

# SINTEX INDUSTRIES



Healthy earnings visibility

## ■ Standalone businesses slow on execution; subsidiaries surprise positively

Sintex Industries' (SINT) Q3FY10 net profit was below expectation primarily owing to tepid operating performance in standalone businesses. In the standalone business, both monolithic and pre-fabs segments' revenues were below expectation at INR 1.3 bn and INR 1.7 bn, respectively. The monolithic segment's execution has been slow—9mFY10 revenues stood at ~INR 3.4 bn. Management retained the FY10 segment revenue guidance of ~INR 7 bn; the 9mFY10 performance implies almost 50% of revenues to be delivered in Q4, which in our view looks a tad difficult. Consolidated EBITDA margin fell to 15% from 18.2% in Q2FY10 and 15.5% in Q3FY09 led by margin decline in both plastics and textiles segments. SINT's subsidiaries, Nief Plastics and Bright Autoplast, surprised positively on revenue and margin fronts. Cumulative subsidiary revenues at INR 3.3 bn were up 9% Q-o-Q and 5% Y-o-Y, while EBITDA margin expanded by 120bps Q-o-Q.

## ■ Other quarterly highlights

(1) SINT has an order book of INR 17 bn for the monolithic segment with an execution period of ~9-12 months. The company has won two orders of ~INR 3.24 bn during the quarter; (2) telecom business is expected to remain weak owing to slowdown in tower capex across operators; management indicated possible revival post Q2FY11 led by 3G outlay; (3) management expects the textile segment to witness demand revival in ensuing quarters; (4) provision for Geiger expected to be finalised in Q4FY10 and will be routed through balance sheet; and (5) management retained its FY10E net profit guidance of ~INR 3.3-3.5bn and indicated ~30% growth for FY11E

## ■ Outlook and valuations: undemanding valuations; upgrade to 'BUY'

SINT's 9mFY10 performance has been tepid with multiple factors impacting top line and profitability including execution delays in its order book-driven businesses, collapse of BT shelters business (owing to slowdown in domestic tower capex), and demand slowdown in end-user industries of its overseas subsidiaries (high exposure to auto sector). Going forward, we expect pick-up in the SINT's revenues and profitability led by heightened focus on domestic government business (monolithic and prefabs) which offer higher revenue visibility, besides integration of its subsidiaries, driving margin expansion. We expect healthy revenue and earnings CAGR of 13% and 17.5%, respectively, over FY10-12E. From a valuations viewpoint, the stock is trading below its long-term one year forward PE multiple of ~12x. At INR 258, the stock is trading at PE of 9.8x FY11E and 8.3x FY12E. We upgrade the recommendation on the stock from 'HOLD' to 'BUY'.

January 15, 2010

Reuters : *SNTX.BO* Bloomberg : *SINT.IN*

### EDELWEISS RATING

Absolute Rating BUY

Note:  
Please refer last page of the report for rating explanation

### MARKET DATA

CMP	:	INR258
52-week range (INR)	:	296 / 70
Share in issue (mn)	:	136.5
M cap (INR bn/USD mn)	:	35.3 / 772
Avg. Daily Vol. BSE ('000)	:	1,078.6

### SHARE HOLDING PATTERN (%)

Promoters*	:	30.1
MFs, FIs & Banks	:	22.4
FIIIs	:	27.7
Others	:	19.8
* Promoters pledged shares (% of share in issue)	:	7.6

### RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	2.4	9.4	7.0
3 months	2.9	8.9	5.9
12 months	92.4	86.6	(5.8)

### Financials

Year to March	Q310	Q309	% change	Q210	% change	FY09	FY10E
Revenues (INR mn)	8,478	8,202	3.4	7,154	18.5	30,639	32,665
EBITDA (INR mn)	1,269	1,273	(0.3)	1,305	(2.8)	4,500	5,324
Adj. net pro.(INR mn)	724	708	2.3	572	26.6	3,251	3,065
Diluted EPS (INR)						23.1	26.3
Diluted P/E (x)						11.2	9.8
EV/EBITDA (x)						8.1	6.7
ROAE (%)						17.0	16.5

