



# Tulip Telecom

BSE SENSEX 18,202	S&P CNX 5,456	<b>Rs177</b>	<b>Buy</b>																																																																	
Bloomberg Equity Shares (m) 52-Week Range (Rs) 1,6,12 Rel. Perf. (%) M.Cap. (Rs b) M.Cap. (US\$ b)	TTSL IN 145.0 201/154 12/-2/-22 25.6 0.6	<table border="1"> <thead> <tr> <th>YEAR</th> <th>NET SALES</th> <th>PAT</th> <th>EPS</th> <th>EPS</th> <th>P/E</th> <th>P/BY</th> <th>ROE</th> <th>ROCE</th> <th>EV/</th> <th>EV/</th> </tr> <tr> <th>END</th> <th>(RS M)</th> <th>(RS M)</th> <th>(RS)</th> <th>GROWTH (%)</th> <th>(X)</th> <th>(X)</th> <th>(%)</th> <th>(%)</th> <th>SALES</th> <th>EBITDA</th> </tr> </thead> <tbody> <tr> <td>3/10A</td> <td>19,664</td> <td>2,755</td> <td>17.0</td> <td>15.0</td> <td>10.4</td> <td>3.1</td> <td>34.2</td> <td>16.4</td> <td>1.7</td> <td>6.5</td> </tr> <tr> <td>3/11E</td> <td>23,506</td> <td>3,094</td> <td>19.0</td> <td>12.3</td> <td>9.3</td> <td>2.4</td> <td>29.0</td> <td>14.8</td> <td>1.5</td> <td>5.5</td> </tr> <tr> <td>3/12E</td> <td>28,590</td> <td>4,006</td> <td>24.7</td> <td>29.5</td> <td>7.2</td> <td>1.8</td> <td>28.8</td> <td>15.8</td> <td>1.2</td> <td>4.1</td> </tr> <tr> <td>3/13E</td> <td>33,321</td> <td>4,252</td> <td>26.2</td> <td>6.1</td> <td>6.7</td> <td>1.2</td> <td>21.6</td> <td>14.9</td> <td>0.8</td> <td>3.1</td> </tr> </tbody> </table>	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BY	ROE	ROCE	EV/	EV/	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA	3/10A	19,664	2,755	17.0	15.0	10.4	3.1	34.2	16.4	1.7	6.5	3/11E	23,506	3,094	19.0	12.3	9.3	2.4	29.0	14.8	1.5	5.5	3/12E	28,590	4,006	24.7	29.5	7.2	1.8	28.8	15.8	1.2	4.1	3/13E	33,321	4,252	26.2	6.1	6.7	1.2	21.6	14.9	0.8	3.1
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- Operating performance marginally below expectation:** Tulip Telecom's 3QFY11 operating performance was 1-2% below estimates. Revenue increased 20.2% YoY and 2.9% QoQ to Rs6.02b (est of Rs6.09b). EBITDA grew 27.1% YoY and 5% QoQ to Rs1.72b (est of Rs1.76b). PAT increased by 19.1% YoY and 4.7% QoQ to Rs817m (vs est of Rs861m). Tulip incurred net capex of ~Rs1.39b during 3QFY11 and a cumulative net capex of Rs3.8b for 9mE Dec-10 vs FY11 guidance of Rs4.5-4.75b. Tulip recently acquired Bengaluru-based data center through a wholly owned subsidiary for Rs2.3b; while we have already incorporated the investment of Rs2.3b and the associated finance cost, we have not modelled any revenue/earnings from data center operations.
- Fiber constituted 30% of 3Q revenue; contribution to increase going forward:** Fiber constituted 30% of 3Q revenue. While fiber currently constitutes 40% of total order input, 70% of fresh orders are being made on fiber. Tulip had guided earlier that 2/3rd of it revenue will come from fiber by FY12. Tulip has laid 6,000 kms of intra-city fiber for 'last mile' across 300 cities.
- Net debt up 7% QoQ to ~Rs12.4b:** Net debt increased by Rs812m QoQ (~7% QoQ) to Rs12.4b. Net debt/equity and Net debt/annualised EBITDA unchanged at 1.1x and 1.8x respectively.
- Downgrading earnings by ~5% for FY12/13E; Revising target price to Rs240; maintain Buy:** We are factoring in EBITDA decline of 3% in FY12 and 2.5% in FY13 estimates. We are downgrading our earnings estimates by ~5% for FY12/13E. We expect an EPS CAGR of ~16% over FY11-13E. The stock trades at 7.2x FY12 EPS of Rs24.7 (~4.1x EV/EBITDA) and 6.7x FY13 EPS of Rs26.2 (3.1x EV/EBITDA). Maintain **Buy** with a revised target price of Rs240.

