

Texmaco Ltd.

INR 119

**Get in the *Band Wagon*****ACCUMULATE**

Sep 04, 2009

**Company Background**

Texmaco Ltd (Texmaco) incorporated in 1939, is a KK Birla Group company. It is a diversified engineering company engaged in providing services to core sector projects & process industries within the country & abroad. Its textile machinery division manufactures machinery for textile mills, while its boiler & heavy engineering division manufactures boilers, super heaters, economizers, chimneys, pressure vessels, bridges & structurals, equipment for chemicals, paper, cement, coke oven & iron & steel factories, coal & other solid material handling & conveying plants, railways, railway rolling stocks. Its steel foundry division makes castings for railway equipment, sugar mill machinery etc.

**Investment Rationale****➔ Financial performance (Standalone basis)**

For Q1FY10, Texmaco reported Net Sales of INR 1834 mn as against INR 1968 mn, while its Net Profit were INR 208 mn vs INR 228 mn, during the same period a year ago. Its Operating Margin was 19.02% vs 18.25%, where as its Net Profit Margin was 11.37% vs 11.60%. Overall the company is the market leader in the wagon segment with around 25% market share, while along with Titagarh Wagons Ltd it has 50% of market share. Texmaco has an order backlog of around ~5500 wagons & the management expects to grow its revenue by 20% in the next few years.

**➔ Wagon orders likely to flow**

Texmaco is the largest wagons supplier for Indian Railways (IR) having around ~25% market & has superior design & manufacturing capabilities, thereby switching rollout to the high-growth, commodity specific & special-design wagons. With ~20000 new wagon expected to be introduced in FY10 by IR, the company is well placed to get significant order from it.

**➔ Diversified port folio, with areas**

The company has strong capabilities in designing, marketing, manufacturing, commissioning of hydromechanical equipment such as hydraulic, radical & vertical gates, penstocks, trash cleaning machines, stop logs & other heavy steel structures. It has a track record of executing several projects both in India & Overseas markets & is currently executing one of the largest orders for supply of hydromechanical equipments for a 200 MW Hydro Project of NHPC in Arunachal Pradesh. It also manufactures process equipment such as sugar machineries, industrial boilers, chemical plant machinery & agro machinery such as power tillers. This diversification is going to play a great role in terms of getting smooth flow of revenues.

**➔ Foray into metro rail coach manufacturing**

Texmaco has entered into JV with United Group Ltd, Australia for manufacturing freight cars & coaches & has signed MOU with Japanese firms comprising Kawasaki, Itochu & Toshiba, which would manufacture new age rail coaches. The company is even setting up a production facility in West Bengal, with an capex of INR 2-3 bn.

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**Info Codes**

Reuters	: TEXM.BO
Bloomberg	: TXM@IN
NSE	: TEXMACOLT
BSE	: 505400

**Market Data**

52 Wk Range (INR)	: 1270 / 36
Shares in Issue (mn)	: 110.8
Mkt. Cap (INR bn)	: 13.35
BSE 2 Wk Avg Vol	: 126458

**Share Holding Pattern (%)**

Promoters	: 54.61
MFs, FIs & Banks	: 14.90
FIIIs	: 1.86
Others	: 28.63

**Investment Theme**

Texmaco is the leader in the wagon segment with ~25% market share. It has established its leadership in the past & has established performance track record along with securing maximum orders for wagons from Indian Railways. The company has an order backlog of around ~5000 wagons consisting of order book of INR 13 bn till date. With the flowing tenders from IR for supplying wagons, Texmaco is well placed to secure maximum orders from it. Moreover increasing orders from hydel capacity would help its hydromechanical division, to earn sufficient revenues. It has entered into JV with United Group Ltd for manufacturing Metro & EMU Coaches.

**Best Coaching for your Growth**

**Key Strengths**

Texmaco a part of the KK Birla Group company, manufactures rolling stock, hydemechanical equipment, process equipmet & steel castings.

**➔Market leader, to play the game**

Texmaco has the largest wagon manufacturing facility with comparative advantage of excellent infrastructure in the industry. The company is also ready with its strategy to enter the Electric Multiple Units(EMUs) & Metro Coaches & Locomotives through JV with the Global leaders. It has been the largest supplier of wagons to the IR for the last 3 years along with having the highest orders each years from the IR, where it was awarded orders for 2539 & 3455 wagons in FY08 & FY09. Currently the company has market share of ~25% & along with Titagon Wagons Ltd it accounts for ~50% share. Further moving, currently it is the market leader in the supply of certain commodity specific wagons. With ~20,000 new wagon expected to be introduced in FY10 by IR, the company is well placed to add significant orders in its kitty for the wagons, thus helping it to increase its market shares in the current fiscal.

