

July 28, 2010

ACCUMULATE

Price Rs 257	Target Price Rs 310
Sensex	18,078

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(9)	4	32
Rel. to Sensex	(7)	(10)	(4)	13

Source: Bloomberg

Stock Details

Sector	Construction
Reuters	IRBI.BO
Bloomberg	IRB@IN
Equity Capital (Rs mn)	3324
Face Value(Rs)	10
No of shares o/s (mn)	332
52 Week H/L	300/172
Market Cap (Rs bn/USD mn)	85/1,820
Daily Avg Volume (No of sh)	949814
Daily Avg Turnover (US\$m)	5.5

Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	73.9	73.9	73.9
FII/NRI	15.4	15.2	14.4
Institutions	5.3	5.7	6.4
Private Corp	2.3	1.8	1.7
Public	3.1	3.4	3.6

Source: Capitaline

Ajit Motwani

ajit.motwani@emkayglobal.com
+91 22 6612 1255

Jitesh Bhanot

jitesh.bhanot@emkayglobal.com
+91 22 6624 2491

IRB Infrastructure Developers

Construction segment led to margin expansion

- IRB Q1FY11 adjusted PAT at Rs1.03 bn (+25.8% yoy) ahead of expectation – driven by better than expected construction margins (24.2%) and lower interest outgo
- Revenue (Rs5.1 bn) growth of +23.6%- aided by 26.7% growth in BOT segment and 20.1% growth in the construction segment
- EBITDA at Rs2.49 bn (+50% yoy) higher than estimates (Rs2.47 bn), driven by 145% growth in construction EBITDA & 28.5% growth in BOT EBITDA
- Bagged 114 km, 26 year concession, Tumkur-Chitradurga six laning project- cost Rs 12 bn. Valuations at 16X FY12 PER remain attractive. Maintain ACCUMULATE -Target Rs310

BOT – Star Performer in the overall revenue growth of 23.6%

Revenues for the quarter at Rs 5.1 bn (our est-Rs 5.78 bn) have grown by 23.6%, driven by 27% growth in the revenues of BOT segment, and growth of 21.6% in construction segment. BOT revenue growth was driven by new concessions of Bharuch-Surat and revenue traction at Thane Bhiwandi, NKT, Surat-Dahisar & Pune Nashik projects. Growth in construction segment was driven by peak execution at Surat Dahisar and Kolhapur project. We expect the construction vertical to pick up traction in H2FY11E, led by execution on 4 new BOT projects (TPC-Rs 43 bn) bagged in FY10.

EBIDTA growth continues unabated at 50% yoy led by construction segment

EBITDA at Rs 2.49 bn was marginally better than our estimates of Rs 2.47 bn even after a lower than expected revenue growth due to significant expansion in the construction margins. Overall EBIDTA grew by 50% yoy, much faster than the topline growth of 23.6% as the construction segment witnessed a 1220 bps expansion to 24.2% in the EBITDA margins. Construction margins expanded due to peak execution at the Surat Dahisar and Kolhapur project as well as a low base effect (Q1 last year construction margins at 12.2% were affected by mobilization cost and execution was in the initial phases at Surat Dahisar and Kolhapur projects). Consequently construction EBITDA grew at 144.7% yoy to Rs 752 mn. BOT segment also showed a resilient performance with the EBITDA margins expanding 104 bps to 86.2%, accompanied with a revenue growth of 27%, driving BOT EBITDA by 28.5% to Rs 1.74 bn. Consequently, overall EBITDA margin excluding the other income improved by 856 bps to 48.7%.

APAT growth at 25.8% driven by lower interest cost

Reported PAT includes Rs 150 mn of dividend received by IRBPL (100% subsidiary of IRB and which further holds 26% stake in MIPL). Interest cost has fallen by 18.8% sequentially to Rs 661 million on account reprising of expensive debt at Surat Dahisar (12.5%) and Mumbai Pune (12.5%) project and repayment of Rs 6.0 bn expensive long term debt @12.5% at Bharuch Surat was replaced by leveraging the parent company balance sheet at attractive rates. Thus, resulting in overall APAT growth of 25.8% yoy.

