

BUY**CMP Rs.2913****Target Price Rs.3240****Upside 11.3%****FMCG Sector****Key Data**

Size Segment	Mid Cap
Market Cap (Rs, Cr.)	12,251
Market Cap (US\$ mn)	2,300
O/S Shares, Cr.	4.20
Free Float Factor	0.57
Face Value, Rs	10
2 Wk Avg. Vol., NSE	28,460
52 Wk High/Low	3143/2227
Rs/US\$	53.26
Bloomberg	SKB IN
Reuters	GLSM.BO
NSE	GSKCONS
BSE	500676

Source: Shah Investor's Research

Shareholding Pattern

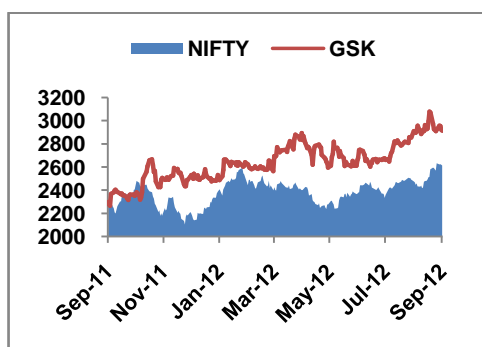
	Q1 FY13	Q1 FY12
Promoter	43.2%	43.2%
FII	13.3%	12.7%
DII	18.4%	18.1%
Public	25.2%	26.1%

Source: BSE, Shah Investor's Research

Institutional Holding

Institutions	Q1 FY13	Q1 FY12
Arisag India Fund	5.01%	5.01%
LIC	4.51%	5.00%
General Insurance	3.16%	3.16%
HDFC Standard	2.46%	3.32%

Source: BSE, Shah Investor's Research



Source: Ace Equity, Shah Investor's Research

Bunty Chawla (Research Analyst)bunty.chawla@sihl.in**"The Great Portfolio Nourisher"**

GlaxoSmithKline Consumer Healthcare Ltd. (GSK), the market leader in malted food drinks (MFD) category with ~70% market share in India. Its flagship brands Horlicks and Boost grew impressively at double digit sales growth (~20% CAGR) in last five years (CY07-11). GSK enjoys strong pricing power in MFD segment as key players like Nestle, HUL and Dabur have either exited or are dormant in the segment. We expect GSK to deliver 16% revenue and 19% earnings growth (CAGR) over CY11-14E supported by growth strategy based on nutrition, widening distribution reach, and expanded product portfolio.

Under penetrated market; Opportunity for growth

The Malted Food Drinks (MFD) category provides opportunity for growth as it remains under penetrated market at 22% level with 11% in rural markets and 40% in urban markets. Also, penetration level is more skewed towards South and East India (45% level), while in North and West remains fairly low (10% level). Rural markets provide long term opportunity for the company with low penetration level.

Market Leader

GSK Consumer Healthcare Ltd. dominates the Indian malted food category with ~70% market share with its flagship brands like Horlicks (100+ year old brand), Boost, Maltova and Viva. Horlicks is the strong brand in white HFD and also had 54% market share in MFD market. Boost and Maltova are also strong brand in brown HFD and had combined 14% market share in MFD market.

Outlook & Valuation

GSK, with ~70% market share in HFD, is a good play on the India's food and processing industry (Consumption story). Also, an important trend during the current scenario is the rising health consciousness among consumers. With the prime value proposition of health and nutrition, GSK is strongly positioned to cater to this need.

At CMP, GSK trades at 28.8x P/E based on CY13E EPS of Rs.118.4 vs. 25.3x P/E on FY14E EPS of its peers due to 18.4% EPS CAGR over CY11-FY13E vs. 16.8% CAGR of the FMCG universe likely over FY12-14E. Dividend yield stands at 1.4%, at CMP assuming similar dividend payout ratio in CY12. We estimate a target Price of Rs.3240 which 27.4x CY13E EPS of Rs.118.4, upside potential of 11%. We initiate with "BUY" rating.

Exhibit 1: Financials

Year end Dec (Rs. Cr.)	CY10	CY11	CY12E	CY13E	CY14E
Net Sales	2,306	2,686	3,101	3,588	4,151
Other Operating Income	68	85	96	117	144
Total Revenue	2,374	2,771	3,197	3,706	4,295
Total Expenditure	1,932	2,264	2,602	3,007	3,461
Gross Profit	1,509	1,748	2,002	2,321	2,698
Gross Margin %	64%	63%	63%	63%	63%
EBITDA	442	507	595	699	834
EBITDA Margin %	19%	18%	19%	19%	19%
EBIT	402	461	541	636	760
EBIT Margin %	17%	17%	17%	17%	18%
Other Income	50	80	107	123	141
PBT	452	540	648	758	901
PBT Margin %	19%	19%	20%	20%	21%
Tax Expenses	152	185	222	260	309
PAT	300	355	426	498	592
PAT Margin %	13%	13%	13%	13%	14%
EPS, Rs.	71.3	84.5	101.3	118.4	140.8

Source: Company, Shah Investor's Research

Company Profile

GlaxoSmithKline Consumer Healthcare Ltd. (an Indian associate of GlaxoSmithKline plc, U.K.) is one of the largest players in the Health Food Drinks (HFD) industry in India with more than 90% of its revenue contributed by HFD. It manufactures Horlicks, Boost, Viva and Maltova, Biscuits, Foodles and promotes and distributes Eno, Crocin, Iodex and Sensodyne.