Devyani Javeri  
+91-22-6623 3360  
devyani.javeri@edelcap.com

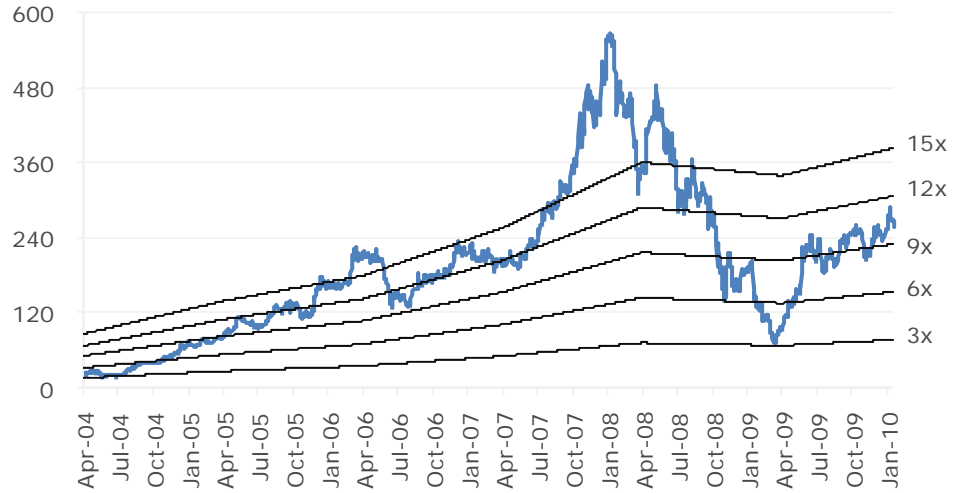
### ■ Q2FY10 key highlights

- Consolidated revenues grew 3.4% Y-o-Y to INR 8.5 bn – standalone businesses witnessed slow execution while subsidiaries surprised positively.
  - In the standalone business, both monolithic and pre-fabs segment revenues were below expectation at INR 1.3bn (marginally up ~1.6% Y-o-Y) and INR 1.7bn (down ~2.8% Y-o-Y) respectively.
  - The monolithic segment execution has been slow – 9MFY10 revenues stood at ~INR 3.4bn. Management retained the FY10 segment revenue guidance of ~INR 7 bn; the 9mFY10 performance implies almost 50% of revenues to be delivered in Q4 which in our view looks tad difficult.
  - Textile segment revenues fell 5.9% Y-o-Y but were up 16.8% Q-o-Q to INR 890mn. Management expects the textile segment to witness demand revival in ensuing quarters.
  - Custom molding revenues were up by 12.7% Y-o-Y to INR 1.15bn driven by up-tick in demand from electrical accessories segment.
- Consolidated EBITDA margin fell to 15% from 18.2% in Q210, 15.5% in Q309 led by margin decline in both plastics & textiles segments.
- Plastics segment reported EBIT margin of 11.5% (down 310bps Q-o-Q) primarily owing to slower execution in the high margin monolithic segment. The textile segment EBIT margin at 7.3% almost doubled Q-o-Q led by higher capacity utilisation though it continues to be substantially lower Y-o-Y (versus 20.7% in Q3FY09).
- SINT's subsidiaries, Nief Plastics and Bright Autoplast, surprised positively on revenue and margin front. Wausaukee continues to remain weak on lower capacity utilisation and weak demand. Cumulative subsidiary revenues at INR 3.3 bn were up 9% Q-o-Q, 5% Y-o-Y, while EBITDA margin expanded by 120bps Q-o-Q.
- Despite tepid operating performance, net profit improved 13% Q-o-Q on the back of higher non-operating income (up 4x Q-o-Q – last quarter, other income included one-time expenses and MTM loss on utilised FCCBs of USD 65 mn) We believe that non-operating income is likely to include MTM gains on utilised FCCB owing to the rupee appreciation of 2.8% Q-o-Q.

