



## Grasim Industries

STOCK INFO:	BLOOMBERG
BSE SENSEX: 16,022	GRASIM IN
S&P CNX: 4,807	REUTERS CODE
	GRAS.BO

Equity Shares (m)	91.7
52-Week Range	2,952/2,026
1,6,12 Rel. Perf. (%)	-9/6/-5
M.Cap. (Rs b)	212.9
M.Cap. (US\$ b)	4.5

25 May 2010

Buy

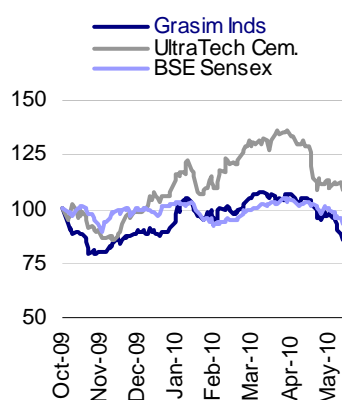
Rs2,322

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/TON
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	EBITDA	(US\$)
03/09A	184,039	21,867	238.5	-18.9	9.7	1.8	21.1	20.7	6.3	119
03/10A	203,866	30,417	331.7	39.1	7.0	1.5	23.2	24.4	3.7	69
03/11E*	221,217	25,373	276.7	-16.6	8.4	1.3	16.2	20.8	3.2	33
03/12E*	244,235	28,004	305.4	10.4	7.6	1.1	15.5	20.9	2.4	20

Consolidated; \* Post demerger of cement business into UltraTech Cement

## STOCK PERFORMANCE (INDEXED)



### To trade ex-Samruddhi from 26 May at ~Rs1,800/share; valuations attractive; Buy

- Grasim will be trading ex-Samruddhi Cement (SCL, the de-merged cement business) from 26 May 2010. For 1 share of Grasim, each shareholder will receive 1 share of SCL. Subsequently, SCL will be merged into UltraTech (UTC), with a swap ratio of 4 shares of UTC for every 7 shares of SCL. Effectively, shareholders will get ~0.57 share of UTC for every share of Grasim.
- While Grasim will begin trading ex-SCL from 26 May, SCL is likely to be listed only around first week of June 2010 and later merged with UTC.
- The short-term outlook for Grasim's VSF and cement business appears challenging, as VSF margins are likely to moderate from peak levels and the cement business will be entering a seasonally weak period.
- Post announcement of restructuring plans, Grasim has corrected by 14% and trades at implied holding company discount of 65-70% to UltraTech and comparable peers like ACC and Ambuja. Also, the stock has underperformed the BSE Sensex by 8% and UltraTech by 23%.
- The stock quotes at attractive valuations of 7.6x FY12E consolidated EPS, 1.1x FY12E BV and an EV of 2.4x FY12E EBITDA. The implied EV of the cement business is 1.1x FY12E EBITDA and US\$20/ton. We maintain **Buy**, with a target price of Rs2,599 ex-SCL (SOTP based, valuing economic interest in cement business at US\$70/ton and VSF business at an EV of 5x FY12E EBITDA).

## GRASIM: VALUING POST-RESTRUCTURING (FY12-BASED)

	PARAMETER	MULTIPLE	RS M	RS/SHARE
Standalone VSF business	EV/EBITDA (x)	5	100,293	1,094
UltraTech Cement @ 60.3%	EV/Ton (\$)	100	103,522	1,129
@ 30% HoldCo Discount				
<b>Total EV</b>			<b>203,815</b>	<b>2,223</b>
Less: Gross Debt			22,476	245
(incl pro-rata in subs)				
Add: Cash & liquid invest			39,972	436
Add: Group holdings	@ 20% discount		16,983	185
Total Equity Value			238,294	2,599
<b>Fair value post demerger</b>			<b>238,294</b>	<b>2,599</b>

Source: MOSL

## SENSITIVITY ANALYSIS OF FAIR VALUE (FY12) - EX SCL

		CEMENT BUSINESS ASSET VALUATION (\$/TON)			
		80	100	120	150
Holding company discount (%)	0	2,760	3,082	3,405	3,889
	20	2,502	<b>2,760</b>	<b>3,018</b>	3,405
	30	2,373	<b>2,599</b>	<b>2,824</b>	3,163
	50	2,115	2,276	2,437	2,679
	60	1,986	2,115	2,244	2,437