Exhibit 2: Product Profile

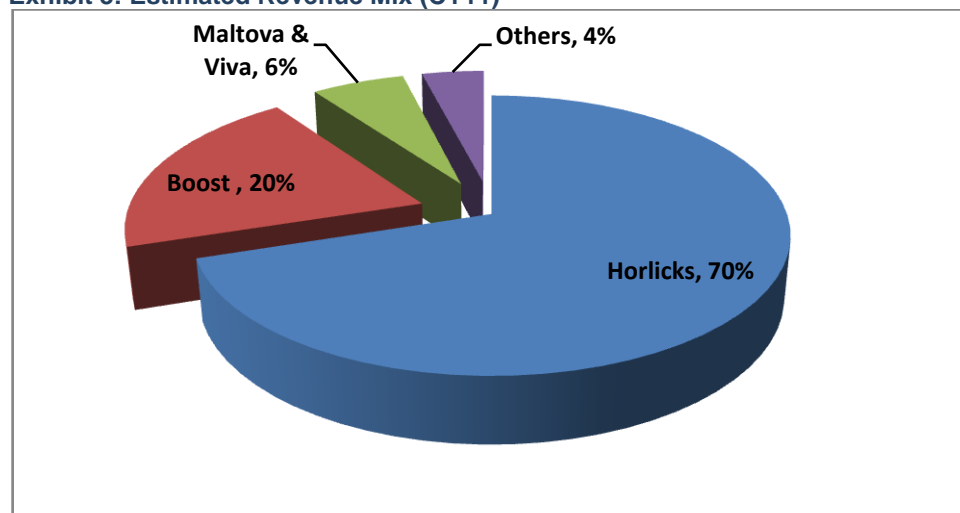


Source: Company Data, Shah Investor's Research

The Indian domestic food processing industry is estimated at Rs,2,00,000 cr and posted a CAGR of 7% until the tenth five year plan. Indian malt based HFD market was estimated at Rs.3,500 cr in FY11 and has grown by 20% CAGR. With change in lifestyles, hectic work schedules, increase in per capita income food and beverage processing industry could grow exponentially.

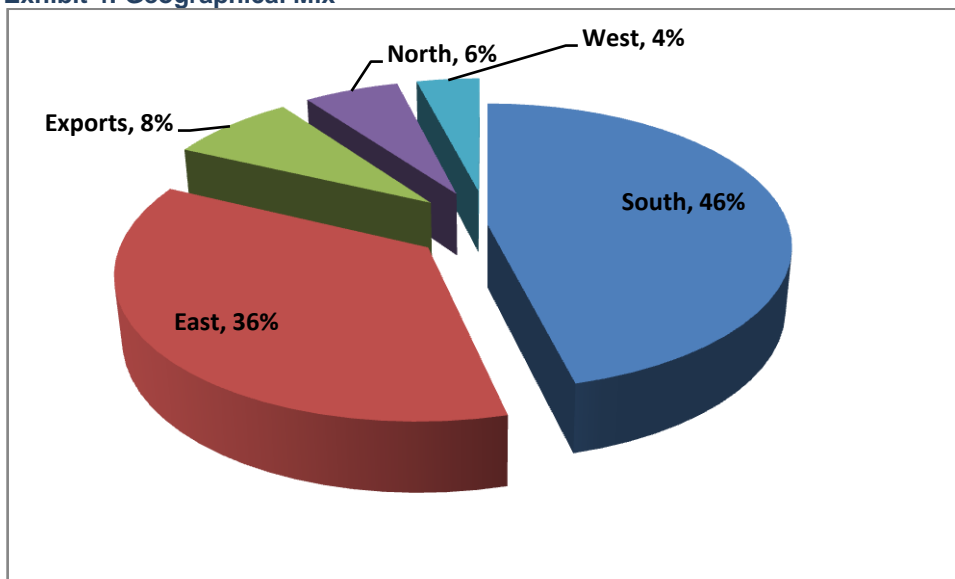
GSKCH's manufacturing facilities are located at Nabha (Punjab), Sonapat (Haryana) and Rajahmundry (Andhra Pradesh). Apart from that the company has contract manufacturing arrangements with nine third-party manufacturers for the production of its various brands.