Financial Snapshot (consolidated)

Rs Mn

	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY09	9,919	4,374	44	1,759	5	54	10	49	24.3	4.9
FY10P	17,049	7,991	47	3,896	12	122	19	22	14.1	4.2
FY11E	32,864	12,138	37	4,688	14	20	17	18	10.7	3.2
FY12E	38,867	14,628	38	5,402	16	15	16	16	9.7	2.5

Quarterly Results

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11A	YoY (%)	QoQ (%)
Revenue	4,141	3,559	4,331	5,017	5,120	23.6	2.0
Expenditure	2,480	1,812	2,059	2,707	2,627	6.0	(2.9)
<i>as % of sales</i>	59.9	50.9	47.6	54.0	51.3		
Consumption of RM	2,235	1,509	1,753	2,356	2,286	2.3	(2.9)
<i>as % of sales</i>	54.0	42.4	40.5	46.9	44.7		
Employee Cost	142	168	183	217	200	41.4	(7.7)
<i>as % of sales</i>	3.4	4.7	4.2	4.3	3.9		
Other expenditure	103	135	123	134	141	36.2	4.7
<i>as % of sales</i>	2.5	3.8	2.9	2.7	2.8		
EBITDA	1,662	1,747	2,271	2,310	2,493	50.0	7.9
Depreciation	376	396	531	516	537	42.6	4.1
EBIT	1,285	1,351	1,741	1,795	1,956	52.2	9.0
Other Income	215	74	87	114	67	(69.0)	(54.7)
Interest	467	477	736	815	661	41.5	(18.8)
PBT	1,033	948	1,092	1,094	1,362	31.8	24.5
Total Tax	182	205	139	-393	303	66.9	(177.2)
Adjusted PAT	851	743	953	1,487	1,058	24.3	(28.8)
(Profit)/loss from JV's/Ass/MI	37	34	38	69	33		
APAT after MI	815	709	914	1,417	1,025	25.8	(27.7)
Extra ordinary items	0	0	0	0	150	-	
Reported PAT	815	709	914	1,417	1,175	44.2	(17.1)
Reported EPS	2.5	2.1	2.8	4.3	3.5	44.4	(17.0)

Margins (%)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11A	(bps)	(bps)
EBIDTA	40.1	49.1	52.4	46.0	48.7	856	264
EBIT	31.0	38.0	40.2	35.8	38.2	716	244
EBT	24.9	26.6	25.2	21.8	26.6	164	480
PAT	19.7	19.9	21.1	28.2	20.0	35	-823
Effective Tax rate	17.6	21.6	12.7	(35.9)	22.3	469	5822

Margins expansion spearheaded by construction segment

Excluding the other income from the segmental performance the margins in the construction segment has expanded significantly. 1220 bps improvement in the EBITDA margins to 24.2% for the construction segment has resulted in an expansion of the overall EBITDA margin by 856 bps to 48.7%.

(Y/E Mar, Rs mn)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YOY (%)	QoQ (%)
Revenue	4141.4	3558.9	4330.8	5017.4	5120.3	23.6%	2.1%
Construction	2551.4	1959.1	2294.0	3060.5	3101.4	21.6%	1.3%
BOT	1590.0	1599.8	2036.7	1957.0	2018.9	27.0%	3.2%
EBITDA (excl other income)	1661.8	1747.1	2271.5	2310.1	2492.9	50.0%	7.9%
Construction	307.3	358.9	445.1	518.3	752.0	144.7%	45.1%
BOT	1354.5	1388.2	1826.4	1791.9	1740.9	28.5%	-2.8%
EBITDA Margins	40.1%	49.1%	52.5%	46.0%	48.7%	856	264
Construction	12.0%	18.3%	19.4%	16.9%	24.2%	1220	731
BOT	85.2%	86.8%	89.7%	91.6%	86.2%	104	-534
EBIT	1194.6	1270.5	1535.9	1495.6	1831.8	53.3%	22.5%
Construction	244.8	298.0	390.6	470.6	693.3	183.2%	47.3%
BOT	949.8	972.5	1145.3	1025.0	1138.4	19.9%	11.1%
EBIT Margins	28.8%	35.7%	35.5%	29.8%	35.8%	693	597
Construction	9.6%	15.2%	17.0%	15.4%	22.4%	1276	698
BOT	59.7%	60.8%	56.2%	52.4%	56.4%	-335	401