Y/E MARCH	QUARTERLY PERFORMANCE (CONSOLIDATED)								(RS MILLION)	
	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Gross Revenue</b>	<b>4,429</b>	<b>4,910</b>	<b>5,009</b>	<b>5,307</b>	<b>5,252</b>	<b>5,850</b>	<b>6,022</b>	<b>6,382</b>	<b>19,664</b>	<b>23,506</b>
YoY Growth (%)	33.2	27.7	15.0	15.0	18.6	19.1	20.2	20.3	21.8	19.5
QoQ Growth (%)	-4.0	10.9	2.0	5.9	-1.0	11.4	2.9	6.0		
Total Operating Expenses	3,343	3,642	3,659	3,762	3,834	4,217	4,306	4,531	14,409	16,888
<b>EBITDA</b>	<b>1,086</b>	<b>1,268</b>	<b>1,350</b>	<b>1,545</b>	<b>1,417</b>	<b>1,634</b>	<b>1,716</b>	<b>1,851</b>	<b>5,255</b>	<b>6,618</b>
YoY Growth (%)	66.0	56.5	48.0	56.0	30.5	28.8	27.1	19.8	56.1	25.9
QoQ Growth (%)	9.6	16.8	6.5	14.4	-8.3	15.3	5.0	7.9		
Margin (%)	24.5	25.8	27.0	29.1	27.0	27.9	28.5	29.0	26.7	28.2
Net Finance Costs	158	187	186	185	185	190	212	288	716	874
Non-Operating Income	271	37	104	57	-13	14	11	26	468	37
Depreciation & Amortization	353	436	409	155	375	420	441	463	1,353	1,699
<b>Profit before Tax</b>	<b>846</b>	<b>682</b>	<b>858</b>	<b>1,262</b>	<b>844</b>	<b>1,038</b>	<b>1,075</b>	<b>1,126</b>	<b>3,654</b>	<b>4,082</b>
Income Tax Expense / (Income)	96	164	172	467	203	258	257	271	899	988
<b>Reported Net Profit / (Loss)</b>	<b>750</b>	<b>518</b>	<b>686</b>	<b>795</b>	<b>642</b>	<b>781</b>	<b>817</b>	<b>855</b>	<b>2,755</b>	<b>3,094</b>
YoY Growth (%)	63.2	3.2	41.0	-24.8	-14.5	50.8	19.1	7.6	10.0	12.3
QoQ Growth (%)	-29.0	-31.0	32.6	15.9	-19.3	21.7	4.7	4.6		
Margin (%)	16.9	10.5	13.7	15.0	12.2	13.3	13.6	13.4	14.0	13.2

