Institutional Equities

Accounting/ESG

Hello darkness, my old friend..

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Hello darkness, my old friend…

AMBIT Acumen at work

…I have come to talk with you again…

Accounting quality is getting ignored. ZOD companies outperformed ZOS companies/NSE100 (ex BFSI) by 23/39ppts in the past year, suggesting decreasing risk averseness. 50% of free-float mcap of BSE500 companies (ex-BFSI) features in the lower half of the accounting quality spectrum. There was rising interest in small-caps. Median institutional holding in ZOD small-caps sub-BSE500 increased from 0.09% in Dec-19 to 0.32% in Dec-23. Historically, small-caps had lower accounting scores vs large/mid-caps. High related-party transactions and weak audit quality and boards amplify accounting risks. Favorable business momentum need not always translate into accounting quality turnaround. ESG analysis is incomplete without considering business representation. Reach out for finding risks.

Key companies which witnessed improvement recently

Difference b/w FY23 vs FY19	Bharti Airtel	Polycab	JK Tyre	Orient Cement
CFO (pre-tax)/EBITDA	(1%)	-%	20%	(8%)
Cont. liab to net worth	(19%)	(20%)	3%	(16%)
FCF/Revenue	9%	1%	5%	16%
Misc. exp. to revenue	(1%)	-%	(1%)	(1%)
cash yield	(1%)	-%	0%	-%
CWIP/GB (6 yr. median)	(1%)	(2%)	(1%)	(6%)
Vol. in depr. rate) (bps)	(52)	(18)	(40)	(36)

Source: Ambit Capital research, Company. Ratios are computed on past six year basis ending FY19/23. Basis our framework, we have looked at six year median/cumulative numbers

High growth might not reflect good accounting quality

Several companies did witness significant growth in revenues and profits but it is critical to check their cash generation capabilities, both OCF and FCF, to rule out potential red flags in working capital and capex.

Some which witnessed cash conversion challenges

Company	Mcap (Rs.bn)	3 yr CAGR/cumulative ratio (FY20-23) Revenue	EBITDA	CFO/EBITDA
Delhivery*	292	37%	38%	*15%
Inox Wind*	146	(1%)	(200%)	*892%
Aether	115	29%	38%	20%
CCL Products	84	22%	12%	58%
VA Tech	39	5%	14%	40%

*Source: Ambit Capital research, Company.*Delhivery and Inox Wind both have negative CFO pre-tax and EBITDA and hence CFO/EBITDA figure is positive*

Stricter lens on RPT, auditors and governance

Promoter-run companies have lower accounting scores. Moreover, smaller companies usually have non-descript auditors and board members. Add to this higher related-party transactions.

Key companies with higher RPTs with KMPs*

Company	Mcap (Rs.bn)	Net estimated cash outflow as a % of consolidated revenue FY22	FY23
JSPL	744	(2%)	(7%)
Cello	184	(2%)	(3%)
Elecon	122	(10%)	(17%)
Raymond	119	(5%)	(6%)
Ask Automotive	60	(4%)	(3%)
Flair	35	(2%)	(3%)

Source: Ambit Capital research, Company. Some companies mentioned above do have renowned auditors. KMP include key managerial personnel, relatives of KMP and KMP entities

The Narrative In Charts

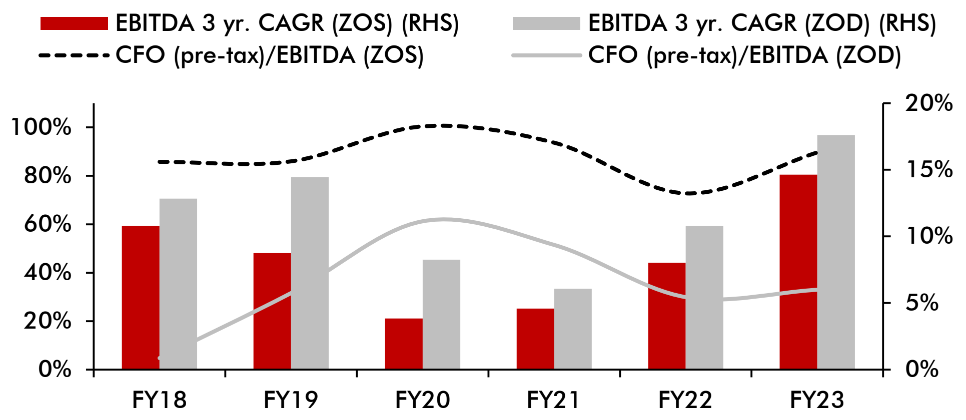
Median revenue CAGR (13-16%) over FY20-23 for small-caps ZOD was similar to ZOS firms. However, median FCF to sales ratio in the same period was lower (potential red flags w.r.t. capex) by 8ppts vs ZOS. EBITDA CAGR over FY20-23 for both ZOD and ZOS small-caps was 15-18% but differential between CFO/EBITDA ratio was 40ppts (potential red flags w.r.t. real profitability). We highlight potential issues on cash generation ratios of some small-caps like CCL Products, Aether Industries, Inox winds, VA tech Wabag and Delhivery.

Smaller ZOD companies appear weaker on key accounting ratios

	BSE500(Ex. BFSI) (ZOS)						Sub-BSE500(Ex. BFSI) (ZOD)						Unlisted IPO cos. (ZOD)					
	FY18	FY19	FY20	FY21	FY22	FY23	FY18	FY19	FY20	FY21	FY22	FY23	FY18	FY19	FY20	FY21	FY22	FY23
CFO(pre-tax)/EBITDA	90%	86%	97%	102%	84%	91%	5%	32%	61%	51%	30%	33%	36%	31%	54%	23%	28%	11%
Cont. liab/NW	6%	6%	6%	5%	4%	4%	3%	4%	4%	6%	6%	5%	23%	23%	17%	11%	19%	18%
FCF/Rev.	3%	3%	5%	10%	2%	4%	0%	0%	0%	0%	-3%	-2%	-2%	1%	-3%	-2%	0%	-2%
Cash yield	5%	5%	4%	3%	3%	4%	0%	1%	1%	2%	1%	1%	5%	4%	5%	4%	3%	3%

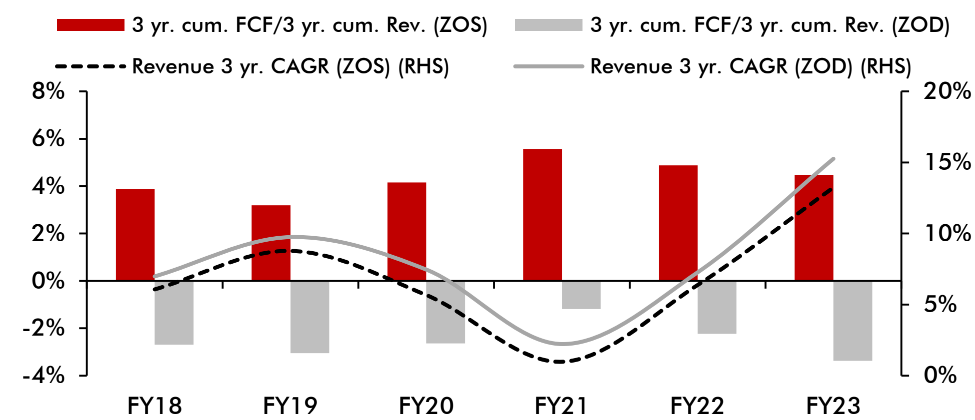
*Source: Ambit Capital research, Company ACE Equity. * ZOD = Zone of Darkness companies*

Despite having similar EBITDA growth, ZOD companies have lower cash conversion ratio



Source: Ambit Capital research, Company; ACE Equity; universe is sub-BSE500 (ex.BFSI) as at 31-Oct-23

Despite having similar sales growth, ZOD companies have lower FCF to sales ratio



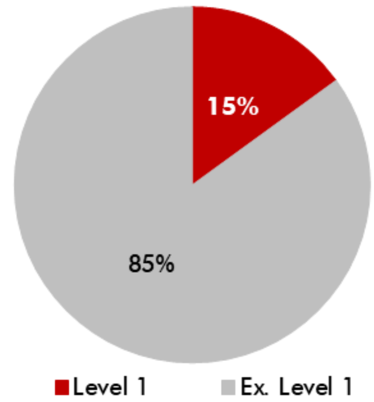
Source: Ambit Capital research, Company. ACE Equity; universe is sub-BSE500 (ex.BFSI)

With more scale come more responsibilities

Smaller companies gathered momentum in FY22/23. Small-caps are majorly promoter-owned and managed. Remember, accounting quality of such companies is weaker than MNCs or professionally-run ones. High related-party transactions (RPTs) are common. Elecon, Cello, Flair and Ask Automotive could see some improvement on our RPT parameters. Chemical companies like Clean Science, DCM Shriram and Dhanuka Agritech lag on our managerial remuneration framework. Similarly, audit quality risk flows from non-descript auditors. Ramco Cement, KPR mills and KEC are outliers on our auditor-related parameters. One-third of small-caps have promoters on audit committees.

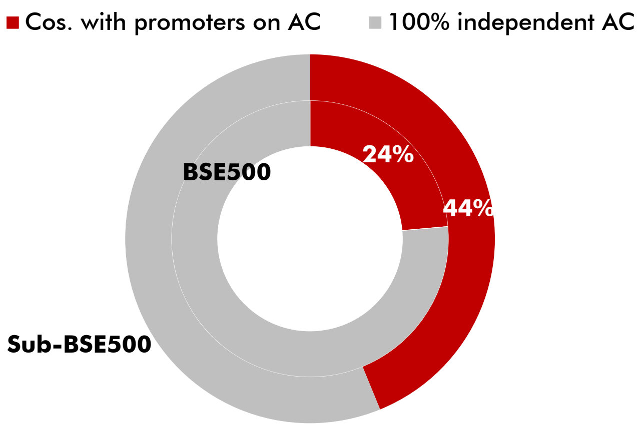
85% of sub-BSE 500 companies have non-descript auditors

Auditors in Sub-BSE500 (ex.BFSI/PSU) universe



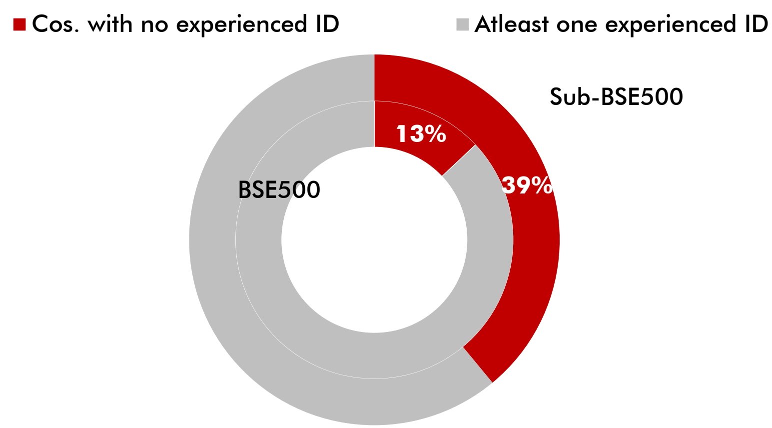
Source: Ambit Capital research, Company, universe is Sub- BSE500 (ex. BFSI) as at 31-Oct-23,

Almost 50% of sub-BSE 500 companies have promoters on audit committees



Source: Ambit Capital research, Company; AC = Audit committee

In 40% of companies in sub-BSE500, independent directors do not hold directorships in any other listed company



Source: Ambit Capital research, Company; ID = Independent director

Business representation remains a true measure of ESG

Passing the ESG test through a checklist approach is easy. Citing our sample work on ESG and accounting bespoke work on a leading electrical wires and cables manufacturer, we highlight comments from industry participants about the relatively inferior quality of wires offered by the company. Offering inferior quality wires enabled the company to generate better margins. Stricter laws in this regard could be a risk to the company's business. A tick-the-box approach to gauge stewardship initiatives of the company would not be enough. Interviews across the value chain of the company can provide valuable insights. As investors and analysts are increasingly considering latest BRSR information in their ESG analysis, it is also critical to look at these parameters from a business representation point of view. In the past we have done similar checks across companies from different sectors. including a building material distributor, a jewelry company, an online travel company, a bio-technology (enzymes) firm etc.

