

Major indices movements

Major indices	Clsg	1d (%)	3m (%)	6m (%)
BSE Sensex	18,220	(0.4)	6.3	12.8
Nifty	5,461	(0.5)	6.3	13.1
Dow	10,644	(0.5)	(1.0)	4.9
Nikkei	9,333	(2.3)	(10.4)	(6.3)
Hang Seng	21,585	0.5	7.1	6.4
Brasil Bovespa	67,223	(0.9)	4.3	1.7
Mexico Bolsa	32,686	(0.5)	1.8	6.0

Turnover

Value Traded (Rs bn)	10 Aug 2010	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	54.9	11.5	94.0	28.6
Cash NSE	151.9	18.8	241.6	18.2
Total	206.8			
Del.(%)	39.9			
F&O	771.0	30.6	1661.9	358.0
Total Trade	977.7			

Fund Activity

Net Inflows				
(Rs bn)	Purch	Sales	Net	YTD
9 Aug 2010				
FII's	23.6	(24.2)	(0.6)	233.4
Domestic Funds	5.2	(8.4)	(3.2)	98.8
10 Aug 2010				
Cash Provisional			(1.3)	
F&O - Index	52.4	(50.8)	1.6	(27.6)
F&O - Stock	15.1	(15.2)	(0.1)	(11.6)

Advances/declines BSECash

10 Aug 2010	A	B1	B2	Total
Advance	60	835	159	1,054
Decline	145	1047	277	1,469

Commodity Prices

Commodity	11 Aug 2010	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	79.3	0.0	(0.9)	8.0
Copper(usd/t)	7,300	(1.7)	2.5	11.7
Aluminum H.G.(usd/t)	2,170	(0.5)	1.1	6.6
Zinc(usd/t)	2,085	(3.0)	(2.5)	(1.4)

Debt/Forex Mkt	Clsg	1d (%)	3m (%)	6m (%)
Re/USD	46.40	(0.6)	(3.3)	0.2
10 yr Gsec Yield	7.83	0.2	1.9	0.6

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News clippings

- **Aban Offshore** has signed a contract with **Petrobras, Brazil** for the deployment of the drill ship Aban Abraham offshore Brazil for a firm period of 5 years. The estimated revenues from the deployment is about USD 494 million (equivalent to approx. Rs 22.85 billion) plus a potential 3.85% performance bonus, the deployment is likely to commence during the 4 quarter of calendar year 2010.
- Driven by strong sales in the domestic market and good show by JLR, **Tata Motors** reported a consolidated net profit of Rs 1,988.73 crore for the quarter ended June 30.
- The Power Ministry has recommended allocation of natural gas from **Reliance Industries'** fields to four power projects including Anil Ambani-run **Reliance Power's** Samalkot expansion unit in Andhra Pradesh.
- **Infotech Enterprises'** wholly owned subsidiary in the US, Infotech Enterprises America, has acquired the Arkansas based Wellsco, a company engaged, inter alia, in the business of providing network engineering and management and related services to the telecommunications industry.
- **Uttam Galva Steels** has announced an increase in the prices of its galvanised steel products by Rs 500 a ton with immediate effect. This hike in price is a direct result of an increase in the cost of Zinc.
- The government is considering to sell its stake in many companies including MMTC, Shipping Corporation and Manganese Ore India, through public offering.

Research views

Bharati Shipyard Q1FY11E Result Estimates

We expect BSL to report strong performance in Q1FY11E

- Expect revenues to grow by 49% YoY to Rs4537 mn
- Expect EBITDA margins to decline by 100 bps YoY to 17.5% and EBITDA to grow by 41% YoY to Rs792 mn.
- Expect APAT to grow by 48% YoY to Rs528 mn (highest in past 10 quarters).

Outlook on core ship building and growth strategy for Great Offshore would be watched keenly.

Bharati Shipyard

Reco	CMP	TP
REDUCE	249	235

Standalone Financials

In Rs Million	Q1FY11E	Q1FY10	YoY Gr(%)
Revenues	4,537	3,045	49.0
Operating Profit	792	563	40.7
Operating Mgns (%)	17.5	18.5	-100 bps
Adjusted PAT	528	357	48.2
EPS (Rs)	18.3	12.9	41.2

Bharti Airtel Q1FY11 result estimates

- Considering relatively stable quarter in terms of tariff cuts, we expect 2% fall each in RPM along with 5.1% mobile traffic growth to result in 1.8% qoq growth in revenues to Rs102.4bn. We estimate ARPU drop at 4% QoQ to Rs211.
- We expect EBIDTA margins to increase by 100bps with margins of 39% led by economies from network costs as minutes per site increase.
- Similar to Idea Cellular, we have assumed the capitalization of interest cost on 3G debt, without which we estimate PAT at Rs19.1bn. PAT estimate considering interest cost on 3G debt in P&L results in PAT estimate of Rs18.7bn.

Key things to watch out: (1) wireless KPI's mainly the MOU and RPM (2) Clarity on capex for Africa (3) Pricing outlook (4) Accounting of Zain Africa in cons. Financials

In Rs mn	Q110	Q210	Q310	Q410	Q111E	QoQ %	Consensus	Emkay v/s consensus
Net Revenue	99,416	98,455	97,722	100,557	102,407	1.8%	104,564	-2.1%
EBIDTA	41,518	41,416	39,112	38,220	39,896	4.4%	39,741	0.4%
EBIDTA (%)	41.8	42.1	40.0	38.0	39.0	95.1	38.0	
PAT	25,167	23,210	22,099	20,549	19,121	-6.9%	19,062	0.3%
EPS	6.6	6.1	5.8	5.4	5.0	-6.9%	5.0	
ARPU	278	252	230	220	211	-4.0%		
MoU	478	450	446	468	458	-2.0%		
Subscribers	102,368	110,511	118,864	127,619	136,619	7.1%		

August 10, 2010

BUY

Price	Target Price
Rs 31	Rs 43
Sensex	18,288

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(13)	(9)	14
Rel. to Sensex	(10)	(20)	(21)	(6)

