	65	70	68
Current ratio	1	1	1	1	1
Inventory (days)	68	67	72	81	77
Payable (days)	140	130	136	151	133
Cash conversion cycle (days)	2	6	0	0	11
Debt/EBITDA	2.2	2.8	2.7	1.2	1.8
Adjusted debt/Equity	1.2	1.8	0.6	-0.3	-0.6

Valuation parameters

Year to March	FY18	FY19	FY20	FY21	FY22
Diluted EPS (INR)	6.3	0.4	9.0	20.2	11.9
Y-o-Y growth (%)	1289.0	-93.6	2153.9	123.5	-41.3
CEPS (INR)	13.7	8.4	18.0	28.8	20.6
Diluted P/E (x)	24.3	368.8	14.3	16.3	26.6
Price/BV(x)	1.3	1.3	1.1	2.4	2.1
EV/Sales (x)	0.5	0.4	0.4	0.9	0.8
EV/EBITDA (x)	9.4	11.0	5.5	10.6	11.6
Diluted shares O/S	8.0	8.0	8.0	8.0	8.0
Basic EPS	6.3	0.4	9.0	20.2	11.9
Basic PE (x)	24.3	368.8	14.3	16.3	26.6

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The Team

Analysts	Sector
Vinay Khattar	Head of Research
Sandeep Raina	Head - Fundamental
Sagar Doshi	Head - Trading
Arun Jain	Practice Head - Trading
Kavita Chacko	Chief Economist
Dharmesh Kant	Practice Head - Trading
Praveen Sahay	Consumption, Healthcare, Building Materials
Kapil Jagasia	Consumption, Textile, QSR, Retail
Raj Jha	BFSI, NBFC
Jigar Jani	BFSI, NBFC
Anshul Verdia	Power , Chemicals
Himanshu Yadav	Cement, Logistics, Mid-caps
Sushil Sharma	IT, Capital Goods, Defence
Mohit Gupta	Auto, Auto-Anc.
Tushar Chaudhari	Metals, Mid- Caps
Parag Shah	Technical Analyst
Ankit Narshana	Option Trader

Sales Team	Location
Sharad Tripathi	Mumbai
Ketan Malkan	Mumbai
Vikas Sharma	Bengaluru
Abhishek Agarwal	Kolkata
Vivek Khanna	Delhi

Coverage Universe

Sr. No	Coverage
1	Aditya Birla Fashion & Retail Ltd
2	Aegis Logistics Ltd
3	Amber Enterprises India Ltd
4	Astral Ltd
5	Balaji Amines Ltd
6	Bata India Ltd
7	Birla Corporation Limited
8	Can Fin Homes Ltd
9	Century Plyboards India Ltd
10	Cholamandalam Inv and Finance Ltd
11	City Union Bank Ltd
12	CreditAccess Grameen Ltd
13	Crompton Greaves Consumer Electricals Ltd
14	CSB Bank Ltd
15	Deepak Nitrite Ltd
16	Easy Trip Planner Ltd
17	Escorts Ltd
18	Finolex Industries Ltd
19	Home First Finance Company India Ltd
20	Indo Count Industries Ltd
21	K P R Mill Ltd
22	KNR Constructions Ltd
23	Krishna Institute of Medical Sciences Ltd
24	Lumax Industries .Ltd
25	Metropolis Healthcare Ltd
26	Minda Industries Ltd
27	Motherson Sumi Ltd
28	Navin Fluorine International Ltd
29	Neogen Chemicals Ltd
30	Newgen Software Technologies Ltd
31	Orient Electric Ltd
32	PSP Projects Ltd
33	Rossari Biotech Ltd
34	Shriram Transport Finance Company Ltd
35	SRF Ltd
36	Vinati Organics Ltd
37	Voltas Ltd
38	Westlife Development Ltd
39	Zydus Wellness Ltd
40	Tarsons Products Ltd

Sr. No	Tactical Buy
1	ACC Ltd
2	Ajanta Pharma Ltd
3	Ambuja Cements Ltd
4	Ashok Leyland Ltd
5	Axis Bank Ltd
6	Bharat Electronics Ltd
7	Brigade Enterprises Ltd
8	DLF Ltd
9	eClerx Services Ltd
10	Globus Spittits Ltd
11	GNA Axles Ltd
12	HDFC Life Insurance Co.Ltd
13	ICICI Bank Ltd
14	Indusind Bank Ltd
15	Jamna Auto Industries Ltd
16	JK Cement Ltd
17	Larsen & Toubro Ltd
18	Mahindra and Mahindra Ltd
19	Max Financial Services Ltd
20	Max Healthcare Institute Ltd
21	PNC Infratech Ltd
22	RBL Bank Ltd
23	Sun Pharma Ltd
24	TechMahindra Ltd
25	Ultratech Cement Ltd

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