



3  **CAPITALS**
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Micro-Cap Multibagger

KRANTI INDUSTRIES LTD.

**A Revolution in Accuracy...
Driven by Perfection!!**

Date: 26th Apr, 2022 | CMP = 52 | BSE: 542459

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Moving up the Value Chain

Over the past couple of decades, many mid and small-cap companies have moved up in their value chain by becoming specialized manufacturers in their respective business segments. These companies started at the bottom and have been involved with commoditized operations. **A company can either move up the value chain by either expanding its existing product line or by introducing newer products.**

As Warren Buffett said, **"If the Business Does Well, the Stock Eventually Follows"**.

Businesses that generate recurring revenues by targeting a large market with perpetual demand have tremendous potential, apparently any particular stock is bought considering the industry in which the business operates, the extent of competitive advantage and the future potential for its goods.

Alan Mulally, Former President & CEO of Ford Motor Company once said, ***"No country is ever successful in the long term... without a really strong and vibrant manufacturing base."***

Our latest recommendation is one such company from the auto ancillary sector. Kranti Industries Ltd. is a multi-product and advanced auto component manufacturer, driven by new products and technology. The company is an end-to-end solutions provider offering precision machined castings for Transmission, axles, chassis, engines and other parts for Automotive Industry.

Original equipment manufacturers worldwide are increasingly on the lookout for a single-stop provider who can deliver their integrated solutions to their problems. Kranti, with its advanced machineries and experience can step up to meet such demands.

In India, per capita income is growing and living standards are improving. This, along with diversification of global supply chains is expected to increase demand for auto components. **Companies that embrace technology and innovation and have a visionary view of the future would be most valued in the future.**

Kranti Industries Ltd is a precision machining company with presence in Auto ancillary and allied sectors. It supplies to Indian and global automobile companies. **It has also started supplying to the Electric Vehicles Segment.** Company won the 'The Machinist Super shop floor Award 2021' for Excellence in Quality under the SME category presented by 'The Machinist' Times Of India Group

Company Snapshot

Buying Strategy & Target Price (CMP = 52)

Single Phase Buying Strategy = Buy 6% between INR 52-60 (CMP 52)

Price Target = INR 100+ in next 12 months & INR 500+ in next 5 years. If everything goes well, it can be 50-100x in the next 10-12 years.

Market Cap	₹ 62.4 Cr.	Current Price	₹ 59.1	High / Low	₹ 72.9 / 171
Stock P/E	29.7	Book Value	₹ 21.0	Dividend Yield	0.00 %
ROCE	10.4 %	ROE	10.1 %	Face Value	₹ 10.0
Debt to equity	1.12	Market Cap to Sales	0.68	Industry PE	44.0
Promoter holding	74.2 %	Gross block	₹ 73.6 Cr.	Gross Block PY	₹ 73.6 Cr.

Above Data Source: Screener – 20th May 2022

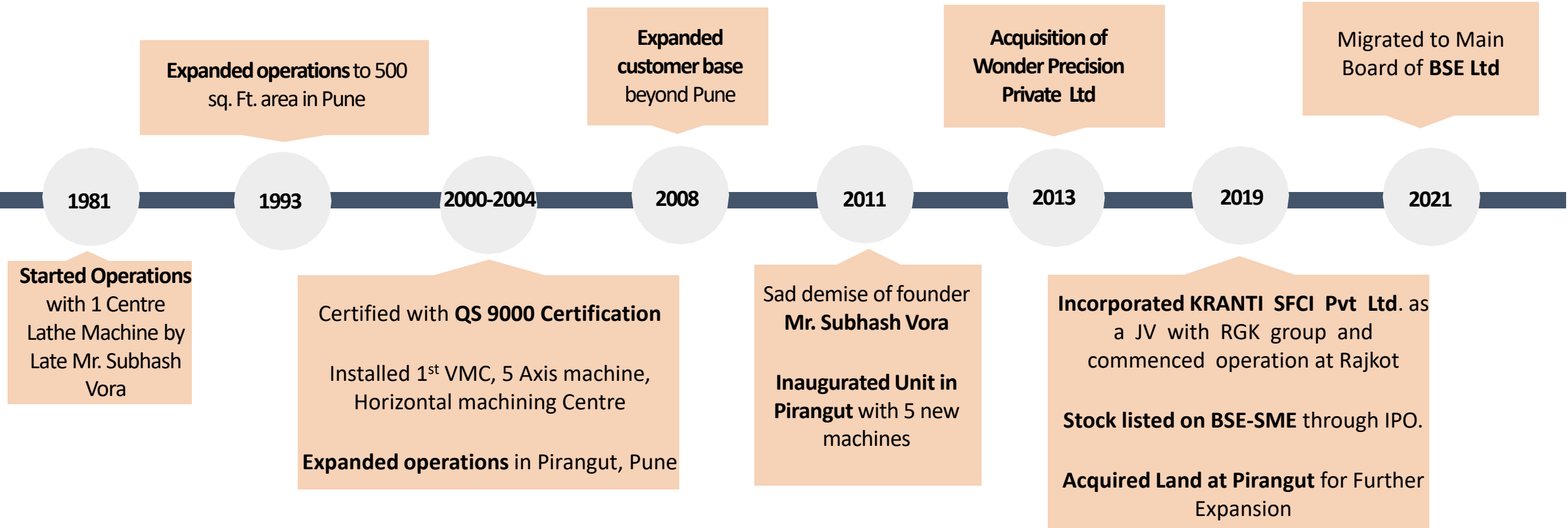
Business : Kranti is a critical machined component manufacturing unit. It uses modern and green technologies for manufacturing precision goods and provides integrated solutions to the clients. They presently cater to various sectors by developing components for construction, automobile (passenger cars, electric cars, two wheelers, tractors, railways, light vehicles, heavy trucks, etc.), pneumatic tool, windmill, medical industry, etc.

Management : From a small shed with just one centre lathe to carry out job work of the bigger industrial units, the company has transformed to modern factory premises spanning nearly 7,000Sq. replete with 78+ high-tech production machines and all the provisions that multinational industrial units can afford. This can't be achieved without a tremendous ability to lead. They aim to create a sustainable, profitable and growing business.

Valuation : Valuation of the company is reasonable considering 4 Key developments with clear revenue visibility which will keep this stock in demand for the next couple of years. They have been significantly increasing the gross block from the past few years.