Source: Bloomberg

Stock Details

Sector	Batteries
Reuters	HBL.S.BO
Bloomberg	HBPS@IN
Equity Capital (Rs mn)	253
Face Value(Rs)	1
No of shares o/s (mn)	253
52 Week H/L	46/26
Market Cap (Rs bn/USD mn)	8/173
Daily Avg Volume (No of sh)	288106
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	70.2	70.1	70.1
FII/NRI	10.2	9.9	10.0
Institutions	1.9	1.9	1.6
Private Corp	8.0	9.2	11.4
Public	9.8	8.9	6.9

Source: Capitaline

- Volumes dip driven by (1) export order (Rs100mn) spillover to Q2 due to shipping issues and (2) telecom slump
- Realizations on expected lines, but margins hit (-290bps qoq) due to similar fixed costs (Rs705mn) on lower revenues
- Volumes likely to improve by Q3FY11 – led by entry in auto batteries and likely pick up in telecom demand
- Cut earnings by 20% (margin assumption - 15%); Yet core ROE of 22%; Valuations (1.1x Book) at rock bottom; Buy

Volumes take a hit due to slippage in export order and slump in telecom

HBL reported numbers which were significantly below expectations mainly due to drop in volumes. The volumes declined due to (1) an export order of Rs100mn spilling over to Q2FY11 due to shipping issues and (2) more than expected slump in telecom. It reported 8%/19% - yoy/qoq decline in revenues to Rs2.42bn which was significantly lower than our expectations of Rs2.98bn. The revenue decline was driven by volumes is clear from the fact that raw material as a % of sales declined by 180bps qoq. However, the fixed cost (staff and other expenses) almost remained at the same level (Rs705mn) qoq in absolute terms inspite of 19% drop in revenues. This led to EBITDA margins declining by 860bps/290bps yoy/qoq to 11.1%. As a result of revenue decline and margin drop, PAT declined by 73% to Rs71mn, below expectations.

Volumes likely to improve from Q3FY11 onwards; cut earnings by 20%

We believe that though there is lack of clarity in terms of battery demand from telecom segment but HBL's overall volumes are likely to improve going forward. This is because of (1) export order execution returning to normalcy, (2) entry into auto segment with dealer network already in place and likely revenues of Rs900-1000mn in FY11E (nil in FY10), (3) pick up in demand momentum in industry ex-telecom and (4) some improvement in telecom segment demand expected from Q3FY11 led by 3G spectrum and deepening telephony penetration. We now have built in ~ 4% (vs ~ 9% earlier) volume growth in FY11E. We have also lowered our EBITDA margin assumptions from 17% (-160bps) to 15% (-360bps over FY10). Thus, we have cut our earnings by 20% to Rs3.6/Share and Rs4.4/Share in FY11E and FY12E.

Yet core ROE of 22%; compelling value proposition at 1.1x Book

At CMP of Rs31, the stock is trading at 7.1x FY12E earnings, 1.1x FY12E Book value (reported ROE of 17% and core battery business ROE of 22%). Considering (1) rock bottom valuations at 1.1x Book with core ROE of 22%, (2) likely improvement in demand from Q3FY11, (3) performance track record and (4) leadership in most of the segments – we remain positive on the stock. We maintain our 'BUY' rating on the stock with a revised DCF based price target of Rs43/Share (earlier Rs58/Share) – mainly because of change in our long term margin assumptions by -200bps.

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	12,439	1,998	16.1	910	3.7	35.0	26.5	8.3	5.2	1.9
FY10	11,091	2,060	18.6	1,025	4.1	8.2	22.7	7.6	5.6	1.5
FY11E	12,643	1,893	15.0	899	3.6	(12.4)	16.0	8.7	6.3	1.3
FY12E	14,540	2,177	15.0	1,112	4.4	23.7	17.0	7.1	5.3	1.1

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	2,611	3,008	2,474	2,998	2,415	-7.5	-19.4
Expenditure	-2,097	-2,325	-2,031	-2,578	-2,147	2.4	-16.7
as % of sales	-80.3%	-77.3%	-82.1%	-86.0%	-88.9%		
Consumption of RM	-1,481	-1,657	-1,395	-1,844	-1,442	-2.7	-21.8
as % of sales	-56.7%	-55.1%	-56.4%	-61.5%	-59.7%		
Power and Fuel	0	0	0	0	0		
as % of sales	0	0	0	0	0		
Other Mfg Expenses	0	0	0	0	0		
as % of sales	0	0	0	0	0		
Employee Cost	-220	-222	-232	-303	-290	32.0	-4.2
as % of sales	-8.4%	-7.4%	-9.4%	-10.1%	-12.0%		
Other expenditure	-396	-447	-404	-431	-415	4.7	-3.7
as % of sales	-15.2%	-14.9%	-16.3%	-14.4%	-17.2%		
EBITDA	514	682	443	420	269	-47.7	-36.1
Depreciation	-62	-62	-62	-95	-80	29.0	-15.4
EBIT	452	620	381	326	189	-58.3	-42.1
Other Income	20	1	10	34	9	-55.4	-73.5
Interest	-89	-103	-91	-101	-91	2.2	-9.5
PBT	383	519	300	259	107	-72.2	-58.9
Tax	-119	-194	-74	-49	-36	-69.7	-26.1
Adjusted PAT	264	325	226	211	71	-73.3	-66.5
Extra ordinary items	0	0	0	0	0		
Reported PAT	264	325	226	211	71	-73.3	-66.5
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
PAT after MI	264	325	226	211	71	-73.3	-66.5
Reported EPS	1.0	1.3	0.9	0.8	0.3	-73.3	-66.5

Margins (%)						(bps)	(bps)
EBIDTA	19.7	22.7	17.9	14.0	11.1	-856	-290
EBIT	17.3	20.6	15.4	10.9	7.8	-950	-306
EBT	14.7	17.2	12.1	8.6	4.4	-1026	-424
PAT	10.1	10.8	9.1	7.0	2.9	-719	-410
Effective Tax rate	31.1	37.4	24.7	18.8	33.8	274	1501