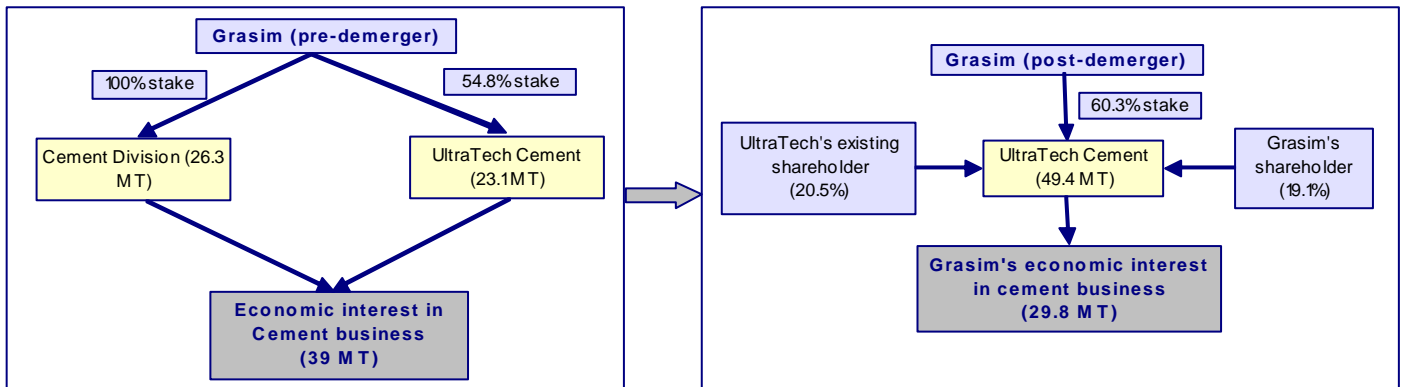
Source: MOSL

**Consolidation of cement assets into UltraTech to drive re-rating of cement assets**

*Aditya Birla group's cement assets are being consolidated under UltraTech Cement*

Grasim is de-merging its cement assets into Samruddhi Cement (SCL). Shareholders will get 1 share in SCL for 1 share in Grasim. Later, SCL will be merged into UltraTech (UTC), with a share swap ratio of 4 shares of UTC for every 7 shares of SCL. After restructuring, Grasim will own 60.3% in UTC. The appointed date of the merger is 1 July 2010.

SNAPSHOT OF ECONOMIC INTEREST IN CEMENT BUSINESS



Source: MOSL

*Since the announcement of the restructuring, UltraTech has outperformed the Sensex by 15%*

The consolidation of the Aditya Birla group's cement business under UTC will create a cement behemoth, with 49mt capacity, the largest in India and the tenth largest globally. There will be limited synergies due to the merger of Grasim's cement business and UTC, as both companies were operating symbiotically. The exercise has, however, led to a re-rating of the Aditya Birla group's cement assets as reflected in the 15% outperformance of UTC over the BSE Sensex since the announcement.

**What does the Grasim shareholder get (ex-SCL)?**

Grasim's stock price (from 26 May 2010) will include value for:

- 1 share in Grasim standalone VSF and chemical business, and other VSF subsidiaries.
- 60.3% stake in UltraTech (post-merger), with 49.4mt capacity.
- Net cash and liquid investment of ~Rs17.5b and strategic investment of ~Rs17b (at current market prices), excluding UltraTech.

While Grasim's economic interest in the cement business will fall from 39mt to 29.8mt (due to divestment of 35% stake to shareholders), the economic interest of Grasim's existing shareholders is unchanged, as they get 1 share of SCL for every share in Grasim (equivalent to 0.57 shares of UltraTech).

**Significant discount for ~60% holding company**

*Post restructuring, Grasim will become the holding company for Aditya Birla group's cement business*

Post restructuring, Grasim's standalone operations will be a pure-play on VSF and it will be a holding company for the cement business. It will be third-largest VSF player in the world (the Aditya Birla group is the largest), with total capacity of 334,000 tons. It is investing Rs10b for setting up a 80,000-ton Greenfield VSF unit in Gujarat, which will take its total VSF capacity to 414,000 tons by FY13. Grasim standalone will have liquid investments of Rs17.5b and strategic investments in group companies (~Rs17b market value).