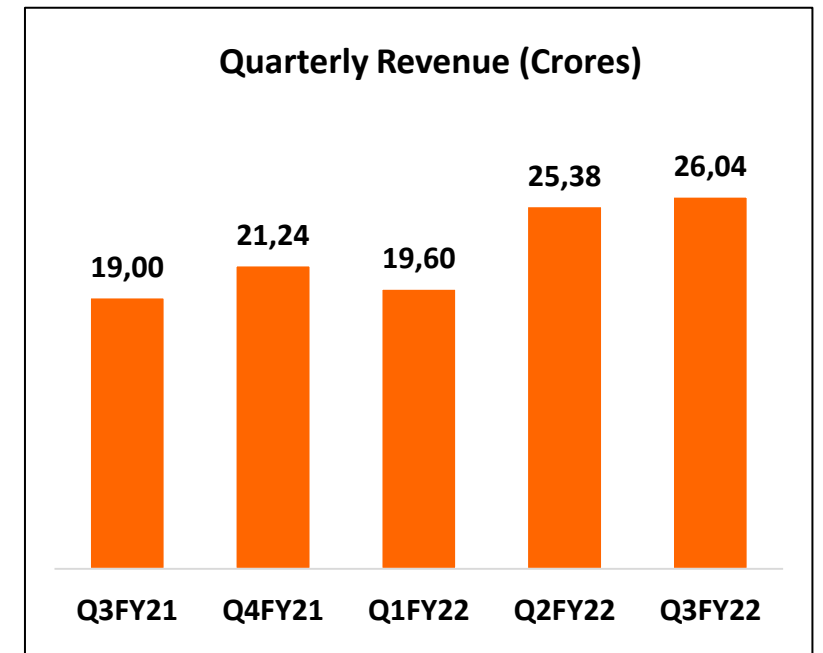
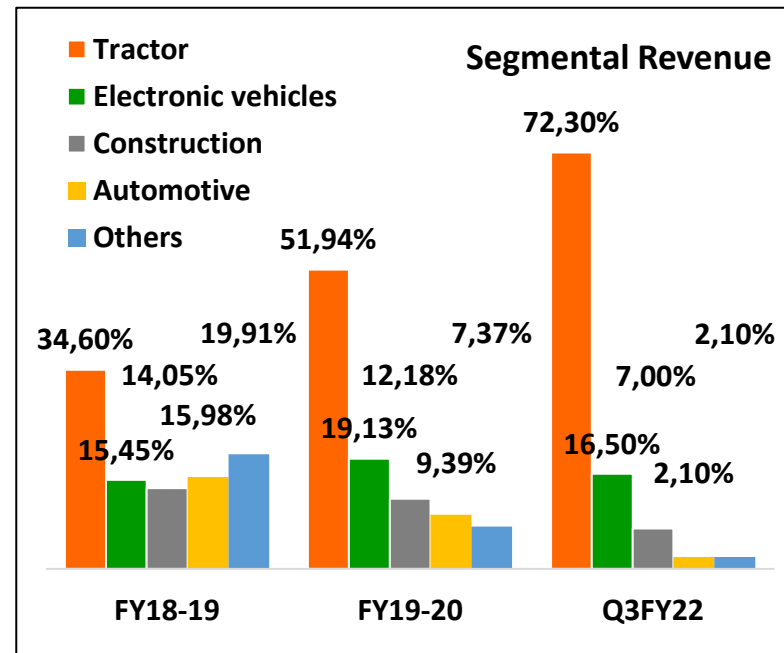
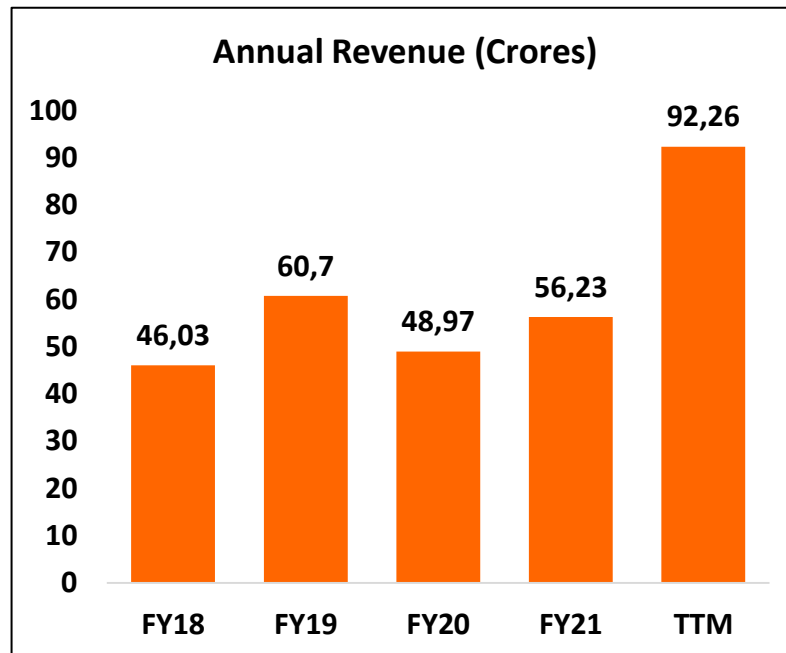
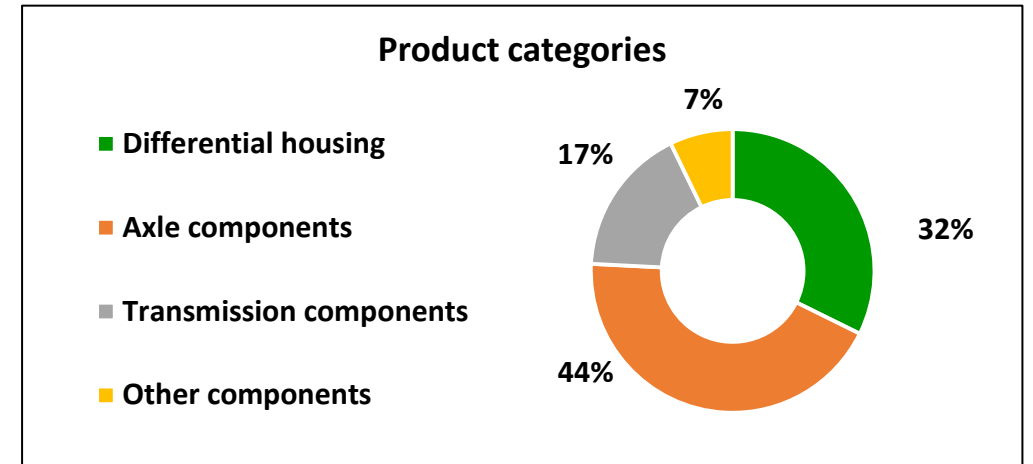
Risks : Intense Competition, High geographical concentration in revenue, High debt, Susceptibility of profitability to volatility in raw material prices.