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	12,439	11,091	12,643	14,540
Growth (%)	27.9	-10.8	14.0	15.0
Expenditure	10,441	9,031	10,750	12,363
Raw Materials	8,203	6,377	7,598	8,738
Construction Exp	1,501	1,678	2,040	2,346
Employee Cost	727	976	1,112	1,279
Other Exp	10	0	0	0
EBITDA	1,998	2,060	1,893	2,177
Growth (%)	29.1	3.1	-8.1	15.0
EBITDA margin (%)	16.1	18.6	15.0	15.0
Depreciation	278	281	254	284
EBIT	1,719	1,779	1,639	1,892
EBIT margin (%)	13.8	16.0	13.0	13.0
Other Income	38	65	111	123
Interest expenses	388	383	470	431
PBT	1,369	1,461	1,280	1,584
Tax	458	436	382	472
Effective tax rate (%)	33.5	29.8	29.8	29.8
Adjusted PAT	910	1,025	899	1,112
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	910	1,025	899	1,112
Growth (%)	35.0	12.6	-12.4	23.7
Net Margin (%)	7.3	9.2	7.1	7.6
E/O items	0	0	0	0
Reported PAT	910	1,025	899	1,112
Growth (%)	35.7	12.7	-12.4	23.7

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	1,331	1,396	1,170	1,461
Depreciation	278	281	254	284
Interest Provided	388	383	470	431
Other Non-Cash items	0	0	0	0
Chg in working cap	-71	-1,285	-599	-810
Tax paid	-391	-556	-365	-452
Operating Cashflow	1,536	220	929	915
Capital expenditure	-940	-953	-800	-100
Free Cash Flow	596	-733	129	815
Other income	38	65	111	123
Investments	3	-172	0	206
Investing Cashflow	-900	-1,060	-689	229
Equity Capital Raised	3	15	0	0
Loans Taken / (Repaid)	151	594	0	-700
Interest Paid	-388	-383	-470	-431
Dividend paid (incl tax)	-85	-96	-84	-104
Income from investments	0	0	0	0
Others	21	435	0	0
Financing Cashflow	-298	565	-554	-1,235
Net chg in cash	338	-275	-314	-91
Opening cash position	479	817	542	228
Closing cash position	817	542	228	137

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	243	253	253	253
Reserves & surplus	3,608	4,949	5,763	6,771
Net worth	3,851	5,202	6,016	7,023
Minority Interest	0	0	0	0
Secured Loans	3,676	4,270	4,270	3,570
Unsecured Loans	0	0	0	0
Loan Funds	3,676	4,270	4,270	3,570
Net deferred tax liability	149	173	173	173
Total Liabilities	7,676	9,645	10,459	10,766
Gross Block	3,756	4,413	5,279	5,814
Less: Depreciation	875	1,156	1,409	1,693
Net block	2,882	3,257	3,870	4,121
Capital work in progress	664	960	894	459
Investment	34	206	206	0
Current Assets	5,868	6,795	7,357	8,334
Inventories	1,800	2,283	2,603	2,993
Sundry debtors	2,826	3,377	3,850	4,427
Cash & bank balance	817	542	228	137
Loans & advances	425	593	676	777
Other current assets	0	0	0	0
Current lia & Prov	1,776	1,574	1,868	2,148
Current liabilities	1,535	1,453	1,730	1,989
Provisions	241	121	138	159
Net current assets	4,092	5,221	5,489	6,187
Misc. exp & Def. Assets	5	0	0	0
Total Assets	7,676	9,645	10,459	10,766

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	16.1	18.6	15.0	15.0
Net Margin	7.3	9.2	7.1	7.6
ROCE	24.5	21.0	16.7	18.2
ROE	26.5	22.7	16.0	17.0
RoIC	17.7	16.0	12.2	12.9
Per Share Data (Rs)				
EPS	3.7	4.1	3.6	4.4
CEPS	4.9	5.2	4.6	5.5
BVPS	15.8	20.6	23.8	27.8
DPS	0.3	0.3	0.3	0.4
Valuations (x)				
PER	8.3	7.6	8.7	7.1
P/CEPS	6.3	6.0	6.8	5.6
P/BV	1.9	1.5	1.3	1.1
EV / Sales	0.8	1.0	0.9	0.8
EV / EBITDA	5.2	5.6	6.3	5.3
Dividend Yield (%)	1.0	1.1	0.9	1.2
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.7	0.7	0.5
Net Debt/EBITDA	1.4	1.8	2.1	1.7
Working Cap Cycle (days)	96	154	152	152

August 10, 2010

BUY

Price	Target Price
Rs 183	Rs 240
Sensex	18,220

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	5	(5)	(2)
Rel. to Sensex	2	(4)	(17)	(19)

Source: Bloomberg

Stock Details

Sector	Telecom
Reuters	TULP.BO
Bloomberg	TTSL@IN
Equity Capital (Rs mn)	290
Face Value(Rs)	2
No of shares o/s (mn)	145
52 Week H/L	250/158
Market Cap (Rs bn/USD mn)	26/564
Daily Avg Volume (No of sh)	372331
Daily Avg Turnover (US\$m)	1.5

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	69.0	69.0	69.0
FII/NRI	25.1	24.8	24.8
Institutions	1.4	1.6	1.6
Private Corp	1.5	1.6	1.6
Public	3.1	3.0	3.0

Source: Capitaline

- Q1FY11 APAT growth of 3% is below estimates, led by lower than est. EBIDTA margins and higher interest expenses
- Contribution of fiber business increases to 25% of revenues in just 18 months. Mgmt target of taking it to 70% remains
- Cut EPS estimates by 4% and 3.6% to Rs21.1 and Rs25.9 for FY11E and FY12E respectively primarily due to higher interest expenses
- Retain BUY with revised price target of Rs240. Valuations at 8.7x and 7.1x for FY11E and FY12E remain attractive

Healthy operating performance led by growth in fiber business

Net sales increased by 18.6% YoY to Rs 5.2bn (in line with estimates) on healthy growth in data connectivity business. EBIDTA increased by 30.5% YoY to Rs 1.4bn (v/s estimate of Rs 1.57bn) with margins expanding by 250bps yoy to 27%. EBIDTA margins have dropped by 210bps QoQ and are below our estimates due to higher raw material costs. Reported PAT declined by 14.5% YoY to Rs 642mn (v/s estimates of Rs 804 mn) due to higher interest cost on increased debt (debt increased from Rs11.9bn in Q4FY10 to Rs12.4bn in Q1FY10), increase in effective tax rate (24.5% v/s 11.3% in Q1FY10, due to completion of first leg of 80I (A) benefit) and negative other income in Q1FY11 v/s other income of Rs 112mn in Q1FY10. APAT (adjusting to forex gain/ loss) grew by 3.1% YoY.