■ **Outlook and valuations: undemanding valuations; upgrade to 'BUY'**

SINT's 9mFY10 performance has been tepid with multiple factors impacting top line and profitability including execution delays in its order book-driven businesses, collapse of BT shelters business (owing to slowdown in domestic tower capex), and demand slowdown in end-user industries of its overseas subsidiaries (high exposure to auto sector). Going forward, we expect pick-up in the SINT's revenues and profitability led by heightened focus on domestic government business (monolithic and prefabs) which offer higher revenue visibility, besides integration of its subsidiaries, driving margin expansion. We expect healthy revenue and earnings CAGR of 13% and 17.5%, respectively, over FY10-12E. From a valuations viewpoint, the stock is trading well below its long-term one year forward PE multiple of ~12x. At INR 258, the stock is trading at PE of 9.8x FY11E and 8.3x FY12E. We upgrade the recommendation on the stock from 'HOLD' to 'BUY'.

**Chart 1: Currently trading at a discount to 1yr forward valuations**



## Financial snapshot

(INR mn)

Year to March	Q310	Q309	% change	Q210	% change	FY09	FY10E	FY11E
Net sales	8,478	8,202	3.4	7,154	18.5	30,639	32,665	37,239
Raw materials	4,828	4,285	12.7	3,502	37.8	16,202	18,554	21,133
Employee expenses	1,107	1,101	0.6	947	16.9	4,142	4,247	4,841
Other expenditure	1,275	1,544	(17.4)	1,399	(8.9)	5,794	4,540	5,083
Total expenditure	7,209	6,929	4.0	5,849	23.3	26,139	27,341	31,057
EBITDA	1,269	1,273	(0.3)	1,305	(2.8)	4,500	5,324	6,182
Depreciation	355	315	12.7	372	(4.4)	1,144	1,452	1,631
EBIT	914	958	(4.6)	934	(2.1)	3,356	3,873	4,551
Interest	175	255	(31.5)	157	11.3	820	784	667
Other income	249	252	(1.0)	48	415.1	1,356	949	767
PBT	988	954	3.5	825	19.8	3,893	4,037	4,651
Provision for taxation	260	237	9.7	174	49.2	826	888	1,070
PAT	728	717	1.5	650	11.9	3,067	3,149	3,581
Extra-ordinary items	0	0		68		207	(68)	0
Adjusted PAT	728	717	1.5	583	24.9	3,274	3,081	3,581
Less: Minority interest	3	9	(62.1)	10	(68.1)	23	16	16
Net profit	724	708	2.3	572	26.6	3,251	3,065	3,565

## As % of sales

Raw material expenditure	56.9	52.2		49.0		52.9	56.8	56.8
Employee expenditure	13.1	13.4		13.2		13.5	13.0	13.0
Other expenditure	15.0	18.8		19.6		18.9	13.9	13.7
EBITDA	15.0	15.5		18.2		14.7	16.3	16.6
Net profit after tax	8.6	8.7		8.1		10.7	9.4	9.6
Tax rate	26.3	24.8		21.1		21.2	22.0	23.0

## Segment-wise snapshot

	Q310	Q309	% change	Q210	% change
<b>Segment revenue</b>					
Plastics	7,588	7,254	4.6	6,392	18.7
Textiles	890	945	(5.9)	762	16.8
Unallocated	249	252	(1.0)	48	415.1
<b>PBIT</b>					
Plastics	871	771	12.9	930	(6.4)
Textiles	65	196	(66.9)	29	124.2
Unallocated	227	242	(6.2)	23	893.5
<b>PBIT margin (%)</b>					
Plastics	11.5	10.6		14.5	
Textiles	7.3	20.7		3.8	

- **Company Description**

Ever since the commoditisation of its original water tank business, INT has moved on to providing technology-intensive products and complete business solutions based on plastics. The company has a leadership position in pre-fabricated structures, custom molding, and other businesses with high entry barriers, which are driven by technology, execution capabilities, and client relationships. Continuing the momentum, we expect SINT to focus more on composite material-based offerings and services in the next phase. In textiles, the company's products are skewed towards the high-end and design-intensive segment of the market, which give it high operating margins. This division is a steady source of cash for the overall business, although its share in total revenues is decreasing.

