

Usha Martin

INR 49

Rope In

ACCUMULATE



Aug 07, 2009

Company Background

Usha Martin Ltd (UML), started its operation in 1961 in Ranchi, Jharkhand & is India's largest & world's second largest integrated specialty steel (long) & wire rope manufacturer. The Company enjoys a 70% market share in the global wire ropes industry segment catering to the high-end oil offshore services. It has a wide product portfolio & operates across the entire value chain, from iron ore & coal mines to captive power, to iron and steel manufacturing & value added products like wires, wire ropes & other allied products. UML has a very strong worldwide distribution, service & marketing network. The company is its way of infusing INR 21 bn capex, as around INR 17 bn has been infused for expansion of its production capacities.

➔ Financial performance (1QFY10).... Standalone basis

UML came out with depressed results during 1QFY09, where its Net sales declined by 17% to INR 4369.5 mn as against INR 5411.4 mn, primarily due to fall in realization of its steel products, while its Net profit were down to INR 134 mn as against INR 567 mn, which too declined by 76%. It reported an EPS of INR 0.54 in comparison to INR 2.2. Performance of domestic business was quite subdued primarily due to lower realization as well as high cost of raw materials.

Subsidiaries performance (1QFY10).... Standalone basis

All the subsidiaries, however performed well despite lower sales volume, with significant improvement in margins. Subsidiaries reported Net sales of INR 2034 mn vs INR 2038 mn, down by just a mere 2%, while its Net Profit were INR 186 mn as against INR 84 mn, while EBITDA were INR 362 mn vs INR 259 mn. Despite decline in Sales, its Net Profit & EBITDA performed well due to higher realization of its value added products & lower tax rates.

➔ Manufacturing facility of UML (FY09 end)

Location	Product	Capacity
Jamshedpur, India	Speciality Steel	400 kt
	Wire	24 kt
Ranchi, India	Wire & Wire Ropes	120 kt
	Bright Bar	18 kt
	Conveyor Cord	3 kt
Hoshiarpur, India	Wire & Wire Ropes	45 kt
Agra, India	Rolled Products	72 kt
Banglore/Ranchi	Wire Draw Machines	
USSIL, Bangkok	Wire & Wire Ropes	35 kt
Brunton Shaw, UK	Wire Ropes	5 kt
BWWR, Dubai	Wire Ropes	11 kt
Brunton Shaw, America	Wire Ropes	6 kt
Silvassa, India	Tele-Com Cables	42 LCKM

(Source: Company)

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Info Codes

Reuters	: USBL.BO
Bloomberg	: USM@IN
NSE	: USHAMART
BSE	: 517146

Market Data

52 Wk Range (INR)	: 86.4 / 18
Shares in Issue (mn)	: 250.2
Mkt. Cap (INR bn)	: 12.26
BSE 2 Wk Avg Vol	: 225743

Share Holding Pattern (%)

Promoters	: 47.21
MFs, FIs & Banks	: 13.38
FIIIs	: 19.70
Others	: 19.71

Investment Theme

Usha Martin is India's largest & world's second-largest manufacturer of steel & wire ropes. It is engaged in the manufacture of steel wire rods, wires, wire ropes & other related products. It is a global company with presence in more than 13 countries. In India, its manufacturing facilities are located near Ranchi & Jamshedpur in Jharkhand & Hoshiarpur in Punjab. The company has various overseas subsidiaries, with manufacturing facilities located at Thailand, UAE & UK. It also has a wide marketing & distribution network in India, Singapore, America, Scandinavia, The UK, Dubai, and South Africa.

Hang On.... Its Tensile Enough .

Captive Mines & Power plant an added security

➔Captive Mines

UML is an backward integrated company with captive iron ore/coal mines & power plants which gives the Company an edge over its competitors. Backward integration would not only help in cost savings but also de-risks company's business from wide fluctuations of raw material prices & also helps in uninterrupted supply of raw materials with lower inventory build up. UML is operating its iron ore mines since December 2005, while its total iron ore requirement will be sourced through its captive iron ore mines. It has also started procuring coal from its captive coal mines since January 2009 which will be sufficient to meet total coal requirement for its DRI unit for sponge iron & captive power plants (to the extent required). This will reduce the purchases of thermal coal of low calorific value from Coal India Limited as the Company will blend to it high calorific value of coal, mined from its own mines.