"We prefer company1 owing to its quality. Company2 is not preferred by us in retail houses/projects as I think the quality is inferior."

- ***An electrician based in Mumbai***

"High quality copper has to be imported. We don't have enough copper available in India. The folks who are procuring from India are players using recycled copper""

- ***CFO of a peer***

"A leading cable and wire company uses D copper (recycled copper) to make their cables/wires. There is a 3-4pc price gap because of that. Peer1/Peer2 use highest quality copper which ensures quality of product and lower electrical leakage. They also use some 10-12 outsourcing agents to manage their production which aids in lowering costs (Not the best way to manage quality) company understand projects very well and have that approach which is where they have done well. However culture is a problem with promoter being the centre of everything. The son has entered the business but he didn't have a good view on him. They will have to build talent going forward otherwise there could be trouble."

- ***A senior industry SBU head based with 20+ years of experience***

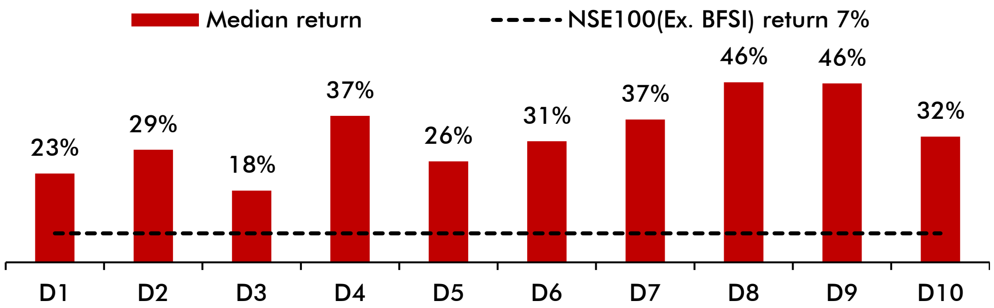
"A leading cable and wire company has done well owing to its very competitive on pricing. Currently its prices are lower vs. peers by 4-5%. Minimum growth target given to dealers is 15%; incentive is thereon 20% volume growth. For that company, new and affordable housing projects are driving growth. The sales team is very aggressive too. They took a call to only keep class 5 wires which has aided the growth for them. Other companies are catching up in this category right now with launching similar quality wires."

- ***A wires and cables distributor based out of Ludhiana***

ZOD strikes back!

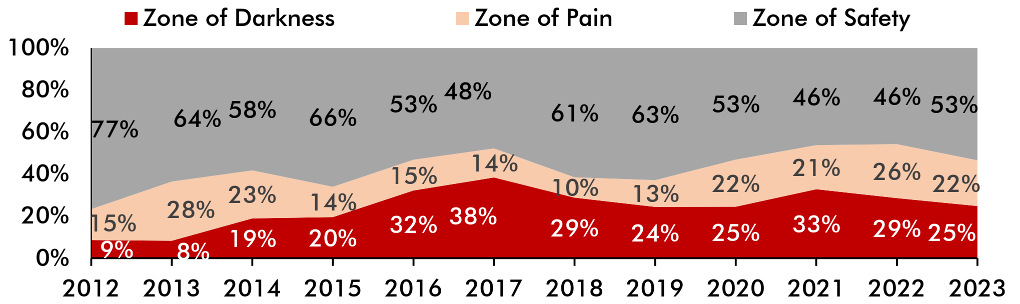
Zone of Darkness (ZOD) companies outperform

ZOD stocks have done well over the last one year



Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-23. Deciles are based on annual financial statements over FY17-FY22. Share price performance and NSE100 (ex-BFSI) returns are calculated over 01-Dec-22 to 11-Jan-24

50% of free-float mcap of BSE500 companies featuring in ZOP/ZOD...



Source: Ambit Capital research, Universe is BSE-500 companies (ex-BFSI) as at 31-Oct-23. Free float market cap is considered as at 31-Dec of each year except in case of 2023 where free float market cap is as at 11-Jan 24, For each year in above exhibit, we have considered accounting deciles at that date and the corresponding market cap

...just ignore D10 and generate alpha

Median share price performance till 29 Dec 21

	Decile	5 Yr CAGR	4 Yr CAGR	3 Yr CAGR	2 Yr CAGR	1 Yr Abs	Median
Zone of Safety	D1	15%	9%	15%	13%	8%	13%
	D2	12%	10%	16%	16%	12%	12%
	D3	14%	8%	13%	16%	17%	14%
	D4	9%	9%	12%	18%	15%	12%
	D5	11%	9%	11%	12%	10%	11%
Zone of Pain	D6	9%	8%	13%	14%	18%	13%
	D7	6%	6%	15%	17%	6%	6%
Zone of Darkness	D8	7%	4%	11%	11%	6%	7%
	D9	6%	6%	8%	14%	13%	8%
	D10	0%	(3%)	1%	3%	(1%)	0%
Nifty ex BFSI		7%	8%	7%	10%	12%	8%
NSE100 ex BFSI		7%	7%	7%	10%	13%	7%
NSE200 ex BFSI		8%	7%	7%	10%	11%	8%

Source: Ambit Capital research. Universe is BSE-500 (ex-BFSI) as at 31-Oct of each year for 2012-20, Accounting score is based on annual financials over FY08-FY20. To compute returns, we have considered multiple time horizons. For instance, 5 yr. CAGR is computed from 29-Dec-12 to 29-Dec-17. Likewise share price returns are computed over different 5 yr. periods up to 29-Dec-21 and so on.

However, recently D9/D10 companies have been doing well

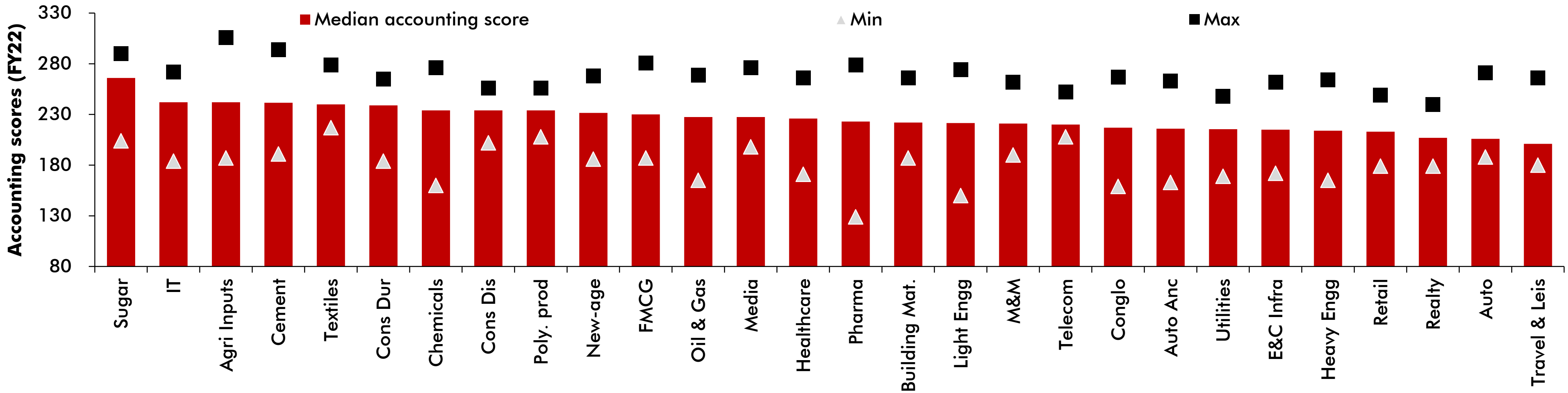
Median share price performance of over last two years

	Decile	5 Yr CAGR	4 Yr CAGR	3 Yr CAGR	2 Yr CAGR	1 Yr Abs	Median
Zone of Safety	D1	9%	15%	19%	13%	23%	15%
	D2	10%	16%	15%	10%	19%	15%
	D3	10%	16%	23%	24%	15%	16%
	D4	6%	13%	15%	10%	22%	13%
	D5	8%	17%	20%	17%	19%	17%
Zone of Pain	D6	10%	20%	26%	18%	27%	20%
	D7	10%	15%	20%	15%	14%	15%
Zone of Darkness	D8	10%	17%	19%	10%	25%	17%
	D9	7%	17%	21%	21%	26%	21%
	D10	5%	20%	20%	20%	19%	20%
Nifty ex BFSI		11%	15%	16%	12%	8%	12%
NSE100 ex BFSI		11%	14%	15%	11%	7%	11%
NSE200 ex BFSI		10%	14%	16%	12%	9%	12%

Accounting score is based on annual financials over FY12-FY23. Likewise share price returns are computed over different periods up to 29 Dec 22 and 11 Jan 24

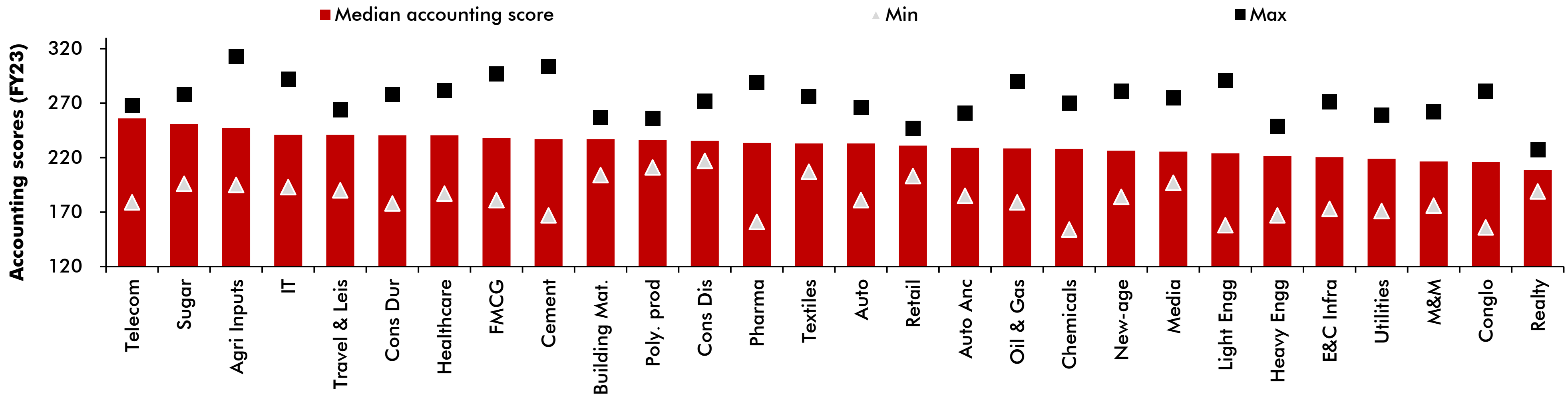
FY22/23 witnessed significant shifts on accounting quality (1)

Textiles and chemicals sector were amongst the top accounting quality sectors basis FY22 financial statements



Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-22

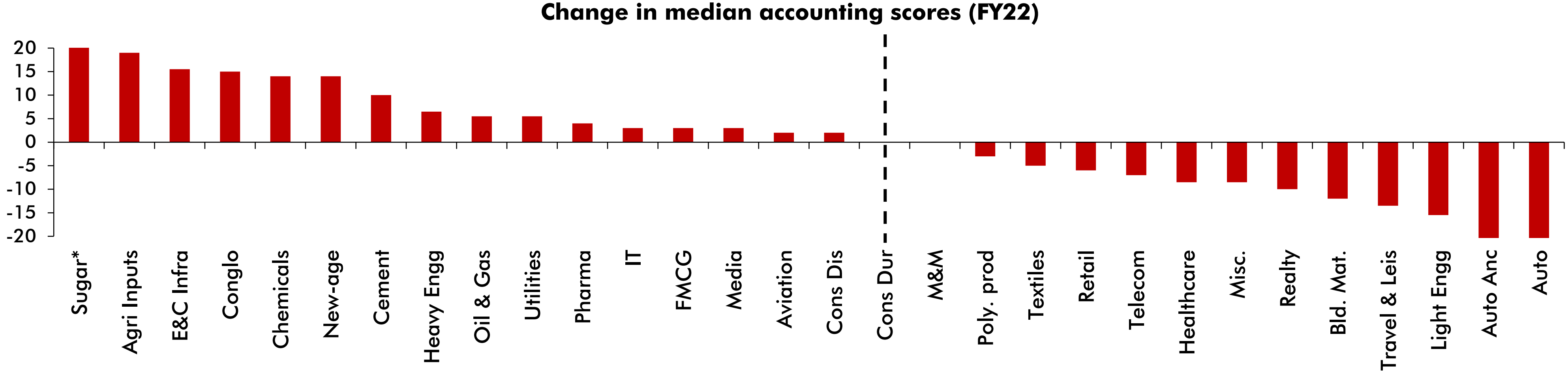
Travel & leisure saw sharpest improvement in FY23; healthcare, building materials and retail also saw some improvement



Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-23

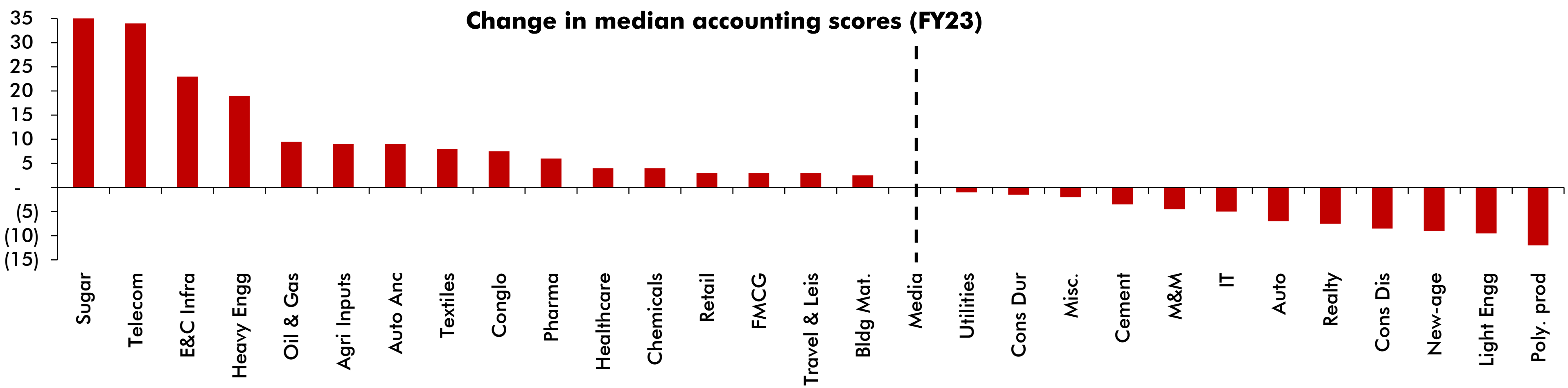
FY22/23 witnessed significant shifts on accounting quality (2)

E&C Infra and heavy engineering are witnessing some improvement in accounting quality recently but it lags other sectors



Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-22; improvement in sugar is 40 but restricted to 20. We have looked at last six years consolidated financial statements

Metals, cement and new-age companies witnessed some deterioration in accounting scores recently



Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-23; improvement in sugar is 47 but restricted to 35. We have looked at last six years consolidated financial statements

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Earlier, small-caps were more sticky w.r.t accounting quality

Deciles persistence across small caps till FY21

(X+3) year

X year	Decile	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
Zone of Safety	D1	33%	24%	17%	13%	6%	0%	6%	0%	0%	0%
	D2	21%	21%	13%	8%	16%	4%	5%	4%	0%	0%
	D3	21%	21%	15%	11%	7%	5%	7%	0%	5%	0%
	D4	11%	13%	20%	15%	12%	10%	5%	4%	0%	0%
	D5	6%	9%	11%	11%	7%	13%	8%	13%	7%	4%
Zone of Pain	D6	6%	6%	10%	6%	14%	16%	11%	11%	12%	6%
	D7	0%	6%	6%	11%	13%	19%	14%	14%	6%	8%
Zone of Darkness	D8	0%	6%	5%	6%	6%	13%	10%	24%	18%	8%
	D9	0%	0%	0%	5%	8%	13%	20%	11%	20%	16%
	D10	0%	0%	0%	0%	0%	0%	9%	19%	25%	43%

Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-23. Persistence is calculated as % of companies in year' X' remaining in the same quintile after three years. E.g. 33% indicates the median of all seven three year iterations from 2012-2018 of the number of companies in D1 remaining in D1 after three years

Several small-caps moved along the accounting quality spectrum recently

Deciles persistence across small caps for FY22/23

(X+3) year

X year	Decile	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
Zone of Safety	D1	55%	10%	7%	10%	5%	5%	2%	3%	0%	2%
	D2	24%	18%	16%	11%	13%	8%	5%	5%	0%	0%
	D3	9%	21%	9%	12%	15%	9%	18%	0%	3%	6%
	D4	14%	8%	22%	22%	11%	8%	6%	6%	3%	0%
	D5	6%	11%	8%	16%	8%	13%	11%	14%	3%	9%
Zone of Pain	D6	0%	5%	11%	21%	5%	13%	21%	11%	5%	8%
	D7	5%	6%	13%	5%	11%	14%	14%	5%	22%	5%
Zone of Darkness	D8	3%	3%	3%	5%	21%	14%	6%	11%	23%	13%
	D9	0%	2%	5%	3%	0%	5%	13%	23%	24%	24%
	D10	0%	3%	0%	5%	5%	5%	18%	10%	20%	35%

Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-23. Persistence is calculated as % of companies in year' X' remaining in the same quintile after three years. E.g. 55% indicates the median of last two three year iterations of 2019-20 of the number of companies in D1 remaining in D1 after three years

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Earlier, mid-caps were stickier on accounting quality

Deciles persistence across mid caps (3 year median) ex of FY22/23

	Decile	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
Zone of Safety	D1	29%	29%	9%	9%	13%	0%	0%	0%	0%	0%
	D2	20%	7%	17%	17%	17%	8%	0%	0%	8%	0%
	D3	20%	20%	17%	10%	11%	17%	0%	0%	0%	0%
	D4	10%	0%	13%	13%	13%	20%	13%	10%	0%	0%
	D5	0%	0%	0%	0%	17%	25%	17%	0%	8%	0%
Zone of Pain	D6	0%	0%	11%	20%	0%	17%	0%	0%	0%	0%
	D7	0%	0%	0%	0%	0%	8%	8%	11%	13%	14%
Zone of Darkness	D8	0%	0%	0%	0%	0%	13%	20%	11%	29%	14%
	D9	0%	0%	11%	0%	0%	0%	11%	0%	17%	17%
	D10	0%	0%	0%	0%	0%	0%	17%	25%	0%	36%

Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-23. Persistence is calculated as % of companies in year' X' remaining in the same quintile after three years. E.g. 33% indicates the median of all seven three year iterations from 2012-2018 of the number of companies in D1 remaining in D1 after three years

Several mid-cap firms moved from D9 to D4-7 deciles in FY22/23

Deciles persistence across mid caps (3 year median) of FY22/23

	Decile	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
Zone of Safety	D1	24%	17%	20%	13%	5%	12%	8%	0%	0%	0%
	D2	17%	37%	20%	8%	4%	9%	5%	0%	0%	0%
	D3	7%	6%	10%	24%	29%	11%	0%	10%	0%	0%
	D4	6%	13%	13%	6%	9%	6%	16%	16%	6%	9%
	D5	18%	0%	7%	21%	15%	0%	15%	0%	11%	11%
Zone of Pain	D6	0%	3%	5%	8%	28%	18%	5%	15%	17%	0%
	D7	0%	5%	18%	14%	9%	18%	14%	4%	8%	8%
Zone of Darkness	D8	0%	10%	5%	0%	14%	9%	5%	14%	20%	24%
	D9	0%	0%	0%	6%	6%	6%	6%	28%	30%	18%
	D10	0%	0%	0%	0%	0%	5%	14%	24%	22%	34%

Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-23. Persistence is calculated as % of companies in year' X' remaining in the same quintile after three years. E.g. 55% indicates the median of last two three year iterations of 2019-20 of the number of companies in D1 remaining in D1 after three years

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Large-caps are most persistent on accounting quality; however…

Deciles persistence across large caps (3 year median) ex of FY22/23

	Decile	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
Zone of Safety	D1	56%	17%	9%	11%	0%	0%	0%	0%	0%	0%
	D2	13%	25%	14%	10%	13%	10%	10%	0%	0%	0%
	D3	17%	0%	20%	0%	0%	0%	0%	0%	13%	0%
	D4	0%	0%	0%	0%	17%	0%	0%	20%	0%	0%
	D5	0%	0%	0%	0%	11%	0%	0%	25%	0%	17%
Zone of Pain	D6	0%	0%	13%	11%	13%	13%	14%	11%	25%	0%
	D7	0%	0%	0%	0%	0%	13%	17%	17%	0%	0%
Zone of Darkness	D8	0%	0%	0%	5%	0%	0%	10%	0%	7%	20%
	D9	0%	0%	0%	0%	0%	0%	0%	17%	30%	20%
	D10	0%	0%	0%	0%	0%	0%	0%	22%	33%	17%

Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-23. Persistence is calculated as % of companies in year' X' remaining in the same quintile after three years. E.g. 33% indicates the median of all seven three year iterations from 2012-2018 of the number of companies in D1 remaining in D1 after three years

…..there has been significant shift on accounting quality recently

Deciles persistence across large caps (3 year median) of FY22/23

	Decile	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
Zone of Safety	D1	62%	18%	6%	7%	0%	7%	0%	0%	0%	0%
	D2	39%	34%	10%	10%	0%	0%	7%	0%	0%	0%
	D3	14%	43%	7%	7%	7%	7%	0%	14%	0%	0%
	D4	0%	23%	25%	0%	8%	14%	15%	14%	0%	0%
	D5	0%	0%	11%	0%	17%	17%	28%	22%	0%	0%
Zone of Pain	D6	0%	0%	25%	13%	19%	31%	0%	13%	0%	0%
	D7	5%	5%	0%	16%	5%	13%	23%	11%	18%	5%
Zone of Darkness	D8	5%	0%	5%	5%	33%	5%	5%	25%	17%	0%
	D9	0%	0%	0%	0%	15%	10%	5%	20%	35%	15%
	D10	0%	5%	5%	14%	0%	14%	5%	10%	14%	32%

Source: Ambit Capital research, Universe is BSE-500 (ex-BFSI) as at 31-Oct-23. Persistence is calculated as % of companies in year' X' remaining in the same quintile after three years. E.g. 55% indicates the median of last two three year iterations of 2019-20 of the number of companies in D1 remaining in D1 after three years

Accounting quality shift has a meaningful bearing on returns

AMBIT Acumen at work

Firms improving on accounting quality…

Ending period accounting quality (X+3)

3 year CAGR (median)		**Zone of Safety**	**Zone of Pain**	**Zone of Darkness**
Beginning period accounting quality (X)	Zone of Safety	17%	17%	14%
	Zone of Pain	18%	15%	8%
	Zone of Darkness	23%	16%	14%

Source: Ambit Capital research, Bloomberg; Universe is BSE500 ex BFSI as at 31-Oct-23, Note: Accounting Zone is based on annual financials over FY08-FY23. For instance FY23 accounting scores will be dependent on financial statements for the year FY18-FY23. Similarly, to compute returns, we have considered multiple time horizons. For instance, (X+3) is computed as median of multiple time horizons like 29-Dec-12 to 29-Dec-15, 29-Dec-13 to 29-Dec-16 and so on with last time horizon being 29-Dec-20 to 30-Nov-23

…generate higher returns over 3/5 years

Ending period accounting quality (X+5)

5 year CAGR (median)		**Zone of Safety**	**Zone of Pain**	**Zone of Darkness**
Beginning period accounting quality (X)	Zone of Safety	16%	15%	11%
	Zone of Pain	18%	14%	10%
	Zone of Darkness	18%	14%	11%

Source: Ambit Capital research, Bloomberg; Universe is BSE500 ex BFSI as at 31-Oct-23, Note: Accounting Zone is based on annual financials over FY08-FY23. For instance FY23 accounting scores will be dependent on financial statements for the year FY18-FY23. Similarly, to compute returns, we have considered multiple time horizons. For instance, (X+5) is computed as median of multiple time horizons like 29-Dec-12 to 29-Dec-17, 29-Dec-13 to 28-Dec-18 and so on with last time horizon being 28-Dec-18 to 30-Nov-23