E: MOSL Estimates

### Operating performance marginally below estimates

- Revenue increased 20.2% YoY and 2.9% QoQ to Rs6.02b (est of Rs6.09b) led by strong performance in fiber as well as wireless segments.
- EBITDA grew 27.1% YoY and 5% QoQ to Rs1.72b (est of Rs1.76b). EBITDA margin increased to 28.5%, up 154bp YoY and 57bp QoQ (vs est of 28.9%).
- Tulip recently acquired Bengaluru-based data center through a wholly owned subsidiary for Rs2.3b; while we have already incorporated the investment of Rs 2.3b and the associated finance cost, we have not modelled any revenue/earnings from data center operations.
- Tulip has also entered into a network-to-network interconnection and joint marketing arrangement with Hutchison Global Communications.
- Net debt increased by Rs812m QoQ (~7% QoQ) to Rs12.4b; Net debt/annualised EBITDA unchanged at 1.8x
- Tulip's intra-city fiber network spans over 6,000 kms in 300 cities in India with over 600 customers.
- Customer base remains diversified with 1,800 clients spread over 2,000 locations.

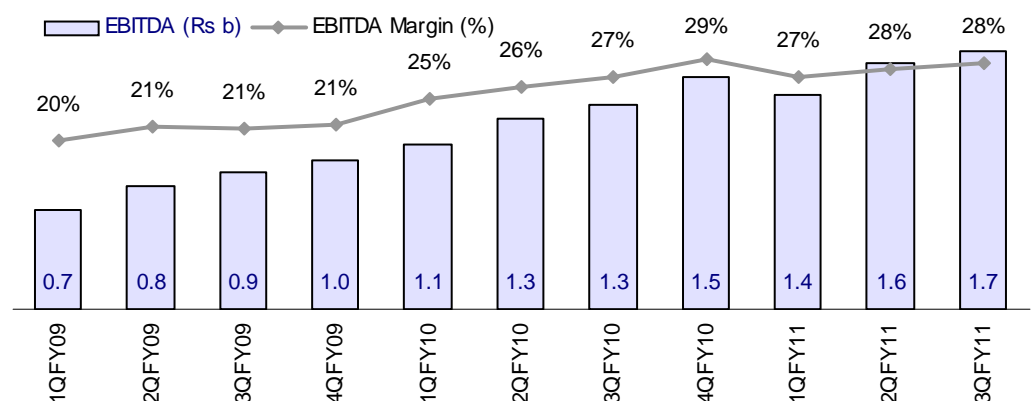
### Net debt up by ~Rs812m to ~Rs12.4b; Net debt/annualised EBITDA unchanged at 1.8x

- Net debt increased by Rs812m QoQ (~7% QoQ) to Rs12.4b.
- Net debt/equity and Net debt/annualised EBITDA unchanged at 1.1x and 1.8x respectively.

### Downgrading earnings by ~5% for FY12/13E; Revising target price to Rs240; maintain Buy

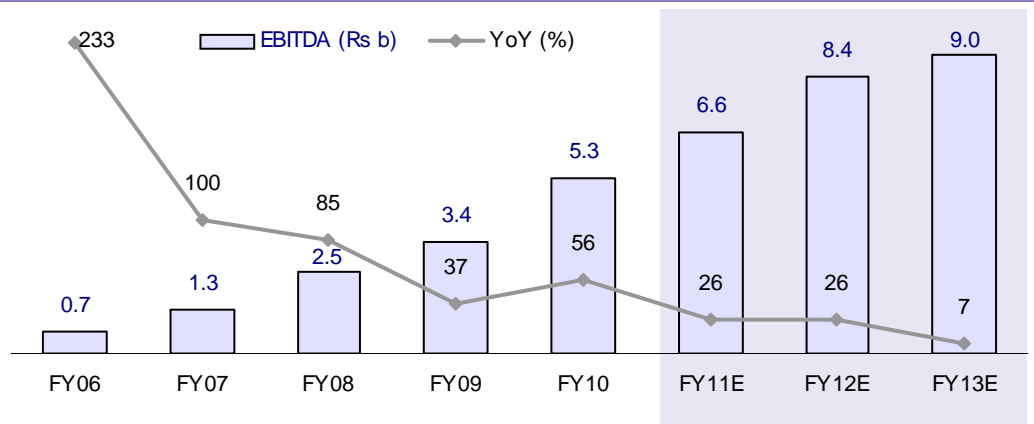
- We are factoring in EBITDA decline of 3% in FY12 and 2.5% in FY13 estimates.
- We are downgrading our earnings estimates by ~5% for FY12/13E.
- We expect an EPS CAGR of ~16% over FY11-13E.
- The stock trades at 7.2x FY12 EPS of Rs24.7 (~4.1x EV/EBITDA) and 6.7x FY13 EPS of Rs26.2 (3.1x EV/EBITDA). Maintain **Buy** with a revised target price of Rs240.

