



Power Grid Corporation

BSE SENSEX 18,409
S&P CNX 5,544

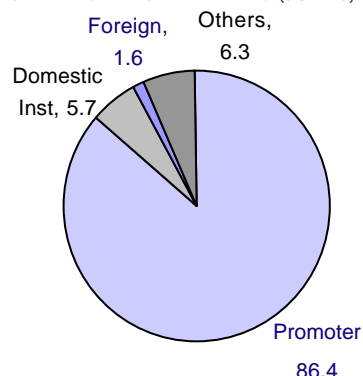
Rs104

Buy

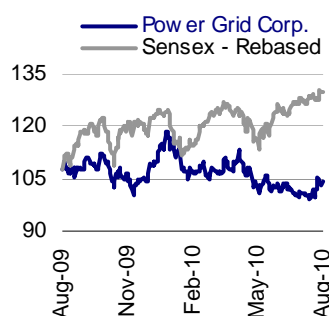
Bloomberg PWGR IN
Reuters PGRD.BO
Equity Shares (m) 4,208.8
52-Week Range (Rs) 121/95
1,6,12 Rel. Perf. (%) 2/-16/-24
M.Cap. (Rs b) 437.7
M.Cap. (US\$ b) 9.4

Y/E MARCH	2010	2011E	2012E
Net Sales (Rsb)	71.3	85.2	103.9
EBITDA (Rsb)	58.7	71.3	88.0
NP (Rsb)	23.0	26.6	33.3
EPS (Rs)	5.5	5.7	7.2
EPS Gr. (%)	18.6	4.9	25.3
BV/Share (Rs)	37.9	48.1	53.1
P/E (x)	19.0	18.1	14.5
P/BV (x)	2.7	2.2	2.0
EV/EBITDA (x)	12.8	11.8	10.7
EV/Sales (x)	10.5	9.9	9.0
RoE (%)	15.1	13.9	14.2
RoCE (%)	8.6	9.0	9.2

SHAREHOLDING PATTERN % (JUN-10)



STOCK PERFORMANCE (1 YEAR)



Meaningful acceleration in capitalization to drive core earnings

Expect PGCIL's regulated asset base to increase from Rs94b as at March 2010 to Rs140b by FY12 (up 50%); driving 15% EPS CAGR till FY12

Bunching up of private sector generation capacity addition driving accelerated execution: Given the expectations of accelerated pace of generation capacity additions with 120GW of projects under construction, we expect step-up in investments towards transmission. CERC has recently approved setting up of nine high speed transmission corridors (HSTCs). PGCIL is setting up these corridors, aimed at evacuating electricity from 38 private sector players putting up an aggregate generation capacity of ~42GW. Since most of this ~42GW capacity is likely to be commissioned over the next 3-4 years, and transmission infrastructure needs to come up in tandem, it would necessitate accelerated execution by PGCIL. Business visibility for PGCIL has improved meaningfully.

Capitalization of Rs200b over FY11-12 to drive near-term earnings: We expect PGCIL to achieve the capex of Rs550b targeted under the Eleventh Plan, despite meaningful delays in generation capacity additions, given the incremental capex towards HSTCs. During FY08-10, PGCIL's capex was Rs254b and the targeted spending in FY11-12 is Rs286b. Also, under the Twelfth Plan (FY13-17), targeted capex stands at Rs1t+, ~2x the Eleventh Plan capex. For PGCIL, order awards have been Rs150b-200b per year during FY09/FY10, and we expect the trend to accelerate. In comparison, the addition to gross block during this period has been an average of Rs33b per year, indicating a meaningful ramp-up going forward (we estimate Rs100b per year during FY11/FY12, ~3x the FY09/10 levels). CWIP as at March 2010 stands at Rs200b, ~47% of the gross block.

Telecom tower usage - not much upside: PGCIL is exploring possibilities of entering the telecom tower business. It has ~150,000 towers, but we understand that a large proportion of these are in forest areas, remote areas, etc without any meaningful catchment population. The revenue potential of this business could possibly be Rs4.5b-5b. Given that a large part could possibly be shared with distribution utilities, the residue value with PGCIL may not be meaningful.