Exhibit 3: Estimated Revenue Mix (CY11)



Source: Company, Shah Investor's Research

Exhibit 4: Geographical Mix



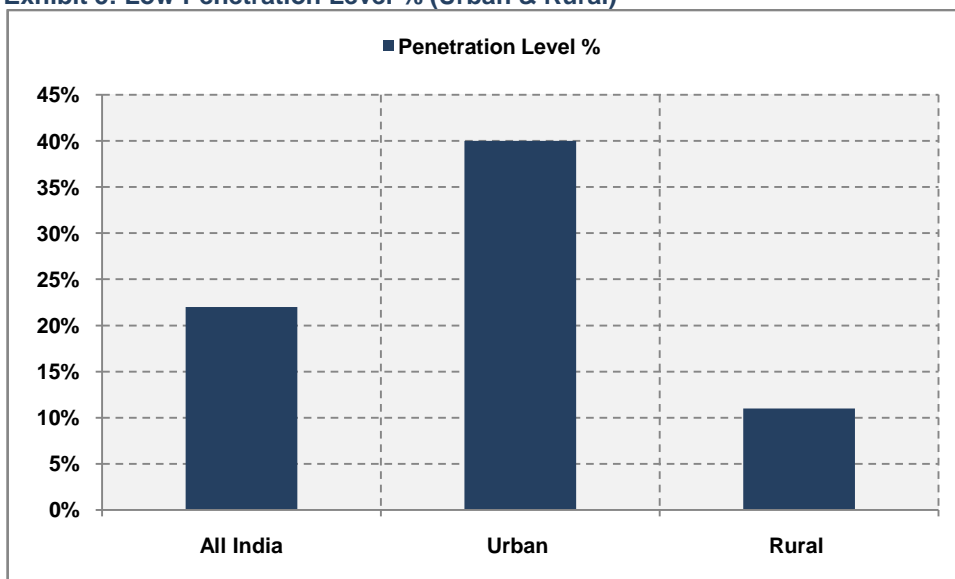
Source: Company, Shah Investor's Research

Investment Arguments

Under penetrated market; Opportunity for growth

The Malted Food Drinks (MFD) category provides opportunity for growth as it remains under penetrated market at 22% level with 11% in rural markets and 40% in urban markets.

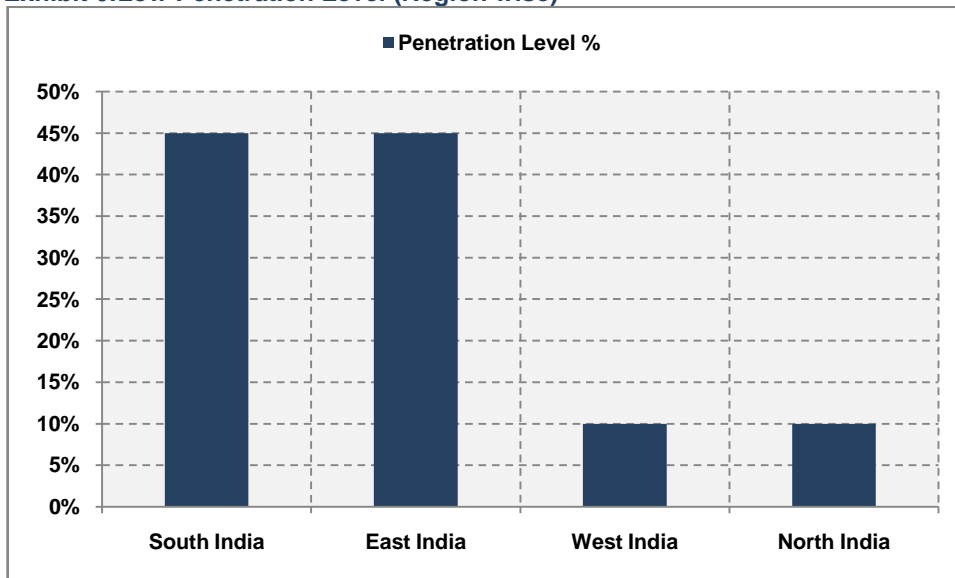
Exhibit 5: Low Penetration Level % (Urban & Rural)



Source: Company, Shah Investor's Research

Also, penetration level is more skewed towards South and East India (45% level), while in North and West remains fairly low (10% level). This under penetration of north and west markets provides opportunity for the company to grow by spreading health consciousness with the help of advertisements and promotion spends. Typically north and west India consumers have higher preference for chocolate based health drinks. Management has targeted such population through launch of chocolate variant of Horlicks.

Exhibit 6: Low Penetration Level (Region wise)