#### Tulip: Quarterly EBITDA and EBITDA margin

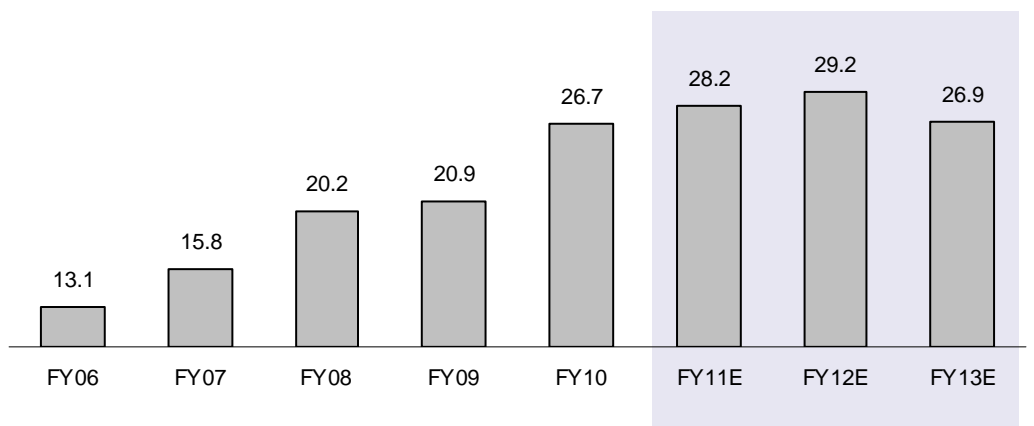


Source: Company/MOSL

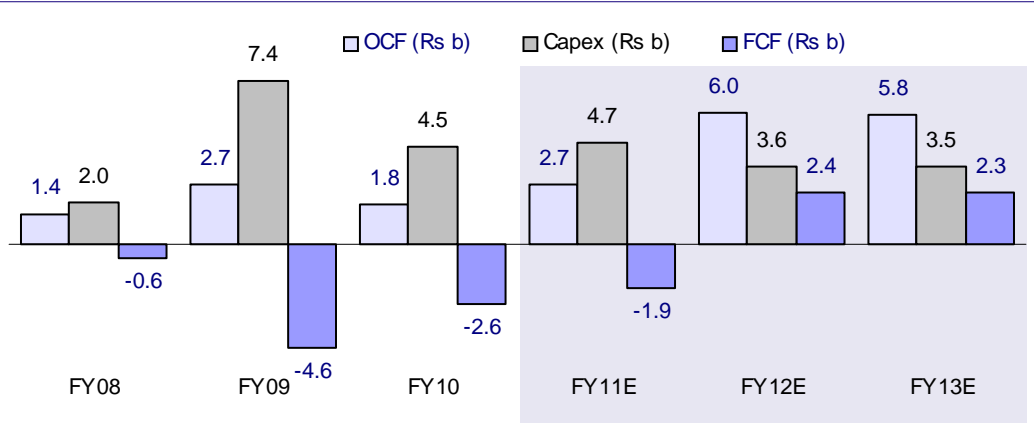
**FY11-13E EBITDA CAGR of 16%**



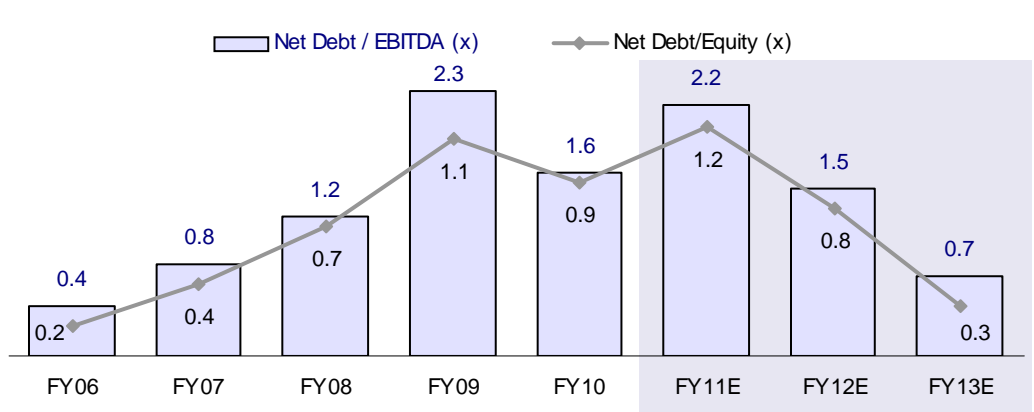
**EBITDA margin expected at 27%+ (%)**



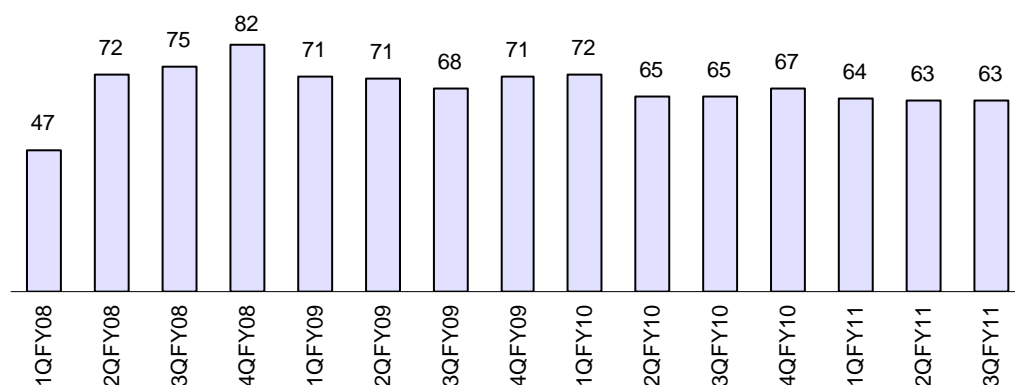
**We expect FCF of ~Rs2.4b in FY12E and FY13E**



**Leverage expected to climb down**



Source: Company/MOSL

**RM cost declining (% of revenue)**

Source: Company/MOSL

**Highlights from 3QFY11 earnings call**

- 9MFY11 capex at Rs3.8b broadly in line with FY11 guidance of Rs4.5-4.75b.
- Tulip plans to invest Rs3b over the next one year towards the data center business.
- Tulip would soon finalise its design and implementation partner for its data center business.
- Tulip expects to start monetizing ~25,000 square feet out of the ~450,000 square feet capacity of rack space of the newly acquired data center in Bengaluru over next 6-9months
- Fiber constituted 30% of 3Q revenue and 40% of order input. 70% of new orders are coming on fiber.
- There is an increase of Rs2.1b in working capital during 9MFY11 due to (1) increase in debtors, (2) higher inventory, and (3) additional requirements on bidding for government orders.
- Government vertical is currently at 5% of order input which can potentially increase to 30%.