**➔ Expertise in hydro mechanical equipment, with geographical location advantage**

The company is one of the leading manufacturer of hydro-mechanical equipments in India & offers one point solution from designing to commissioning of hydro mechanical equipment & also provides after sales services. The Central Electricity Authority has a target of adding 36877 MW & has the potential of adding 150,000 MW. With increased emphasis of the Government of India on the development of renewable energy projects specially for hydel projects, the company is well placed to procure orders for the hydro mechanical eqquipment. The company's facility which is located in Kolkata, also has the geographical advantage as majority of the hydro power projects being established in India, are being executed in the North Eastern part of India. Texmaco has also being awarded one of the largest orders for hydromechanical equipment for a 2000 MW hydel project & at the current position its has an orders of worth INR 3347 mn for its hydro mechanical equipment. Texmaco has excellent infrastructure facilities for manufacture of wagons & are spread across 155 acres of land & includes 2 mn sqft of manufacturing facilities, with a 10 km long railway track for storing wagons, which facilitated it as one of the industry leader in this segment.

**➔Largest supplier of steel castings**

Texmaco's steel foundry division has been classified as a "Class A" foundry & a "Part I" manufacturer by Research Designs & standard Organisation & Ministry of Railways. As a result, the company has been certified as an approved source for manufacturing bogies & couplers. The company is the largest supplier of steel castings for the IR & other private wagon manufacturer with a market share of around 31%. The steel foundry with 28,000 mn tpa capacity is also equipped with the state of art fully automated sand plant & high pressure moulding line from world renowned Kunkel Wagner, Germany.

**➔Foray into metro coaches & freight cars**

Texmaco has entered the special wagons segment with a 50:50 JV with United Group (Australia). The manufacturing unit is to be set up at Texmaco's existing location near Belgharia. The Texmaco-United JV is further forming a minority JV with Kawasaki (Japan), Itochu and Toshiba to manufacture metro coaches. The new JV has been shortlisted for the Kolkata Metro extension project too.

**Demand for Wagons set to increase**

According to the Railway Budget 09-10, there has been no increase in freight rates, while orders for 20,000 wagons for FY10 (highest ever till date) have been announced, which is a considerable rise compared with 11,000 wagons in FY09. With the initial stage of development in Mumbai, Bangalore, Chennai & Hyderabad & under evaluation for Pune, Lucknow, Kochi, Ludhiana, Jaipur, Cochin & Kanpur, demand for EMUs/metro coaches will see growth due to increasing projects of Metro rail projects in this cities. IR even has announced setting up of an EMU/Coach factory via JV/PPP model which would have an annual production of 500 coaches. IR has also planned to increase production of both diesel & electric locomotives to 200 each annually from 150, while 11<sup>th</sup> Five Year Plan estimates requirement of electric & diesel locomotives to be 1,800 each or 360 locos per year. Wagon Investment Scheme was implemented by IR April 05 onwards, where it aims to secure investments in procurement of wagons via stakeholders in private & public sectors for meeting the anticipated incremental freight traffic going forward. According to the scheme, the customer is provided guaranteed supply of rakes loading every month and a rebate of 10% on normal freight charges. Wagon Leasing scheme was introduced on April 05, in which the concept of leasing would allow third parties to invest in wagon & lease them to interested parties. Meanwhile, private players use wagons to transport commodities such as alumina, caustic soda, cement, iron, food grains, iron ore and coal which require special wagons, which would create additional demand for wagons.

**Business Segments**

Texmaco, manufactures rolling stock, hydromechanical equipment, process equipment & steel castings. Rolling stock which is the revenue earner kit for the company, accounts for half its revenue & is the steady cash generator for it. Hydromechanical equipment includes critical components such as penstocks and trash gates in a hydel plant. In process equipment, it manufactures boilers for sugar, chemicals & textile industries.