Expect EPS CAGR of 15% till FY12; cutting estimates: We expect PGCIL's regulated asset base (RAB) to increase from Rs94b as at March 2010 to Rs140b by FY12 (up 50%), with projects of ~Rs200b being commissioned and capitalized in this period. We expect the company to report a net profit of Rs26.6b in FY11 (up 15%) and Rs33.3b in FY12 (up 25%). Given the delays in terms of asset capitalization and post factoring in possible equity dilution, we marginally cut our EPS estimates by 4% for FY11 to Rs5.7 and by 6.8% for FY12 to Rs7.2. We maintain **Buy** with a target price of Rs123.

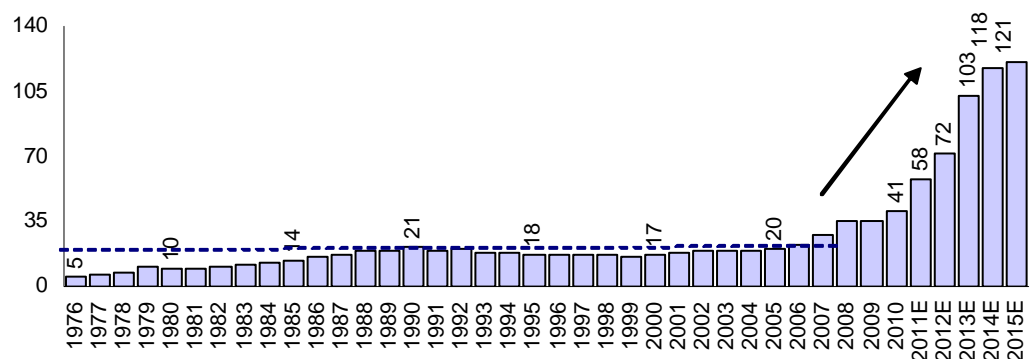
Bunching up of private sector generation capacity addition to drive accelerated execution for PGCIL

Given the accelerated pace of generation capacity additions, we expect step-up in investments towards transmission. The Open Access Policy now stipulates that any generating plant having installed capacity of over 250MW and any bulk consumer having a minimum load of 100MW can seek connectivity to the interstate transmission system. This will further drive investments in the transmission sector. Private sector participation in the transmission segment has been limited and PGCIL caters to a sizeable part of the opportunity pie. Further, PGCIL, being the Central Transmission Utility, has been designated as the nodal agency for processing the requests for long-term open access to the interstate transmission system.

In May 2010, CERC approved the setting up of nine high-speed transmission corridors (HSTCs) for evacuating power from the upcoming generation stations in the coal belt of Orissa, Jharkhand, Chhattisgarh; hydro power project in Sikkim and coastal projects in Andhra Pradesh and Tamil Nadu. These nine corridors are being set up by PGCIL and are aimed at evacuating electricity from 38 private developers putting up generation capacity of ~42GW. Given that a large part of these capacities are expected to be commissioned over the next 3-4 years, the transmission spending has to be matched in-line with the project commissioning, entailing accelerated execution by PGCIL.

EXPECT ACCELERATED PACE OF GENERATION CAPACITY ADDITIONS, DRIVING INVESTMENTS IN THE CHAIN (5-YEAR ROLLING CAPACITY ADDITION, GW)

As compared to the historical average cumulative capacity addition of 20-30GW over a 5-year period, projects under construction to be commissioned in the next five years stand at 120GW

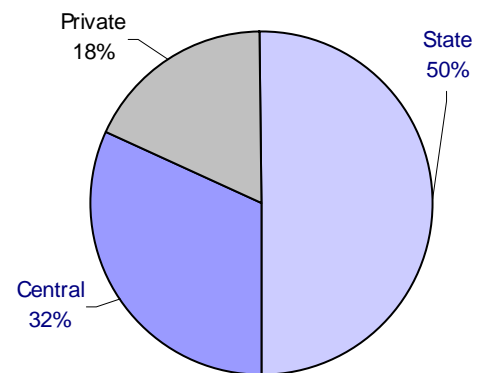
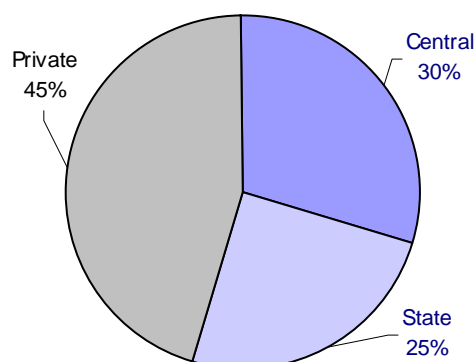