Strong traction visible at Toll projects

Average toll collection at the Thane Bhiwandi bypass has shown robust growth of 19% yoy and achieved a collection of 1.46 mn/day also the Nagar-Karmala-Tembhurni project witnessed a robust growth of 30% yoy and achieved a collection of 0.42 mn/day.

As highlighted in our earlier note, Surat Dahisar Project, where the toll collection averaged Rs8.5 mn/ day for Q3FY10 has picked up significantly and the toll collection during the quarter has now reached Rs 9.7 mn a day. However Bharuch Surat project, where the initial collection was at Rs 3.27 mn/day has not seen any improvement. However the management said that these are still early days and the toll collection is likely to improve going forward.

Quarterly BOT revenue - Project wise & growth

Projects	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YOY (%)	QoQ (%)
TBB - 4 (Mumbra)	111.5	111.6	118.4	130.0	133.0	19.3%	2.3%
Kaman	8.5	8.2	5.0	Terminated	xxx		
Khambtaki	12.2	Terminated	xxx	xxx	xxx		
Kharpada	18.2	15.4	16.1	18.0	19.0	4.7%	5.6%
NKT	29.2	34.4	34.7	36.0	38.0	30.3%	5.6%
MMK	17.1	17.9	13.8	14.0	17.0	-0.7%	21.4%
Pune - Solapur	35.6	30.6	31.8	48.0	36.0	1.2%	-25.0%
Pune - Nashik	42.0	43.4	47.3	35.0	48.0	14.2%	37.1%
Mumbai - Pune	764.0	767.0	770.7	761.0	802.0	5.0%	5.4%
Thane - Ghodbunder	69.1	66.9	71.7	70.0	72.0	4.2%	2.9%
Surat-Dahisar BOT Project	778.3	779.6	873.0	907.0	882.0	13.3%	-2.8%
Bharuch Surat Project		21.3	324.0	317.0	298.0	NA	-6.0%
Gross Toll Collections	1885.7	1896.2	2306.7	2336.0	2345.0	24.4%	0.4%
Like to like growth (yoy)	4.1%	6.3%	9.1%	10.2%	9.8%		

Order backlog at Rs 97.6 bn – 9.5X FY2010 construction revenues

Construction order backlog stood at Rs 97.6 bn, out of which Rs 73.7 bn is the backlog related for own BOT project and Rs 23.3 bn is the backlog of O&M for own BOT projects. The backlog of funded construction projects stood at Rs 0.61 bn. The order backlog at 9.5X FY10 construction revenues of Rs 10.24 bn provides extremely strong earnings visibility for IRB growth.

Order book details	Rs million
O&M	23266.0
Funded Projects	615.0
EPC	73703.0
Total	97584.0

Significant ramp up in Construction revenues in H2FY11E

IRB has added 5 projects in their portfolio in the last one year totaling 497 kms and with an overall order book of Rs 52 bn which comprises ~53% of the overall order book. The construction activity on 2 of these projects is expected to commence in the 2Q FY11E and 2 other projects will commence the construction activity in 3Q FY11E. Consequently we expect significant revenue traction in construction business in H2FY11E. Further with execution on recently bagged Chitradurga-Tumkur project will fuel revenue growth in FY12E.