Recently, too, companies moving up on our accounting framework witnessed…

Ending period accounting quality (FY23)

3 year CAGR (median)		**Zone of Safety**	**Zone of Pain**	**Zone of Darkness**
Beginning period accounting quality (FY20)	Zone of Safety	19%	27%	32%
	Zone of Pain	21%	20%	18%
	Zone of Darkness	38%	33%	31%

Source: Company, Ambit Capital research, Bloomberg; Universe is BSE500 ex BFSI as at 31-Oct-23, Note: Accounting zone is based on annual financials over FY14-FY23; returns are computed from 01-Dec-20 to 01-Dec-23

…superior returns over 3/5 years

Ending period accounting quality (FY23)

5 year CAGR (median)		**Zone of Safety**	**Zone of Pain**	**Zone of Darkness**
Beginning period accounting quality (FY18)	Zone of Safety	17%	18%	18%
	Zone of Pain	19%	25%	16%
	Zone of Darkness	22%	21%	18%

Source: Ambit Capital research, Bloomberg; Universe is BSE500 ex BFSI as at 31-Oct-23, Note: Accounting zone is based on annual financials over FY12-FY23; returns are computed from 30-Nov-18 to 01-Dec-23

Companies that witnessed improvement

1. Bharti Airtel
2. Tata Consumer
3. Larsen & Toubro
4. United Spirits
5. Polycab India
6. NCC
7. Orient Cement
8. HCC
9. Neuland Lab
10. JK Tyre Industries

Companies witnessed deterioration

1. Ramco Cements
2. Bharat Forge
3. Borosil Renewables
4. Phoenix Mills
5. United Breweries
6. Thomas Cook
7. GE Power
8. MTAR Tech
9. VIP Industries
10. CCL Products

Key cases of turnaround within small-caps

AMBIT Acumen at work

A few companies which witnessed improvement on our accounting framework

Co.	Mcap (Rs.bn)	6 yr. cum. CFO (pre-tax)/EBITDA		Cont. liab to net worth (6 yr. median)		6 yr. cum FCF/6 yr. cum. Revenue		Misc. exp. to revenue (6 yr. median)		6 yr. median cash yield		6 yr. CAGR - audit remn / 6 yr. CAGR - in revenue		Advance to RPT as a % of CFO (6 yr. median)		Prov. On debtors outstanding >6m (6 yr. median)		CWIP/GB (6 yr. median)		Vol. in depr. rate (6 yr. median) (bps)	
		FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23
NCC	128	66%	91%	41%	8%	4%	6%	0%	0%	5%	4%	30%	90%	9%	2%	22%	10%	1%	1%	46	42
JK Tyre	115	70%	90%	3%	6%	1%	6%	4%	3%	1%	1%	148%	54%	0%	0%	38%	15%	4%	3%	53	13
Neuland Lab.	76	61%	88%	13%	11%	(1%)	2%	0%	1%	4%	3%	84%	50%	0%	0%	59%	95%	15%	4%	150	87
Orient Cement	55	104 %	96%	21%	5%	(5%)	11%	2%	1%	4%	4%	110%	30%	0%	0%	48%	73%	9%	(2%)	40	4
HCC	50	55%	72%	#	#	2%	5%	0%	0%	3%	2%	777%	258%	10%	12%	0%	0%	50%	5%	41	47

A few that witnessed deterioration on our accounting framework

Co.	Mcap (Rs.bn)	6 yr. cum. CFO (pre-tax)/EBITDA		Cont. liab to net worth (6 yr. median)		6 yr. cum FCF/6 yr. cum. Revenue		Misc. exp. to revenue (6 yr. median)		6 yr. median cash yield		6 yr. CAGR - audit remn /6 yr. CAGR - in revenue		Advance to RPT as a % of CFO (6 yr. median)		Prov. On debtors outstanding >6m (6 yr. median)		CWIP/GB (6 yr. median)		Vol. in depr. rate (6 yr. median)	
		FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23
CCL	84	84%	64%	7%	6%	4%	(4%)	0%	0%	5%	2%	25%	15%	0%	0%	0%	20%	9%	14%	58	75
VIP Ind	81	61%	62%	29%	50%	2%	3%	2%	2%	6%	9%	60%	142%	0%	0%	17%	87%	1%	3%	140	385
Thomas Cook	76	102%	62%	7%	18%	(2%)	(3%)	0%	1%	2%	2%	5%	35%	0%	0%	100%	100%	1%	0%	225	222
Mtar Tech	66	99%	35%	0%	0%	10%	(12%)	0%	1%	7%	5%	@	218%	3%	0%	0%	0%	3%	6%	74	36
GE Power	16	85%	(176%)	11%	29%	3%	(8%)	1%	1%	9%	6%	12%	125%	0%	0%	12%	101%	4%	0%	100	127

Source: Ambit Capital research, Company. @ we have ignored 6yr audit remuneration CAGR/6yr Revenue CAGR, ratio being negative. # net-worth is negative

AMBIT
Acumen at work

A few companies which witnessed improvement on our accounting framework

Co.	Mcap(Rs.bn)	6 yr. cum. CFO (pre-tax)/EBITDA		Cont. liab to net worth (6 yr. median)		6 yr. cum FCF/6 yr. cum. Revenue		Misc. exp. to revenue (6 yr. median)		6 yr. median cash yield		6 yr. CAGR - audit remn /6 yr. CAGR - in revenue		Advance to RPT as a % of CFO (6 yr. median)		Prov. On debtors outstanding >6m (6 yr. median)#		CWIP/GB (6 yr. median)		Vol. in depr. rate (6 yr. median)	
		FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23
Bharti Airtel	6,241	95%	94%	38%	19%	2%	11%	1%	0%	2%	1%	188%	38%	1%	0	100%	97%	4%	3%	94	42
L&T	4,818	69%	80%	56%	73%	2%	3%	1%	1%	4%	3%	136%	128%	66%	58%	100%	118%	5%	1%	104	17
Tata Cons	1,040	76%	91%	1%	0%	2%	8%	5%	4%	2%	1%	68%	112%	6%	12%	106%	54%	1%	2%	49	32
United Spirits	813	76%	107%	66%	37%	3%	4%	0%	0%	4%	2%	970%	48%	3%	0%	100%	100%	5%	4%	77	36
Polycab	582	91%	91%	23%	3%	4%	5%	1%	1%	1%	1%	142%	@	27%	0%	73%	76%	14%	12%	82	64

Source: Ambit Capital research, Company. @ We have ignored 6yr audit remuneration CAGR/6yr Revenue CAGR, ratio being negative

A few which witnessed deterioration on our accounting framework

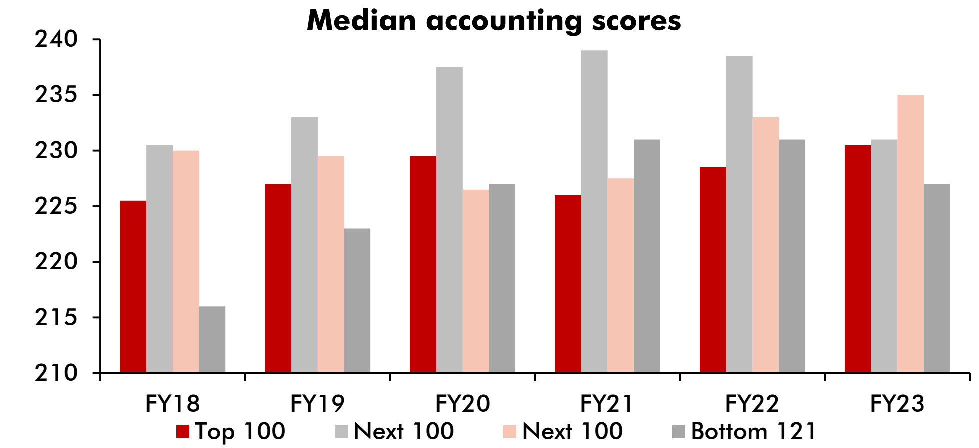
Co.	Mcap(Rs.bn)	6 yr. cum. CFO (pre-tax)/EBITDA		Cont. liab to net worth (6 yr. median)		6 yr. cum FCF/6 yr. cum. Revenue		Misc. exp. to revenue (6 yr. median)		6 yr. median cash yield		6 yr. CAGR - audit remn /6 yr. CAGR - in revenue		Advance to RPT as a % of CFO (6 yr. median)		Prov. On debtors outstanding >6m (6 yr. median)		CWIP/GB (6 yr. median)		Vol. in depr. rate (6 yr. median)	
		FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23	FY19	FY23
Bharat Forge	593	88%	84%	4%	2%	5%	0%	5%	5%	4%	1%	130%	118%	0%	3%	63%	40%	12%	15%	49	80
Ramco	233	108%	107%	27%	19%	9%	(6%)	1%	1%	2%	2%	159%	62%	0%	0%	76%	100%	3%	18%	11	4
United Brew.	475	98%	93%	33%	32%	5%	4%	3%	3%	13%	6%	129%	273%	0%	0%	70%	71%	4%	3%	52	52
Phoenix Mills	436	106%	102%	5%	5%	(4%)	(17%)	1%	1%	0%	0%	@	59%	0%	2%	38%	41%	8%	17%	15	24
Borosil Rene	66	71%	70%	6%	6%	(3%)	(17%)	2%	2%	6%	3%	60%	125%	82%	0%	70%	59%	4%	5%	223	103

Source: Ambit Capital research, Company. @ We have ignored 6yr audit remuneration CAGR/6yr Revenue CAGR, ratio being negative

Large vs mid vs small-caps

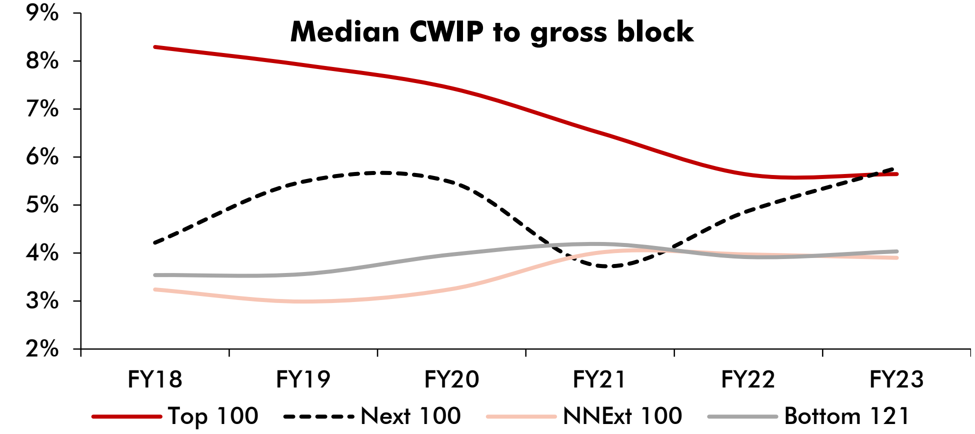
Smaller firms witnessed some improvement in accounting quality

Accounting quality of smaller firms have improved recently



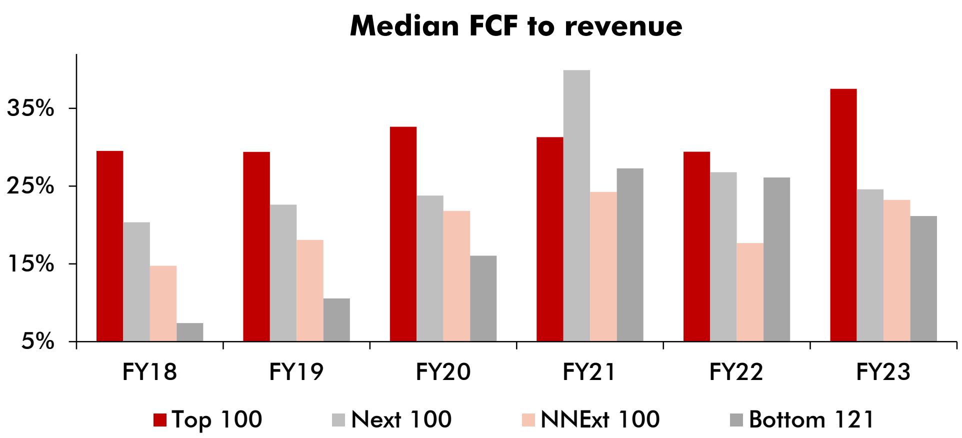
Source: Company, Ambit Capital research, Bloomberg. Companies are ranked basis Mcap as at 31-Dec each year except in case of 2023 where companies are ranked basis Mcap as at 01-Dec