Source: CEA/MOSL

OWNERSHIP-WISE DISTRIBUTION OF -120GW CAPACITY UNDER CONSTRUCTION

CURRENT INSTALLED CAPACITY OF -159GW

Share of the private sector in projects under construction is 45% v/s 18% in installed capacity as at March 2010



Source: Company/MOSL

A large proportion of associated generation capacities are likely to be commissioned over the next 3-4 years, necessitating accelerated execution by PGCIL

HIGH SPEED TRANSMISSION CORRIDORS TO EVACUATE ~42GW POWER (CAPEX: RS B)

Phase 1 generation projects in Orissa	88
IPP projects	
- Jharkhand	57
I- Sikkim	13
- Bilaspur complex, Chhattisgarh and Madhya Pradesh	12
- Chhattisgarh	288
- Krishnapatnam, Andhra Pradesh	21
- Tuticorin , Tamilnadu	24
- Srikakulam, Andhra Pradesh	30
- Southern region for transfer of power to other regions	48
Total	581

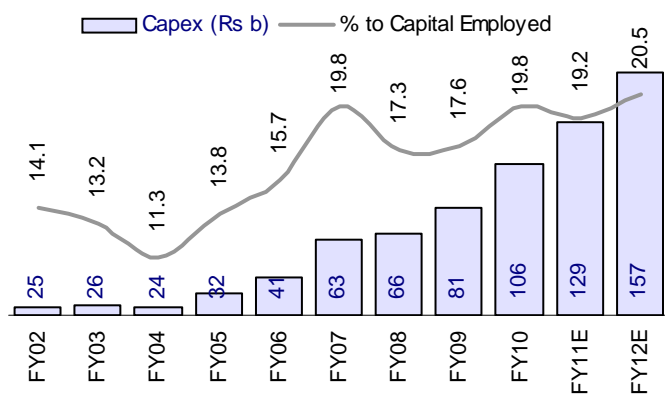
Source: Company/MOSL

Expect PGCIL to achieve Eleventh Plan capex target, despite meaningful delays in generation capacity additions

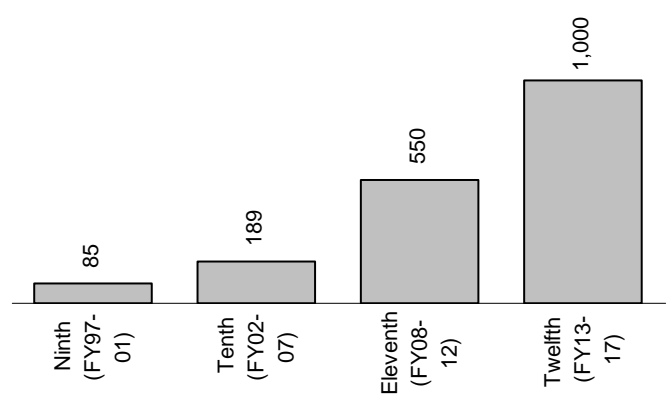
We expect PGCIL to achieve the capex of Rs550b targeted under the Eleventh Plan, despite meaningful delays in generation capacity additions. This is largely due to incremental capex towards transmission projects linked to generation capacities being set up by private sector entities, which were not part of the original estimates. Also, ~40% of PGCIL's capex is towards system strengthening, not completely linked to generation capacity additions. During FY08-10, PGCIL's capex stood at Rs254b and the targeted spending in FY11-12 is Rs286b.

For the Twelfth Plan (FY13-17), the management stated that the targeted capex stands at Rs1t+, which is ~2x the Eleventh Plan capex. This is being driven by investments in HSTCs (largely for private IPP projects), system strengthening, etc.

EXPECT PGCIL TO ACHIEVE ELEVENTH PLAN TARGETS



MEANINGFUL ACCELERATION IN PLAN-WISE CAPEX BY PGCIL (RS B)