- **Investment Theme**

We like SINT for its track record of innovations in plastic, creating new markets in the process, and generating return-accretive growth. The company's plastics business growth is driven by some of the most vibrant parts of the infrastructure-build up and corporate/government capex happening in India. This includes capex on power T&D/utilities (through electrical accessories), telecommunication infrastructure (BT shelters), auto components, and spend on education/healthcare/housing/roads. SINT will continue to derive growth from increasing plastics penetration in India (one-fourth of world average now) and by innovating new offerings based on plastics.

- **Key Risks**

The company's business segments serve diverse end-user categories and the risks are different for each segment. However, for the business as a whole, following are the overarching risks:

**Execution risk:** SINT's growth businesses of prefab structures and BT shelters have a high service and labour component. Hence, its ability to execute end-to-end projects is critical. Inability to execute timely on a regular basis will be a risk to top line growth.

**Raw material costs:** The company's plastic business uses crude derivatives as raw material, hence, sharp fluctuations in crude prices could cause raw material costs to rise significantly and also result in inventory markdowns.

**Poor performance in subsidiaries:** Poor performance in subsidiaries can become a drag on consolidated numbers. Cost escalations in subsidiaries are a key concern.

**Slowdown in industrial capex, and auto sector:** SINT derives a large part of its custom moulding revenues from electrical and auto segments. Slowdown in spending of these sectors can impact the company's growth.

**Risk of loss of amount invested in Geiger:** SINT has invested close to EUR 6.9 mn (total consideration EUR 35.6 mn) in Geiger Technik which has filed for preliminary insolvency. In the event that the restructuring fails, SINT stands to lose the amount invested.

**Macro-economic slowdown:** Growth in SINT's businesses is dependent on India's robust economic growth and the resultant infrastructure, social, and corporate spends. Any strong and sustained slowdown in the economy could dampen growth drivers.

## Financial Statements

<b>Income statement</b>					<b>(INR mn)</b>
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Income from operations	22,742	30,639	32,665	37,239	41,675
Direct costs	14,902	18,657	19,632	22,343	25,005
Employee costs	2,091	4,142	4,247	4,841	5,418
Other expenses	1,923	3,339	3,463	3,873	4,251
Total operating expenses	18,915	26,139	27,341	31,057	34,674
EBITDA	3,827	4,500	5,324	6,182	7,001
Depreciation and amortisation	765	1,144	1,452	1,631	1,746
EBIT	3,062	3,356	3,873	4,551	5,255
Interest expense	643	820	784	667	570
Other income	385	1,356	949	767	832
Profit before tax	2,804	3,893	4,037	4,651	5,518
Provision for tax	698	826	888	1,070	1,269
Core profit	2,106	3,067	3,149	3,581	4,248
Extraordinary items	216	207	(68)	-	-
Profit after tax	2,322	3,274	3,081	3,581	4,248
Minority interest	19	23	16	16	17
Profit after minority interest	2,303	3,251	3,065	3,565	4,231
Consolidated profit	2,303	3,251	3,065	3,565	4,231
Basic shares outstanding (mn)	136	136	136	136	136
EPS basic (INR)	7.7	11.2	23.1	26.3	31.2
Diluted shares (mn)	136	136	136	136	136
EPS (INR) fully diluted	15.4	22.5	23.1	26.3	31.2
CEPS (INR)	23.6	33.5	33.8	38.3	44.1
Face value	2.0	2.0	2.0	2.0	2.0
Dividend payout (%)	7.6	5.8	6.5	7.0	7.0