Revenue growth driven by fiber – contribution rises to ~ 25% of revenues in Q1FY11

During the quarter fiber based services contributed ~ 25% to the total revenues against ~20% in Q4FY10. Adjusting to the fiber revenues, we believe that the wireless VPN revenues have remained stable on yoy basis, more so as the customers on wireless continue to switch to wire-line bandwidth. Tulip management continues to target ~ 70% of its revenues from fiber based services over next two years.

Qualcomm investment – financial in nature, has no lock-in

Tulip has invested Rs1.4bn in Qualcomm's BWA venture for 13% stake. While Tulip management has not disclosed the actual benefit arising out of the investment in Qualcomm, it has indicated of likely healthy return on investment made. As per Tulip management, Qualcomm would bring-in some service provider for launch of TD-LTE services, while continuing to be a technology provider itself. Tulip does not have any lock-in for the 13% stake, but has tag along in case of any stake sale by Qualcomm, which makes the investment, financial in nature.

Valuations attractive - BUY with target Rs240

Considering a seasonally weak quarter (with profits slightly below estimate), we retain our EBIDTA estimates but however cut EPS estimates by 4% and 3.6% to Rs21.1 and Rs25.9 for FY11E and FY12E respectively due to increase in interest expenses. Considering peak capex getting over and the benefit of the same yet to accrue over the next 2 years in addition to healthy earnings CAGR of 17% over FY10-12E and in-expensive valuations at 8.7x and 7.1x for FY11E and FY12E, we retain BUY rating on the stock with revised price target of Rs240 (v/s Rs248 earlier).

YE-Mar	Net Sales	EBITDA (Rs Mn)	EBIDTA (%)	PAT (Rs Mn)	EPS (Rs)	EPS % chg	ROE	P/E (x)	EV/EBITDA (x)	P/BV (x)
FY2009	16,144	3,367	20.9	2,505	17.3	33.8	44.4	10.6	10.2	3.9
FY2010	19,664	5,255	26.7	2,755	19.0	10.0	34.2	9.6	6.7	2.9
FY2011E	24,376	6,799	27.9	3,476	21.1	11.2	26.5	8.7	5.3	1.8
FY2012E	28,450	8,136	28.6	4,266	25.9	22.7	22.6	7.1	4.1	1.4

Estimates cut by ~4% on interest expenses

While we maintain our revenue and EBIDTA estimates, we have cut our earning estimates by 4.0% and 3.6% respectively for FY11E and FY12E due to higher interest expenses.

	FY11E			FY12E		
	Old	New	% chg	Old	New	% chg
Revenues	24,376	24,376	0.0%	28,450	28,450	0.0%
EBIDTA	6,799	6,799	0.0%	8,136	8,136	0.0%
EBIDTA %	27.9	27.9	0	28.6	28.6	0
PAT	3,621	3,476	-4.0%	4,406	4,248	-3.6%
EPS (Rs)	22.0	21.1	-4.0%	26.8	25.8	-3.6%

Quarterly financials

	1Q10	2Q10	3Q10	4Q10	1Q11	YoY % chg	QoQ % chg
Net sales	4,429	4,910	5,009	5,303	5,252	18.6	(1.0)
Expenditure	3,343	3,639	3,656	3,758	3,834	14.7	2.0
<i>as % of sales</i>	75.5	74.1	73.0	70.9	73.0		
Raw mat exp	3,037	3,309	3,307	3,301	3,475	14.4	5.3
<i>as % of sales</i>	68.6	67.4	66.0	62.2	66.2		
Employee exp	185	208	202	221	215	16.1	(2.6)
<i>as % of sales</i>	4.2	4.2	4.0	4.2	4.1		
Other exp	121	122	147	236	145	19.5	(38.8)
<i>as % of sales</i>	2.7	2.5	2.9	4.5	2.8		
EBIDTA	1,086	1,271	1,353	1,545	1,418	30.5	(8.3)
Depreciation	353	436	409	155	375	6.3	141.5
EBIT	734	836	944	1,390	1,043	42.1	(25.0)
Interest	158	187	187	185	185	16.9	0.1
PBT (Core)	575	648	757	1,205	858	49.1	(28.8)
Other income	271	37	104	57	(13)	(104.9)	(123.6)
PBT	847	685	860	1,262	844	(0.3)	(33.1)
Tax	96	164	172	467	203	111.3	(56.6)
APAT	622	577	688	795	642	3.1	(19.3)
Reported PAT	751	521	688	795	642	(14.5)	(19.3)
Reported EPS	5.2	3.6	4.7	5.5	4.4	(14.5)	(19.3)
AEPS	4.3	4.0	4.7	5.5	4.4	3.1	(19.3)

Margins (%)						YOY bps chg	QoQ bps chg
EBIDTA	24.5	25.9	27.0	29.1	27.0	247	(214)
EBIT	16.6	17.0	18.8	26.2	19.9	329	(636)
EBT	19.1	14.0	17.2	23.8	16.1	(304)	(772)
PAT	16.9	10.6	13.7	15.0	12.2	(473)	(277)
Effective Tax rate	11.3	24.0	20.0	37.0	24.0	1,267	(1,299)