History

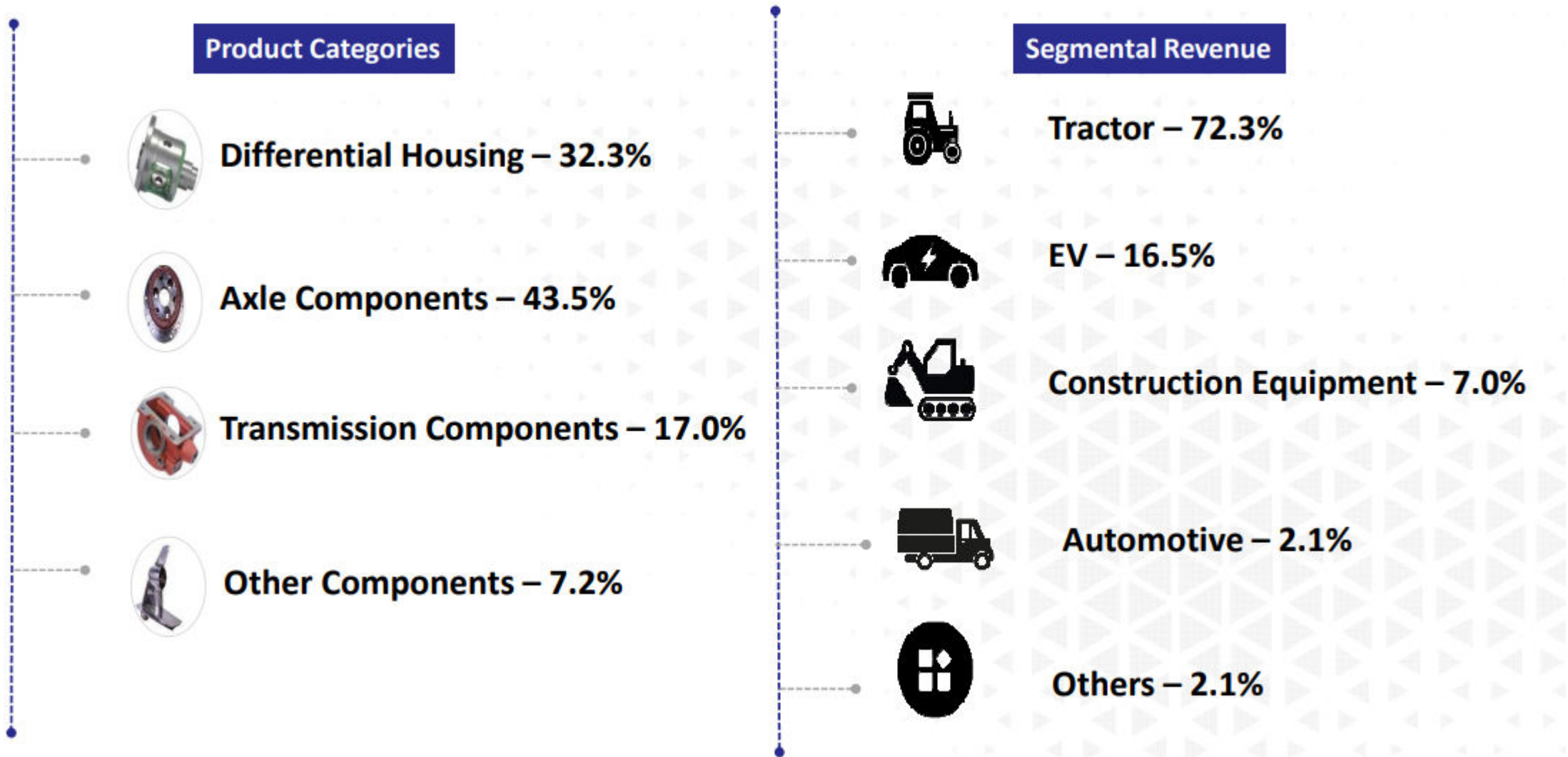


Business Overview

Business Segments	Products offered
Automotive Parts	Rear Housings, Front Housings, Gear Box Housing, Top cover, Brackets, AMT Kit Base Plate, Differential housings, Flywheel Housing, Master Cylinders (Braking Part)
Off-highway equipment, Agricultural tractors	Differential Housing, Carriers, Epic cyclic carriers, Gear Box Housings, Wheel Hubs, Axle Housing, Hydraulic Lift Housing, Trumpet Housing, Clutch Housings



Product Categories & Segmental Revenue



Investment Rationale -Tailwinds

A Company with more than 4 decades of experience in manufacturing, lead by 2nd generation.

Low price/Revenue relative to competitors.

Long –Term association with the major auto OEM's to ensure smooth and cohesive business operations.

Well diversified product portfolio with marquee clientele.



Capacity expansion with Hi-Tech machines supported by Best-in-Class Inspection Facilities.

Growth in Quarterly Net Profit with increasing Profit Margin (YoY)

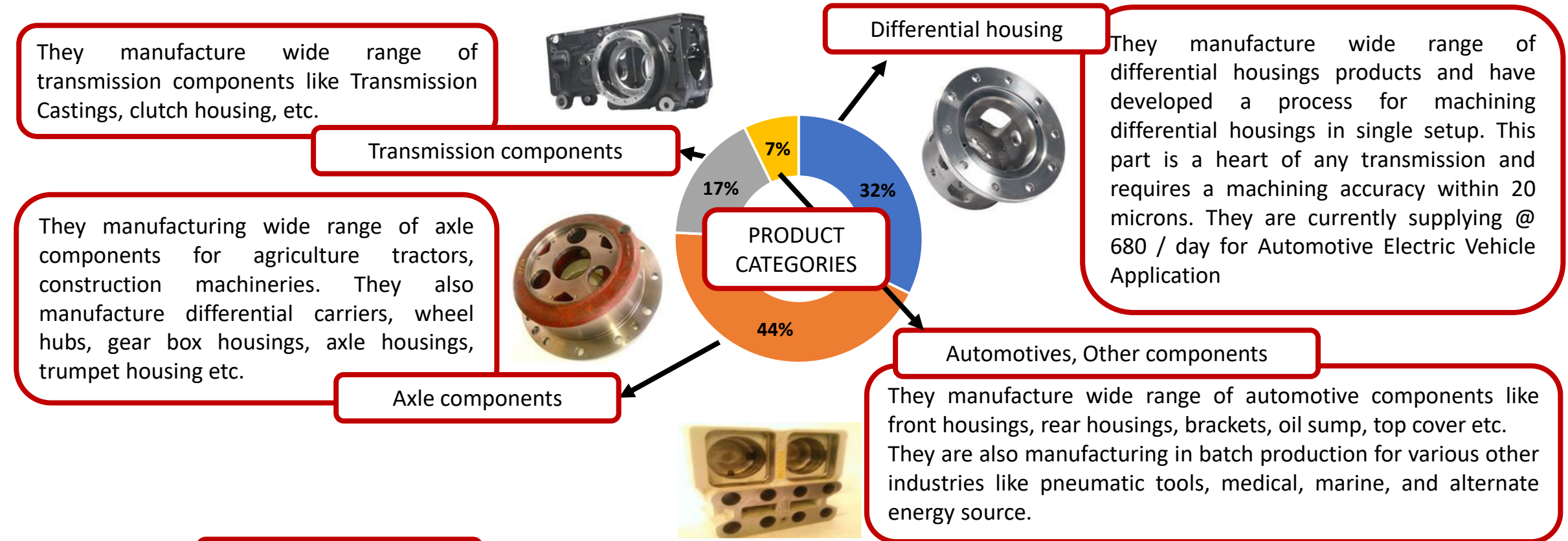
Company with Zero Promoter Pledge

High Promoter holding

Government initiatives & policies towards increasing manufacturing.