Source: Company/MOSL

Capitalization of Rs200b during FY11-12 to drive near-term earnings

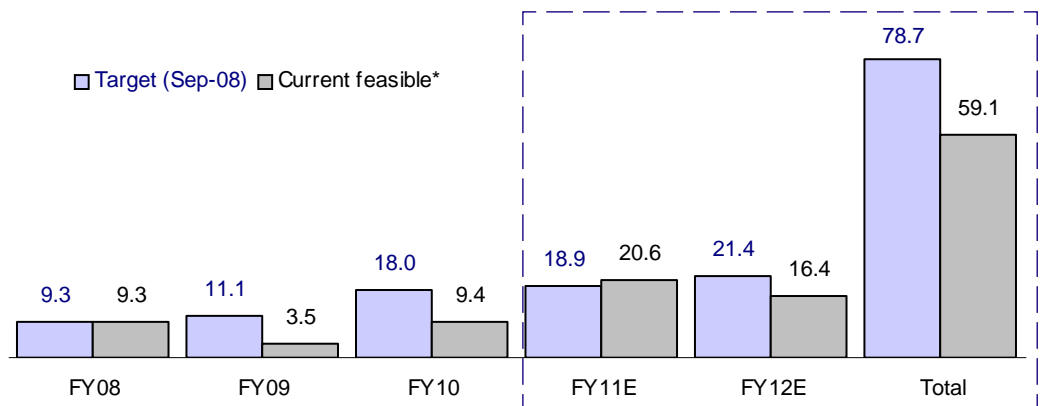
As per the regulatory norms, PGCIL earns RoE on assets capitalized, and not on capital work in progress (CWIP). Hence, the quantum of capitalizations is an important determinant of PGCIL's earnings trend.

Fixed asset capitalization stood at Rs37b in FY09 and Rs31b in FY10, and was impacted by delays in generation capacity additions. When generation capacities are delayed, PGCIL also slows down the pace of transmission capex. As a result, PGCIL's CWIP ballooned to Rs204b (47% of gross fixed assets) in FY10.

We expect the pace of capitalization to improve in FY11/FY12 to Rs100b per year, given the improved pace in generation capacity additions. Since 30% of its capex is funded through equity, this will lead to an addition of Rs70b to the regulated asset base (up 74% from current levels), driving medium-term earnings growth.

TREND IN ELEVENTH PLAN CAPACITY ADDITION TARGET AND ACHIEVEMENT (GW)

Slippages in anticipated capacity addition in FY08/ FY09 have led to bunching up of capacity addition in FY11/12E

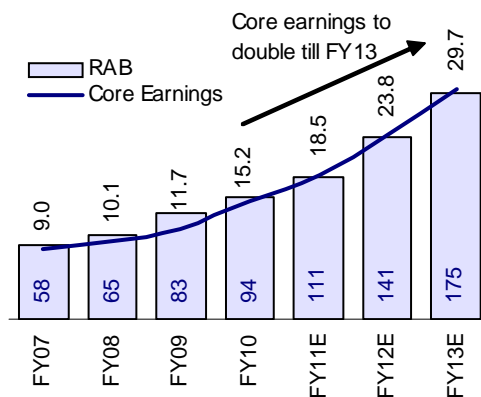


* excluding projects on best effort basis

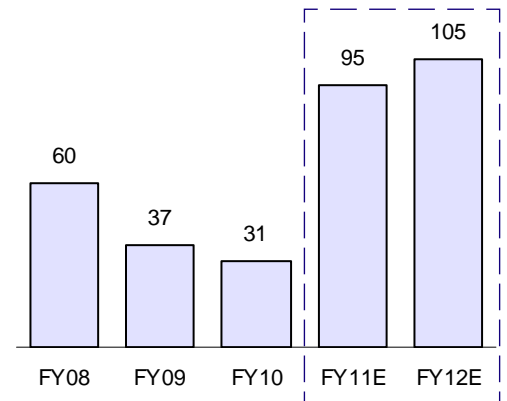
Source: CEA

INCREASED REGULATED ASSET BASE TO DRIVE CORE EARNINGS (RS B)

We expect RAB to grow 86% and core transmission earnings by 95% till FY13



EXPECT MEANINGFUL ACCELERATION IN FIXED ASSET CAPITALIZATION (RS B)



Source: Company/MOSL

Telecom tower usage - how much upside?

PGCIL is exploring possibilities of entering the telecom tower business. It has ~150,000 towers, but we understand that a large proportion of these are in forest areas, remote areas, etc without any meaningful catchment population. Media reports indicate that 15,000-20,000 towers can be commercially used. PGCIL has appointed KPMG to prepare a business plan and business model to move forward.

The revenue potential of this business could possibly be Rs4.5b-5b. Given that a large part could possibly be shared with distribution utilities, the residue value with PGCIL may not be meaningful. We have not factored in any possible upsides in our estimates.