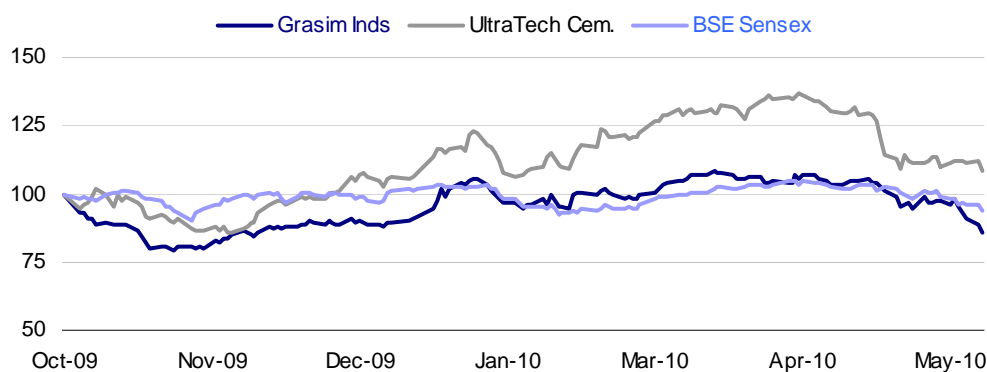
IMPLIED HOLD-CO DISCOUNT (POST-DEMERGER)		(RS MILLION)	
	FY11	FY12	
CMP (Rs)	2,322	2,322	
Market Cap	212,868	212,868	
Add: Net Debt	-21,754	-34,479	
<b>EV</b>	<b>191,114</b>	<b>178,389</b>	
Less: EV of VSF @ 5x EV/EBITDA	96,267	100,293	
Less: Value of entitlement of 1 share of SCL *	48,368	48,368	
<b>Implied EV of Cement</b>	<b>46,479</b>	<b>29,728</b>	
<b>Implied EV/EBITDA (x)</b>	<b>1.9</b>	<b>1.1</b>	
<b>Implied EV/Ton (US\$)</b>	<b>33</b>	<b>20</b>	
<b>Implied Discount to</b>			
UltraTech on replacement cost (%)	72	83	
ACC/Ambuja on replacement cost (%)	68	80	
UltraTech on EV/EBITDA (%)	72	84	
ACC/Ambuja on EV/EBITDA (%)	72	83	

Source: Company/MOSL

*Grasim quotes at an implied holding company discount of 65-70% to UltraTech*

Post announcement of restructuring plans, Grasim has corrected by 14% and trades at implied holding company discount of 65-70% to UltraTech and comparable peers like ACC and Ambuja. Also, the stock has underperformed the BSE Sensex by 8% and UltraTech by 23%.

GRASIM HAS UNDERPERFORMED SINCE RESTRUCTURING ANNOUNCEMENT



Source: MOSL

*Given its 60%+ ownership of UltraTech, we believe 65-70% discount is unwarranted*

Unlike other holding companies that do not own majority stake of the operating company, Grasim will own 60.3% stake and continue to control UltraTech. We believe the implied discount is unjustified, given its controlling interest and expect the discount to narrow gradually to 20-30%.

### Valuation and view

*We maintain Buy, with a target price of Rs2,599*

The short-term outlook for Grasim's VSF and cement business appears challenging, as VSF margins are likely to moderate from peak levels and the cement business will be entering a seasonally weak period. The demerger of the cement business has triggered de-rating of the stock and currently trades at implied holding company discount of ~70% to UltraTech.

The stock quotes at attractive valuations of 7.6x FY12E consolidated EPS, 1.1x FY12E BV and an EV of 2.4x FY12E EBITDA. The implied EV of the cement business is 1.1x FY12E EBITDA and US\$20/ton. We maintain **Buy**, with a target price of Rs2,599 ex-SCL (SOTP based, valuing economic interest in cement business at US\$70/ton and VSF business at an EV of 5x FY12E EBITDA).