No significant amount of capex was done recently across firms



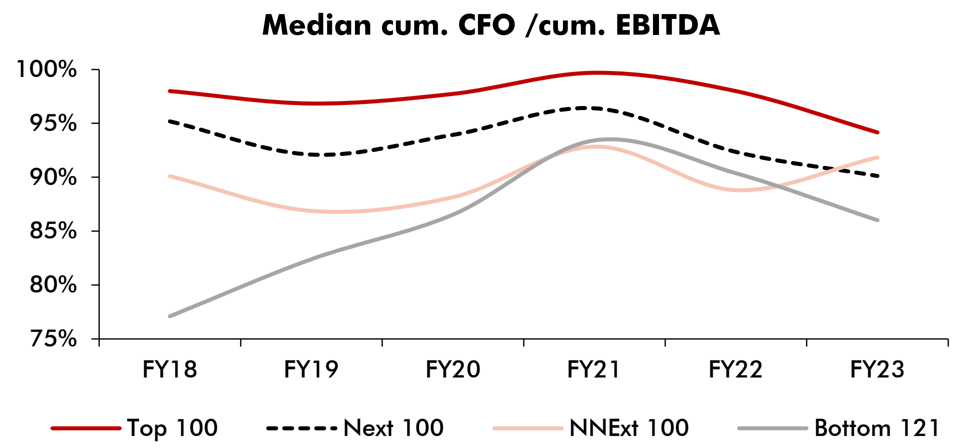
Source: Ambit Capital research, Company. Universe is BSE500 (ex. BFSI) as at 31-Oct-23, CWIP includes capital advances and intangibles under development, gross block has been adjusted for Ind AS

Smaller firms witnessed improving trends in FCF generation…



Source: Company, Ambit Capital research. Universe is BSE500 (ex. BFSI) as at 31-Oct-23; median FCF/Revenue is calculated as taking 6 yr. cumulative FCF generated/6 yr. median revenue. For instance, ratio for FY18 is calculated as taking cum. FCF (FY13-18)/Median revenue (FY13-18), FY19 is calculated as taking cum. FCF (FY14-19)/Median revenue (FY14-19) and so on

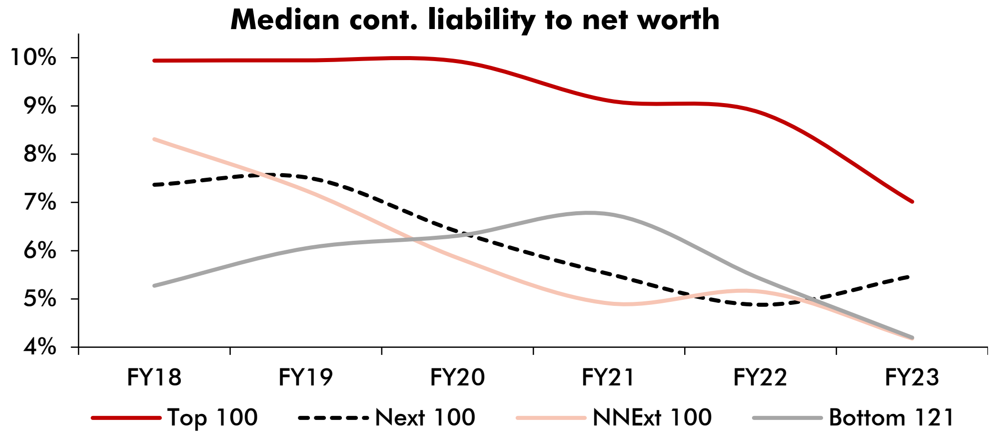
…and cash conversion



Source: Company, Ambit Capital research. Universe is BSE500 (ex. BFSI) as at 31-Oct-23; CFO (pre-tax) to EBITDA ratio is calculated as median of 6 yr. cumulative CFO (pre-tax)/EBITDA for each year. For instance, ratio for FY18 is calculated as cum. CFO (pre-tax) (FY13-18)/Cum. EBITDA (FY13-18), FY19 is calculated as cum. CFO (pre-tax) (FY14-19)/Cum. EBITDA (FY14-19) and so on.

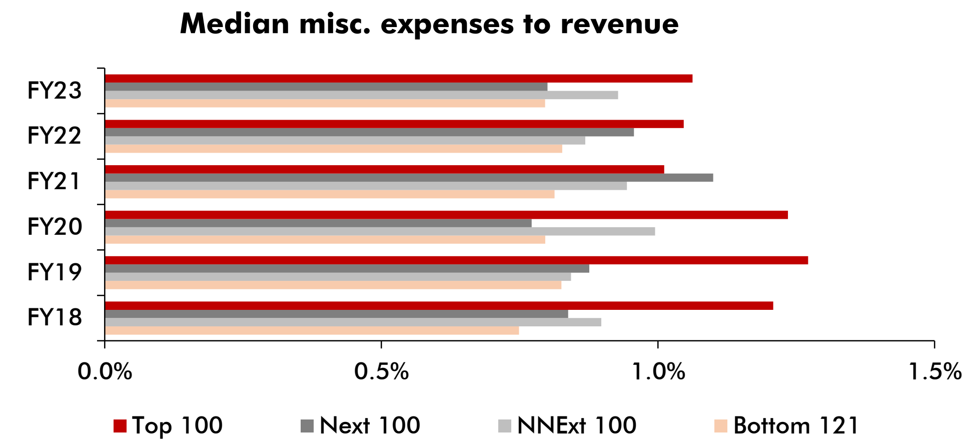
Smaller firms witnessed some improvement in accounting quality

Increased profitability led to lowering CL to net-worth ratio



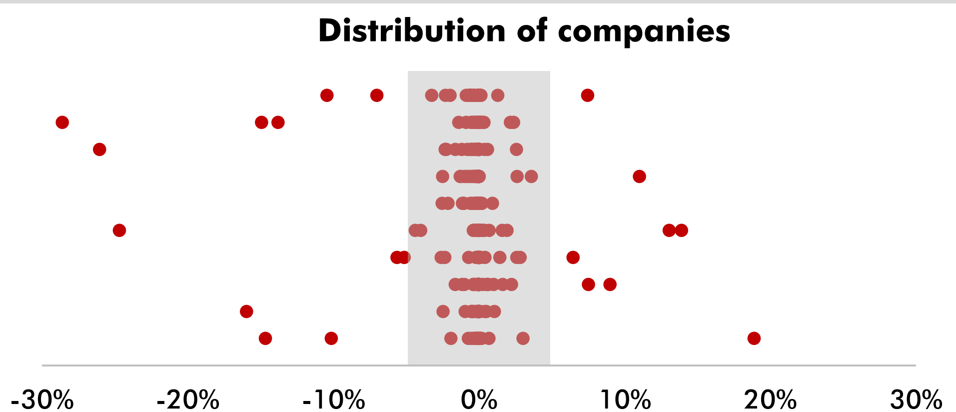
Source: Ambit Capital research, Company; universe is BSE500 (ex. BFSI) as at 31-Oct-23

Miscellaneous expenses are highest for large-caps



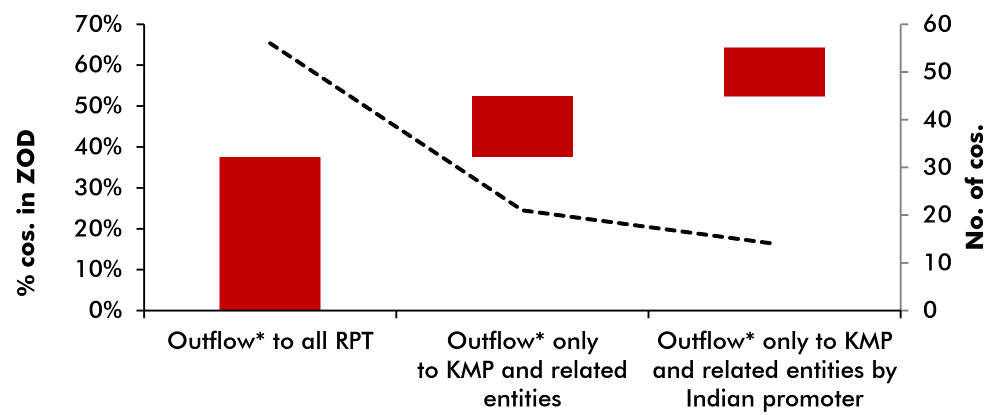
Source: Ambit Capital research, Company; universe is BSE500 (ex. BFSI) as at 31-Oct-23, miscellaneous expenses includes CSR expenses and donation

Only 8% of companies in BSE500 (ex BFSI/PSUs) have net inflows /(outflows) with related parties forming >5% of revenue



Source: Ambit Capital research, Company. We have used standalone financial statements, Prime Infobase

Those with total outflows to promoter-owned entity >5% of FY22 revenues have 65% of companies in ZoD

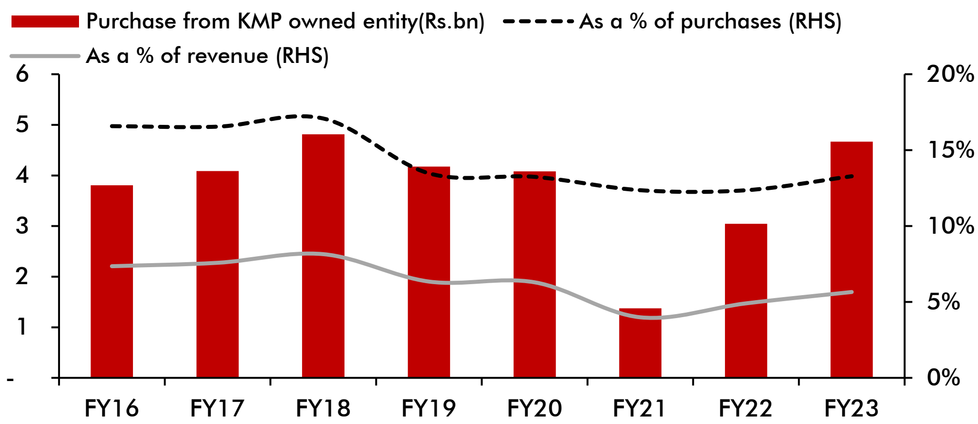


Source: Ambit Capital research, ACE Equity; outflows include FY22 expense incurred with RPT excluding remuneration

Applying subjective checks

Beware of nuances w.r.t. related-party transactions (1)

Raymond - Purchases from KMP entity formed >5% of revenue



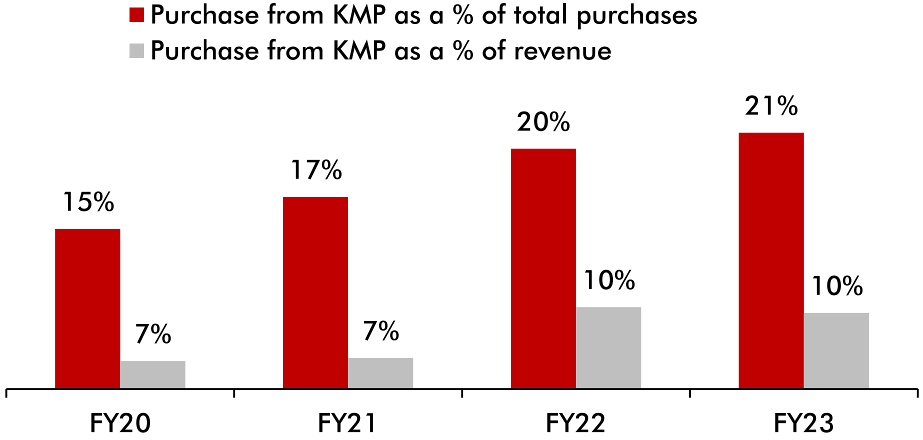
Source: Ambit Capital research, Company; we have used standalone financial statements, Prime Infobase