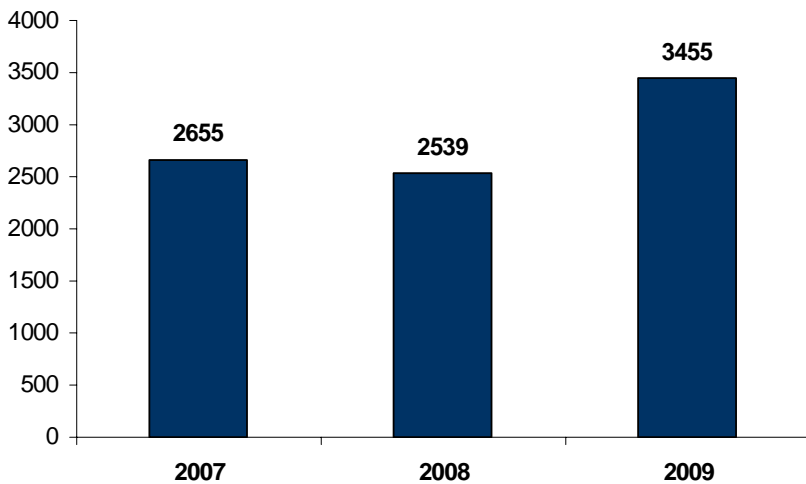
**Heavy Engineering**

This segment includes rolling stock, hydrochemical equipment & process equipment

**➔Rolling stock**

This segment is major earner for the company, which participates around 70% of gross revenues. Texmaco has the capacity of ~8000 wagons, which largely depends on IR for its orders. Order inflows have surged over the past couple of years due to robust demand from private sector steel, cement & power manufacturers. Texmaco's order book has been growing at a CAGR of 60% to approx ~6000 wagons at the end of FY09. Accordingly, the company is well placed to grab the opportunities which is to be thrown out by IR entailing an outlay of INR 2300 bn during th 11<sup>th</sup> Five Year Plan. The company is too moving forward with suitable technology tie-up with some global companies. It has even JV with United Group of Australia, for an end-to-end rail technology solutions provider which has been incorporated to set up a facility to manufacture hi-tech wagon & locomotive bogie frames.

**Texmaco's orders in wagons ( In Numbers)**



(Source : Hindu Business Line)

**➔Hydromechanical Equipment**

Hydromechanical equipment comprises penstocks, trash gates, sluice gates & hoists, that enable hydel plants to control the flow of water to & from turbines. This segment has been contributing around 8-10% of the gross revenue & established design and project management capability by successful commissioning of 1020 MW Tala Hydro Electric Project at MWL 1363, a very difficult terrain in Bhutan. The Division also made a breakthrough in Railway Bridge segment by securing an important order. Bulk (65-70%) of a hydel project's cost, comprises of civil construction with electromechanical & hydromechanical segments accounting for 15% each

**Foundry, JVs & Real Estate to add further strength**

Texmaco has one of the most modern & state-of-the-art steel foundries in India, with cumulative capacity of 28,000mtpa. In-house casting division gives Texmaco significant cost advantage over competitors as well as opportunities to tap the global & domestic markets. In FY08, Texmaco installed a new state-of-the-art foundry with 15,000mtpa capacity, equipped with a high-pressure moulding line imported from world renowned Kunkel Wagner, Germany for INR 530mn, while the foundry operates at ~100% utilisation capacity. Texmaco has booked export orders for high-tech castings from the USA & Australia & has exported two pilot batches. Texmaco has been forming JVs to bag emerging opportunities in the railway segment, which includes entry into EMUs, Metro Coaches, Special Wagons & Locomotives. Texmaco has a 50:50 JV with the United Group, one of Asia's leading end-to-end rail technology solutions providers & plans to foray into the production of special wagons, locomotive underframes & bogies & EMUs & metro coaches. The company is in the process of forming another JV with Kawasaki, Toshiba, Mitsubishi Corp. & Mitsubishi Electric Corporation for the proposed electrolocomotives project. Within real estate, Texmaco owns 34 acres at a prime location in Delhi (legal issue pending with Supreme Court), the developable area of which would depend on the outcome of the case, between 1.3mn sqft & 2mn sqft & also owns 144 acres in Sankrail, Kolkata which it intends to develop as a food park.

➔ **Process Equipment**

The process equipment & agro machinery division makes steam boilers, chemical plant & machinery, sugar machinery & agro machinery.

**Steam boilers:-** Texmaco manufactures industrial waste heat recovery boilers & multi-fuel boilers of up to 150te/hr capacity and 75kg/sqcm (g) pressure, which is suitable for oil, coal, bagasse, paddy-husk etc & fitted with different firing systems.

**Chemical plant & machinery:-** Pressure vessels manufactured include LPG bullets and mounded tanks, Horton spheres, double-walled cryogenic vessels, gas receivers and buffer vessels, heat exchangers etc

**Sugar machinery:-** Texmaco commenced manufacturing of turnkey sugar plants of 1,250 tpd capacity, as one of its earlier product lines, in technical collaboration with M/s. Stork Werkspoor Sugar B.V. of Holland & subsequently with M/s Walkers Limited of Australia. Current facilities have capacity of up to 16,000 tpd of crushing capacity. The equipment ranges from self-cutting constant ratio mills to pressure feeders & heavy-duty shredders developed in collaboration with Walkers, Australia. Majority of the boilers are supplied to sugar mills of group companies such as Upper Ganges & Oudh Sugar. Other customers include Balrampur Chini and Dwarikesh Sugar.