Segmental Financials – Including other income in the Revenues

(Y/E Mar, Rs mn)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue	2481.1	3276.8	4356.4	3632.8	4417.8	5131.1	5337.1
Construction	1413.1	1997.1	2749.5	2017.6	2354.0	3120.5	3301.4
BOT	1068.0	1279.7	1606.9	1615.2	2063.7	2010.6	2035.6
EBITDA (incl Other Income)	1105.3	1270.6	1876.8	1821.0	2358.5	2423.8	2709.6
Construction	197.8	363.9	505.4	417.4	505.1	578.3	952.0
BOT	907.5	906.7	1371.4	1403.6	1853.5	1845.5	1757.6
Depreciation	286.2	330.9	376.4	396.2	530.8	515.7	536.8
Construction	44.8	96.0	129.5	132.9	126.1	132.0	109.8
BOT	241.4	234.9	246.9	263.3	404.7	383.7	427.0
EBIT	819.1	939.7	1500.4	1424.8	1827.77	1908.09	2172.82
Construction	153	267.9	375.9	284.5	379	446.29	842.24
BOT	666.1	671.8	1124.5	1140.3	1448.77	1461.8	1330.58
Interest	364.3	403.4	467.2	476.6	735.6	814.6	661.2
Construction	10.4	65.8	62.5	60.9	54.5	47.7	58.7
BOT	353.9	337.6	404.7	415.7	681.1	766.9	602.5
PBT	454.8	536.3	1033.2	948.2	1092.2	1093.5	1511.7
Construction	142.6	202.1	313.4	223.6	324.5	398.6	783.5
BOT	312.2	334.2	719.8	724.6	767.6	694.9	728.1
Tax expense	72.4	101.0	181.8	205.1	139.2	-393.0	303.4
Construction	39.3	67.1	60.3	78.9	66.5	42.4	224.0
BOT	33.1	33.9	121.5	126.2	72.7	-435.3	79.4
PAT	382.4	435.5	851.4	743.1	953.0	1486.5	1208.2
Construction	103.3	135.0	253.1	144.7	258.0	356.3	559.6
BOT	279.1	300.5	598.3	598.4	695.0	1130.2	648.7

Segment Share	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue							
Construction	57%	61%	63%	56%	53%	61%	62%
BOT	43%	39%	37%	44%	47%	39%	38%
EBITDA (incl Other Income)							
Construction	18%	29%	27%	23%	21%	24%	35%
BOT	82%	71%	73%	77%	79%	76%	65%
Depreciation							
Construction	16%	29%	34%	34%	24%	26%	20%
BOT	84%	71%	66%	66%	76%	74%	80%
EBIT							
Construction	19%	29%	25%	20%	21%	23%	39%
BOT	81%	71%	75%	80%	79%	77%	61%
Interest							
Construction	3%	16%	13%	13%	7%	6%	9%
BOT	97%	84%	87%	87%	93%	94%	91%
PBT							
Construction	31%	38%	30%	24%	30%	36%	52%
BOT	69%	62%	70%	76%	70%	64%	48%
Tax expense							
Construction	54%	66%	33%	38%	48%	-11%	74%
BOT	46%	34%	67%	62%	52%	111%	26%
PAT							
Construction	27%	31%	30%	19%	27%	24%	46%
BOT	73%	69%	70%	81%	73%	76%	54%

IRB has further potential of bagging projects worth Rs 50 bn

The management highlighted that the company is targeting new projects worth Rs50bn in FY11E. We believe the additional opportunities are opening up in the BOT space and will offer significant growth potential to IRB. The company based on its current BOT portfolio of 10 operation projects and construction order backlog of approximately Rs 97.6 bn has significant execution track record to exploit the opportunities. .

Earnings CAGR of 20% & huge BOT opportunity to fuel stock outperformance - maintain ACCUMULATE –Target to Rs310

We believe IRB is an ideal play on India's continued focus on developing road infrastructure through PPP model. We expect IRB to register revenue growth of 51% and earnings growth (after minority interest) of 20% over FY10-12E. We maintain our price target of Rs310 with an ACCUMULATE rating on the stock.