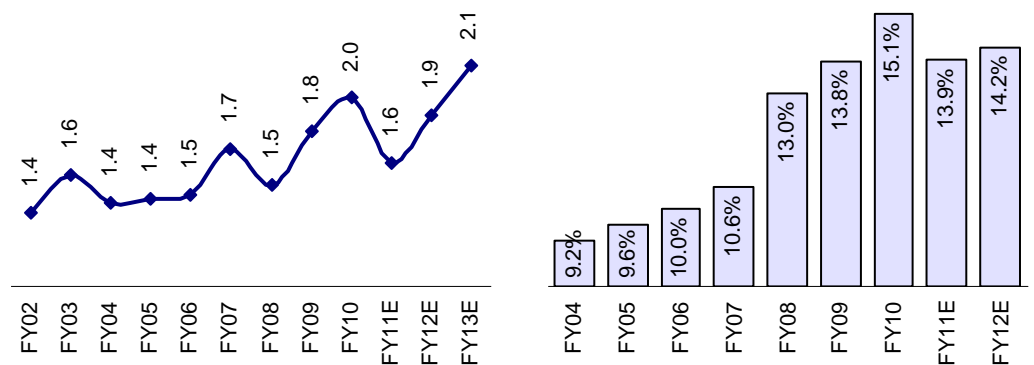
Equity dilution necessary to achieve Eleventh Plan capex targets

PGCIL intends to raise ~Rs86b through an FPO in 2HFY11, entailing 10% equity dilution and 10% stake sale by the government

PGCIL intends to raise ~Rs86b through an FPO in 2HFY11, entailing 10% equity dilution and 10% stake sale by the government. This will enable the company to meet its capital commitments during FY11-12. PGCIL's DER stands at 1.95x as at March 2010. Given the capex plans of Rs286b during FY11-12, PGCIL will need equity funding of Rs60b. The equity shortfall for PGCIL stands at Rs30b-32b. Delays in terms of fund raising beyond FY11 will entail lower equity contribution in the projects (at say ~80:20 DER, v/s CERC-approved 70:30), impacting the earnings potential of the assets. We have factored in 10% equity dilution by PGCIL in FY11, raising Rs44b (issue price: Rs104/share). Together with internal accruals, this will provide sufficient cash flows to finance equity investments till FY14/FY15.

DER (X) ALREADY AT -2X AS AT FY10

ROE (%): FY11 DECLINE IS GIVEN IPO FUNDING



Note: We have factored in 10% equity dilution by PGCIL in FY11, raising Rs44b (issue price Rs104/share)

Source: Company/MOSL

EPS CAGR of 15% till FY12, cutting estimates

We expect PGCIL's regulated asset base (RAB) to increase from Rs94b as at March 2010 to Rs140b by FY12 (up 50%), with projects of ~Rs200b being commissioned and capitalized in this period. This will lead to corresponding increase in regulatory returns.

We expect the company to report a net profit of Rs26.6b in FY11 (up 15%) and Rs33.3b in FY12 (up 25%). Earnings growth will be driven by a 25% CAGR in transmission earnings till FY12. Our net profit CAGR estimate is lower than our transmission earnings CAGR estimate due to: (1) increased corporate debt towards shortfall in equity funding for Eleventh and Twelfth Plan projects, and (2) lower other income, given conversion of cash into CWIP.

Given the delays in terms of asset capitalization and post factoring in possible equity dilution, we marginally cut our EPS estimates by 4% for FY11 to Rs5.7 and by 6.8% for FY12 to Rs7.2.

Valuations attractive; maintain Buy

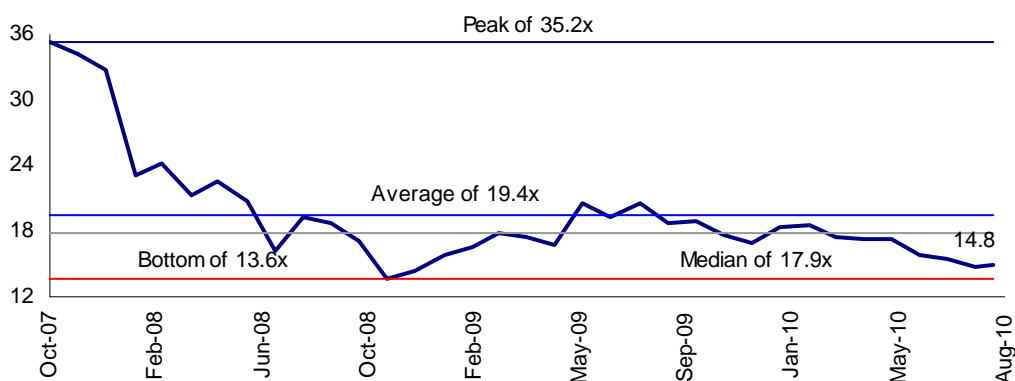
We have valued PGCIL based on the average of our DCF valuation (one-year forward) and SOTP valuation to arrive at a target price of Rs123/share. The stock trades at 18x FY11E and 15x FY12E EPS, and 2.2x FY11E BV and 2x FY12E BV.