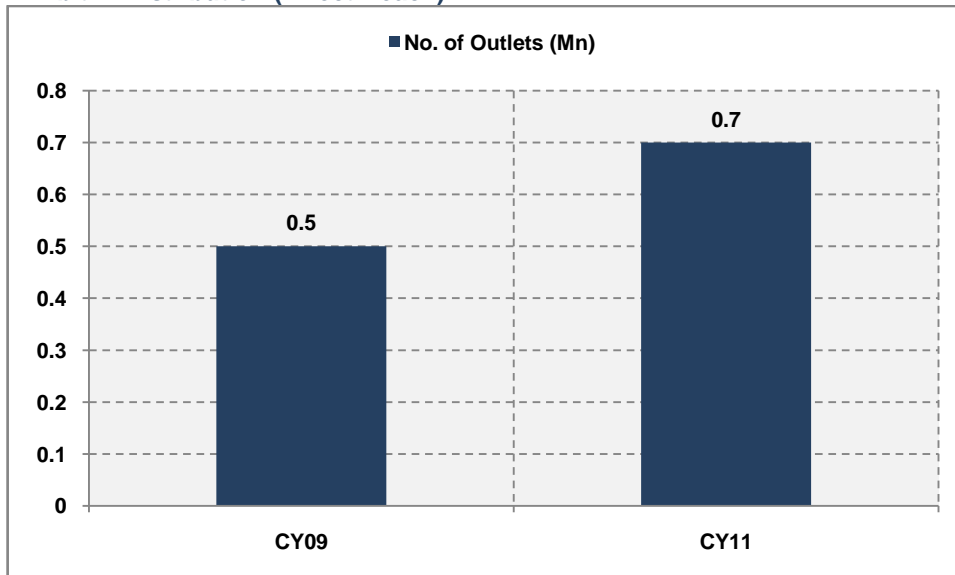


Source: Company, Shah Investor's Research

Rural markets provide long term opportunity for the company with low penetration level. Management focuses on increasing its distribution reach in rural India and through low priced SKU's like sachets. Also, per capita income is rising in the rural area led by increase in MSP prices and NREGA scheme which would increase the demand in future.

Company increased the focus on distribution network which is the key driver to support the volume growth. Distribution network consists of 1.5mn outlets with direct reach of 0.7mn outlets. Management targets to expand the network by **around 1 lakh outlets every year**. Also, company focuses to expand in the rural areas which would be the key thing to improve growth.

Exhibit 7: Distribution (Direct Reach)



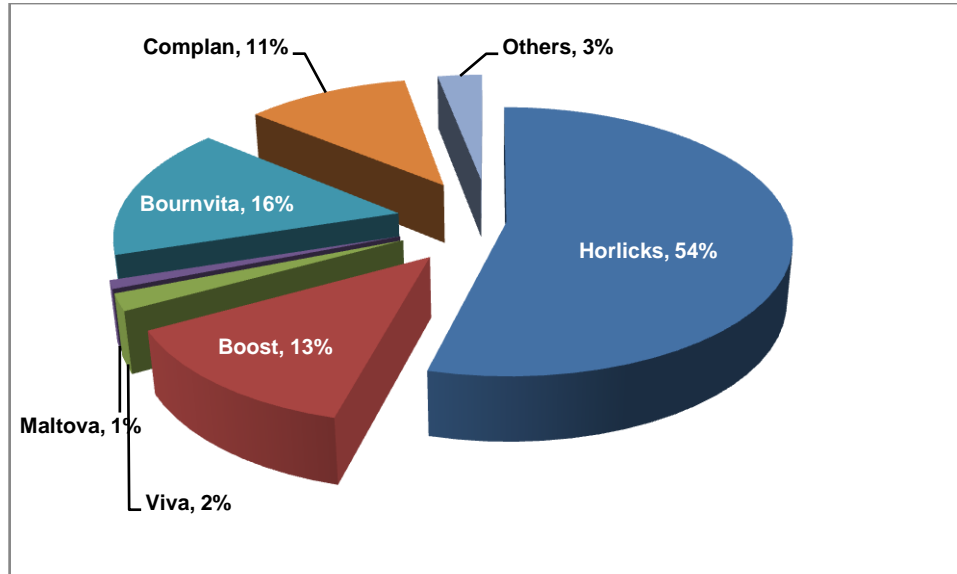
Source: Company, Shah Investor's Research

Market Leader

GSK Consumer Healthcare Ltd. dominates the Indian malted food category with ~70% market share with its flagship brands like Horlicks (100+ year old brand), Boost, Maltova and Viva. Maltova and Viva are acquired from Jagjit Industries Ltd. in 2000.

Horlicks is the strong brand in white HFD and also had 54% market share in MFD market. Boost and Maltova are also strong brand in brown HFD and had combined 14% market share in MFD market. The strong and closest competitor brand for boost is the Bournvita (16% market share in MFD) by Cadbury, while in white HFD category competitor for Horlicks brand is the Complan (11% market share in MFD) by Heinz.

Exhibit 8: MFD market share %

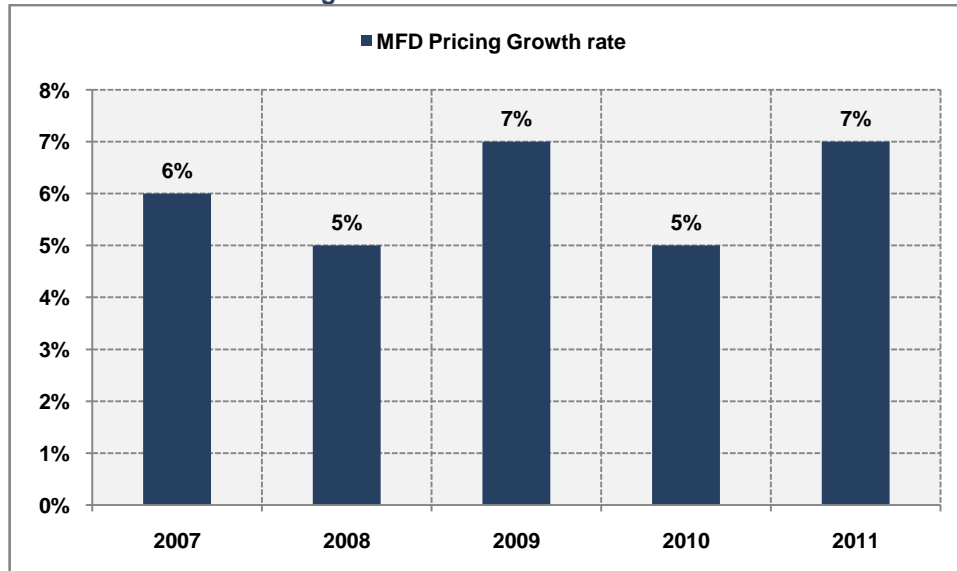


Source: Company, Shah Investor's Research

With this leadership, company commands the pricing power. The pricing growth rate has been 5-7% in last five years and also gross margins have remained above 62% in last five years (CY07-11). Also, company commands premium over its competitor which is evident from launch of Horlicks Gold (@30% premium price from base Horlicks) has gained 2% market share in three months.