Capital employed t/o for KMP-owned entity was high at 5-9x

JK Investor	FY17	FY18	FY19	FY20	FY21	FY22
Total Assets	4,861	5,886	6,079	6,224	5,851	9045
Less: Investment in group	(2,545)	(2,887)	(3,485)	(3,359)	(3,377)	(3,933)
Less: Investment in curr. Inv.	(447)	(636)	(417)	(536)	(473)	(473)
Less: Investment property	(487)	(479)	(474)	(469)	(463)	(458)
Less: Vehicles at FV	-	-	-	-	-	(2,904)
Assets (fabric business - FB)	1,382	1,885	1,703	1,850	1,537	1,277
Less: Trade payables	(913)	(1,073)	(1,052)	(990)	(540)	(802)
Capital employed (FB)	469	812	651	861	997	475
Capital employed turnover for JK Investor	9.1	6.1	6.7	5.0	1.4	7.0
Peers	1.4/2.2	1.0/1.9	1.4/2.0	1.5/2.0	1.1/1.8	2.7/2.8
Raymond	1.4	1.4	1.5	1.3	0.8	1.7

Source: Ambit Capital research, Company

Elecon makes significant purchases for its KMP-owned entities; % purchase is increasing YoY



Source: Ambit Capital research, Company

Majority of KMP-owned entities' revenue was generated on sale to Elecon

	% of total RPT purch.	Revenue			EBITDA margin		
		FY22	FY23	Growth%	FY22	FY23	Growth %
Tech Elecon	11%	303	375	23%	7%	20%	13%
Emtici Engineering	11%	795	795	0%	14%	10%	(4%)
Elecon Hydraulics	5%	176	103	(41%)	13%	20%	7%
Akaaish Mechatronics	11%	177	282	59%	28%	34%	6%
Elecon Peripherals	16%	244	344	41%	9%	19%	10%
Other Indian KMP owned cos.	23%	NA	NA	NA	NA	NA	NA
KMP owned foreign entities and LLP	24%	NA	NA	NA	NA	NA	NA
Elecon	NA	12,120	15,300	26%	21%	22%	1%

Source: Ambit Capital research, Company

AMBIT Acumen at work

Ask Automotive procures 3-5% of its total purchases from AA Friction (KMP-owned entity)

Rs.mn	FY20	FY21	FY22	FY23
Purchase of goods from AA Friction	145	445	557	451
Purchase of FA from AA Friction	0	-	-	3
Total cash outflows	145	445	557	454
As a % of total purchases	**1%**	**4%**	**4%**	**3%**
As a % of revenue	**1%**	**3%**	**3%**	**2%**
Sale of goods to AA Friction	10	100	74	2
Sale of FA to AA Friction	11	5	0	0
Total cash inflows	21	105	75	2
As a % of revenue	**0%**	**1%**	**0%**	**0%**

Source: Ambit Capital research, Company, Tofler

Return on capital ratio of KMP-owned entity are much higher vs Ask Automotive

	FY20	FY21	FY22	FY23
% of revenue of AA Friction from Ask Automotive	100%	100%	100%	100%
ROCE of AA Friction	**24%**	**69%**	**45%**	**30%**
ROCE of Ask Automotive	**23%**	**20%**	**16%**	**20%**
Capital employed of Ask Autmotive	6,682	6,762	7,917	9,618
Capital employed of AA Friction	47	40	68	54
	1%	**1%**	**1%**	**1%**

Source: Ambit Capital research, ACE Equity, Tofler

Some chemical companies with total KMP remuneration higher than industry leaders or even statutory limit in some cases

Company	Mcap (Rs.Bn)	FY21-23 CAGR		Fixed remn. as a % of PAT			Variable remn. as a % of PAT			Proportion of variable pay			Remuneration ratio(FY23)#		Profit ratio (FY23)#	
		Revenue	PAT	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	SRF	PI	SRF	PI
Leaders																
SRF	684	33%	34%	0.9%	0.7%	1.2%	0.7%	0.7%	0.8%	41%	46%	36%	**100%**	156%	**100%**	176%
PI Inds.	516	19%	28%	1.6%	1.9%	1.2%	2.4%	1.6%	1.4%	60%	46%	54%	64%	**100%**	57%	**100%**
Laggards																
Gujarat Fluoroch	409	46%	N/A	(2.0%)	0.7%	0.5%	(4.6%)	3.9%	4.3%	70%	85%	90%	152%	237%	63%	111%
Clean Science	159	35%	18%	13.9%	2.7%	2.3%	0.0%	4.9%	5.1%	0%	66%	69%	54%	85%	14%	25%
DCM Shriram	161	20%	16%	2.1%	1.7%	2.3%	2.7%	2.1%	2.8%	56%	55%	55%	103%	161%	43%	76%
Dhanuka Agritech	54	11%	3%	3.3%	3.3%	2.6%	9.4%	8.1%	6.2%	75%	72%	72%	52%	81%	11%	19%

Source: Ambit Capital research, Company. # It is a ratio of remuneration/profit of individual company divided by remuneration/profit of SRF/PI Industries

Beware of nuances w.r.t. related party transactions (3)

AMBIT
Acumen at work

Cello - Even after excluding one-time transactions, net cash outflow to KMP entities was still 11% of PBT in FY23

Rs.mn	KMP & related entities		
Transaction	**FY21**	**FY22**	**FY23**
Loan taken	2,145	3,914	1,537
Sales	210	216	37
Total cash inflows	**2,355**	**4,129**	**1,575**
CSR expenses	1	14	31
Purchase consideration paid	-	1,864	4,138
Loan repaid	2,045	1,184	2,795
Retained earnings distributed to partners/ erstwhile owners	863	484	239
Rent expenses	124	165	207
Purchases	3	179	83
Royalty expenses	36	41	78
PPE purchases	14	1	42
Reimbursement of expense	7	15	33
Total cash outflows	**3,093**	**3,948**	**7,770**
Net inflow / (outflow)	**(738)**	**181**	**(6,195)**
Revenue	10,495	13,592	17,967
Net inflow /(outflow) as a % of revenue	(7%)	1%	(34%)
Net inflow /(outflow) (ex. earnings distributed, loans and business purchased)	25	(200)	(436)
As a % of revenue	0%	1%	2%
As a % of PBT (ex. earnings distributed, loans repaid and business purchased)	1%	(7%)	(11%)

Source: Ambit Capital research, Company

Flair - Net outflow to KMP and its entities (ex loans) tripled over FY21-23

	KMP & related entities		
Rs.mn	**FY21**	**FY22**	**FY23**
Outflow			
Advt. & Sales Promotion exp.	2	12	20
Commission	-	-	15
Interest Expenses & Commission	68	67	35
Purchase of Fixed Assets	-	5	10
Purchase of Goods	15	33	129
Rent Expense	31	32	37
Remuneration	16	20	46
Loans repaid	NA	340	497
Total cash outflow	101	143	292
Inflow			
Sale of Goods	11	12	31
Sale of Licence	-	2	-
Services Received	16	17	-
Loans taken	180	59	141
Total cash inflow	27	31	31
Net outflow (ex. of loans)	**74**	**112**	**261**
As a % of revenue	2%	2%	3%
Net outflow as a % of PBT	348%	15%	17%

Source: Ambit Capital research, Company

Outliers on auditors' remuneration

AMBIT
Acumen at work

A few companies paying higher audit remuneration vs peers

			FY23		
Company name	**Level**	**Revenue (Rs.mn)**	**Audit fee (Rs.mn)#**	**Median audit fee***	**Ratio**
Instances of high audit fees					
UPL	Level one	535,760	80	7	12.30x
Vodafone Idea	Level one	421,772	86	61	1.40x
Apollo hospitals	Level one	166,125	33	14	2.34x
KEC Int.	Level one	172,817	46	7	6.30x
Bharat Forge	Level one	129,103	26	9	2.88x
United Brew.	Level one	74,999	44	12.	3.82x

*Source: Ambit Capital research, # Company. Audit fees considered is on standalone basis, whereas revenue is taken on consolidated level. * median audit fee is for sector*

A few companies paying lower audit remuneration vs peers

			FY23		
Company name	**Level**	**Revenue (Rs.mn)**	**Audit fee (Rs.mn)#**	**Median audit fee***	**Ratio**
Instance of low audit fees					
Dixon Tech	Level four	121,920	4	8	0.51x
PNC Infra	Level four	79,560	5	7	0.68x
Ramco Cement	Level four	81,573	6	11	0.55x
KPR Mills	Level one	61,860	2	7	0.26x
Relaxo	Level four	27,830	3	6	0.51x

*Source: Ambit Capital research, #Company. Audit fees considered is on standalone basis, whereas revenue is taken on consolidated level * median audit fee is for sector*

Key firms with relatively non-descript auditors which have not audited other major listed companies in last five years

Company	**Mcap (Rs.bn)**	**Auditor name**	**No. of cos. audited (last 5 yrs)**		
			Large caps	**Mid-caps**	**Small-caps**
Varun Beverages	1,647	OP Bagla and JC Bhalla	-	-	-
Dabur	961	G Basu & Co	-	-	-
Shree Cement	962	B R Maheswari & Co	-	1	1
TVS Motors	968	Sundaram & Srinivasan	-	-	1
Balkrishna Ind.	511	Jayantilal Thakkar & Co	-	-	-
Gujarat Fluoro	409	Patankar & Associates	-	-	-
Phoenix Mills	458	D T S & Associates Llp	1	-	1

Source: Ambit Capital research, Company

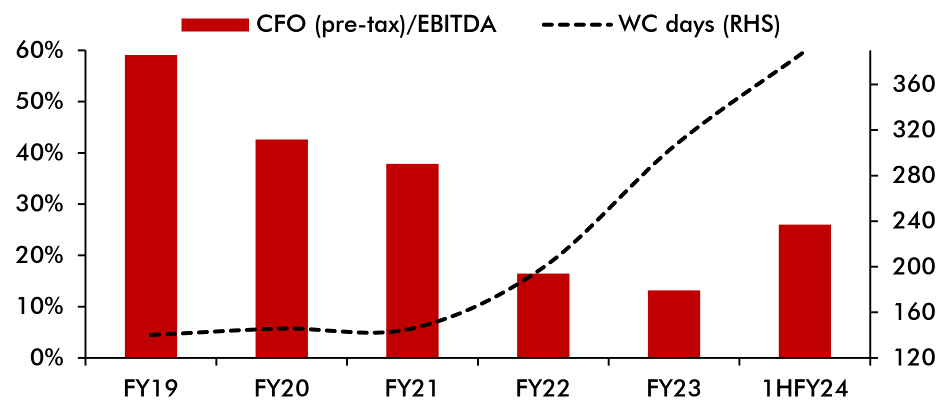
Several firms moved back to their old auditors from recent-most auditors with whom they were associated for >20 years

Company	**Mcap (Rs.bn)**	**Erstwhile auditor**		**New auditor**		**Re-appt. year**
		Auditor name	**Period**	**Auditor name**	**Period**	
Reliance Ind	18504	Chaturvedi & Shah#	28	DTS and EY	5	FY23
Varun Beverages	1646	OP Bagla	10	APAS and GT	5	CY23
Shree Cement	961	BR Maheshwari	26	Gupta & Dua	5	FY23
Balkrishna Ind	510	Jayantilal Thakkar & Co	8	N G Thakkar & Co	5	FY23
Solar Ind	628	Gandhi Rathi & Co	8	EY	5	FY23
Jindal Stainless	479	Lodha & Co and S S Kothari Mehta	8	GT	5	FY23
Relaxo Footwears	217	Gupta & Dua	6	BR Maheshwari	5	FY23

Source: Ambit Capital research, Company

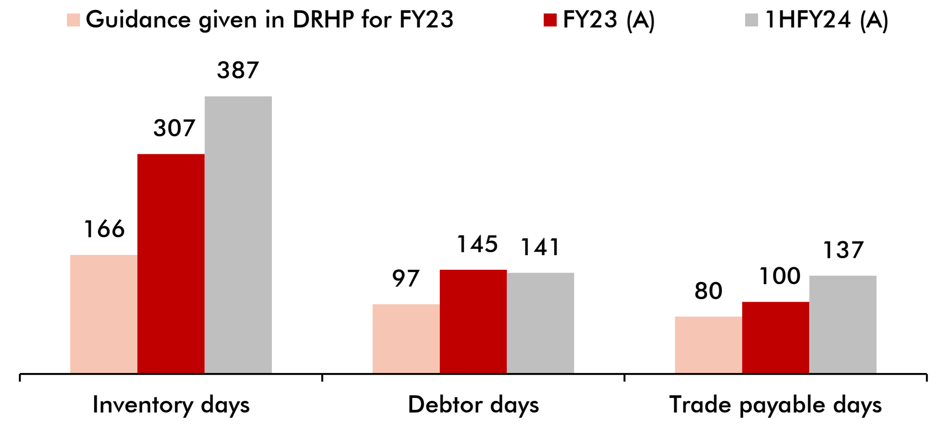
Through the lens of our accounting framework