Solutions across Segments

Kranti produces over several different products, however the major segments in which the products can be divided are as follows:

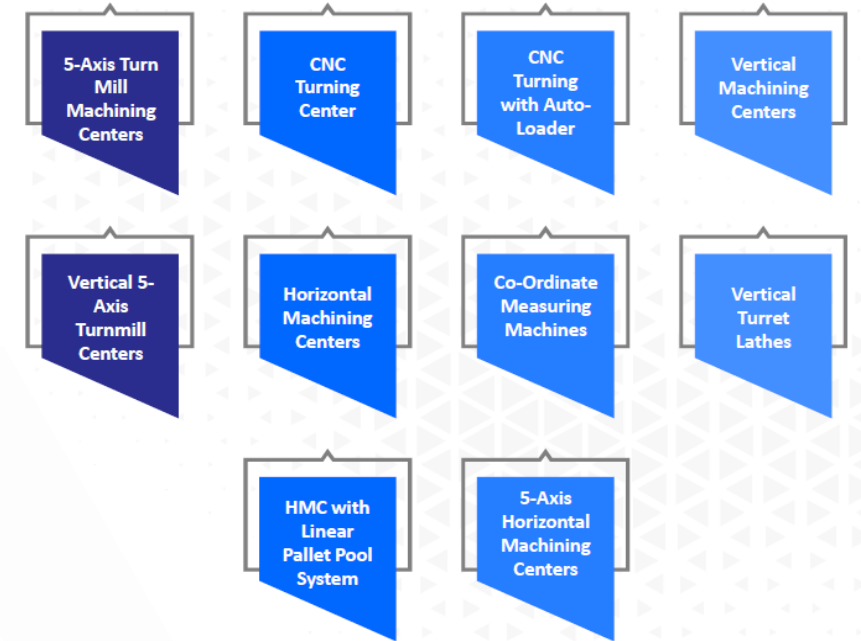


Prototyping

In addition to mass and batch production, the company also has dedicated capacities, and capabilities to do prototype components for new projects of customers. They have done prototyping of engines parts like V8 Cylinder Block for their customers in the automotive sector, prototyping in titanium (for medical industry), stainless steel (for marine industry) and brass components.

State-Of-The-Art Manufacturing Facilities

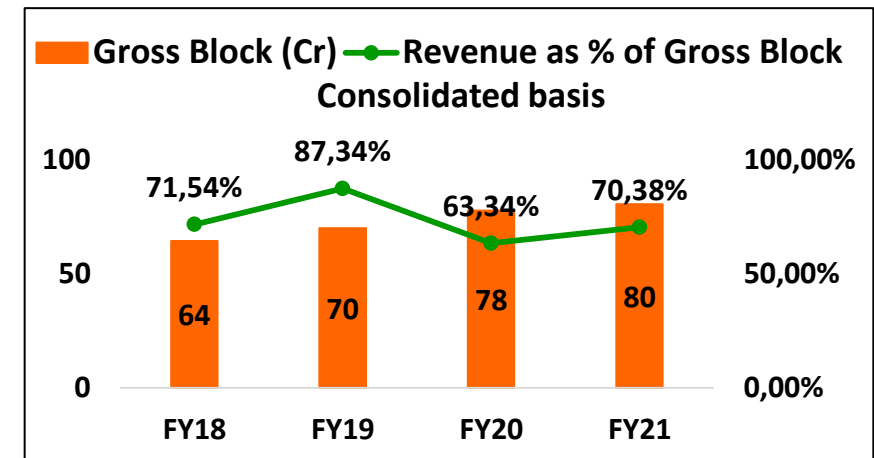
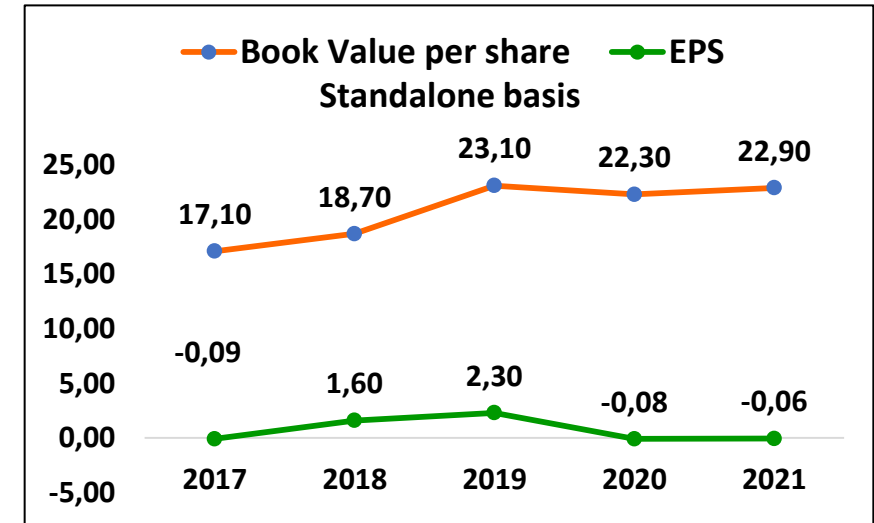
- ❑ The company has **production facility of around 7000 sq. mtr.** spread in three different Units around Pune, considered as Major Engineering & IT Hub of India.
- ❑ The company has increased the production capacity by adding new machines in existing manufacturing units and **started operations in their 3rd plant from Jan -21 at Urawade, Tal Mulshi, Pune.**
- ❑ The company is also in the process of **Setting up new manufacturing plant of 3000 sq-mtr. Which is expected to be operational by Q3 of FY23.**
- ❑ The plants have a **78+ Hi-Tech machines** supported by Best-in-Class Inspection and testing Facilities. The company has a wide range of CNC turning centers, Vertical Machining center (VMC), Vertical Lathe (VTL) Horizontal Machining Center (HMC) and Axis Hi-tech Machines from the reputed and renowned manufacturers globally.
- ❑ Besides having capabilities in manufacturing of components for their customers, they also have the capabilities for detailed analysis, manufacturing, inspection, and prototyping of new products for their existing as well as new customers.
- ❑ Most of their machinery, with certain modification is capable of being used interchangeably for either of the sectors, depending on the demand for such products.