Also, with dominance in HFD market, it posed strong entry barrier for the competitors. Historically, Nestle have launched Milo under this category but failed to gain significant market share and HUL launched Amaze but faced same results.

Exhibit 9: GSK MFD Pricing Growth Rate



Source: Company, Shah Investor's Research

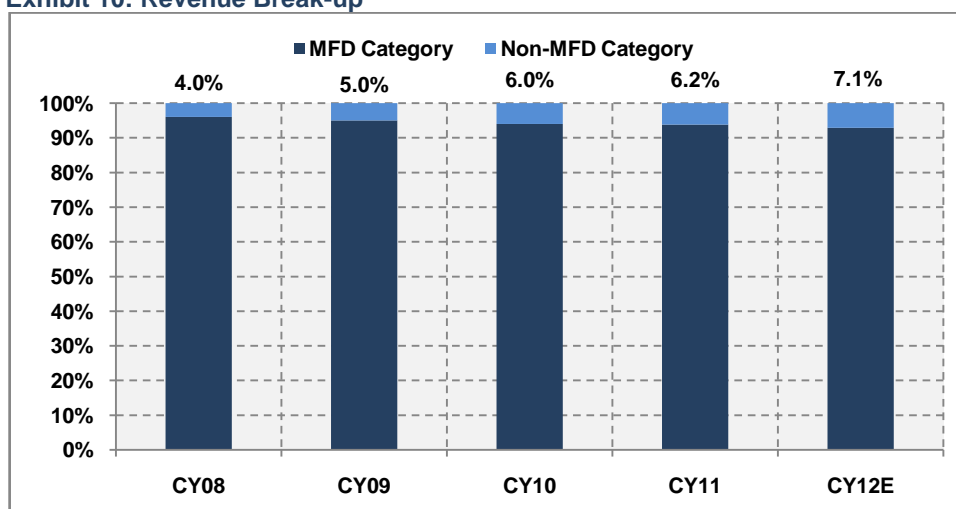
New Launches; Diversification of product portfolio

Company diversified from MFD portfolio in order to de-risk single segment exposure with launches in non-MFD segment like biscuits, oats, noodles, energy drinks etc. Company's unique selling point remains the healthy and nutritional products.

We observed that performance of non-MFD categories have been mixed. Biscuits segments and Oats have performed well while; noodles and others reported muted response. However, Noodles have garnered 3% market share till last year in domestic noodles market, management is working on different strategies to increase revenue from this category by focusing on distribution, marketing etc.

Biscuits category have shown better performance with growth at 15% and expected to grow at par with industry average. In breakfast category, company launched Oats in South India which got good response and is already number 3 in this category. We expect non-MFD portfolio to remain at 6-7% of total revenues.

Exhibit 10: Revenue Break-up

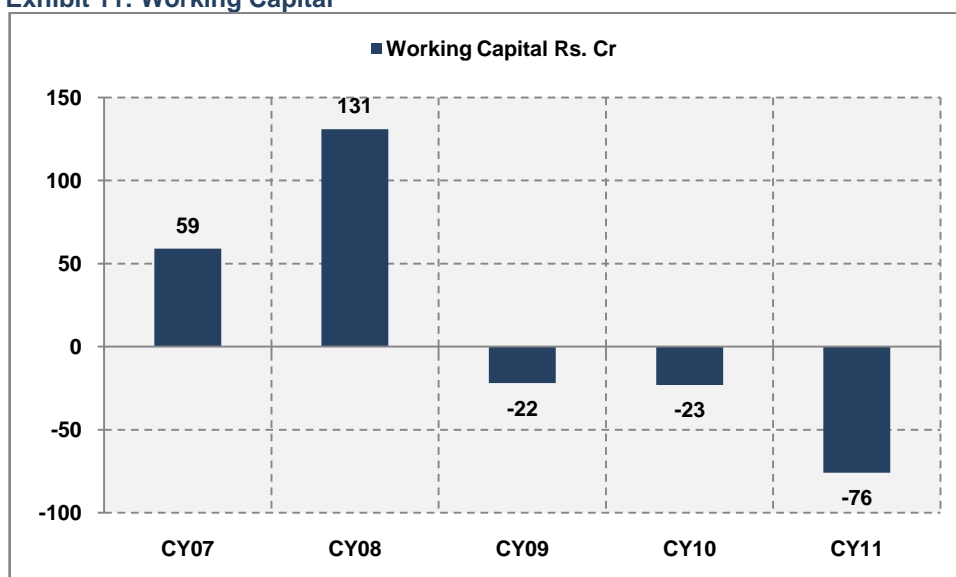


Source: Company, Shah Investor's Research

Healthy Balance Sheet; Cash @ Rs.257/share

Company has improved the working capital efficiency by reducing the debtor days with the help of electronic payment system which was put in place at the distributors and by increase in creditor days with successful negotiations. Thus, efficiency led to negative working capital and boost to cash balances on the books.