UML Mineral Resources

	Iron Ore	Coal
Mine	Vijay II	Kathautia/Lohari
Distance from Plant	160 km	250 km
Estimated Reserves	100 mt	40 mt
Quality	62-64% Fe	A-C Grade
Est. Life Cover (yrs)	50	30

(Source: Company data)

Since the company has its own iron ore & coal mine, this helps in reducing its operating cost as against buying from open markets, viz the total cost of captive iron ore (including mining, transportation & otehr costs) at plant comes to around INR 900/tn as compared to more than INR 2500/tn if pruchased from open markets. However the total cost of captive coal at plant comes to INR 900/tn as comparison to more than INR 3000/tn from open markets.

➔Captive Power

UML had power generation capacity of 43.3 MW by the end of FY09, out of which 25 MW was coal based & the balance 18.3 MW was based on flue gases from DRI Kilns & Blast Furnace. The Company commissioned a new 30 MW power plant in the month of Ap-09 which has raised its total capacity to 73.5 MW. This would further reduce UML's dependency on power purchase from grid despite higher requirement of power due to expanded steel capacity. Using captive power as against purchased from grid would not only save money but also assures continuous & uninterrupted power supply.

➔Falling coke price puts pressure on downward side

UML does not own coke battery, while it totally depends on imports for its total coke requirements. Now the company has changed its sourcing strategy for its availability of coke. The Company is now buying coke from Japan & other countries instead of China due to price & quality differential. In future, the Company has planned to meet only 50% of its coke requirement through market purchases & for balance it has planned to purchase coking coal (already contracted with BHP Billiton) & got it converted to coke by local coke manufacturers/conversion units. Adopting this strategy would help the company to save a considerable amount of money, helping to sustain its Operating margins.

UML Group Companies

Usha Siam Steel Industries (USSIL)

- ➔ Incorporated in 1980 as a joint venture company & subsequently became an wholly owned subsidiary of UML
- ➔ It is among the largest integrated Steel Wires, Industrial Strands, Control Cables & Wire ropes Plants, based in the ASEAN region with an annual manufacturing capacity of 36,000 tn
- ➔ Achieved a turnover and net profit of Thai Baht 1,578 mn & 71 mn in FY08 (1,348 mn & 28 mn in FY07)

Usha Siam Steel Industries (USSIL)

- ➔ Established in 2000 as a wholly owned subsidiary of UML
- ➔ Operational as a distribution center for UML's products in South East Asia, Australia & Indonesia
- ➔ Achieved a consolidated turnover of USD 44.9 mn & Net profit of USD 2.2 mn in FY08 against a turnover of USD 34.5 mn & Net profit of USD 1.1 mn in FY07

Brunton Wolf Wire Ropes FZCO (BWWR)

- ➔ Established in 2003 as a joint venture (60:40) between UML & Gustav Wolf of Germany
- ➔ BWWR is the first wire rope factory set up in the Middle East, situated in Jebel Ali Free Zone Enterprise (FZE) with an annual capacity of 12,000 MT. The product range includes general engineering rope, elevator rope, crane rope, off-shore application rope, etc.
- ➔ Reported Turnover & PAT of AED 65.5 mn & AED 3.4 mn in FY08, as against AED 51.7 mn & AED 2.9 mn in FY07.

UM Americas Inc (UMAI)

- ➔ A wholly owned subsidiary of UML
- ➔ Operational as a distribution center for UML's products in USA
- ➔ Achieved a Turnover & PAT of USD 22.6 mn & USD 1 mn respectively in FY08, as against USD 22.2 mn & USD 0.9 mn in FY07 respectively.

➔ **Capex Plans.... Keep going**

UML's INR 21 bn capex program is as per the schedule (barring deferral of few projects worth INR 3 bn). Major part (~17 bn) of the expansion has already been completed & commissioned during 1QFY10, which includes the new 30 MW power plant, blooming & section mill of 275 kt, DRI expansion of 200 ktpa & wire rod mill expansion to 400 kt. Currently it has 425 kt capacity across all its value added products which are lower in comparison to steel capacity of ~600 kt is expected to be increased to 900kt by March 2010. The Company commissioned its new 30 MW power plant in 1QFY09 which increased the total power capacity to 73.3 MW. UML has deferred few projects (worth ~INR 3 bn) such as 25 MW power plant & pellet plant due to bad market conditions. The Company is working on additional projects worth ~INR.3 bn due to bar mill modification, increase in iron ore capacity and additional land acquisition adjacent to its plant in Jamshedpur.