Aether Industries saw declining cash conversion ratio over FY19-1HFY24 owing to high working capital requirements



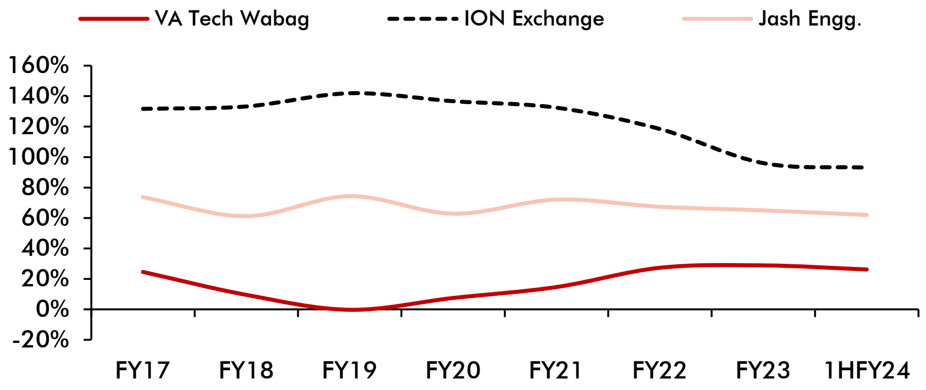
Source: Company, Ambit Capital research. Days are calculated taken revenue as base and closing balance for debtor days and material consumed as base for inventory days and creditor days

Over FY22-23, reasons such as war, demand rise in agrochem, late customer payments were cause of rising WC days QoQ



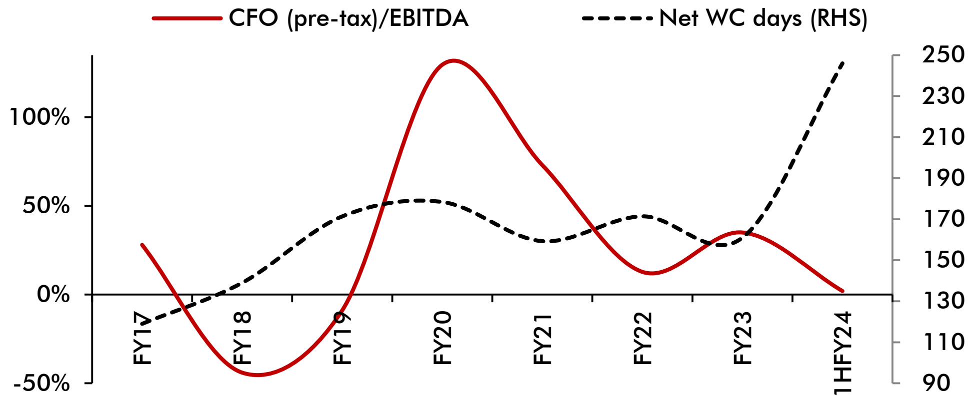
Source: Company, DRHP, Ambit Capital research. Days calculated taken revenue as base and closing balance for debtor days; material consumed as base for inventory days and creditor days

Six-year cumulative cash conversion ratio for VA Tech Wabag is significantly lower vs peers



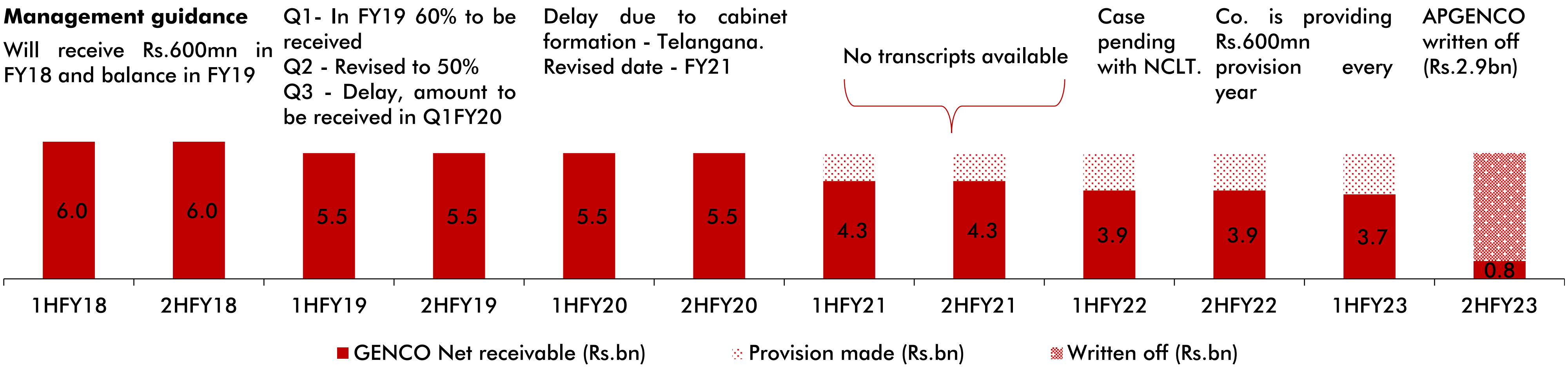
Source: Ambit Capital research, Company; EBITDA is ex of non-operating other income and forex fluctuations

Rising receivable days led to lower cash conversions for VA Tech Wabag



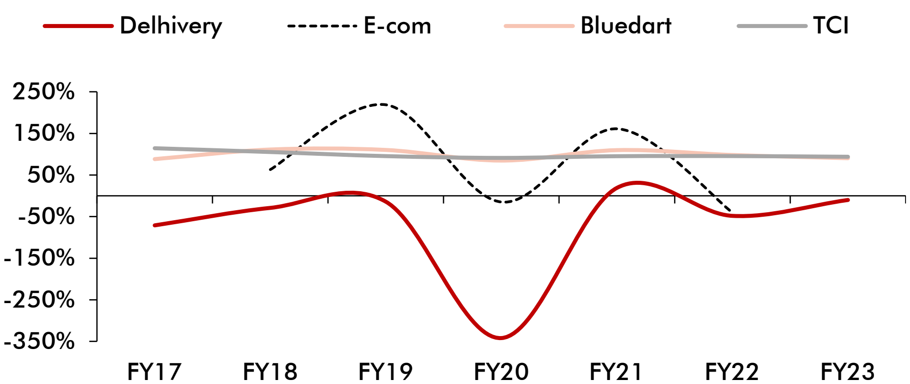
Source: Ambit Capital research, Company

VA Tech - Despite positive guidance QoQ, in 2HFY23 the company had to write off APGENCO receivables (Rs2.6bn)



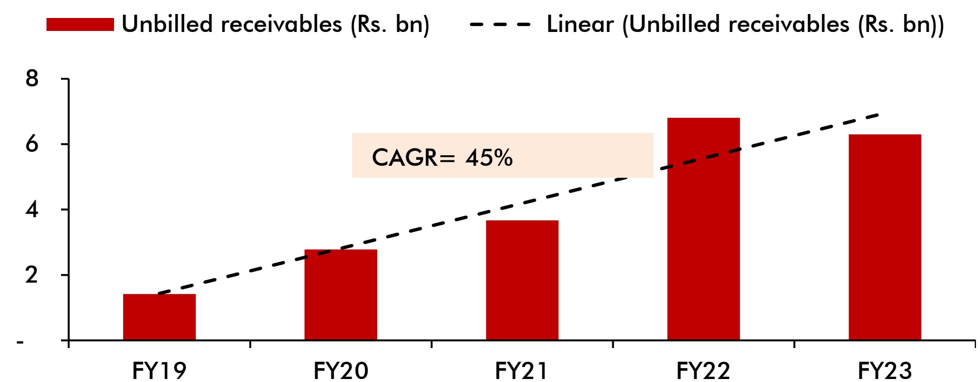
Source: Company, Ambit Capital research

Delhivery witnessed volatile and low CFO/EBITDA ratio owing to its high receivable days



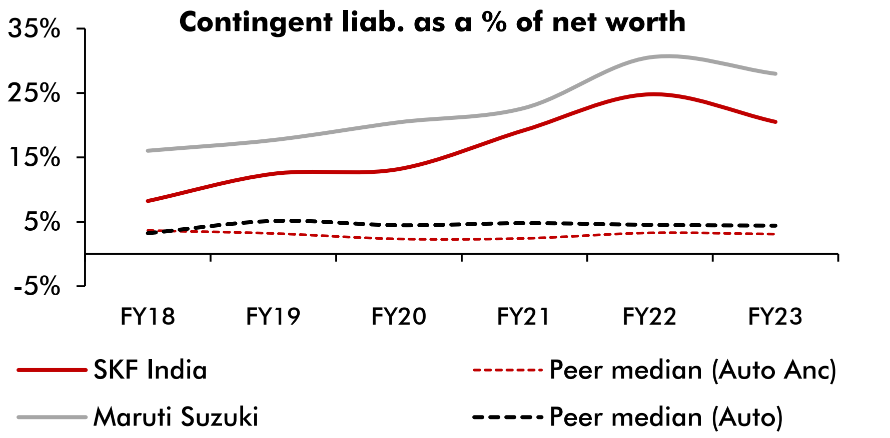
Source: Ambit Capital research, Company; EBITDA is ex of non-operating other income and forex fluctuations

Unbilled receivables increased 4x over FY19-22, but is reducing; whereas peers do not carry any unbilled receivables



Source: Ambit Capital research, Company

SKF and Maruti witnessed rising cont. liability to net worth...



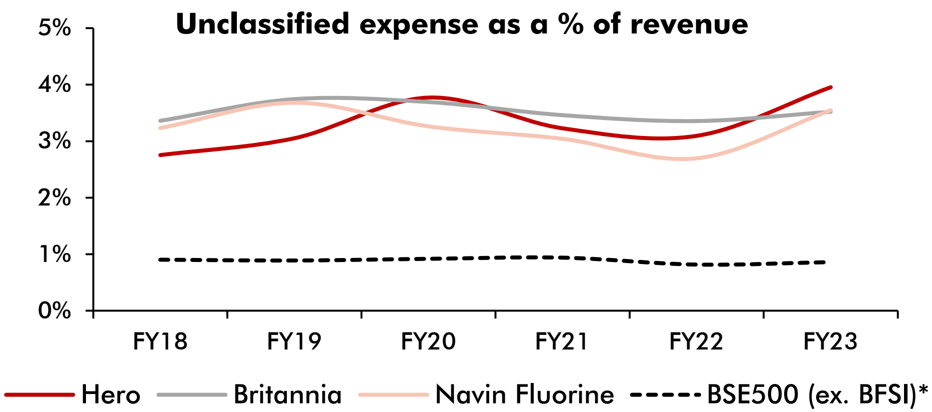
Source: Company, Ambit Capital research. Peer median for SKF India/Maruti is calculated using all Auto Anc./Auto companies in BSE500. We have excluded these two companies while calc. median.

...ratio owing to high tax litigations against them

	SKF India		Maruti Suzuki	
Rs.bn	**FY22**	**FY23**	**FY22**	**FY23**
Income tax	11%	6%	83%	82%
Excise/Custom duty	31%	37%	11%	11%
Indirect taxes (inc. GST)	9%	5%	3%	4%
Others	18%	21%	0%	0%
Total	**4.7**	**4.8**	**175.75**	**180.73**
As a % of net worth	25%	21%	31%	28%

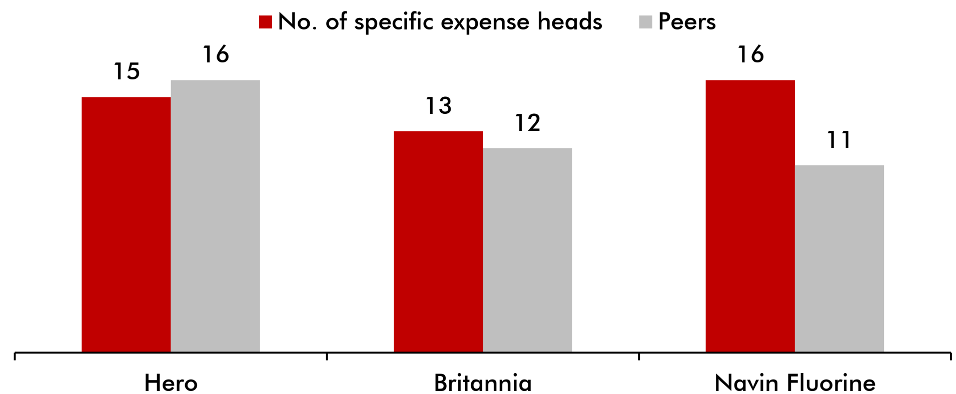
Source: Company, DRHP, Ambit Capital research

Hero, Britannia and Navin Flourine had higher proportion of unclassified expenses vs median BSE500 (ex BFSI) universe...