**Tulip Telecom: Summary of estimate change (Rs b)**

	FY11E	FY12E	FY13E
<b>Revenue (Rs b)</b>			
Old	23.7	29.4	34.2
New/Actual	23.5	28.6	33.3
Change (%)	-0.6	-2.9	-2.4
<b>EBITDA (Rs b)</b>			
Old	6.7	8.6	9.2
New/Actual	6.6	8.4	9.0
Change (%)	-1.3	-3.0	-2.5
<b>Net Profit (Rs b)</b>			
Old	3.1	4.2	4.5
New/Actual	3.1	4.0	4.3
Change (%)	-1.6	-4.7	-4.8
<b>Diluted EPS (Rs)</b>			
Old	19.4	25.9	27.5
New/Actual	19.0	24.7	26.2
Change (%)	-1.6	-4.7	-4.8
<b>Depreciation (Rs b)</b>			
Old	1.7	2.1	2.5
New/Actual	1.7	2.1	2.4
Change (%)	-0.1	-0.4	-0.7
<b>Net Finance Cost (Rs b)</b>			
Old	0.9	1.0	1.0
New/Actual	0.9	1.0	1.0
Change (%)	-5.6	-5.6	-5.5
<b>EBITDA Margin (%)</b>			
Old	28.4	29.2	26.9
New/Actual	28.2	29.2	26.9
Change (bp)	-21	-4	-2
<b>Tax Rate (%)</b>			
Old	25.0	25.0	25.0
New/Actual	24.2	25.0	25.0
Change (bp)	-80	0	0

Source: Company/MOSL

## Tulip Telecom: an investment profile

### Company description

Tulip is a leading player in the Indian enterprise data segment focused on providing connectivity to corporates, SMEs and government verticals. Tulip has an outstanding track record, having scaled up to a dominant ~30% market share in the largest and fastest growing VPN segment within five years. Tulip has network presence in ~2,000 cities and a client base of ~1,800.

### Key investment argument

- Tulip has laid 6,000 kms of intra-city fiber for 'last mile' across 300 cities in the past 1.5 years; fiber reach is expected to expand to 600 cities in one year.
- Fiber rollout allows tapping high bandwidth connects thereby capturing higher share of clients' requirement, increasing the addressable market by 5-6x and de-risking from competition; Contribution to revenues by fiber is expected to increase to ~70% by FY12.
- Tulip has the deepest network coverage amongst the private operators with a presence in 2,000 cities.
- Growth in wireless connectivity and increased traction from fiber rollout should support ~19% CAGR in revenue and ~16% CAGR in earnings during FY11-13E.
- The government vertical, which contributes <5% of revenue, is likely to be an additional growth driver.

### Key investment risks

- Potential technology disruption.
- Scale differential v/s large telcos. Increased competition post allocation of BWA spectrum to rivals.

### Comparative valuations

		Tulip	Bharti	Idea
P/E (x)	FY12E	7.2	15.0	23.7
	FY13E	6.7	11.6	12.5
EV/EBITDA (x)	FY12E	4.1	6.7	6.7
	FY13E	3.1	5.4	4.9
EV/Sales (x)	FY12E	1.2	2.5	1.7
	FY13E	0.8	2.0	1.4
P/BV (x)	FY12E	1.8	2.1	1.6
	FY13E	1.2	1.8	1.4

### Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	69.0	69.0	69.0
Domestic Inst	1.9	2.0	1.6
Foreign	19.6	21.1	24.8
Others	9.6	7.9	4.6

### Recent developments

- Tulip Telecom has acquired Bengaluru based data center (900,000 sq ft) from SADA IT Parks Private Limited for Rs2.3b which will be operated through a wholly owned subsidiary.
- Tulip has been awarded R-APDRP (Restructured - Accelerated Power Development Reforms Program) projects in UP, Gujarat, Uttarakhand and Punjab with a combined order value of Rs2b over 3-5 years.
- The company has also been awarded an order for managed services for Gujarat SWAN (State Wide Area Network) valued at Rs250m for a period of 3-5 years.
- Tulip has acquired a 13% stake in Qualcomm's BWA venture for a consideration of ~Rs1.4b
- FCC license obtained in USA (serving as a landing station abroad) would enable the company to provide data connectivity to Indian clients to USA.