➔ **Revenues expected to increase, on the back of higher sales**

UML focuses on high-end VAP like wire ropes & wire strands. While wire ropes are used in mining, oil exploration, elevators, cranes, passenger ropeways etc, wire strands, along with power, construction & automobile sectors. The wire ropes & wire strands being value-added & niche in nature, require strong distribution presence. Also, there are very few players in this high-end VAP segment & hence price volatility is much lower than intermediate steel products.

➔ **Demands declines, but volumes pick**

UML's value addition to steel (wire rope), by volume is increasing every year. The company even targets to maintain the ration above 50% in future too, which would help the company to maintain higher margins. Despite the global downturn in FY09, demand of wire ropes had been strong in most of the global markets except US & EU markets. With changing market conditions, UML shifted its focus from US & EU markets to other developing markets in Saudi Arabia, UAE, Korea, China, Thailand & Middle East with the help of its strong worldwide distribution network. UML's bar mill was totally dependent on auto industry so far, which was hit badly due to global economic slowdown along with FY10 also looks challenging for the auto industry. To mitigate with this situation, UML restructured its bar mill to lower its dependency on auto industry to 50% (from 100% earlier) & focus on growing sectors like transmission line, telecom cable & construction. Demand of steel wire rod & wire ropes are expected to be strong in both domestic & exports markets in FY10. Huge infrastructure spending programs in India provide strong demand visibility in domestic markets, along with abolition of anti dumping duty of 23.8% in EU (for UML only) & imposition of 75-110% anti-dumping duty in South Africa on Chinese & South Korean products will help UML sell more wire rope (~20 kt in FY10) in these regions.

➔ **Funding**

UML has financed its total capex program of INR 21 bn through a mix of debt & equity. On Dec 21 2007, the company allotted 38.5 mn warrants convertible into equity shares of INR 87 each to certain companies in the Promoters group on preferential allotment basis against receipt of advance payment of INR 335 mn. Due to the fall in financial markets the Promoters group decided not to exercise the options to convert to equity, consequently the funding gap was substituted by additional debt with the final mix envisaging INR 14 bn of debt, internal accruals of INR 4.65 bn & equity of INR 2.35 bn.

UML Group Companies (Contd...)

UM Cables

- ➔ A wholly owned subsidiary of UML, located at Silvassa, Western India
- ➔ Manufactures PIJF Copper Telecom cables & Optical Fibre Cables & has an annual capacity of 2.9 MCKM & 35000 RKM respectively
- ➔ Achieved a Gross Turnover of INR 2116.5 mn & PAT of Rs.28.9 mn in FY08 as against a Turnover of Rs.1814.6 mn & PAT of Rs.27.2 mn in FY07

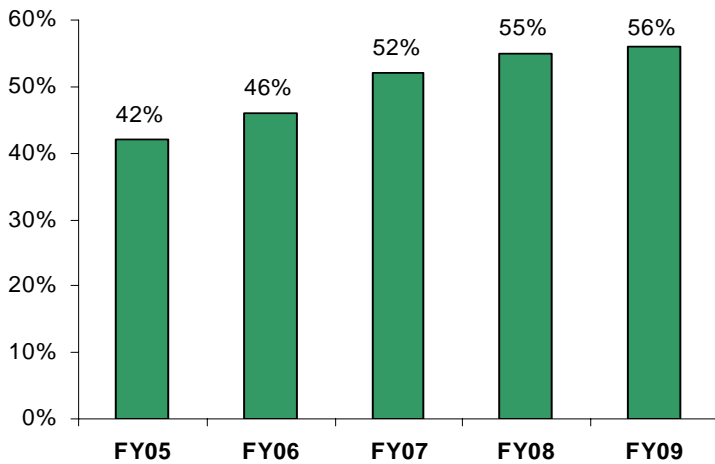
Usha Martin International Limited (UMIL)

- ➔ Established in 1997 as a wholly owned subsidiary
- ➔ Formed to facilitate distribution & marketing of the group's wire & wire rope products in Europe
- ➔ Also acquired in 2001 a Nottinghamshire based Wire Rope manufacturing company "Brunton Shaw UK" with an annual capacity of 6,000 tn
- ➔ Also specialises in providing services to oil drilling & offshore exploration activities
- ➔ Consolidated Turnover & Net profit during FY08 were GBP 45.3 mn & GBP 2.5 mn, as against GBP 36 mn & GBP 1.6 mn respectively in FY07.