*Source: Ambit Capital research, Company. * Median*

...despite having similar or higher number of specific expense heads than peers



Source: Ambit Capital research, Company. Peers taken are Eicher, Marico and PI Ind.

JSPL – Audit rotation practice and off-balance-sheet risks

Proportion of non-audit fees has reduced but remains higher than that of peers

Rs.mn	FY18	FY19	FY20	FY21	FY22	FY23	CAGR (FY18-23)
Audit fees	9	10	10	10	12	13	6%
Other services	8	4	14	19	19	11	33%
Reimbursement of expenses	0	1	0	1	2	1	(2%)
Total	**17**	**15**	**24**	**30**	**33**	**25**	**13%**
% of fees w.r.t other services	**47%**	**27%**	**58%**	**63%**	**58%**	**44%**	
% of fees w.r.t other services (median NSE500)	**35%**	**32%**	**33%**	**31%**	**32%**	**30%**	

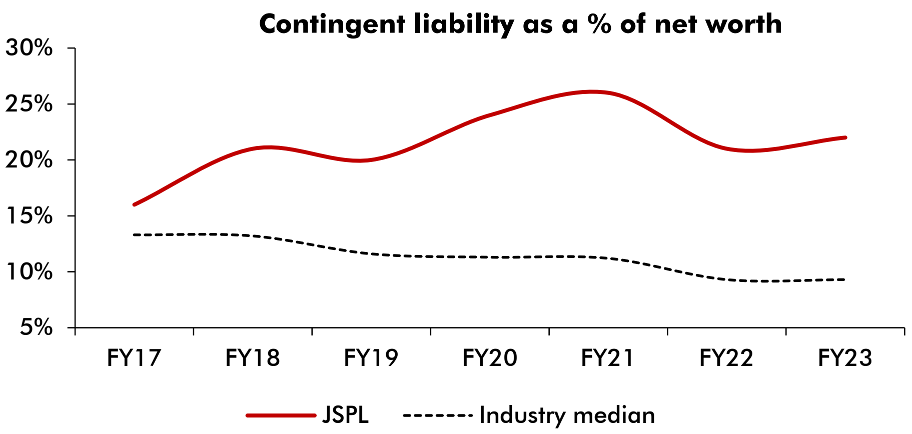
Source: Ambit Capital research, Company; we have used standalone financial statements, Prime Infobase

Association with old auditors continues; as a better governance practice, the company should change the auditor

	JSPL	Jindal Stainless*	Jindal Stainless (Hisar)*	Jindal Power Limited	JSW Energy
SS Kothari Mehta & Co	FY01#-FY14	FY10^-FY17	Since FY16	Since FY17	NA
Lodha & Co	Since FY17	FY10^-FY17	Since FY16	Data NA	FY01# – FY17

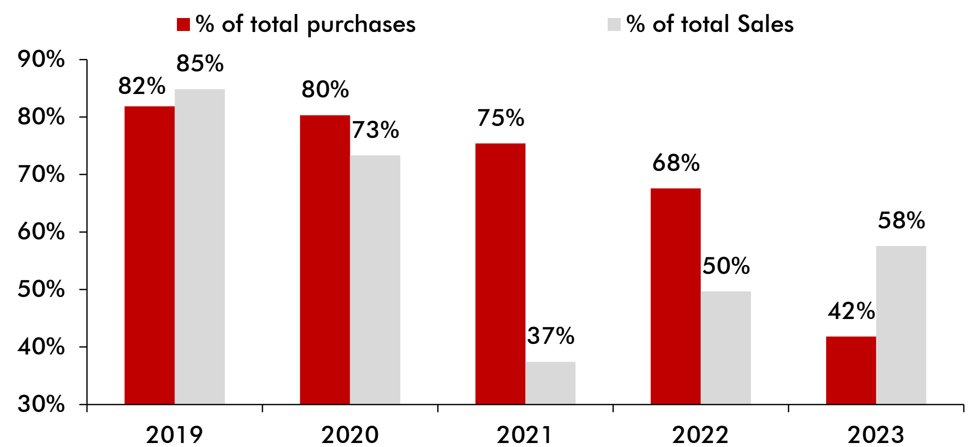
*Source: Ambit Capital research, Company; Ambit Capital research, Prime InfoBase. * Joint audit, # data available from 2001, ^ data available from 2010*

Off-balance-sheet risks remain higher vs peers; >50% of contingent liabilities pertain to tax litigations



Source: Ambit Capital research, Company; metals and mining sector is used for comparison. Above data is at 31 Mar for each financial year

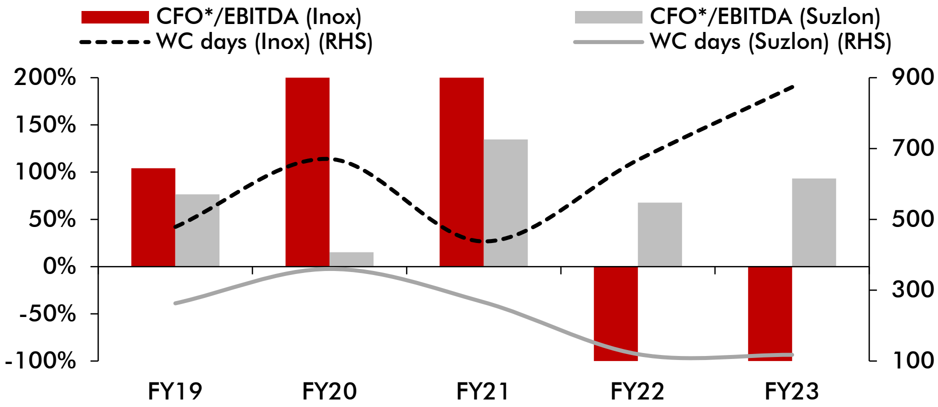
Material purchased from group entities is >40% but is reducing



Source: Ambit Capital research, Company. Purchases and sales are ex RPTs

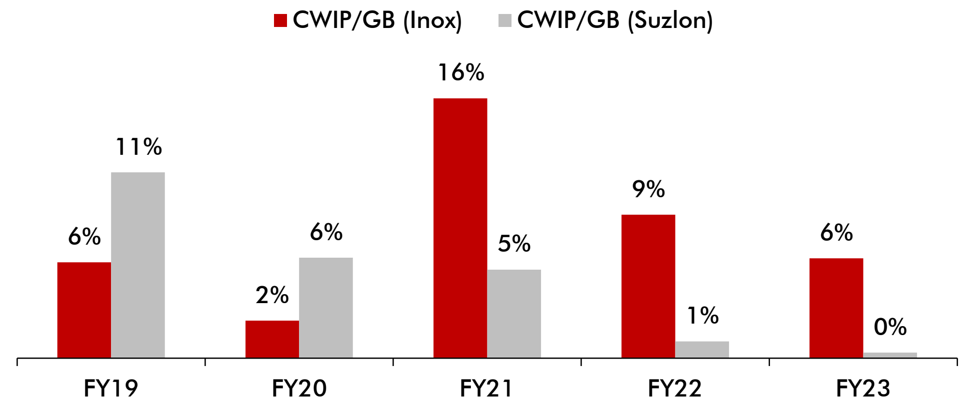
AMBIT
Acumen at work

Suzlon's cash conversions improved owing to reduced WC days vs Inox Wind where WC requirements are increasing YoY



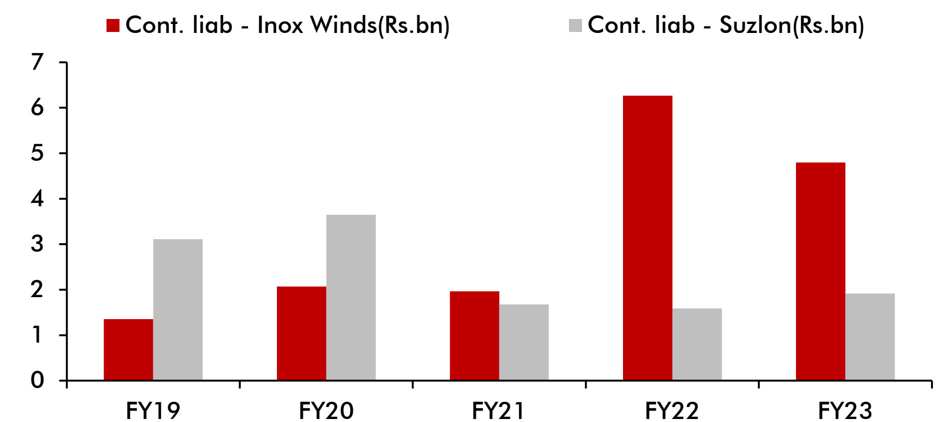
*Source: Ambit Capital research, Company. * CFO is pre-tax, CFO/EBITDA ratio is 3 yr. cumulative ratio; WC = Working capital #Restricted to 200%/(100%) as numbers are very high or very low*

Inox Wind has historically had higher assets under construction vs Suzlon where CWIP/GB ratio reduced over FY19-23



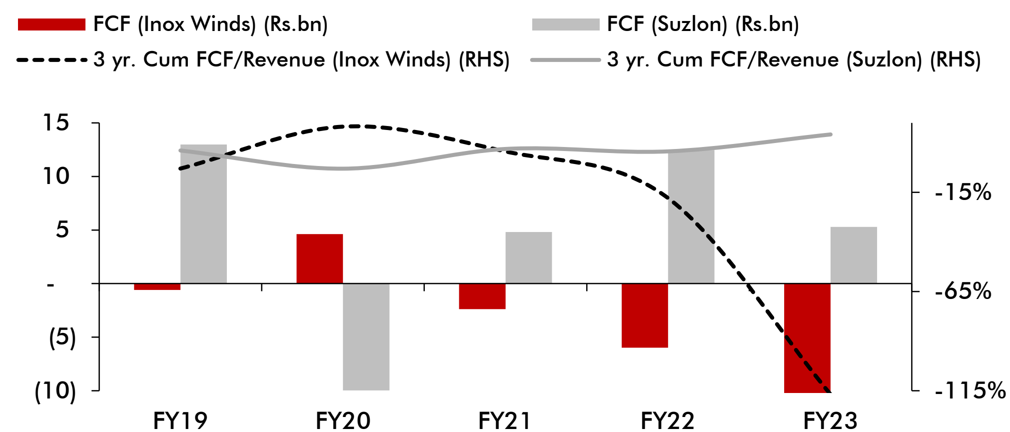
Source: Ambit Capital research, ACE Equity, CWIP includes intangibles under development, GB = Gross block is adjusted for Ind-AS

Off-balance-sheet risk for Suzlon has reduced over the years vs Inox Winds where contingent liabilities have grown by ~4x



Source: Ambit Capital research, Company

In last 4/5 years, while Inox Winds witnessed negative FCF generation, Suzlon clocked positive FCF



Source: Ambit Capital research, Company

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Registered Office Address: Ambit Capital Private Limited, 449, Ambit House, Senapati Bapat Marg, Lower Parel, Mumbai-400013

Compliance Officer & Grievance Officer Details: Sanjay Shah, Email id: compliance@ambit.co, Contact Number: 91 22 68601965. In case you require any clarification or have any query/concern, kindly write to us at compliance@ambit.co

Other registration details of Ambit Capital: SEBI Stock Broking registration number INZ000259334 (Trading Member of BSE and NSE); SEBI Depository Participant registration number IN-DP-CDSL- 374-2006; AMFI registration number ARN 36358.