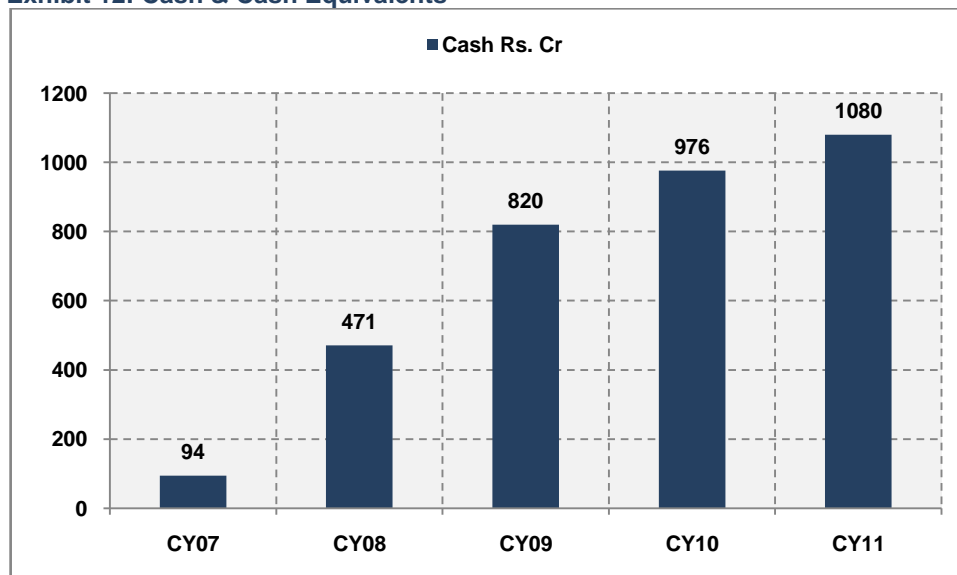
Exhibit 11: Working Capital



Source: Company, Shah Investor's Research

Cash and cash equivalent improved from Rs.94 cr in CY07 to Rs.1,080 cr in CY11 which comes to around Rs.257 per share. In CY12, company is expected to invest around Rs.130-140 cr on capital expenditure to expand capacities by 16,000 tonnes. Thus, we expect cash on the books to remain high on account of negative working capital.

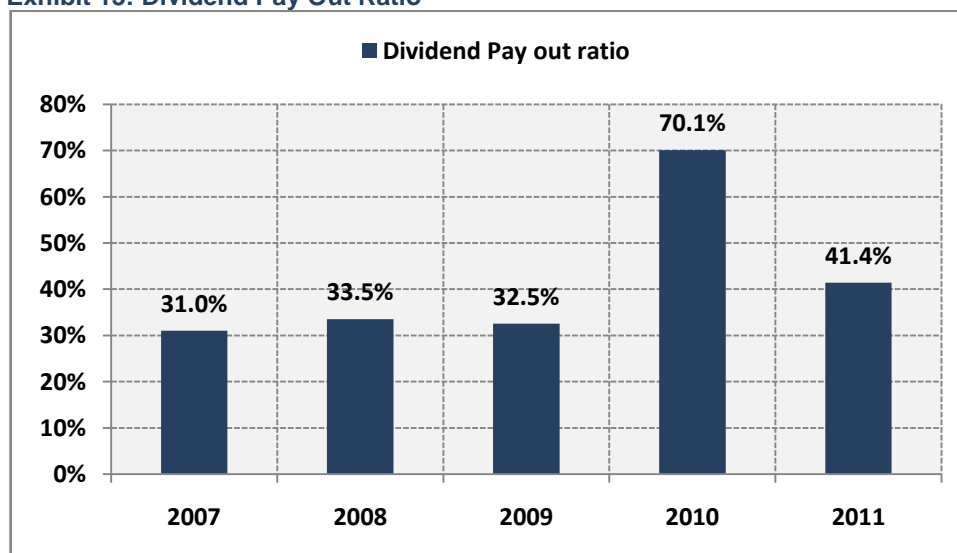
Exhibit 12: Cash & Cash Equivalents



Source: Company, Shah Investor's Research

Company has increased dividend payout ratio to 41% in CY11 from 33% in CY09 (excluding CY10 @ 71% due to exceptional dividend on account of golden jubilee). We believe company would maintain high dividend payout ratio above 40% which would boost return ratios.