Brunton Shaw Americas Inc. (BSAI)

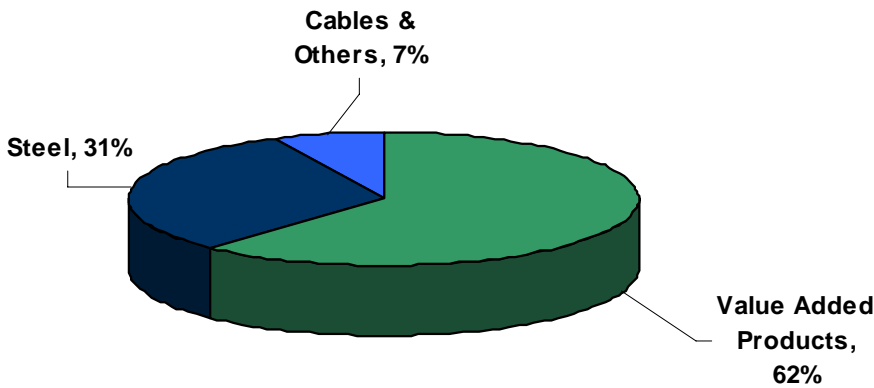
- ➔ Established in 2007 as a wholly owned subsidiary.
- ➔ Has a wire rope manufacturing capacity of 6000 tpa.

Value Addition by Volume



(Source: Company data)

Revenue Distribution



(Source: Company data)

➔ Capacity addition to drive growth

UML manufactures wire rods, bright bars, steel wires, specialty wires, wire ropes, strands, conveyor cords, wire drawing & cable machinery, along with telecom cables & optic fibre cables. The company has increased production of ropes & wires from 3,600 tonne initially to more than 2 lakh mt currently. UML has earmarked a capex plan of INR 21 bn to increase its steel capacities to 1 mn tn by FY11, its power capacity to around 120 MW & full integration of iron-ore & coal & metallics. UML is increasing its production of wire rope, LRPC & bright bar, while it has a market share of around 50% for its value added products. It is expanding its mineral resources & integrating coal blocks A/B grade which has an estimated reserve of 40 mt. Its captive power generation capacities would see further addition of 30 MW of thermal power & 25 MW of green power. UML is also planning to add 20 MW of thermal power to the captive unit at its Ranchi plant, while its iron-making module will also see an addition of 300 kt of kilns and 800 kt of sinter along with its cord, bright bar & OT wire capacities to 5kt, 48kt & 6kt, respectively

Moving further with great expectations

UML expects its Operating Margin to grow by 20% in the current fiscal & sees revenues growing by 10-15%. The revenue would grow on the back of higher spendings by government on infrastructure & due to stable steel prices. In the coming next quarters UML expects its results to perk up in terms of revenue generation & profitability as new capacities would be commissioned. The company is likely to complete its owning plans of 21 bn by September 2010, of which it has already spent 17 bn & earmarked the rest for this fiscal, to boost its steel capacity to 900,000 mn tn from 600,000 mn tn. The company has even entered the Chinese market, from where it secured an initial order valued at USD 3 mn for supplying 1200 tn of special wire ropes to China Oil Company for meeting its requirements for drilling & exploration operation, further expects to supply annually about 2000 tns of wire ropes valued at USD 5 mn. The company started a new 30 MW power plant in the month of Jun 09 & its benefit would start flowing in from 2QFY10 onwards. While it is mining 400 kt of iron ore/mn & has an export order to ship 100kt of iron ore at an average rate of ~USD60/tn. Its Coal is about to resume production from the month of Oct09, which would save ~INR 3000-4000/tn on steel production.

Key Positives

➔ Revenues to increase led by high sales

Demand for domestic steel wire rod & wire ropes are expected to be strong in both domestic & exports markets in FY10, due to rising demand from the domestic consumption & rising of the economy.