Fast Growing Value-added businesses

- ❑ Over the years, Kranti industries has evolved into a single source supplier to some of the world-renowned OEMs in their respective industries.
- ❑ The company's strategy is based on both organic and inorganic growth in order to maximize the potential of current and future operations.
- ❑ The company **acquired majority stake Wonder Precision Pvt. Ltd.** In 2013 with a view to expand the business and undertake additional orders. Some of the objects similar to that of the company's business. (Holding: 97%)
- ❑ The Company has become a **partner in a JV company which is incorporated as "Kranti SFCI Private Limited" along with "Steel Forge Cast Industries" for the purpose of carrying on the business of "Machining of forging and casting components"**. The management and the marketing working shall be done by Steel Forge Cast Industries and the technical part and business operations shall be managed by Kranti Industries Limited. (Holding: 30%)
- ❑ The Company has embarked on the journey to success by embracing tech-enabled advancements and consistent upgradation.
- ❑ The company aims to use to its existing relationships with OEMs in India to widen product range with each customer as well as attract new customers.
- ❑ The business has a low entry barrier range. Further, and any expansion in capacity of existing manufacturers would further intensify competition.
- ❑ Since the company is into customized products, the management feels that they do not require any dedicated marketing and selling arrangements. However, they have an internal customer correspondence team.

5Yr Revenue CAGR – 15%



Building Long-Term Relations

- ❑ **Customer satisfaction is management's top priority** and one of the key factors behind their steady progress and sustained business.
- ❑ Management is certain that their approach of Quality, Cost, Delivery, Development and Management (QCDDM) encompasses all the requirements of their OEM clients, helping them to earn their trust.
- ❑ As a preferred supplier in the evolving nature of transportation, they help OEMs to produce technologically sophisticated vehicles, including electric and hybrid vehicles.
- ❑ The company's prime raw materials are ferrous as well as non-ferrous castings, and they also manufacture components from bars and forgings. They procure these castings from various suppliers in the industry and are approved by their customers. **Some of their key suppliers are** Kores (India) Limited, Mahindra CIE Automotive Limited, Gokul Ferrocast Private Limited Kores (India) Limited-Pefco Foundry Division, Neosym Industries Limited, Endurance Technologies Limited (Casting Division) etc.
- ❑ Company has entered into **the power purchase agreement with SVM Green Power** where we shall be getting electricity **at ₹ 5.50 per unit** inclusive of all taxes for **fifteen (15) years**. The plant has been installed on the rooftop and would generate approximately 1,74,375 units per year with 1% degradation every year after the first year.

Key customers of the company include:



Financial Analysis (1/2)

	FY16	FY17	FY18	FY19	FY20	FY21
Revenue (INR Cr.)	28.36	28.77	46.03	60.7	48.97	56.23
Operating Profit (INR Cr.)	5.59	4.32	5.72	8.04	3.31	5.06
Operating Margin (%)	19.71%	15.02%	12.43%	13.25%	6.76%	9.00%
Net Profit (INR Cr.)	-0.21	-0.93	0.89	2.11	-1.03	-0.13
Net Profit Margin (%)	-0.74%	-3.23%	1.93%	3.48%	-2.10%	-0.23%
Cash flow from Operating (INR Cr.)	6.45	4.28	5.04	6.46	7.18	4.49
Net Cash Flow (INR Cr.)	-0.2	-0.06	0.05	1.37	-1.39	0.01
Operating Leverage		-15.7150	0.5402	1.2726	3.0444	3.5662

- ❑ **Over the past 5 years, Kranti has shown a revenue CAGR growth of 15%. Operating profits have grown at a CAGR of 4.03% from FY17.**
- ❑ Top-line de-grew by 19.3% in fiscal 2020, on the back of disruptions caused by the pandemic. Though top line and profits continued to be low in the first half of FY21, they achieved healthy growth and margin in the second half. By the fourth quarter, plant utilization was back to pre-COVID levels. Better capacity utilization, positive demand scenario steered recovery in the second half of the year. They have in the past derived and believe that they will continue to derive, a significant portion of their income from their customers within India.
- ❑ **Top-line is expected to grow on the back of completion of new plant setup by Q3FY22 and increased capacity utilization of existing facilities.**
- ❑ The company has been maintaining a low operating margin of 6% to 9% over couple of recent years. Material costs as a percentage of expenses have been rising owing to increase in production and price of raw. **Operating profitability is expected to revert to pre-covid levels in the forthcoming quarters, supported by cost optimization initiatives, increased manufacturing capabilities and better capacity utilization.**
- ❑ Higher cash flow from operations is aiding the company in maintenance of its debt and maintaining high debt to EBIDTA ratio. Net cash flow has been low or negative owing to continuous CAPEX and investments.

Financial Analysis (2/2)

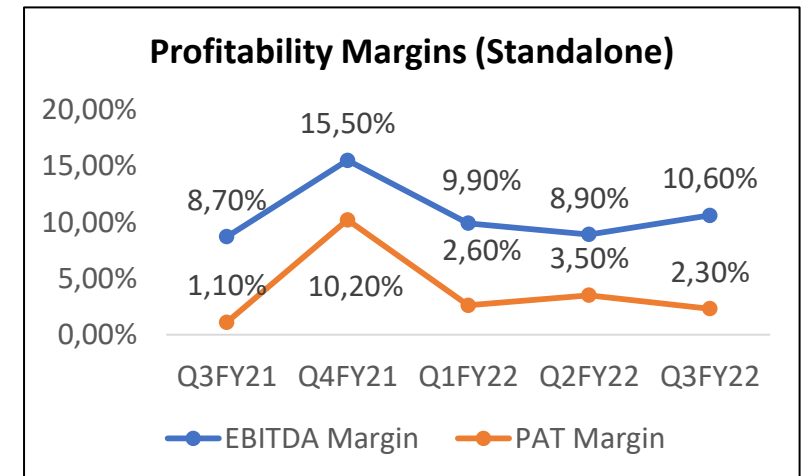
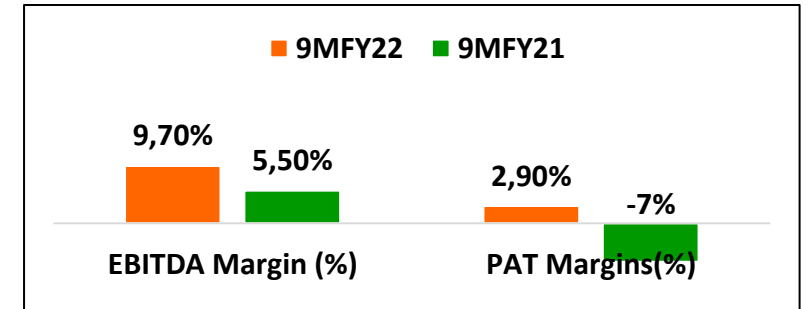
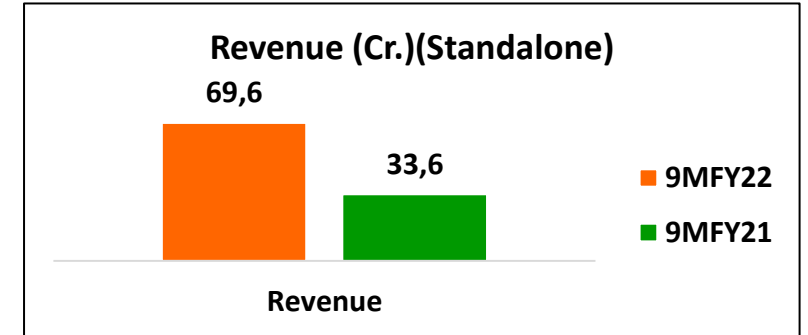
	FY16	FY17	FY18	FY19	FY20	FY21
ROCE (%)	8.54%	5.69%	10.68%	15.92%	1.05%	4.43%
ROE (%)	-1.60%	-7.65%	6.90%	10.38%	-5.35%	-0.69%
Asset Turnover Ratio (%)	0.68	0.065	1.051	1.28	0.95	0.95
Earning Per Share	-0.25	-1.09	1.05	1.99	-0.97	-0.12
Debt to Equity	1.6	1.7	1.5	0.9	1.1	1.3
Inventory Days	112.33	158.79	97.83	60.13	92.11	87.47
Debtor Days	63.45	96.8	71.29	45.64	27.21	60.04
Days Payables	69.25	162.03	97.36	40.85	83.4	114.84