### Common size metrics- as % of net revenues

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating expenses	83.2	85.3	83.7	83.4	83.2
Depreciation	3.4	3.7	4.4	4.4	4.2
Interest expenditure	2.8	2.7	2.4	1.8	1.4
EBITDA margins	16.8	14.7	16.3	16.6	16.8
Net profit margins	9.3	10.0	9.6	9.6	10.2

### Growth metrics (%)

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Revenues	95.2	34.7	6.6	14.0	11.9
EBITDA	71.8	17.6	18.3	16.1	13.3
Net profit	59.7	45.6	2.7	13.7	18.6
EPS	30.3	45.8	2.9	13.8	18.7

**Balance sheet****(INR mn)**

As on 31st March	FY08	FY09	FY10E	FY11E	FY12E
Equity capital	271	271	271	271	271
Share warrants	478	0	0	0	0
Reserves & surplus	14,643	16,778	19,639	22,953	26,887
Shareholders funds	15,392	17,049	19,910	23,224	27,158
Minority interest	203	263	279	296	313
Secured loans	9,382	10,527	8,527	7,527	6,527
Unsecured loans	9,881	12,438	11,938	11,938	11,464
Borrowings	19,263	22,964	20,464	19,464	17,990
Net deferred tax	1,069	1,420	1,420	1,420	1,420
<b>Sources of funds</b>	<b>35,927</b>	<b>41,696</b>	<b>42,073</b>	<b>44,403</b>	<b>46,881</b>
Gross block	17,212	23,788	28,065	30,180	32,180
Less: Depreciation	5,185	6,366	7,818	9,449	11,195
Net block	12,027	17,422	20,247	20,731	20,985
Capital work-in-progress	2,550	2,377	600	485	485
Total fixed assets	14,577	19,799	20,847	21,216	21,470
Goodwill on consolidation	1,845	2,198	2,198	2,198	2,198
Investments	3,252	1,819	1,819	1,819	1,819
Inventories	3,022	3,771	3,968	4,516	5,054
Sundry debtors	7,938	8,094	8,629	9,837	11,009
Cash and equivalents	13,713	11,685	10,568	11,354	12,427
Loans and advances	1,615	3,676	3,676	3,860	4,053
Total current assets	26,287	27,226	26,841	29,568	32,543
Sundry creditors	3,689	4,948	5,206	5,925	6,631
Advances from customers	2,396	717	717	717	717
Provisions	3,961	3,683	3,711	3,757	3,804
Total CL & provisions	10,046	9,348	9,634	10,399	11,152
Net current assets	16,241	17,878	17,207	19,168	21,391
Others	12	2	2	2	2
<b>Uses of funds</b>	<b>35,927</b>	<b>41,696</b>	<b>42,073</b>	<b>44,403</b>	<b>46,881</b>
Book value per share (INR)	57	63	147	171	200

**Cash flow statement****(INR mn)**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Net profit	2,303	3,251	3,065	3,565	4,231
Add: Depreciation	765	1,144	1,452	1,631	1,746
Add: Deferred tax	346	350	0	0	0
Add: Others	(1,051)	1,372	16	16	17
Gross cash flow	2,363	6,118	4,533	5,212	5,995
Less: Changes in W. C.	1,049	3,664	446	1,175	1,150
Operating cash flow	1,314	2,453	4,088	4,037	4,844
Less: Capex	10,290	6,719	2,500	2,000	2,000
<b>Free cash flow</b>	<b>(8,976)</b>	<b>(4,266)</b>	<b>1,588</b>	<b>2,037</b>	<b>2,844</b>