➔ Captive raw materials would lead to better margins

UML is backward integrated with captive iron ore/coal & power plants, while its on the way to increase its steel capacity from 900 kt from its current 600 kt. Due to captive nature its does not have to buy raw materials from outside sources which help UML to save costs & add to its margins.

➔ Capex well on track

UML's INR 21 bn program is progressing well on track as per the schedule, while major part of the program has been completed & commissioned during 1QFY10. This includes the new 30 MW power plant, blooming & section mill of 275 kt, DRI expansion of 200 kt & wire rod mill expansion to 400 kt. The Company commissioned the new 30 MW power plant in 1QFY09 which increased the total power capacity to 73.3 MW.

➔ Value propositions

Captive power & mines, along with high quality standards for wires & wire ropes & being one of the few players in its related industry helps it to have a cut edge competetion with its peers. Additionally, backed with captive raw materials linkages, would help UML even in the adverse conditions. Its global distribution & conversion centres will support in minimizing the geographical risks

➔ Softening coke prices to lower costs

For its coke requirement, UML totally has to depend on imports & falling prices has helped to lower costs. The company now has changed its sourcing strategy, as it now buys coke from Japan & other countries instead of China due to price & qality differential. It has even planned to meet its 50% of requirement from the open market purchases & for the rest its has enetered into contract with BHP Billiton, which would be later converted into coke by local coke manufactures/conversion units. This staregy would help it to save costs & increase its further margins.

Key Financials

Year Ended Mar 31 st	FY 07	FY 08	FY 09
Revenue (INR mn)	14285.8	17002.9	21486.6
Rev. growth (%)	14.62	19.02	26.37
EBITDA (INR mn)	2984.1	3700.1	5146.0
Net profit (INR mn)	1014.8	1448.3	1465.6
Shares outstanding (mn)	47.88	250.2	250.2
EPS (INR)	21.2	5.8	5.9
EPS growth (%)	44.34	(72.69)	1.19
P/E (x)	1.8	13.7	4.7
EV/ EBITDA	8.6	56.3	16.0
ROCE (%)	7.95	9.9	7.74

Capex projects in hand

Ranchi Wire Project: - INR 21 bn

Product - Wire & Cables

Capacity - 30,000 tns

Status - Under implementation

Jamshedpur Steel Project: - INR 12 bn

Product - Wire & Wire ropes

Capacity - NA

Status - Under implementation

Ranchi Cap. Power Project: - INR 1 bn

Product - Coal based thermal electricity

Capacity - 20 MW

Status - Announcement

Adityapur Steel Project: - INR 0.8 bn

Product - Steel

Capacity - 130,000 tns

Status - Under implementation

Wire Rope Project: - INR 0.4 bn

Product - Wire & Ropes of Iron & Steel

Capacity - 30,000 tns

Status - Announcement

Bright Bars Project: - INR 0.4 bn

Product - Automobile ancillaries

Capacity - NA

Status - Under implementation

Jharkhand Iron Ore Mining Expansion Project : - INR 0.4 bn

Product - Iron Ore

Capacity - 1.35 mn tn

Status - Under implementation

Financial Statements

Income Statement

(INR mn)

Year end Mar 31 st	FY 07	FY 08	% Chg	FY 09	% Chg
Total Sales + Excise	14041.6	16552.6	17.88	21279.7	28.56
Other Income	244.2	450.3	84.40	206.8	(54.08)
Change in Stocks	461.9	427.3	(7.49)	321.0	(24.88)
Raw Material Con.	7507.7	9222.9	22.85	11292.5	22.44
Employee Exp.	842.2	929.6	10.38	999.0	7.47
Excise	1694.5	1974.2	16.51	1792.3	(9.21)
Other Exp.	5384.3	1424.0	(73.55)	5375.2	277.47
Operating Exp.	14966.8	13123.4	(12.32)	19138.0	45.83
Operating Profit	2739.9	3249.8	18.61	4939.2	51.98
Total Interest	811.0	1021.1	25.91	1772.1	73.55
Gross Profit	2145.9	2766.8	28.93	2991.8	8.13
Net Dep.	762.8	759.2	(0.47)	850.4	12.01
Total Taxation	368.3	559.3	51.86	675.8	20.83
Reported Net Profit	1014.8	1448.3	42.72	1465.6	1.19