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Source: MOSL

## Financials and Valuation: Grasim Industries

CONSOLIDATED INCOME STATEMENT						RATIOS					
(Rs Million)											
Y/E MARCH	2008	2009	2010	2011E	2012E	Y/E MARCH	2008	2009	2010	2011E	2012E
<b>Net Sales</b>	<b>169,739</b>	<b>184,039</b>	<b>203,866</b>	<b>221,217</b>	<b>244,235</b>	<b>Basic (Rs)</b>					
Change (%)	20.6	8.4	10.8	8.5	10.4	<b>EPS</b>	<b>293.9</b>	<b>238.5</b>	<b>331.7</b>	<b>276.7</b>	<b>305.4</b>
Total Expenditure	120,142	140,743	144,586	164,344	182,037	Cash EPS	368.1	347.7	462.0	352.9	387.0
<b>EBITDA</b>	<b>49,598</b>	<b>43,296</b>	<b>59,280</b>	<b>56,873</b>	<b>62,198</b>	BV/Share	997.3	1,261.9	1,596.1	1,828.9	2,099.3
Margin (%)	29.2	23.5	29.1	25.7	25.5	DPS	30.0	30.0	30.0	35.0	30.0
Depreciation	6,703	8,658	10,666	11,928	12,622	Payout (%)	13.2	14.7	10.6	14.8	11.5
<b>EBIT</b>	<b>42,895</b>	<b>34,638</b>	<b>48,613</b>	<b>44,945</b>	<b>49,576</b>	<b>Valuation (x)</b>					
Int. and Finance Charges	2,221	3,105	3,437	3,826	3,100	P/E	7.9	9.7	7.0	8.4	7.6
Other Income - Rec.	4,623	4,532	5,520	6,090	6,370	Cash P/E	6.3	6.7	5.0	6.6	6.0
<b>PBT before EO items</b>	<b>45,296</b>	<b>36,066</b>	<b>50,696</b>	<b>47,209</b>	<b>52,846</b>	P/BV	2.3	1.8	1.5	1.3	1.1
Change (%)	31.2	-20.4	40.6	-6.9	11.9	EV/EBITDA	5.7	6.3	3.7	3.2	2.4
EO Exp	-2,824	0	-3,447	0	0	Dividend Yield (%)	1.3	1.3	1.3	1.5	1.3
<b>PBT after EO items</b>	<b>48,120</b>	<b>36,066</b>	<b>54,143</b>	<b>47,209</b>	<b>52,846</b>	EV/Ton (US\$)	133	119	69	33	20
Tax	14,658	9,914	15,335	13,775	15,611	<b>Return Ratios (%)</b>					
Tax Rate (%)	30.5	27.5	28.3	29.2	29.5	RoE	34.3	21.1	23.2	15.1	14.5
<b>Reported PAT</b>	<b>33,462</b>	<b>26,152</b>	<b>38,808</b>	<b>33,435</b>	<b>37,234</b>	RoCE	31.1	20.7	24.4	24.8	25.1
<b>PAT Adj for EO items</b>	<b>31,499</b>	<b>26,152</b>	<b>35,361</b>	<b>33,435</b>	<b>37,234</b>	<b>Working Capital Ratios</b>					
Change (%)	33.5	-17.0	35.2	-5.4	11.4	Debtor (Days)	22	16	18	18	22
Margin (%)	18.6	14.2	17.3	15.1	15.2	Asset Turnover (x)	1.0	0.9	0.9	0.9	0.9
Less: Minority Interest	4,548	4,286	4,944	8,062	9,231	<b>Leverage Ratio</b>					
<b>Consolidated PAT</b>	<b>26,951</b>	<b>21,867</b>	<b>30,417</b>	<b>25,373</b>	<b>28,004</b>	Debt/Equity (x)	0.6	0.5	0.3	0.2	0.2
Change (%)	37.0	-18.9	39.1	-16.6	10.4						