Key Financials

Profit & Loss

	FY09	FY10	FY11E	FY12E
Net Sales	16,144	19,664	24,376	28,450
<i>Growth (%)</i>	32.4	21.8	24.0	16.7
Expenditure	12,777	14,409	17,577	20,314
Raw materials	11,559	12,953	15,324	17,683
Personnel cost	712	825	1,005	1,145
Sales & admin expenses	506	632	1,247	1,486
EBITDA	3,367	5,255	6,799	8,136
<i>Growth (%)</i>	37.1	56.1	29.4	19.7
EBITDA margin (%)	20.9	26.7	27.9	28.6
Depreciation	414	1,353	1,622	1,924
EBIT	2,953	3,902	5,177	6,212
EBIT margin (%)	18.3	19.8	21.2	21.8
Other Income	344	468	160	125
Interest charges	462	716	759	721
PBT	2,835	3,654	4,578	5,617
Tax	330	899	1,102	1,351
<i>ETR</i>	11.6	24.6	24.1	24.0
Adjusted PAT	2,505	2,755	3,476	4,266
<i>Growth (%)</i>	33.8	10.0	26.2	22.7
Net Margin	15.5	14.0	14.3	15.0
Reported PAT	2,505	2,755	3,476	4,266
<i>Growth (%)</i>	33.8	10.0	26.2	22.7

Cash Flow Statement

	FY09	FY10E	FY11E	FY12E
PBT	2,835	3,654	4,578	5,617
Depreciation	414	1,353	1,622	1,924
Tax	(1)	(899)	(1,102)	(1,351)
Change in WC	(165)	(1,340)	(1,037)	(648)
Others	(78)	716	759	721
Operating cash flow	3,005	3,483	4,819	6,263
(Inc)/dec in fixed assets	(7,365)	(3,181)	(4,500)	(2,500)
Free cash Flow	(4,360)	302	319	3,763
Net Investments	(0)	-	(1,400)	-
Others	3,553	-	-	-
CFI	3,553	-	(1,400)	-
Inc/(dec) in Equity	-	-	4,463	-
Net Borrowings	2,286	662	(3,802)	(1,000)
Dividend paid	(136)	(271)	(308)	(308)
others	(3,812)	(716)	(759)	(721)
CFF	(1,661)	(325)	(405)	(2,029)
Inc/(dec) in cash	(2,468)	(23)	(1,486)	1,734
Cash beginning	5,938	3,470	3,447	1,961
Cash ending	3470	3447	1961	3695

Balance Sheet

	FY09	FY10E	FY11E	FY12E
Equity Capital	290	290	329	329
Reserves & surplus	6,529	9,013	16,604	20,562
Networth	6,819	9,303	16,933	20,891
Total Debt	11,225	11,887	8,085	7,085
Def tax liability	9	9	9	9
Capital Employed	18,053	21,198	25,028	27,986
Goodwill	0	0	0	0
Gross Block	9,437	15,440	19,440	21,940
Less Depreciation	1,062	2,415	4,037	5,961
Net Fixed Assets	8,375	13,025	15,403	15,979
CWIP	3,772	950	1,450	1,450
Investments	0	0	1,400	1,400
Inventories	916	1,077	1,336	1,559
Sundry debtors	3,242	3,232	4,007	4,677
Cash and Bank	3,470	3,447	1,961	3,695
Loans & Advances	1,093	808	801	779
Total Curr. Assets	8,722	8,565	8,105	10,710
Total Cur Liab & Prov	2,821	1,347	1,336	1,559
Net Current Assets	5,901	7,218	6,769	9,151
Misc expenses	4	4	4	4
Total Assets	18053	21198	25028	27986

Ratios

	FY09	FY10E	FY11E	FY12E
Profitability (%)				
EBITDA Margin	20.9	26.7	27.9	28.6
Net Margin	15.5	14.0	14.3	15.0
ROCE	18.8	19.9	22.4	23.4
ROE	44.4	34.2	26.5	22.6
RoIC	26.8	24.1	26.3	27.9
Per Share Data (Rs)				
EPS	17.3	19.0	21.1	25.9
CEPS	20.1	28.3	31.0	37.6
BVPS	9.4	12.8	20.6	25.4
DPS	4.0	8.0	1.6	1.6
Valuations (x)				
PER	10.6	9.6	8.7	7.1
P/CEPS	9.1	6.5	5.9	4.9
P/BV (x)	3.9	2.9	1.8	1.4
EV/Sales (x)	2.1	1.8	1.5	1.2
EV/EBITDA	10.2	6.7	5.3	4.1
Dividend yield %	2.2	4.4	0.9	0.9
Gearing Ratio (x)				
Net Debt/ Equity	1.1	0.9	0.3	0.1
Net Debt/EBITDA	2.3	1.6	0.7	0.2
Working Cap Cycle (days)	30.2	55.0	60.0	60.0

August 10, 2010

HOLD

Price	Target Price
Rs 170	Rs 185
Sensex	18,220

Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	10	12	14
Rel. to Sensex	(10)	1	(2)	(5)

Source: Bloomberg

Stock Details

Sector	Construction
Reuters	IVRC.BO
Bloomberg	IVRC@IN
Equity Capital (Rs mn)	534
Face Value (Rs)	2
No of shares o/s (mn)	267
52 Week H/L (Rs)	212/144
Market Cap (Rs bn/USD mn)	47/1,019
Daily Avg Vol (No of shares)	1881128
Daily Avg Turnover (US\$ mn)	7.1

Shareholding Pattern (%)

	Jun'10	Mar'10	Dec'09
Promoters	9.6	9.7	9.7
FII/NRI	55.8	58.0	58.5
Institutions	13.3	10.6	13.3
Private Corp	10.5	10.1	9.9
Public	10.8	11.7	8.6