4 Years Balance Sheets

(INR mn)

Balance Sheet as on 31 st	Mar 06	Mar 07	Mar 08	Mar 09
SOURCES OF FUNDS	12791.8	14704.0	18422.0	24824.3
Equity Share capital	221.2	239.4	250.2	250.2
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	5605.1	6936.8	8404.1	9911.9
Loan Funds	6807.1	7474.5	9005.3	14662.2
Unsecured Loans	158.4	53.3	762.4	0.0
USES OF FUNDS	12791.8	14704.0	18422.0	24824.3
Gross Block	14726.7	15551.9	16666.4	19242.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	5879.5	6551.7	7209.5	8018.3
Net Block	8847.2	9000.2	9456.9	11224.4
Capital Work in Progress	780.3	2819.8	5033.9	12086.3
Investments	1534.6	1611.8	1666.8	1872.2
Current Assets	7123.2	7657.5	12820.3	11409.8
Less : Current Liabilities	5535.5	6415.7	10572.0	11775.7
Net Current Assets	1587.7	1241.8	2248.3	(365.9)
Misc. Expenses not written off	42.0	30.4	16.1	7.3
NOTE				
Bk Val Unquoted Investments	1525.8	1600.8	1658	1863.5
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	1823.9	3211.1	5200.1	4151
Dividend (%)	55	75	100	100

Quarterly Income Sheets

(INR mn)

Quarter Ended	Sep 08	Dec 08	Mar 09	Jun 09
Net Sales	5967.9	5132.4	5316.4	4117.0
Cost Of Sales	3623.8	3183.2	3709.7	2565.6
Operating Profit	2344.1	1949.2	1606.7	1551.4
Recurring Income	251.5	0.4	5.7	26.6
Adjusted PBDIT	2595.6	1949.6	1612.4	1578.0
Financial Expenses	329.0	356.9	262.0	259.0
Depreciation	211.5	221.3	216.2	239.2
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	2055.1	1371.4	1134.2	1079.8
Tax Charges	171.7	119.6	98.1	123.5
Adjusted PAT	1883.4	1251.8	1036.1	956.3
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	1464.9	984.4	823.4	822.3
Net Profit	418.5	267.4	212.7	134.0

52 Week Index Relative Percentage Appreciation



Risks Associated

Huge capital expenditure required

Since speciality steel, wires & wire ropes are high value added products, they require huge capital expenditure & wide experience in maintaining them.

Competitive Rivalry

UML enjoys a virtual monopoly by virtue of being the largest player in its domestic market & among the top 3 manufactures. Company needs to provide quality products & in time rather would affect its brand image, thus losing its share in the global market

High product prices

UML produces metal products used by various high competitive sectors. Increase in its related raw materials would affect its pricing strategy, which in turn would lead less demand of its products available in the market, thus affecting its EBIDTA margins.

In a Nutshell

Ranchi-based Usha Martin Ltd (UML) was set up in 1961 to manufacture wire rope & today it is a leading producer of steel & steel wire rope. UML's other manufacturing facilities are in Hoshiarpur, Silvassa, Agra, Bangalore & Jamshedpur. It also has manufacturing operations overseas in Thailand, UK, US & UAE. Its network of marketing offices & distribution centres spread across the globe are supporting its growth & helping it achieve a strong global presence. The company exports 60% of its wire ropes & 20% of its total wire rod productions, along with specialty steel & other value-added products. UML manufactures wire rods, bright bars, steel wires, specialty wires, wire ropes, strands, conveyor cords, wire drawing & cable machinery, along with telecom cables and optic fibre cables. UML started business integration in 1979 by setting up a steel plant with a wire rod rolling mill at Jamshedpur & ensuring steady supply of steel, which caters to its manufacturing units. It also has its own oxygen & lime kiln plants. UML's steel capacities were recently expanded to 7,00,000 tn p.a from about 3,50,000 tn p.a earlier & also has its own mineral resources for iron ore, while its mines have estimated reserves of 80-100 mt along with crushing & screening facilities. UML has earmarked an investment of INR 21 bn to increase its steel capacities to 1 mt by FY11, its power capacity to around 120 mw & full integration of iron-ore & coal and metallics.

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Rating Interpretation

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

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