### Valuation and view

- We are factoring in EBITDA decline of 3% in FY12 and 2.5% in FY13 estimates.
- We are downgrading our earnings estimates by ~5% for FY12/13E.
- We expect an EPS CAGR of ~16% over FY11-13E.
- The stock trades at 7.2x FY12 EPS of Rs24.7 (~4.1x EV/EBITDA) and 6.7x FY13 EPS of Rs26.2 (3.1x EV/EBITDA). Maintain **Buy** with a revised target price of Rs240.

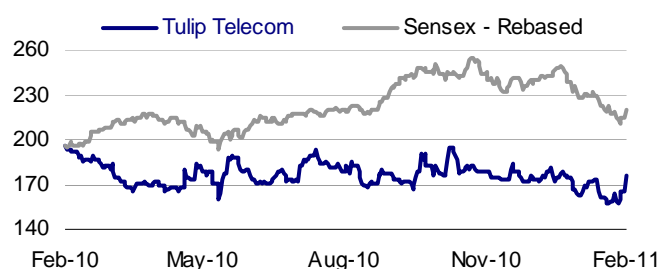
### EPS: MOSL forecast v/s consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	19.0	20.3	-6.1
FY12	24.7	24.6	0.1

### Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
177	240	35.6	Buy

### Stock performance (1 year)



## Financials and Valuation

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
<b>Revenues</b>	<b>16,144</b>	<b>19,664</b>	<b>23,506</b>	<b>28,590</b>	<b>33,321</b>	
Change (%)	32.7	21.8	19.5	21.6	16.5	
Total Expenses	12,777	14,409	16,888	20,239	24,348	
<b>EBITDA</b>	<b>3,367</b>	<b>5,255</b>	<b>6,618</b>	<b>8,351</b>	<b>8,973</b>	
% of Gross Sales	20.9	26.7	28.2	29.2	26.9	
Change (%)	37.1	56.1	25.9	26.2	7.4	
Deprn. & Amortization	414	1,353	1,699	2,093	2,447	
EBIT	2,953	3,902	4,919	6,258	6,526	
Net Interest	462	716	874	976	969	
<b>PBT</b>	<b>2,835</b>	<b>3,654</b>	<b>4,082</b>	<b>5,342</b>	<b>5,670</b>	
Tax	330	899	988	1,335	1,417	
Rate (%)	11.6	24.6	24.2	25.0	25.0	
<b>Adjusted PAT</b>	<b>2,505</b>	<b>2,755</b>	<b>3,094</b>	<b>4,006</b>	<b>4,252</b>	
Change (%)	33.9	10.0	12.3	29.5	6.1	
<b>PAT after EO</b>	<b>2,505</b>	<b>2,755</b>	<b>3,094</b>	<b>4,006</b>	<b>4,252</b>	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Share Capital	290	290	290	290	325	
Additional Paid up Capital	831	831	831	831	4,743	
Reserves	5,694	8,155	10,978	14,633	18,512	
<b>Net Worth</b>	<b>6,815</b>	<b>9,276</b>	<b>12,099</b>	<b>15,754</b>	<b>23,580</b>	
Loans	11,224	11,886	15,955	14,675	11,238	
Other Liabilities	9	29	29	29	29	
<b>Capital Employed</b>	<b>18,049</b>	<b>21,191</b>	<b>28,083</b>	<b>30,458</b>	<b>34,847</b>	
Gross Block	13,209	15,443	20,136	23,480	26,963	
Less : Depreciation	1,061	2,414	4,113	6,206	8,653	
<b>Net Block</b>	<b>12,148</b>	<b>13,030</b>	<b>16,023</b>	<b>17,274</b>	<b>18,310</b>	
<b>Curr. Assets</b>	<b>8,722</b>	<b>10,973</b>	<b>14,871</b>	<b>16,629</b>	<b>20,587</b>	
Inventories	916	688	822	1,000	1,166	
Debtors	3,242	5,302	8,240	9,020	10,513	
Cash & Bank Balance	3,470	3,456	1,500	2,500	5,000	
Other Current Assets	1,094	1,527	4,309	4,109	3,909	
<b>Curr. Liab. &amp; Prov.</b>	<b>2,822</b>	<b>2,812</b>	<b>2,812</b>	<b>3,445</b>	<b>4,051</b>	
<b>Net Curr. Assets</b>	<b>5,901</b>	<b>8,161</b>	<b>12,059</b>	<b>13,184</b>	<b>16,537</b>	
<b>Appl. of Funds</b>	<b>18,049</b>	<b>21,191</b>	<b>28,082</b>	<b>30,458</b>	<b>34,846</b>	