➔ **Tie-up for better future**

Texmaco, has formed a joint venture with United Group of Australia to manufacture hi-tech wagon & locomotive bogie frames. United Group Ltd is one of the Asia's leading end to end rail technology solutions provider & steps are been taken up a modern facility to make hi tech wagons & locomotive bogie frames for Indian Railways. Texmaco has entered into tie-ups with several multi-nationals to exploit the business opportunities offered by Indian Railways, which has made a INR 2300 bn expansion plan in the 11<sup>th</sup> Five-Year plan. The current order book of the company stands at around INR 13 bn, which would enable it to maintain smooth production during the current year. It would stand to be further augmented by the Railway orders under planning for FY2009-10. The company is going to manufacture coaches in its production facility based in West Bengal, with an capex of INR 2-3 bn. Along with the JV with United Group the company has even signed MOU with companies like, Kawasaki, Itochu & Toshiba, which are Japanese based firms to manufacture new age metro rail coaches.

**Key Financials**

Year Ended Mar 31 <sup>st</sup>	FY 07	FY 08	FY 09
Revenue (INR mn)	4354.7	8399.2	10153.6
<b>Rev. growth (%)</b>	<b>18.17</b>	<b>92.88</b>	<b>20.89</b>
EBITDA (INR mn)	516.4	1176.9	1331.5
Net profit (INR mn)	284.8	690.9	758.4
Shares outstanding (mn)	10.33	10.33	110.8
EPS (INR)	27.6	66.6	6.8
<b>EPS growth (%)</b>	<b>49.82</b>	<b>141.54</b>	<b>(89.72)</b>
P/E (x)	2.9	2.2	6.3
EV/ EBITDA	16.6	13.3	36.3
<b>ROCE (%)</b>	<b>17.37</b>	<b>31.27</b>	<b>25.95</b>

**Strategic Alliances & JVs**

**With leading companies of the World:-** Texmaco has a strategic collaboration with Global Engineering companies for technology collaboration & skill enhancement. In the past it has entered into collaboration arrangements with C.E. USA for manufacturing water tube boilers, for hydro mechanical equipment division with Voest Alpine, Austrai, for manufacturing sugar mill machinery with walkers Ltd, Australia, for an exclusive license to manufacture , use & sell ring spinning frames with Toyada Automatic Loom Works Ltd. However its sucessfull collaborations has enabled the company to enhance its technological knowledge & skills & to retain its position as a laeding heavy engineering company in India.

**JV for metro rakes:-** Texmaco United Group Rail Ltd(TUGRL), the JV between Texmaco & United Group of Australia, is forming a JV with Japanese consortium comprising Kawasaki, Itochu & Toshiba for manufacturing metro coaches. The consortium has already been shortlisted by Kolkatta Metro rail for supply of Metro Coaches.

**Funds raised for investment in Metro Coaches JV:-** Recently the company raised INR 1705.6 mn through QIP of ahres by issuing 16.4 mn equity shares of INR 1 each at a price of INR 104 per equity share. The company would foray into metro rail coach manufacturing through TUGRL to tap the huge potential in the sector & is looking forward for Greenfield Project with an capex of INR 2-3 bn.



## Financial Statements

### Income Statement

(INR mn)

Year end Mar 31 <sup>st</sup>	FY 07	FY 08	% Chg	FY 09	% Chg
Total Sales	4770.0	9435.3	97.81	10912.5	15.66
Other Income	40.0	66.3	65.75	80.6	21.57
Change in Stocks	51.6	61.0	18.22	152.1	149.34
Raw Material Con.	3089.8	6430.7	108.13	8047.2	25.14
Employee Exp.	288.8	319.3	10.56	331.5	3.82
Excise	455.3	1102.4	142.13	839.5	(23.85)
Other Exp.	511.3	533.3	4.30	595.5	11.66
Operating Exp.	4293.6	8324.7	93.89	9661.6	16.06
Operating Profit	476.4	1110.6	133.12	1250.9	12.63
Total Interest	40.2	90.5	125.12	108.7	20.11
Gross Profit	476.2	1086.4	128.14	1222.8	12.56
Net Dep.	52.3	88.6	69.41	113.6	28.22
Total Taxation	139.1	309.9	122.79	350.8	13.20
Net Profit/Loss	284.8	690.9	141.54	758.4	10.25