SPV	Asset Operated	Holding	Valuation Measure	Disc rate	Value (Rs mn)	Value/Share
Modern Road Makers	EPC & O&M Business	100%	PER	14	36425	109.6
Mhaiskar Infrastructure	Mumbai Pune Expressway & NH4	100%	FCFE	12%	15203	45.7
Surat Dahisar SPV	Surat Dahisar	90%	FCFE	13%	2423	7.3
IDAA Infrastructure	Bharuch Surat	100%	FCFE	13%	6330	19.0
MMK Toll Road	Mohol-Mandrup Road	100%	FCFE	13%	931	2.8
IRB Infrastructure	Karpada-Patalganga Bridge	100%	FCFE	13%	293	0.9
NKT Road & Toll	Ahmednagar Tembhurni Road	100%	FCFE	13%	562	1.7
Thane Ghodbunder Toll Road	Thane Ghodbunder	100%	FCFE	13%	1756	5.3
ATR Infrastructure	Pune Nashik	100%	FCFE	13%	2243	6.7
Aryan Toll Road	Pune Sholapur	100%	FCFE	13%	1091	3.3
Ideal Road Builders		100%	FCFE	13%	2085	6.3
IRB Kolhapur IRDC	Kolhapur City Roads	100%	FCFE	14%	2384	7.2
Goa (Panji) -Karnataka	Goa (Panji) -Karnataka	100%	FCFE	14%	2354	7.1
Amritsar Pathankot	Amritsar Pathankot	100%	FCFE	14%	4808	14.5
Jaipur - Deoli	Jaipur - Deoli	100%	FCFE	14%	6303	19.0
Amravati Talegaon	Amravati Talegaon	100%	FCFE	14%	2775	8.4
Total Value of existing BOT Portfolio					51541	155.1
Terminal Value of firm		100%	FCFE	15.0%	11426	34.4
Aryan Infra Investment	Real Estate JV	66%	Book value		1650	5.0
Add: PV of Loans to SPV					2,110	6.3
Total					103152	310

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Net Sales	9,919	17,049	32,864	38,867
<i>Growth (%)</i>	35.4	71.9	92.8	18.3
Expenditure	5,545	9,058	20,726	24,240
Materials Consumed	4,682	7,851	18,253	21,486
Employee Cost	425	710	1,446	1,540
Other Exp	438	496	1,027	1,213
EBITDA	4,374	7,991	12,138	14,628
<i>Growth (%)</i>	6.2	82.7	51.9	20.5
EBITDA margin (%)	44.1	46.9	36.9	37.6
Depreciation	1,144	1,819	2,482	3,642
EBIT	3,230	6,171	9,657	10,986
EBIT margin (%)	32.6	36.2	29.4	28.3
Other Income	296	490	369	614
Interest expenses	1,377	2,494	3,650	4,374
PBT	2,149	4,167	6,376	7,226
Tax	378	133	1,581	1,810
<i>Effective tax rate (%)</i>	17.6	3.2	24.8	25.1
Adjusted PAT	1,772	4,034	4,795	5,416
<i>Growth (%)</i>	40.0	127.7	18.9	13.0
Net Margin (%)	17.9	23.7	14.6	13.9
(Profit)/loss - JVs/Ass/MI	13.2	138.0	107.0	13.7
Adjusted PAT	1,758	3,896	4,688	5,402
E/O items	-	-	-	-
Reported PAT	1,758	3,896	4,688	5,402
PAT after MI	54.3	121.6	20.3	15.2
<i>Growth (%)</i>				

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
PBT (Ex-Other income)	1854	3678	6007	6612
Depreciation	1144	1819	2482	3642
Interest Provided	1377	2494	3650	4374
Other Non-Cash items	53	80	0	0
Chg in working cap	(378)	(133)	(1581)	(1810)
Tax paid	(1200)	(840)	(1194)	(38)
Operating Cashflow	2849	7097	9364	12780
Capital expenditure	(7204)	(10900)	(25039)	(22889)
Free Cash Flow	(4355)	(3803)	(15675)	(10109)
Other income	296	490	369	614
Investments	877	0	0	0
Investing Cashflow	(6031)	(10410)	(24671)	(22275)
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	4646	12569	14322	12141
Interest Paid	(1377)	(2494)	(3650)	(4374)
Dividend paid (incl tax)	(557)	(660)	(660)	(660)
Income from investments	0	0	0	0
Grant	0.00	0.00	2505.60	2505.60
Financing Cashflow	2,713	9,415	12,518	9,612
Net chg in cash	-470	6,102	-2,789	117
Opening cash position	5,221	4,147	10,249	7,460
Closing cash position	4,752	10,249	7,460	7,578