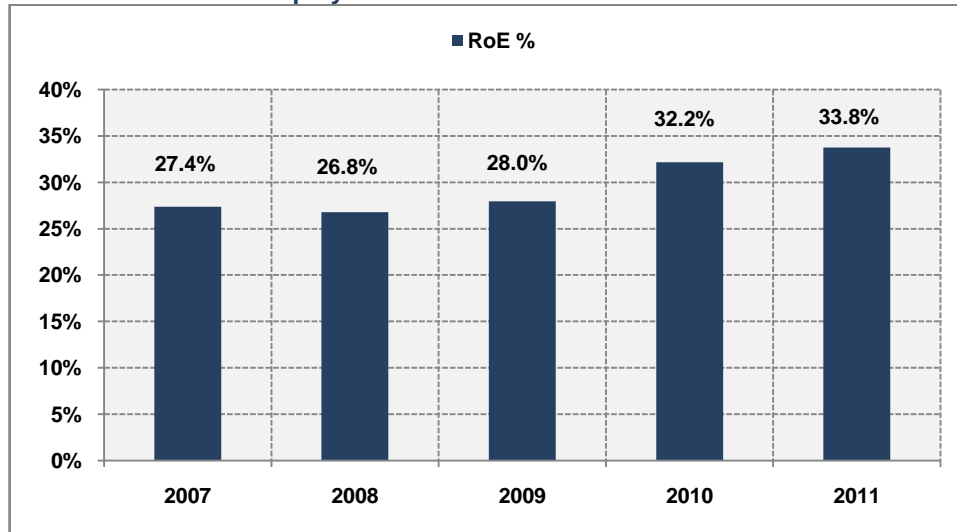
Exhibit 13: Dividend Pay Out Ratio



Source: Company, Shah Investor's Research

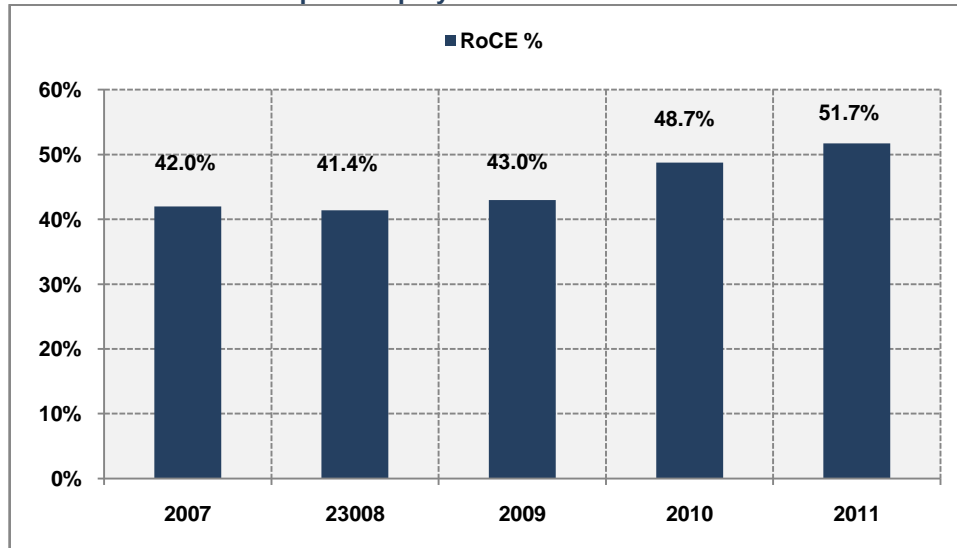
Return ratios has continuously improved in last five years (CY07-CY11) with RoE improved from 27% in CY07 to 34% in CY11 and RoCE from 42% in CY07 to 52% in CY11. We expect with strong earnings growth and high dividend payout ratio, return ration would continue to improve.

Exhibit 14: Return on Equity %



Source: Company, Shah Investor's Research

Exhibit 15: Return on Capital Employed %



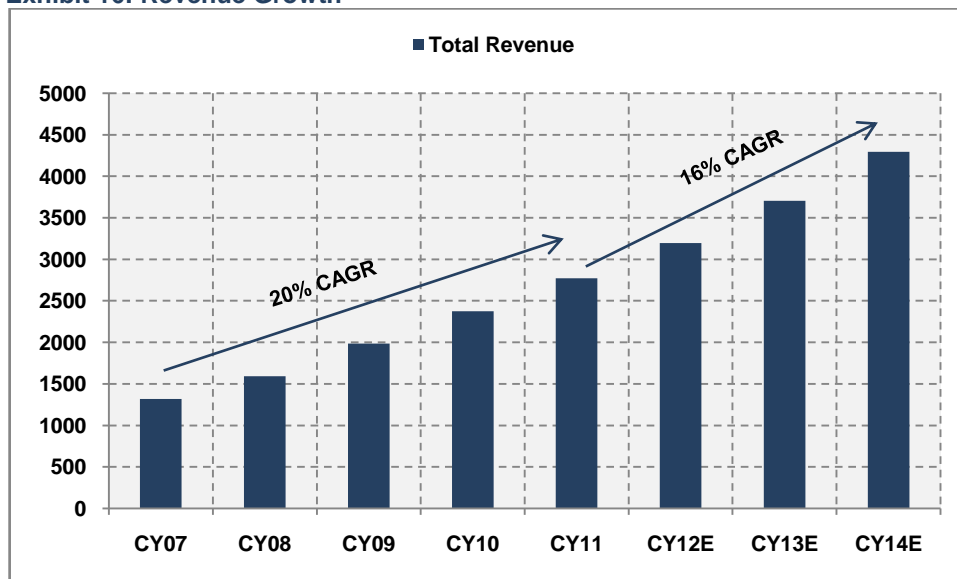
Source: Company, Shah Investor's Research