- ❑ Kranti Industries Ltd. has posted losses for 2 consecutive recent years. Profitability ratios have also been lower. However, **the company has posted profits in the three quarters of FY22. We expect the result of the capacity expansion, cost-effective measures and better performance by subsidiary will bear fruit going forward resulting in improvement in return ratios and asset turnover.**
- ❑ The company has faced losses in few previous years. Net profit margins of the company have been historically low due to the company's high-interest costs.
- ❑ Increase in fixed assets is largely attributable to purchase of land buildings and machinery related to capacity expansion. Capital expenditure is expected to be high due to nature of manufacturing business.
- ❑ The company has been maintaining high level of borrowings over the years on account of capacity expansion and working capital requirements. Most of the company's debt is in the form of long-term borrowings. Debt equity ratio has remained stable.
- ❑ The company's quick ratio stands at 0.48 which is low. Net debt to equity ratio (132.8%) is considered high. Debt to equity ratio has reduced from 1.96 to 1.35 over the past 5 years. Debt is covered by operating cash flow (42.5%) in FY21. Interest payments on its debt are moderately covered by EBIT (~2.92x coverage) in Q3FY21.

Q3 FY22 Update

	Q3 FY22	Q2 FY22	Q3 FY21	Q-o-Q (%)	Y-o-Y (%)
Revenue (INR Cr.)	26.04	25.38	19	2.60%	37.05%
Operating Profit (INR Cr.)	2.77	2.27	1.83	22.03%	51.37%
Operating Profit Margins (%)	10.64%	8.94%	9.63%	-	-
Net Profits (INR Cr.)	1.13	0.81	0.26	39.51%	334.62%
Net Profit Margins (%)	4.34%	3.19%	1.37%	-	-

- ❑ **TTM sales up to 9MFY22 have increased** owing to higher revenue in the first 3 quarters of FY22. In 9MFY22, Revenue grew by 107% on Y-o-Y basis, EBITDA grew by 266% on Y-o-Y basis, EBITDA margins expanded by 419 bps on Y-o-Y basis and Net Profit margins expanded by 947 bps on Y-o-Y basis.
- ❑ Bonus Issue of 17,60,400 equity shares of face value Rs. 10/- Each, a sum of Rs. 1,76,04,000/- being distributed amongst the equity shareholders in the proportion of 1:5 was approved by the Members in an Extra-Ordinary General Meeting of the Company held on May 07, 2021.
- ❑ Finance costs have increased to 58.87 Lakhs in Q3FY22 against 48.44 Lakhs, a 21.53% Q-o-Q growth and 16.29 % Y-o-Y growth.
- ❑ With the improvement in performance of its subsidiary and its relatively new joint venture concern, we expect the company's performance to improve going forward.
- ❑ Increased production capacity, better capacity utilization, positive demand scenario are expected to steer the company to growth in the upcoming quarters.



Q4FY22 Result Update

Particulars (Rs. in Mn)	Q4FY22	Q4FY21	Y-o-Y(%)	Q3FY22	Q-o-Q(%)
Total Revenue	222	205	8.7%	256	-13.1%
Total Expenditure	205	177	16.2%	229	-10.4%
EBITDA	17	28	-39%	27	-36.4%
EBITDA Margin (%)	7.6%	13.5%	-594 bps	10.4%	-278 bps
Profit before Tax	1	18	NA	12	NA
PBT Margin (%)	0.3%	8.6%	NA	4.5%	-420 basis
Net Profit	1	21	NA	6	NA
Net Profit Margin (%)	0.3%	10.4%	NA	2.2%	-200 basis
EPS (Rs)	0.01	0.2	NA	0.1	NA

FY22 Vs FY21

Particulars (Rs. in Mn)	FY22	FY21	Y-o-Y(%)
Total Revenue	918	540	70%
Total Expenditure	834	494	68.8%
EBITDA	84	46	82.7%
<i>EBITDA Margin (%)</i>	9.2%	8.5%	64 basis
Profit before Tax	27	-1	NA
<i>PBT Margin (%)</i>	2.9%	-0.2%	272 basis
Net Profit	21	-1	NA
<i>Net Profit Margin (%)</i>	2.3%	-0.1%	219 basis
EPS (Rs)	0.2	0.01	NA

Last 5 Years Performance Update

Particulars (Rs. in Mn)	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Net Revenue	918	540	475	579	421
Total Expenditure	834	494	444	506	368
EBITDA	84	46	31	73	53
EBITDA Margin (%)	9.2%	8.5%	6.6%	12.6%	12.6%
Profit before Tax	27	-1	-10	29	8
PBT Margin (%)	2.9%	-0.2%	-2.1%	5.0%	2.0%
Net Profit	21	-1	-7	20	11
Net Profit Margin (%)	2.3%	-0.1%	-1.5%	3.5%	2.6%
EPS (Rs)	0.2	-0.01	-0.1	0.2	0.2

Financial Ratios Update : 2018-22

Particulars	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Net Worth	222	202	197	204	130
Total Borrowings	247	229	189	139	190
Total Assets	443	431	385	343	321
Net Debt/ Equity	1.0x	1.1x	1.0x	0.6x	1.5x
Net Debt/ EBITDA	2.8x	4.6x	6.0x	1.7x	3.5x
Gross Block	852	706	628	573	566
Debtors Days	24.1	57.8	26.2	45.7	77.9
Creditors Days	50.4	114.9	82.9	41.0	105.1
Inventory Days	49.5	86.1	88.9	57.7	105.6

Management Analysis & Shareholding %

The business was established in 1981 by Late Shri Subhash Vora, and is currently run by his sons: Mr. Sachin Subhash Vora (Chairman & Managing Director) and Mr. Sumit Subhash Vora (Executive Director)

Mr. Sachin Subhash Vora and **Mr Sumit Subhash Vora** have more than 15+ years of Education each. Both are qualified Graduates in Engineering and have inherited the business acumen, discipline, ambitions from their late father.