Source: Capitaline

- IVRCL Q1FY11 PAT at Rs 281 mn sharply below estimates (Rs485.9 mn) led by revenue growth of just 2.4%- irrigation projects in AP, MP & IOCL project impacts execution.
- Reported EBITDA margins at 9.1% (+36 bps) – adjusting for the cost of spares (cost related to earlier period) EBIDTA shrinks 320 bps to 5.5% clearly reflecting execution issues
- Management guidance of ~Rs70 bn revenues & EBIDTA margins of 10%, implies steep 9MFY11 revenue growth of 38% & EBIDTA growth of 40%.
- We believe IVRCL will continue to face headwinds on account of execution. We downgrade FY11E/12E EPS by 12.5%/7.5%. Downgrade rating to HOLD - cut target to Rs185

Muted revenue growth of 2.4% impacted by execution issue

IVRCL's revenue growth of just 2.4% with revenues of Rs11.06 bn (our estimate Rs13.2 bn) is reeling under execution pressure as execution issues at irrigation projects in Andhra Pradesh (AP) & Madhya Pradesh (MP) impacted revenue growth. The issues were further aggravated by procedural delays at the IOCL tankage project. Management highlighted that the company lost close to Rs 2-2.5 bn of revenues in Q1FY11 on account of issue relating to these 3 projects.

Reported EBIDTA margins at 9.1% - adjusted margins at 5.5%

Though execution continues to be lackluster, IVRCL has reported an EBITDA margin of 9.1% an expansion of 36 bps yoy, resulting in EBIDTA of Rs1 bn +6.6% yoy. However, the quarter includes credit of Rs400 mn, relating to cost of stores & spares for earlier years. Adjusting for this credit, EBIDTA margins at a meager 5.5% actually declined by 320 bps yoy & 483 bps qoq, where as EBITDA would have decline 36% yoy, clearly reflecting execution issues faced by company

Net profit declines 20% yoy – sharply below estimates

On account of 21.5% increase in depreciation charge and 16.3% increase in interest expenses (led by higher debt of Rs22 bn on books) , net profit for the quarter at Rs281 mn declined 20% yoy even after EBIDTA growth of 6.6%. We would like to highlight that though the report PBT stood at Rs406 mn, adjusted for the credit of Rs400 mn PBT would have stood at Rs 6 mn.

Management revenue guidance of Rs70 bn implies steep 38% 9MFY11 growth

Even after a disappointing quarter, management remains upbeat and is confident of regaining lost ground. Management has shared revenue guidance of Rs70 bn & EBIDTA margins of 10% for FY11. This implies a steep 9MFY11 revenue growth of 38% & EBIDTA growth of 40%.

Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE		EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	48,819	4,218	8.6	2,333	8.7	7.2	13.7	17.7	12.9	2.3
FY10	54,771	5,161	9.4	2,111	7.9	-9.5	11.1	19.6	11.2	2.1
FY11E	64,132	5,868	9.2	2,376	8.9	12.5	11.3	17.4	10.3	1.9
FY12E	80,700	7,263	9.0	2,953	11.1	24.3	12.6	14.0	9.1	1.7

Source: Company. Emkay Research

Results table

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	yoy	qoq
Revenue	10807	12138	11815	18870	11062	2.4%	-41.4%
Expenditure	9864	11034	10685	16920	10057	1.9%	-40.6%
as % of sales	91.3	90.9	90.4	89.7	90.9		
Consumption of RM	4327	4722	4250	6847	3606	-16.6%	-47.3%
as % of sales	40.0	38.9	36.0	36.3	32.6		
Construction Expenses	1646	3062	2591	3575	1901	15.5%	-46.8%
as % of sales	15.2	25.2	21.9	18.9	17.2		
Masonry and Other labour	3291	2614	3110	5159	3614	9.8%	-29.9%
as % of sales	30.4	21.5	26.3	27.3	32.7		
Employee Cost	418	403	479	716	652	55.9%	-8.9%
as % of sales	3.9	3.3	4.1	3.8	5.9		
Other expenditure	183	234	256	624	283	54.3%	-54.7%
as % of sales	1.7	1.9	2.2	3.3	2.6		
EBITDA	943	1105	1131	1950	1005	6.6%	-48.5%
Depreciation	129	133	139	141	157	21.5%	12.0%
EBIT	813	972	992	1810	848	4.2%	-53.2%
Other Income	92	107	64	54	11	-87.6%	-78.8%
Interest	389	364	368	525	453	16.3%	-13.8%
PBT	516	715	688	1338	406	-21.3%	-69.7%
Total Tax	165	227	229	486	125	-24.0%	-74.2%
Adjusted PAT	351	488	458	852	281	-20.0%	-67.1%
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
APAT after MI	351	488	458	852	281	-20.0%	-67.1%
Extra ordinary items	0	0	0	0	0		
Reported PAT	351	488	458	852	281	-20.0%	-67.1%
Reported EPS	1.3	1.8	1.7	3.2	1.1	-20.0%	-67.1%

Margins						bps	bps
EBIDTA	8.7%	9%	10%	10%	9.1%	36.16	-125.0
EBIT	8%	8%	8%	10%	8%	13.69	-192.8
EBT	5%	6%	6%	7%	4%	(110.47)	-342.0
PAT	3%	4%	4%	5%	3%	(71.06)	-198.0
Effective Tax rate (%)	32%	32%	33%	36%	31%	(1.11)	-5.4

Source: Company, Emkay Research

Order inflow Rs 10.0 bn - down 33.1%yoy – backlog at 4.25X FY10 revenues

After a strong order flow in H2FY10 of Rs 119 bn from the water, roads & buildings segment fresh orders remained muted in Q1FY11 at Rs 10 bn. Current order backlog stands at Rs 232 billion and the management expects to close FY11 with an outstanding order book in the range of Rs 280 - 310 bn.