### Years Balance Sheets

(INR mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 2006	Mar 2007	Mar 2008	Mar 2009
<b>SOURCES OF FUNDS</b>	<b>1864.2</b>	<b>2017.6</b>	<b>3019.8</b>	<b>3722.5</b>
Equity Share capital	103.3	103.3	103.3	110.8
Share Application Money	0.0	0.0	7.5	0.0
Preference Share Capital	0.0	0.0	27.4	27.4
Reserves & Surplus	1144.6	1381.0	2156.7	2841.0
Loan Funds	533.1	454.3	661.3	669.9
Unsecured Loans	83.2	79.0	63.6	73.4
<b>USES OF FUNDS</b>	<b>1864.2</b>	<b>2017.6</b>	<b>3019.8</b>	<b>3722.5</b>
Gross Block	1537.9	2034.2	3212.3	3310.9
Less : Revaluation Reserves	153.8	147.2	140.6	135.5
Less : Accumulated Depreciation	787.7	843.1	970.2	1029.1
<b>Net Block</b>	<b>596.3</b>	<b>1044.0</b>	<b>2101.5</b>	<b>2146.3</b>
Capital Work in Progress	179.6	0.0	0.0	3.1
Investments	550.2	531.2	936.7	587.9
Current Assets	2313.2	2936.5	3351.4	5151.4
Less : Current Liabilities	1796.5	2511.7	3381.7	4170.7
<b>Net Current Assets</b>	<b>516.7</b>	<b>424.8</b>	<b>(30.3)</b>	<b>980.7</b>
Misc. Expenses not written	21.4	17.6	11.9	4.5
<b>NOTE</b>				
Bk Val Unquoted Investments	105	55	428	81.3
Mkt Val. Quoted Investments	477	346.1	591.8	384.6
Contingent Liabilities	89.8	12.7	16.2	263.1
Dividend (%)	30	40	75	75

Quarterly Income Sheets

(INR mn)

Quarter Ended	Sep 08	Dec 08	Mar 09	Jun 09
Net Sales	2052.8	1664.9	2397.8	1834.0
Cost Of Sales	1648.9	1328.8	1928.3	1414.3
Operating Profit	403.9	336.1	469.5	419.7
Recurring Income	19.7	5.0	21.0	1.8
Adjusted PBDIT	423.6	341.1	490.5	421.5
Financial Expenses	17.2	27.5	43.8	19.7
Depreciation	21.3	26.1	41.7	28.4
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	385.1	287.5	405.0	373.4
Tax Charges	87.4	65.7	103.2	92.2
Adjusted PAT	297.7	221.8	301.8	281.2
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	96.1	67.5	127.6	72.7
Net Profit	201.6	154.3	174.2	208.5

52 Week Index Relative Percentage Appreciation



**Risks Associated**

**More dependent on Indian Railways**

Majority of the orders for wagons issued to Texmaco are from Indian Railways. Since its significant portion of revenue is contributed by the IR, any slowdown would have an impact on the revenue of the firm. Even delays in orders would have a negative impact on its image, which in turn would be the beneficial point for its peer competitor.

**Slow progress on infrastructure projects may affect growth**

Key projects such as the DFC & introduction/expansion of the Metro in various cities is an important growth driver for Texmaco as such programmes would create additional demand for wagons. Delay in execution of these projects will affect Texmaco's topline going forward.

**Increase in raw material, a concern**

An unprecedented rise in raw material cost used in manufacturing of wagons & heavy engineering division, would impact the margins going forward.



### In a Nutshell

Texmaco was incorporated in 1939 by Dr KK Birla & was started as a textile machinery manufacturing company & later diversified into other engineering fields. It manufactures a varied & diversified range of precision & heavy engineering capital goods & equipments, including railway wagons, steel foundry for railway equipment & other precision castings, hydraulic steel structure & hoisting equipment, pressure vessels & heat exchangers, turnkey sugar mill plants, agro machinery etc. Its main operating divisions are Rolling Stock Division, Hydro Mechanical Equipment, Steel Foundry & Process Equipment & Agro Machinery at present. Also, it has real estate assets & four factories on the outskirts of Kolkata in Agarpara, Belgharia, Sodepur & Panihati. Texmaco has formed a JV with United Group Ltd, Australia to manufacture hi-tech wagon & locomotive bogie frames & has signed MOU with Japanese firms comprising Kawasaki, Itochu & Toshiba, which would manufacture new age rail coaches.

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### Rating Interpretation

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate up to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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