CONSOLIDATED BALANCE SHEET						CONSOLIDATED CASH FLOW STATEMENT					
(Rs Million)						(Rs Million)					
Y/E MARCH	2008	2009	2010	2011E	2012E	Y/E MARCH	2008	2009	2010	2011E	2012E
Equity Share Capital	917	917	917	917	917	OP/(Loss) before Tax	51,617	44,791	59,280	56,873	62,198
Reserves	90,521	114,783	145,429	166,779	191,565	Interest/Dividends Recd.	1,616	1,700	5,520	6,090	6,370
<b>Net Worth</b>	<b>91,438</b>	<b>115,700</b>	<b>146,346</b>	<b>167,696</b>	<b>192,481</b>	Direct Taxes Paid	-14,072	-5,509	-12,148	-13,647	-15,190
Loans	55,771	59,162	48,500	38,500	30,000	(Inc)/Dec in WC	-574	-4,657	-3,824	-954	-6,151
Deferred liabilities	11,575	15,919	19,107	19,234	19,656	<b>CF from Operations</b>	<b>38,588</b>	<b>36,325</b>	<b>48,828</b>	<b>48,361</b>	<b>47,227</b>
Minority Interest	12,760	16,704	21,647	29,709	38,939	EO Items	2,980	0	3,447	0	0
<b>Capital Employed</b>	<b>171,544</b>	<b>207,484</b>	<b>235,600</b>	<b>255,139</b>	<b>281,077</b>	<b>CF from Op. incl EO</b>	<b>41,568</b>	<b>36,325</b>	<b>52,275</b>	<b>48,361</b>	<b>47,227</b>
Gross Block	137,285	190,622	206,182	221,182	232,807	(inc)/dec in FA	-51,181	-26,468	-10,738	-7,500	-9,125
Less: Accum. Deprn.	63,397	68,254	78,921	90,848	103,470	(Pur)/Sale of Investments	4,269	-11,882	-23,432	-22,752	-22,938
<b>Net Fixed Assets</b>	<b>73,888</b>	<b>122,368</b>	<b>127,261</b>	<b>130,334</b>	<b>129,337</b>	<b>CF from Investments</b>	<b>-46,912</b>	<b>-38,350</b>	<b>-34,170</b>	<b>-30,252</b>	<b>-32,063</b>
Capital WIP	55,335	19,822	15,000	7,500	5,000	Issue of Shares	634	438	0	-268	0
Investments	16,607	35,626	59,058	81,811	104,749	(Inc)/Dec in Debt	7,201	7,991	-10,662	-10,000	-8,500
Goodwill	19,913	20,010	20,010	20,010	20,010	Interest Paid	-2,935	-3,160	-3,437	-3,826	-3,100
<b>Curr. Assets</b>	<b>42,585</b>	<b>45,343</b>	<b>51,986</b>	<b>56,410</b>	<b>63,501</b>	Dividend Paid	-185	-3,553	-3,218	-3,755	-3,218
Inventory	17,443	22,210	24,464	26,546	26,866	<b>CF from Fin. Activity</b>	<b>4,715</b>	<b>1,715</b>	<b>-17,317</b>	<b>-17,849</b>	<b>-14,818</b>
Account Receivables	10,185	8,249	10,193	11,061	14,654	<b>Incl/Dec of Cash</b>	<b>-789</b>	<b>-633</b>	<b>788</b>	<b>260</b>	<b>345</b>
Cash and Bank Balance	2,903	2,270	3,058	3,318	3,664	Add: Beginning Balance	3,692	2,903	2,270	3,058	3,318
Others	12,054	12,615	14,271	15,485	18,318	<b>Closing Balance</b>	<b>2,903</b>	<b>2,270</b>	<b>3,058</b>	<b>3,318</b>	<b>3,664</b>
<b>Curr. Liability &amp; Prov.</b>	<b>36,783</b>	<b>35,685</b>	<b>37,715</b>	<b>40,925</b>	<b>41,520</b>						
Account Payables	23,435	24,374	26,503	28,758	26,866						
Other Liabilities	6,914	4,749	6,116	6,637	9,769						
Provisions	6,433	6,562	5,097	5,530	4,885						
<b>Net Current Assets</b>	<b>5,802</b>	<b>9,659</b>	<b>14,271</b>	<b>15,485</b>	<b>21,981</b>						
<b>Appl. of Funds</b>	<b>171,544</b>	<b>207,484</b>	<b>235,600</b>	<b>255,139</b>	<b>281,077</b>						