Order-book backlog and Order inflow details

Order book details (Rs Mn)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	% yoy	% qoq
Opening order backlog	145000.0	149000.0	146000.0	220000.0	233750.0	61.2	6.3
Order inflow	15045.5	9451.1	86421.7	32626.8	10069.4	-33.1	-69.1
Revenue Booked	11045.5	12451.1	12421.7	18876.8	11069.4	0.2	-41.4
Closing Order backlog	149000.0	146000.0	220000.0	233750.0	232750.0	56.2	-0.4

Source: Company, Emkay Research

Downgrading FY11/12 EPS estimates by 12.5%/7.5% - cut target to Rs185

Though we expect IVRCL to see pick up in growth, we believe that majority of the growth will be skewed towards H2FY11. However on account of disappointing Q1FY11 and continued execution issue with two of its key states (AP & MP), we downgrade our FY11E/12E EPS by 12.5%/7.5%. To factor in the downgrade in earnings we cut our target on the stock to Rs185 (Earlier Rs199). We have valued the core construction business at 13X FY11 earnings (13.8X) leading to core business value of Rs 116 /share and added value of investments (HDOL- Rs 17/share & IVRCL assets – Rs 52/share) at 25% holding company discount.

Downgrading FY11/12 EPS estimates by 12.5%/7.5%

Rs mn	FY11E			FY12E		
	Earlier	Revised	% chg	Earlier	Revised	% chg
Sales	68,109	64,132	-6%	84,649	80,700	-5%
EBIDTA	6,368	5,868	-9%	7,618	7,263	-5%
EBIDTA (%)	9.3%	9.2%		9.0%	9.0%	
Net Profit After Minority	2,715	2,376	-14%	3,195	2,953	-8%
EPS	10.2	8.9		12	11.1	

Source: Emkay Research

IVRCL's SOTP value at Rs 185

Business	Valuation Basis	Multiple (x)	Value (Rsmn)	Value per share (Rs)
Construction business	FY11E, PE (x)	13.0	30887	116
Hindustan Dorr Oliver	MCap	25% discount to M Cap	4448	17
IVR Asset Holding	MCap	25% discount to M Cap	13807	52
Total Fair value			49142	185.0

Source: Emkay Research, Capitaline

Downgrade rating to HOLD

IVRCL is facing headwind in term of execution, we believe that the situation will change with AP turning back to political stability. However near term concerns on the execution overshadows the prospects of a strong order book of Rs232.7 bn (~4 X FY10 topline). Though we expect IVRCL to see pick up in growth, we believe that majority of the growth will be skewed towards H2FY11. We await clarity on pick up in execution. We downgrade our rating to HOLD (from BUY) – target Rs185.

Financials

Income Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Net Sales	48819	54771	64132	80700
Growth (%)	33.4	12.2	17.1	25.8
Expenditure	44601	49610	58264	73437
Materials Consumed	16578	20211	23665	29778
Construction Exp	25194	26070	30527	38574
Employee Cost	1953	2026	2565	3228
Other Exp	876	1303	1507	1856
EBITDA	4218	5161	5868	7263
Growth (%)	16.7	22.4	13.7	23.8
EBITDA %	8.6	9.4	9.2	9.0
Depreciation	473	543	647	722
EBIT	3745	4618	5221	6541
EBIT margin (%)	7.7	8.4	8.1	8.1
Other income	299	307	321	403
Interest expenses	1233	1637	1996	2537
PBT	2811	3288	3546	4408
Total Tax	478	1177	1170	1455
Effective tax rate (%)	17.0	35.8	33.0	33.0
Adjusted PAT	2333	2111	2376	2953
Growth (%)	7.2	-9.5	12.5	24.3
Net Margin (%)	4.8	3.9	3.7	3.7
(Profit)/loss from JVs/Ass/MI				
Adjusted PAT After JVs/Ass/MI	2333	2111	2376	2953
E/O items	-73	2	0	0
Reported PAT	2260	2113	2376	2953
Growth (%)	7.4	-6.5	12.4	24.3

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity share capital	267	534	534	534
Reserves & surplus	17839	19464	21622	24356
Networth	18106	19998	22156	24890
Minority Interest				
Secured Loans	10185	14185	18385	23385
Unsecured Loans	3795	3795	3795	3795
Loan Funds	13980	17980	22180	27180
Deferred tax liability	117	125	125	125
Total Liabilities	32203	38103	44461	52195
Gross Block	6624	7624	8624	9624
Less: Depreciation	1417	1959	2606	3328
Net block	5207	5664	6017	6296
Capital work in progress	196	196	196	196
Investment	3892	3892	3892	3892
Current Assets	38135	45297	54123	66572
Inventories	8892	10504	12299	15477
Sundry debtors	11430	15006	17570	22109
Cash & bank balance	1009	1771	3159	2443
Loans & advances	16794	18007	21085	26531
Other current assets	10	10	10	11
Current lia & Prov	15226	16946	19767	24760
Current liabilities	14787	16506	19327	24320
Provisions	440	440	440	440
Net current assets	22909	28352	34356	41812
Misc. exp	0	0	0	0
Total Assets	32203	38103	44461	52195

Cash Flow

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Pre-tax profit	2738	3288	3546	4408
Depreciation	473	543	647	722
Interest Provided	1233	1637	1996	2537
Other Non-Cash items	-79	0	0	0
Chg in working cap	-2878	-4680	-4617	-8172
Tax paid	-1018	-1170	-1170	-1455
Operating cash Inflow	468	-382	402	-1960
Capital expenditure	-2153	-1000	-1000	-1000
Free Cash Flow	-1685	-1382	-598	-2960
Other income	299	307	321	403
Investments	-483	0	0	0
Investing Cashflow	-2636	-1000	-1000	-1000
Equity Capital Raised				
Loans Taken / (Repaid)	2647	4000	4200	5000
Interest Paid	-1224	-1637	-1996	-2537
Dividend paid (incl tax)	-17	-219	-219	-219
Income from investments				
Others				
Financing Cashflow	1406	2145	1986	2245
Net chg in cash	-762	763	1388	-716
Opening cash position	1771	1009	1771	3159
Closing cash position	1009	1771	3159	2443