CENTRAL SECTOR POWER UTILITIES: COMPARATIVE VALUATIONS

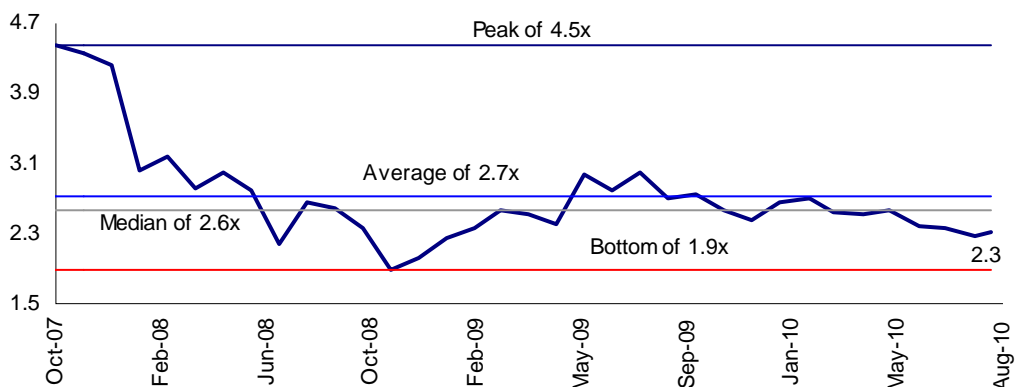
COMPANY	EPS GR. (%)		ROE (%)		P/BV (X)		P/E (X)		EV/EBITDA (X)	
	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12
SJVN	0.8	1.9	13.5	12.8	1.4	1.3	10.6	10.4	6.3	6.6
NHPC	5.3	24.7	7.2	8.5	1.6	1.5	22.5	18.0	15.7	13.3
NTPC	2.9	10.9	13.9	14.1	2.3	2.1	17.5	15.8	10.3	11.0
PGCIL	4.9	25.3	13.9	14.2	2.2	2.0	18.1	14.5	11.4	10.2

Source: Company/MOSL/Bloomberg

PGCIL: P/E BAND (X)



PGCIL: P/BV BAND (X)