With close to four decades of experience in precision machining, currently KRANTI stands tall in being a single source supplier to most of the world-renowned OEMs in its respective industries.

Management aims to continue focusing their energy on building, maintaining, and growing key relationships with employees, customers and vendors to deliver value to their stakeholders. They aim to leverage their relationships with OEMs in India to widen product range with each customer to mitigate the risk of client concentration and increase wallet share with each of them.

The management is committed towards technology driven innovation and lays strong emphasis in inculcating an innovation driven culture within the organization.

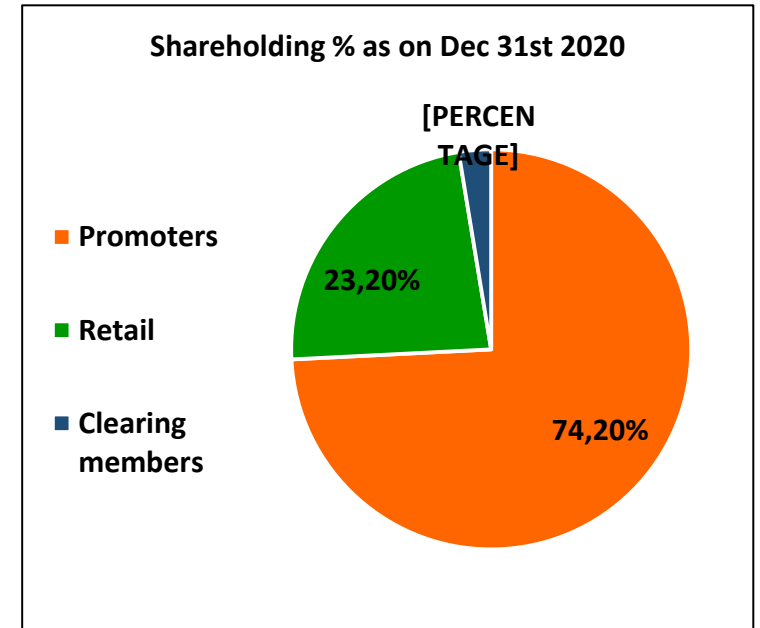
Promoter Shareholding : Current shareholding of promoters in the company is 74.23% (December 31st, 2022).

Management compensation: Management compensation has been in line with the ceiling limits of 10% of net profits.

Capital allocation record: The management has clearly done an exceptional job in growing the business to become a dominant position in the Indian Auto Components industry. To be able to build a global brand in a highly competitive market is nothing short of excellent capital allocation. They have also been quick to upgrade to machineries to further increase their revenue streams by leveraging the company's long-term network.

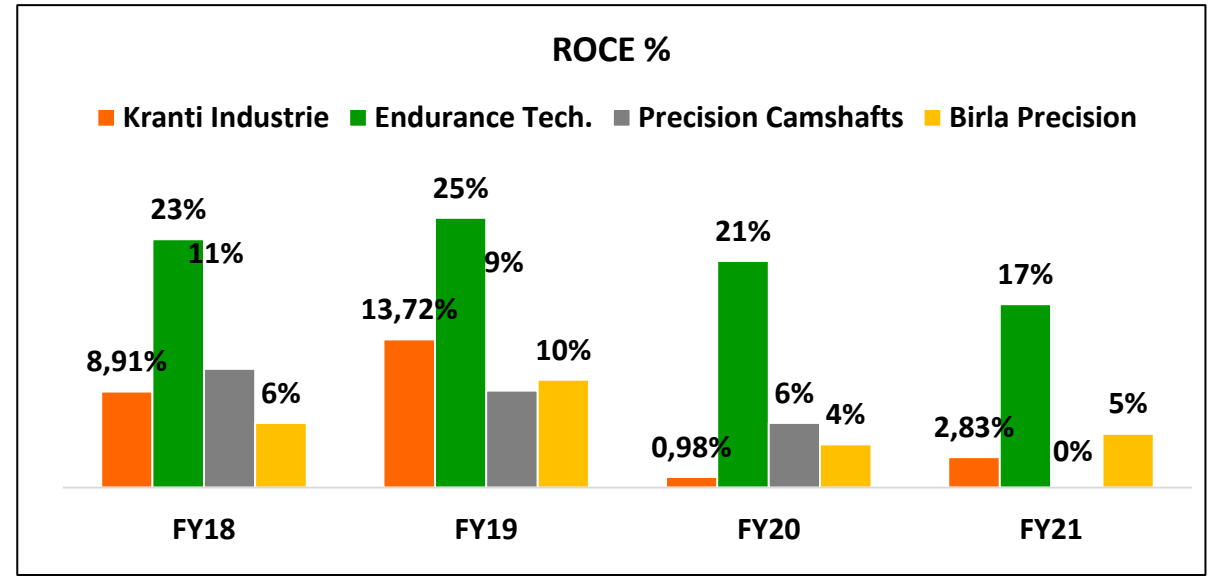
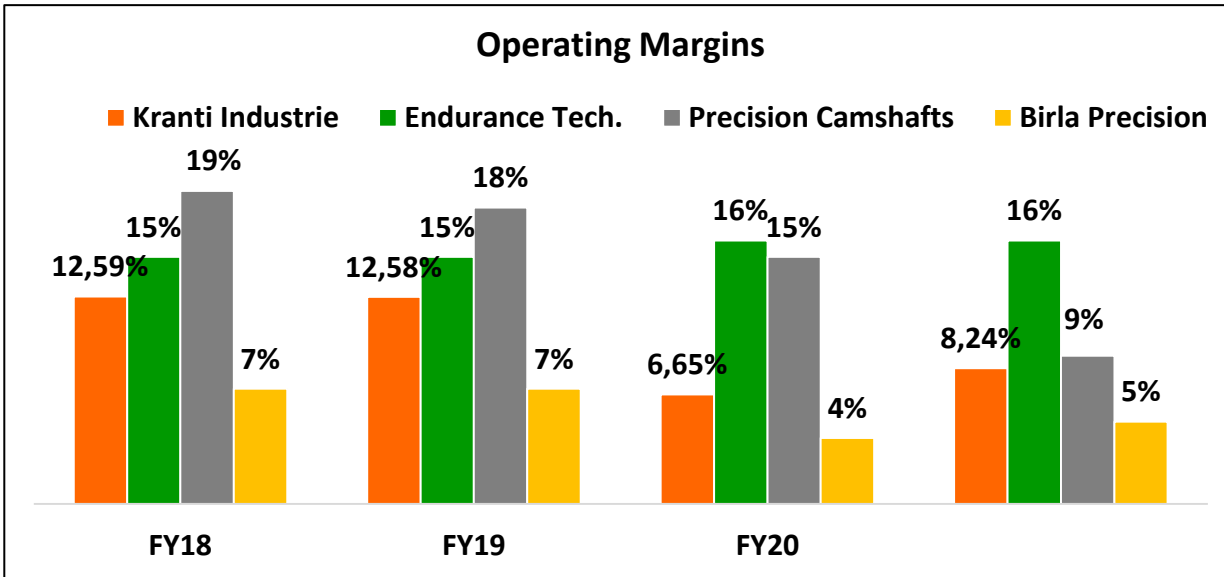
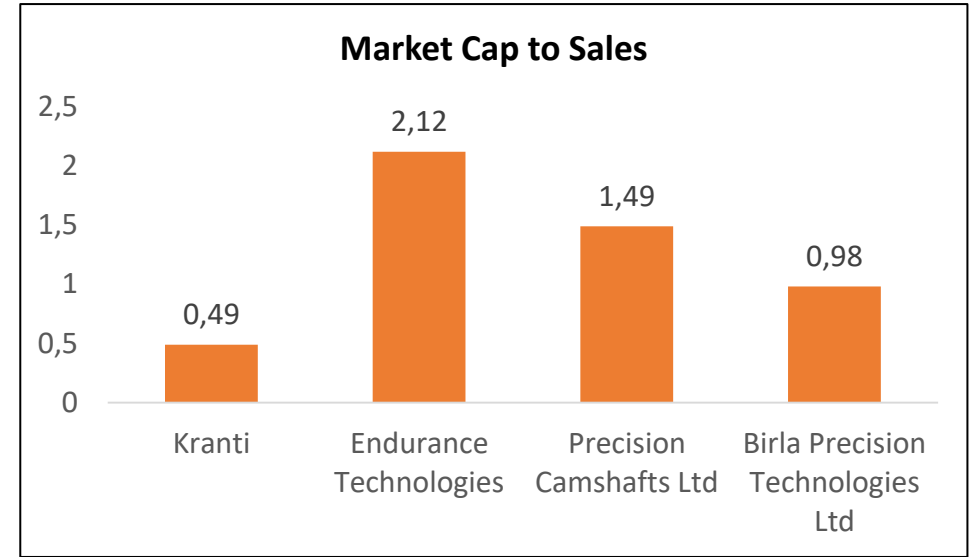
Shareholder communication: Good