Key Ratios

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	8.6	9.4	9.2	9.0
Net Margin	4.8	3.9	3.7	3.7
ROCE	13.7	14.0	13.4	14.4
ROE	13.7	11.1	11.3	12.6
RoIC	15.5	15.6	15.0	15.8
Per Share Data (Rs)				
EPS	8.7	7.9	8.9	11.1
CEPS	10.2	9.9	11.3	13.8
BVPS	67.8	74.9	83.0	93.2
DPS	1.4	1.0	1.0	1.0
Valuations (x)				
PER	17.7	19.6	17.4	14.0
P/CEPS	15.2	15.6	13.7	11.3
P/BV	2.3	2.1	1.9	1.7
EV / Sales	1.1	1.1	0.9	0.8
EV / EBITDA	12.9	11.2	10.3	9.1
Dividend Yield (%)	0.9	0.6	0.6	0.6
Gearing Ratio (x)				
Net debt/ Equity	0.7	0.8	0.9	1.0
Net Debt/EBIDTA	3.1	3.1	3.2	3.4
Working Cap Cycle (days)	41.4	60.0	60.0	60.0

Source: Company. Emkay Research

Indices

Indices	Today's close	% chg
Sensex	18,219	-0.37
Nifty	5460	-0.46
S&P CNX 500	4557	-0.48
BSE 500	7,340	-0.41
BSE Mid-Cap	7,583	-0.51
BSE Small-Cap	9,686	-0.35
BSE Auto	8,639	0.10
BSE Health	5,548	-0.79
BSE FMCG	3,284	-0.31
BSE IT	5,591	-1.42
BSE PSU	9,573	-0.75
BSE Bankex	11,942	-0.01
BSE Oil & Gas	10,055	-0.20
BSE Metal	15,593	-0.72
BSE Cons Dur	5,550	-0.78
BSE Cap Good	14,793	0.14
BSE Realty	3,621	0.53
BSE Power	3,136	-0.34

Levels to watch

	Sensex	Nifty
Day's High	18293	5491
Day's Low	18170	5445
21 EDMA	18002	5409
55 EDMA	17705	5318

Trend Tracker

	Up/ Down	Sensex/ Nifty	Sensex/ Nifty
		Target	Reversal
Short Term*	↓	17370/5230	18250/5500
Mid Term*	↓	16200/4900	18500/5550
ST: 0-14 Days		MT: 14-45 Days	

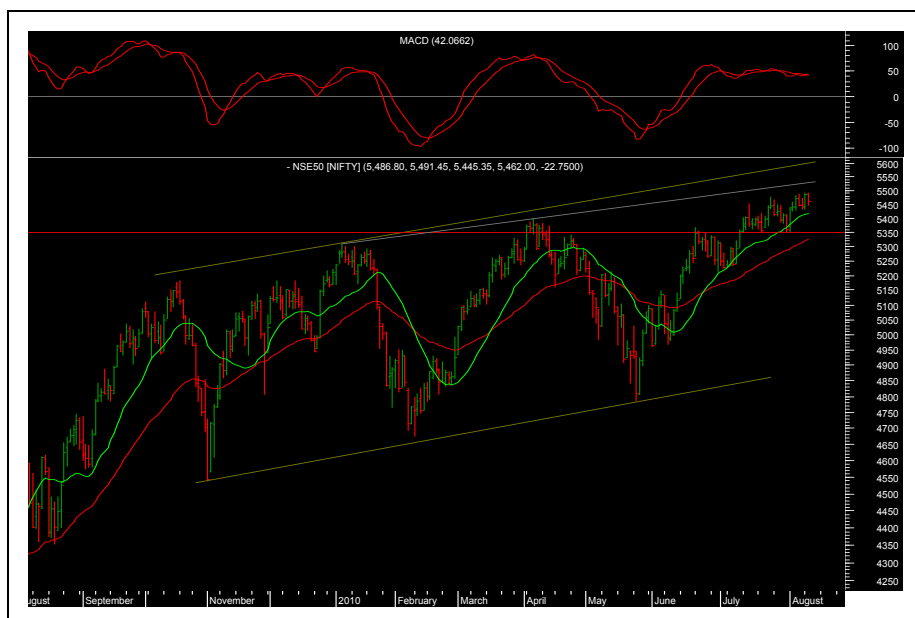
Nifty Intraday levels to watch

	Support	Resistance
Nifty	5445/5430	5467/5480

TechCheck

Inside bar

Nifty closed with modest losses on the back of profit booking as well as sell-off across the globe. After today's move, Nifty has formed an inside bar on daily chart, indicating a balance of sentiments between buyers and sellers which is later resolved by a change in trend. Moreover, after a sustained up move an inside bar formation is a sign of trend exhaustion. So we still maintain our downside bias for the target of 5230 with the reversal of 5500.



Sectoral Speak

BSE Realty:

BSE Realty index continued its northbound journey and tested mentioned target of 3660. On daily chart, the index has formed a "Doji" which is sign of indecision. Thus today's range will act as crucial level for the breakout on either side.



Technical Recommendations

EPT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	% change	Comment
13.07.10	McNallyB	Buy	301.00	277.4	323/345	309.10	2.69	
30.07.10	HDIL	Sell	265.70	282.00	245/230	282.40	-5.91	Stop-loss triggered
30.07.10	ONGC	Sell	1240.00	1300.00	1175/1120	1236.65	0.27	
06.08.10	Ster	Sell	176.00	187.00	160/150	176.25	-0.14	
09.08.10	Gati	Buy	82.50	74.40	100/114	81.35	-1.39	

EMT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	% change	Comment
04.08.10	Havells	Buy	708.35	678.30	735/746.70	718.35	1.41	Profit Booked
04.08.10	Rpower	Buy	161.30	156.00	166/170	157.60	-2.29	
05.08.10	Gail	Sell	432.45	451.30	416/410	443.00	-2.38	
09.08.10	Century textile	Buy	460.50	447.80	474/485	470.50	2.17	Profit Booked
09.08.10	Rcom	Buy	174.75	171.70	184/194	175.00	0.14	
09.08.10	Indus Bank	Buy	215.00	206.30	225/230	219.00	1.86	

Results Today

Arshiya Intl.

Bajaj Hindusthan

Bharati Shipyard

Bharti Airtel

Bosch

Everonn Educat.

Financial Tech.

Marg

Sundram Fasten.

[Home](#)**Emkay Global Financial Services Ltd.**

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