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity share capital	3,324	3,324	3,324	3,324
Reserves & surplus	13,977	17,213	23,747	30,995
Net worth	17,301	20,537	27,070	34,318
Minority Interest	599	737	844	858
Secured Loans	22,083	34,652	48,974	61,115
Unsecured Loans	2,776	2,776	2,776	2,776
Loan Funds	24,859	37,428	51,750	63,891
Net deferred tax liability	182	182	182	182
Total Liabilities	42,940	58,884	79,846	99,248
Gross Block/Tolling rights	20,915	36,280	35,500	60,467
Less: Depreciation/amortization	754	1,472	2,174	2,982
Net block	20,161	34,808	33,326	57,484
Capital work in progress	14,545	8,900	32,939	28,029
Investment	1,108	1,108	1,108	1,108
Current Assets	10,326	19,886	22,034	23,658
Inventories	2,054	842	1,930	2,299
Sundry debtors	130	2,147	5,995	7,132
Cash & bank balance	4,147	10,249	7,460	7,578
Loans & advances	3,995	6,649	6,649	6,649
Other current assets				
Current lia & Prov	3,210	5,829	9,571	11,040
Current liabilities	1,303	4,012	7,749	9,218
Provisions	1,908	1,817	1,822	1,822
Net current assets	7,116	14,058	12,463	12,618
Misc. exp	9.6	9.6	9.6	9.6
Total Assets	42,940	58,884	79,846	99,248

Key Ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	44.1	46.9	36.9	37.6
Net Margin	17.9	23.7	14.6	13.9
ROCE	7.5	12.1	13.9	12.3
ROE	10.2	19.0	17.3	15.7
RoIC	14.0	20.0	25.1	21.8
Per Share Data (Rs)				
EPS	5.3	11.7	14.1	16.3
CEPS	8.8	17.6	21.9	27.3
BVPS	52.1	61.8	81.4	103.3
DPS	1.7	2.0	2.0	2.0
Valuations (x)				
PER	48.6	21.9	18.2	15.8
P/CEPS	29.3	14.6	11.7	9.4
P/BV	4.9	4.2	3.2	2.5
EV / Sales	10.7	6.6	3.9	3.6
EV / EBITDA	24.3	14.1	10.7	9.7
Dividend Yield (%)	0.7	0.8	0.8	0.8
Gearing Ratio (x)				
Net Debt/ Equity	1.1	1.3	1.6	1.6
Net Debt/EBITDA	4.5	3.3	3.6	3.8
Working Cap Cycle (days)	179.4	120.4	75.8	64.4

Recommendation History: IRB Infrastructure Developers – IRBI IN

Date	Reports	Reco	CMP	Target
03.05.2010	IRB Q4FY2010 Result Update	Accumulate	290	310
29.01.2010	IRB Q3FY2010 Result Update	Accumulate	245	250
04.11.2009	IRB Q2FY2010 Result Update	Accumulate	245	250
04.08.2009	IRB Q1FY2010 Result Update	Accumulate	184	195

Recent Research Reports

Date	Reports	Reco	CMP	Target
26.07.2010	Jaiprakash Associates Q1FY11 Result Update	Accumulate	129	150
23.07.2010	BHEL Q1FY11 Result Update	Hold	2,460	2,495
23.07.2010	Ambuja Cement Q2CY2010 Result Update	Hold	112	112
22.07.2010	ACC Q2CY10 Result Update	Hold	825	875

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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