Source: Bloomberg/MOSL

STATUS OF PGCIL BPTA WITH POWER GENERATORS/DISTRIBUTION UTILITIES

ORGANIZATION	CAPA. (MW)	LTOA (MW)	COD	CLEARANCES					*BPTA	*BG
				LAND	FUEL	ENV.	FOREST	EPC		
Phase-I Generation Projects in Orissa										
Sterlite Energy	2,400	400	Jun-10	√	√	√	√	√	X	X
GMR Kamalanga Energy	1,050	800	Nov-11	√	√	√	√	√	√	√
Navbharat Power Venture	1,050	720	Mar-12	X	√	√	√	√	X	X
Monnet Ispat & Energy	1,050	900	Jun-12	X	√	X	X	√	√	√
Jindal India Thermal Power	1,200	1,044	May-10	√	√	√	√	√	X	X
Lanco Babandh Power Pvt	2,640	1,600	Dec-13	X	√	X	X	√	√	√
Ind-Bharath Energy (Utkal)	700	616	Dec-11	√	√	√	√	√	√	√
IPP projects in Jharkhand and West Bengal										
Adhunik Power and Natural Resources	1,080	850	Jan-12	X	√	√	√	√	√	√
Corporate Power	540	480	Sep-13	X	X	X	v	√	√	√
Essar Power (Jharkhand)	1,200	1,100	Mar-13	X	√	√	√	X	√	√
WB State Electricity Distribution	Surplus Power	1,000	FY14-FY15	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	X
IPP in Sikkim										
PTC India (Teesta-III)	1,200	1,200	Aug-11	√	√	√	√	√	√	√
Lanco Energy Private	500	500	Nov-12	√	√	√	√	√	√	√
Dans Energy Ltd	96	96	Apr-12	√	√	√	√	√	√	√
JAL Power Ltd	120	120	Jun-13	√	√	√	√	√	√	√
Madhya Bharat Power Corp	96	96	Sep-14	√	√	√	√	√	√	√
Gati Infrastructure	99	99	Sep-10	√	√	√	√	√	√	X
Gati Infrastructure Bhasmey	51	51	Jun-12	X	√	√	X	X	√	X
IPP in Bilaspur (Chhattisgarh) & Madhya Pradesh										
Jaiprakash Power Ventures	1,320	1,241	May-13/Nov-13	√	√	X	X	√	√	√
Bina Power Supply	500	265	Sep'11/ Dec'11	√	√	√	√	√	√	√
Maruti Clean Coal	300	171	Dec'12	√	X	X	√	√	√	X
Dheeru Powergen	1,050	450	Sep'13/Dec'13/Mar'14	X	√	√	X	X	√	√
Aryan MP Power generation Pvt	1,200	1,122	Mar'14/Sep'14	X	X	X	?	X	√	√
Chhattisgarh State Power Trading Co		432		n.a.	n.a.	n.a.	n.a.	n.a.	√	n.a.
IPP Projects in Chhattisgarh										
R.K.M. Powergen Pvt	1,440	819	Jun-12	√	√	√	√	√	√	√
Athena Chhattisgarh Power Pvt	1,200	683	Jun-12	√ (15%)	√	√	√	√	√	√
Jindal Power	2,400	1,400	Jun-12	√ (50%)	X	X	√	√	√	√
Jindal Power	400	400	Jun-12	√	√	√	√	√	√	√
SKS Power Generation (Chhattisgarh)	1,200	683	Jun-12	√ (65%)	√	X	√	√	√	√
Korba West Power Co	600	240	Jun-12	√ (65%)	√	X	√	√	√	√
DB Power	1,200	705	Jun-12	√ (34%)	√	X	X	√	√	√
KSK Mahanadi Power (Wardha Power)	3,600	2,340	Jun-12	√	√	√	√	√	√	√
Bharat Aluminum Company	1,200	200	Jun-12	√	X	√	√	√	√	√
Vandana Vidhyut	540	265	Jun-12	√	√	√	√	√	√	√
Lanco Amarkantak Power Pvt	1,320	858	Jun-12	√	√	√	√	√	√	√
Chhattisgarh Steel & Power	285	167	Jun-12	√	√	X	?	X	√	X
Chhattisgarh State Power Transmission		4,871	Jun-12						√	v
IPP Projects in Krishnapatnam Area										
Simhapuri Energy Private	540	491	Aug-10	√	√	√	√	√	√	√
Meenakshi Energy Private	600	546	Sep-10	√	√	√	√	√	√	√
Thermal Powertech Corporation India	1,320	1,228	Oct-13	√	√	√	√	X	May/Jun-10	√
Krishnapatnam Power Corporation	1,320	925	Dec-12	√	X	√	√	X	May/Jun-10	May/Jun-10
Kineta Power Private	1,980	1,830	Sep-13	√	X	X	√	X	May/Jun-10	May/Jun-10
IPP Projects in Tuticorin (Tamil Nadu)										
Coastal Energen Pvt	1,200	1,100	Mar-12	√	√	√	√	√	√	√
IND-Barath Power (Madras)	1,320	900	Mar-12	√	√	X	√	√	√	√