Pledged Shares: As in December 2022, pledge share percentage stands at 0.00%



Competition

- ❑ The company specialize in manufacturing precision machined components for automotive and its ancillary industries based on technical specifications and designs provided by their customers. Given the nature of products and the sector in which they operate, customers have high standards for product quality and delivery schedules.
- ❑ **Industry is fragmented** consisting of **large established players and small niche players**. They compete with **organized as well as unorganized sector** based on availability of product, product quality and product range.
- ❑ **Key market participants:** WABCO India Ltd, Minda Industries Ltd., Endurance Technologies Ltd., Bosch Ltd., Sundaram Clayton Ltd., Motherson Sumi Systems Ltd.
- ❑ The company is in the process of expansion. We expect the impact of this transition to flow into its returns and cash flow in the short term.



Geographical concentration

Most of the key customers of the company are within Pune or within Maharashtra. The company needs to better penetrate other states and source for more and newer pools of clients to shield itself from the impact of a downturn in connected regions.

Intense Competition

Kranti faces intense competition from organized as well as unorganized players. It is key to stay updated on latest technology advancements and offerings to ensure the business model of the Company stays relevant with customer needs.

Client concentration

The products manufactured by Kranti are majorly supplied to automotive and its ancillary industries. Thus, the performance of the company is heavily dependent on the performance and market trends of automotive and its ancillary industries.

The Company derives a significant portion of income from a limited number of customers. The percentage of sales derived from the company's top 10 customers was approximately 94.58% for the financial year ended 2018.

Working capital intensive operations

There is a requirement for steady cash flow in sufficient quantum in order to support the Company's operations and operate its business model with efficiency.

High Debt Level

The company has a high Debt Equity ratio and continues to increase debt.

Susceptibility of profitability to volatility in raw material prices:

The Company has not entered into any supply agreements for the major raw materials required for manufacturing of its products and is exposed to risks relating to fluctuations in commodity prices and shortage of raw material.

- ❑ Unknown, Undiscovered, Emerging Leader in Auto Ancillary, away from social media gossip groups. **This stock follows Vijay Kedia's SMILE Principle ~ Small in size (just 55Cr market cap), Medium in experience (2nd generation entrepreneurs), Large in aspirations (working hard to fulfill dreams of their late father) and Extra large in market potential (addressing billion dollar manufacturing, EV & precision industry).**
- ❑ **IPO came in Feb 2019 @ 37rs per share & company got listed at BSE SME.** Further the company announced a bonus issue in the ratio of 1:5 in June 2021 and migrated to the main board of BSE. During last 3 years stock has not delivered any returns due to flat sales and higher expenses because capex was going on plus Covid-19 issues, **BUT Sales (TTM) has doubled from 54 Cr in 2021 to ~ 90 Cr in 2022 and it is likely to cross 120 Cr plus in FY23, stock is under re-rating and will continue to appreciate till 75-100rs in short term.** Post commencement of operations in the new facility in Q3FY23, stock is going to deliver superior returns in the next couple of years.
- ❑ **Incremental Capex Reflecting in FY22 Revenue & Major Capex Operational from Q3FY23.** Margin Expansion Likely & Clear visibility of Future Earnings. The company has increased the production capacity by adding new machines in Q1 of FY 2019-20 in existing manufacturing Unit-1 & 2 and has started operations in Unit 3 from Jan 2021 at Urawade, Tal Mulshi, Pune. **This is getting reflected in FY22 numbers where sales increased to 90 Cr from 54 Cr last year.**
- ❑ Company is in the process of increasing its production capacity, and therefore the **company has acquired Land measuring 3837.50 Sq. metres in Pirangut Pune during 2019 and is in the process of setting up Manufacturing unit.** CWIP has been Zero for a few previous quarters, it means expansion may be completed. Expecting to start production / operations by Q3 of FY 2022-23.
- ❑ Fixed Assets was ~ 24.87 Cr. in Mar'18 during which they delivered revenue of 46.03 Cr & PAT of 0.89 Cr. Now in Sep'21 Fixed Assets is 38.90. Cr (increase of 56%) and 9MFY22 Revenue is 71.02 Cr with PAT of 1.92 Cr. **During the next 12 months we are expecting revenue close to 100-120 Cr.**
- ❑ **Management continuously works on reducing costs and increasing plant capacity utilization.** Increased efficiency going forward is expected. Historically, operating margin used to be in the range of 12-13%, hence we expect OPM to improve from 10.5% to 12-13%.
- ❑ ***Clear visibility of Future Earnings due to 4 Key Developments - #1) Addition of new machines @ Unit - 1 & 2 (Pirangut, Pune); #2) Operation of Unit-3 started from Jan'21 at Urawade, Tal Mulshi, Pune; #3) New capacity 3837.50 Sq. metres in Pirangut Pune will start operation in Q3FY23; #4) 30% stake in JV "Kranti SFCI Private Limited" will also be added.***

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