E: MOSL Estimates

RATIOS		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
<b>Basic (Rs)</b>						
<b>EPS</b>	<b>14.7</b>	<b>17.0</b>	<b>19.0</b>	<b>24.7</b>	<b>26.2</b>	
Cash EPS	17.2	25.3	29.5	37.5	41.2	
Book Value	40.1	57.1	74.5	97.0	145.2	
DPS	0.8	1.7	1.7	2.2	2.3	
Payout %(Incl.Div.Taxes)	5.4	9.9	8.8	8.8	8.8	
<b>Valuation (x)</b>						
P/E	12.0	10.4	9.3	7.2	6.7	
Cash P/E	10.3	7.0	6.0	4.7	4.3	
EV/EBITDA	9.9	6.5	5.5	4.1	3.1	
EV/Sales	2.1	1.7	1.5	1.2	0.8	
Price/Book Value	4.4	3.1	2.4	1.8	1.2	
Dividend Yield (%)	0.5	0.9	0.9	1.2	1.3	
<b>Profitability Ratios (%)</b>						
RoE	44.5	34.2	29.0	28.8	21.6	
RoCE	17.8	16.4	14.8	15.8	14.9	
<b>Turnover Ratios</b>						
Debtors (Days)	73	98	128	115	115	
Asset Turnover (x)	1.46	1.22	1.16	1.22	1.33	
<b>Leverage Ratio</b>						
Debt/Equity Ratio(x)	1.6	1.3	1.3	0.9	0.5	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Op.Profit(Loss) bef Tax	3,367	5,255	6,618	8,351	8,973	
Other Income	344	468	37	60	113	
Interest Paid	-462	-716	-874	-976	-969	
Direct Taxes Paid	-330	-879	-988	-1,335	-1,417	
(Inc)/Dec in Wkg. Cap.	-172	-2,279	-2,072	-125	-852	
<b>CF from Op.Activity</b>	<b>2,747</b>	<b>1,848</b>	<b>2,721</b>	<b>5,975</b>	<b>5,847</b>	
(inc)/Dec in FA + CWIP	-7,365	-2,234	-4,692	-3,344	-3,483	
(Pur)/Sale of Investments	0	-18	-3,782	0	0	
<b>CF from Inv.Activity</b>	<b>-7,365</b>	<b>-2,253</b>	<b>-8,474</b>	<b>-3,344</b>	<b>-3,483</b>	
Issue of Shares	0	0	0	0	3,946	
Inc/(Dec) in Debt	2,286	661	4,069	-1,279	-3,438	
Other Financing Activities	-137	-273	-273	-353	-375	
<b>CF from Fin.Activity</b>	<b>2,151</b>	<b>390</b>	<b>3,797</b>	<b>-1,631</b>	<b>136</b>	
<b>Inc/(Dec) in Cash</b>	<b>-2,468</b>	<b>-14</b>	<b>-1,956</b>	<b>1,000</b>	<b>2,500</b>	
Add: Opening Balance	5,938	3,470	3,456	1,500	2,500	
<b>Closing Balance</b>	<b>3,470</b>	<b>3,455</b>	<b>1,500</b>	<b>2,500</b>	<b>5,000</b>	



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**Disclosure of Interest Statement**

**Tulip Telecom**

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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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