E: MCI&amp;L Estimates

## Financials and Valuation: UltraTech Cement

INCOME STATEMENT (POST-MERGER) *						RATIOS (POST-MERGER) *					
(Rs Million)											
Y/E MARCH	2008	2009	2010	2011E	2012E	Y/E MARCH	2008	2009	2010	2011E	2012E
<b>Net Sales</b>	<b>55,088</b>	<b>63,831</b>	<b>70,497</b>	<b>167,587</b>	<b>186,510</b>	<b>Basic (Rs)</b>					
<i>Change (%)</i>	12.2	15.9	10.4	137.7	11.3	<b>EPS</b>	<b>80.9</b>	<b>78.5</b>	<b>87.8</b>	<b>74.1</b>	<b>84.8</b>
Total Expenditure	37,829	46,767	50,786	126,855	141,829	Cash EPS	100.0	104.4	119.0	107.0	119.5
<b>EBITDA</b>	<b>17,258</b>	<b>17,064</b>	<b>19,711</b>	<b>40,732</b>	<b>44,681</b>	BV/Share	216.6	289.3	370.1	417.7	494.0
<i>Margin (%)</i>	31.3	26.7	28.0	24.3	24.0	DPS	5.0	5.0	6.0	6.0	6.5
Depreciation	2,372	3,230	3,881	9,036	9,526	Payout (%)	7.2	7.5	8.0	9.5	9.0
Int. and Finance Charges	823	1,255	1,175	2,913	2,291	<b>Valuation (x)</b>					
Other Income - Rec.	1,007	1,036	1,227	1,300	1,580	P/E	11.4	11.8	10.5	12.5	10.9
<b>PBT</b>	<b>15,070</b>	<b>13,615</b>	<b>15,882</b>	<b>30,082</b>	<b>34,445</b>	Cash P/E	9.2	8.8	7.8	8.6	7.7
Extra Ordinary Expense/(Inco	0	0	0	0	0	P/BV	4.3	3.2	2.5	2.2	1.9
<b>PBT after EO expense</b>	<b>15,070</b>	<b>13,615</b>	<b>15,882</b>	<b>30,082</b>	<b>34,445</b>	EV/Sales	2.4	2.0	1.7	1.6	1.4
Tax	4,994	3,844	4,949	9,777	11,195	EV/EBITDA	7.5	7.3	6.0	6.7	5.6
<i>Tax Rate (%)</i>	33.1	28.2	31.2	32.5	32.5	EV/Ton (Cap-US\$)	149	113	108	115	103
<b>Reported PAT</b>	<b>10,076</b>	<b>9,770</b>	<b>10,932</b>	<b>20,306</b>	<b>23,250</b>	Dividend Yield (%)	0.5	0.5	0.6	0.6	0.7
<b>Adj PAT</b>	<b>10,076</b>	<b>9,770</b>	<b>10,932</b>	<b>20,306</b>	<b>23,250</b>	<b>Return Ratios (%)</b>					
<i>Change (%)</i>	28.8	-3.0	11.9	85.7	14.5	RoE	45.2	31.0	26.6	17.7	18.6
<i>Margin (%)</i>	18.3	15.3	15.5	12.1	12.5	RoCE	40.9	29.2	28.2	22.6	24.2
<b>BALANCE SHEET (POST-MERGER) *</b>	<b>(Rs Million)</b>					<b>Working Capital Ratios</b>					
<b>Y/E MARCH</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	Asset Turnover (x)	1.1	1.0	1.0	1.0	1.0
Equity Share Capital	1,245	1,245	1,245	2,742	2,742	Debtor (Days)	14	11	15	7	7
Reserves	25,725	34,776	44,835	111,800	132,725	Inventory (Days)	40	40	38	18	18
<b>Net Worth</b>	<b>26,970</b>	<b>36,021</b>	<b>46,079</b>	<b>114,542</b>	<b>135,467</b>	<b>Leverage Ratio</b>					
Minority Interest	0	0	0			Debt/Equity	0.6	0.6	0.4	0.3	0.2
Deferred liabilities	5424	7229	8526	18132	19855						
Loans	17,405	21,416	17,500	31,330	22,830						
<b>Capital Employed</b>	<b>49,798</b>	<b>64,667</b>	<b>72,105</b>	<b>164,004</b>	<b>178,151</b>						
<b>Net Fixed Assets</b>	<b>25,005</b>	<b>46,357</b>	<b>54,476</b>	<b>129,835</b>	<b>132,810</b>						
Capital WIP	22,832	6,773	5,000	5,000	5,000						
Goodwill				14,925	14,925						
Investments	1,709	10,348	12,534	11,148	21,971						
<b>Net Current Assets</b>	<b>253</b>	<b>1,189</b>	<b>96</b>	<b>3,096</b>	<b>3,445</b>						
Misc Expenditure	0	0	0	0	0						
<b>Appl. of Funds</b>	<b>49,798</b>	<b>64,667</b>	<b>72,105</b>	<b>164,004</b>	<b>178,151</b>						

\* Assuming merger w.e.f. April 1, 2010 E: MDSL Estimates

**N O T E S**



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**Disclosure of Interest Statement**

**Grasim Industries**

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|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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