*BPTA: Bulk Power Transmission Agreement, BG: Bank Guarantee

Source: CEA/MOSL

Financials and Valuation

INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2009	2010	2011E	2012E	
Net Sales	65,798	71,275	85,179	103,893	
<i>Change (%)</i>	42.6	8.3	19.5	22.0	
Cost of Goods Sold	6,439	7,267	7,994	9,193	
Staff Cost	4,116	5,314	5,845	6,722	
EBITDA	55,243	58,694	71,340	87,978	
<i>% of Net Sales</i>	84.0	82.3	83.8	84.7	
Depreciation	10,940	19,797	22,791	27,541	
Preliminary Exps w/off	462	0	0	0	
Interest	25,321	15,432	19,109	24,998	
Other Income	4,487	3,761	5,526	5,858	
PBT	22,286	26,263	34,966	41,296	
Tax	5,380	5,854	7,215	7,993	
<i>Rate (%)</i>	24.1	22.3	20.6	19.4	
Reported PAT	16,906	20,409	27,751	33,303	
Extra-ordinary items	2,512	2,621	-1,178	0	
Adjusted PAT	19,418	23,031	26,573	33,303	
<i>Change (%)</i>	23.3	18.6	15.4	25.3	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2009	2010	2011E	2012E	
Equity Share Capital	42,088	42,088	46,297	46,297	
Reserves	104,148	117,331	176,652	199,652	
Net Worth	146,181	159,383	222,913	245,914	
Loans	284,654	344,168	420,181	488,853	
Deferred tax liability	5,385	7,035	6,000	6,000	
Advance against dep	21,596	22,136	22,136	22,136	
Grant in Aid	2,254	1,988	1,988	1,988	
Capital Employed	460,070	534,711	673,219	764,891	
Gross Fixed Assets	403,193	432,318	527,318	632,318	
Less: Depreciation	91,909	111,706	134,497	162,039	
Net Fixed Assets	311,284	320,613	392,821	470,280	
Capital WIP	132,860	204,222	254,007	306,007	
Investments	15,928	14,532	12,319	10,515	
Curr. Assets	83,129	96,273	116,308	95,100	
Inventory	2,976	3,449	3,967	4,839	
Debtors	13,736	22,149	17,503	21,348	
Cash & Bank Balance	24,289	32,776	58,963	31,066	
Other Current Assets	14,463	4,875	3,634	2,207	
Loans & Advances	27,666	33,024	32,241	35,640	
Current Liab. & Prov.	83,132	100,929	102,237	117,011	
Net Current Assets	-3	-4,656	14,071	-21,911	
Application of Funds	460,070	534,711	673,219	764,891	

E: MDSL Estimates

RATIOS					
Y/E MARCH	2009	2010E	2011E	2012E	
Basic (Rs)					
Consolidated EPS	4.6	5.5	5.7	7.2	
<i>Growth (%)</i>	23.3	18.6	4.9	25.3	
Cash EPS	7.3	10.2	10.7	13.1	
Book Value	34.7	37.9	48.1	53.1	
DPS	1.3	1.5	1.6	2.0	
Equity Div.Payout (incl. Div. Tax)	35.0	34.8	29.6	30.9	
Valuation					
P/E	22.5	19.0	18.1	14.5	
Cash P/E	14.2	10.2	9.8	7.9	
EV/EBITDA	12.6	12.8	11.8	10.7	
EV/Sales	10.6	10.5	9.9	9.0	
Price/Book Value	3.0	2.7	2.2	2.0	
Dividend Yield (%)	1.3	1.4	1.5	1.9	
Profitability Ratios (%)					
RoE	13.8	15.1	13.9	14.2	
RoCE	11.6	8.6	9.0	9.2	
Turnover Ratios					
Debtors (Days)	76	113	75	75	
Asset Turnover (x)	0.2	0.2	0.2	0.2	
Leverage Ratio					
Debt/Equity (x)	1.8	2.0	1.6	1.9	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2009	2010	2011E	2012E	
PBT before EO Items	22,989	27,226	34,966	41,296	
Add: Depreciation	10,940	19,797	22,791	27,541	
Interest	25,321	15,432	19,109	24,998	
Less: Direct Taxes Paid	5,380	5,854	7,215	7,993	
(Inc)/Dec in WC	9,154	13,141	7,460	8,086	
CF from Operations	63,024	69,742	77,111	93,929	
CF from Oper. incl. EO Itc	62,320	68,779	77,111	93,929	
(Inc)/Dec in FA	-93,951	-100,487	-144,786	-157,000	
(Pur)/Sale of Investments	1,434	1,396	2,213	1,804	
CF from Investments	-92,517	-99,091	-142,573	-155,196	
(Inc)/Dec in Net Worth	182	-104	44,000	0	
(Inc)/Dec in Debt	66,878	61,438	74,978	68,672	
Less: Interest Paid	25,321	15,432	19,109	24,998	
Dividend Paid	5,909	7,102	8,221	10,303	
CF from Fin. Activity	35,830	38,799	91,648	33,371	
Inc/Dec of Cash	5,633	8,488	26,186	-27,896	
Add: Beginning Balance	18,656	24,289	32,776	58,963	
Closing Balance	24,289	32,776	58,963	31,066	

N O T E S



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Disclosure of Interest Statement

Power Grid Corporation

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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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