**Cash flow metrics**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating cash flow	1,314	2,453	4,088	4,037	4,844
Financing cash flow	18,787	2,238	(2,705)	(1,251)	(1,771)
Investing cash flow	10,290	6,719	2,500	2,000	2,000
Net cash flow	30,391	11,411	3,883	4,786	5,073
Capex	(10,290)	(6,719)	(2,500)	(2,000)	(2,000)
Dividend paid	(161)	(177)	(205)	(251)	(297)
Share issuance/(Buyback)	6,577	(1,287)	-	-	-

<b>Profitability &amp; liquidity ratios</b>					<b>(INR mn)</b>
Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	19.1	18.8	17.0	16.5	16.8
ROACE (%)	13.6	9.3	9.7	11.0	12.0
Current ratio	2.6	2.9	2.8	2.8	2.9
Fixed assets t/o (x)	2.5	2.1	1.7	1.8	2.0
Average working cap turnover(x)	7.0	4.1	3.4	3.3	3.2
Average capital employed t/o	0.9	0.8	0.8	0.9	0.9
Net debt/Equity	0.4	0.7	0.5	0.3	0.2
Debt/Equity	1.3	1.3	1.0	0.8	0.7
Debt/EBITDA	5.0	5.1	3.8	3.1	2.6
Adjusted debt/equity	1.3	1.3	1.0	0.8	0.7

<b>Operating ratios (x)</b>					
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Total asset turnover	0.9	0.8	0.8	0.9	0.9
Fixed asset turnover	2.5	2.1	1.7	1.8	2.0
Equity turnover	2.1	1.9	1.8	1.7	1.7

<b>Du pont analysis</b>					
Year to March	FY08	FY09	FY10E	FY11E	FY12E
NP margin (%)	9.2	9.9	9.6	9.6	10.2
Total assets turnover	0.9	0.8	0.8	0.9	0.9
Leverage multiplier	2.3	2.4	2.3	2.0	1.8
ROAE (%)	19.1	18.8	17.0	16.5	16.8

<b>Valuation parameters</b>					
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Basic EPS (INR)	15.4	22.5	23.1	26.3	31.2
Y-o-Y growth (%)	30.3	45.8	2.9	13.8	18.7
CEPS (INR)	23.6	33.5	33.8	38.3	44.1
Diluted P/E (x)	16.7	11.5	11.2	9.8	8.3
Price/BV(x)	4.5	4.1	1.8	1.5	1.3
EV/Sales (x)	3.2	2.6	1.3	1.1	0.9
EV/EBITDA (x)	18.9	17.6	8.1	6.7	5.5





## RATING & INTERPRETATION

Company	Absolute reco	Relative reco	Relative risk
Lakshmi Energy & Foods	Hold		
Opto Circuits India	Buy		
Page Industries	Hold		
Havell's India	Under Review		
MIC Electronics	Under Review		
Sintex Industries	Under Review		

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



**Edelweiss Securities Limited**, 14<sup>th</sup> Floor, Express Towers, Nariman Point, Mumbai – 400 021,  
Board: (91-22) 2286 4400, Email: [research@edelcap.com](mailto:research@edelcap.com)

Naresh Kothari	Co-Head Institutional Equities	naresh.kothari@edelcap.com	+91 22 2286 4246
Vikas Khemani	Co-Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Head Research	nischal.maheshwari@edelcap.com	+91 22 6623 3411

### Coverage group(s) of stocks by primary analyst(s): Miscellaneous

Bharat Electronics, Lakshmi Energy Opto Circuits and Page Industries.

#### Sintex Industries



#### Recent Research

Date	Company	Title	Price (INR)	Recos
31-Dec-09	Escorts	On a turnaround; <i>Initiating Coverage</i>	130	Buy
30-Oct-09	Educomp Solutions	Need further clarity on change in smartclass revenue model; <i>Result Update</i>	801	Hold
30-Oct-09	Bharat Electronics	Strong show; <i>Result Update</i>	1,435	Buy
30-Oct-09	Lakshmi Energy and Foods	Volumes poised for a rebound; <i>Result Update</i>	126	Buy

#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	95	54	11	162

\* 2 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	104	46	12

#### Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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