Financials

Vision 2X achieved

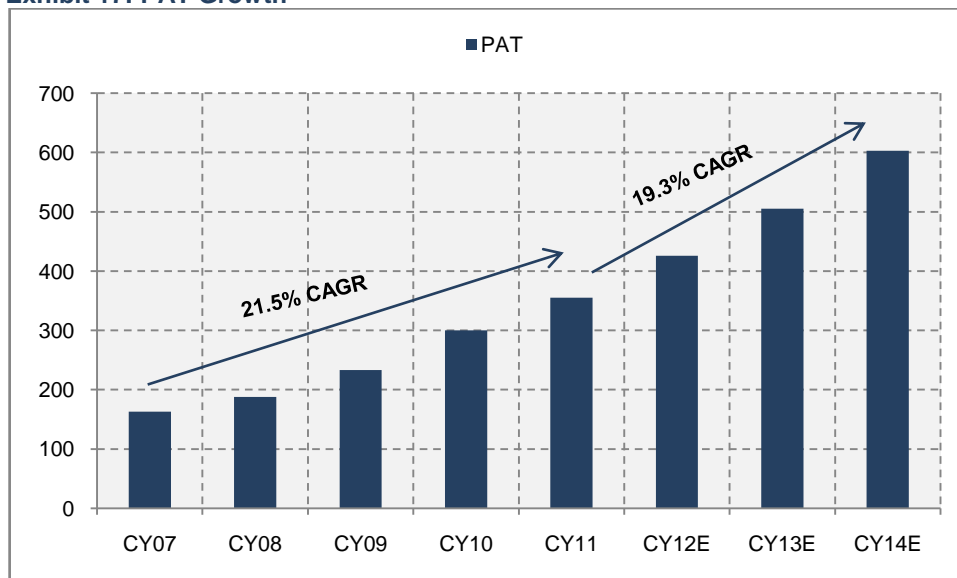
Company has achieved the target set as Vision 2X to double the revenues as well as the profits in 5 years (CY07-11). Total revenue grew at CAGR of 20.4% (CY07-11) from Rs.1,319 cr in CY07 to rs.2,771 cr in CY11. With 9% -16% volume growth and 5% – 7% pricing growth, company was able to achieve strong sales growth. We expect revenue to grow at CAGR of 16% over CY11-14 with 7% – 9% volume growth and 6% - 7% pricing growth. Also, we expect Business auxiliary income to grow at more than 20% in years ahead backed by better response from OTC products like Sensodyne which achieved robust success and captured 3% market share in toothpaste segment.

Exhibit 16: Revenue Growth



Source: Company, Shah Investor's Research

Exhibit 17: PAT Growth

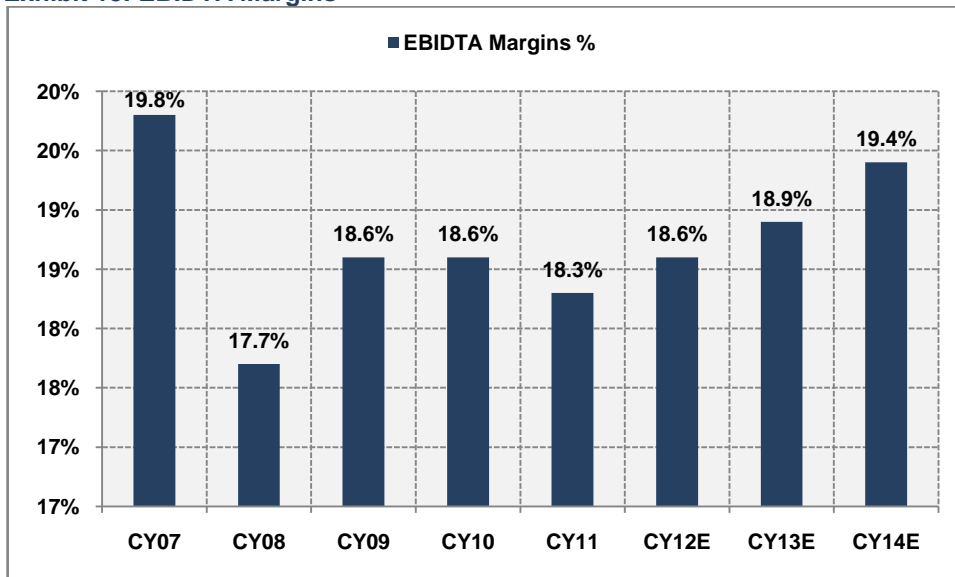


Source: Company, Shah Investor's Research

Stable EBIDTA margins despite inflationary pressures

Company has been able to maintain EBIDTA margins of above 18% despite rise in raw material prices due to strong pricing power and successful launch of premium products like Horlicks Gold. With market leadership in MFD segment, we expect EBIDTA to grow at CAGR of 18% (CY11-14) and EBIDTA margin to improve with slowdown in inflationary pressures and price hikes.

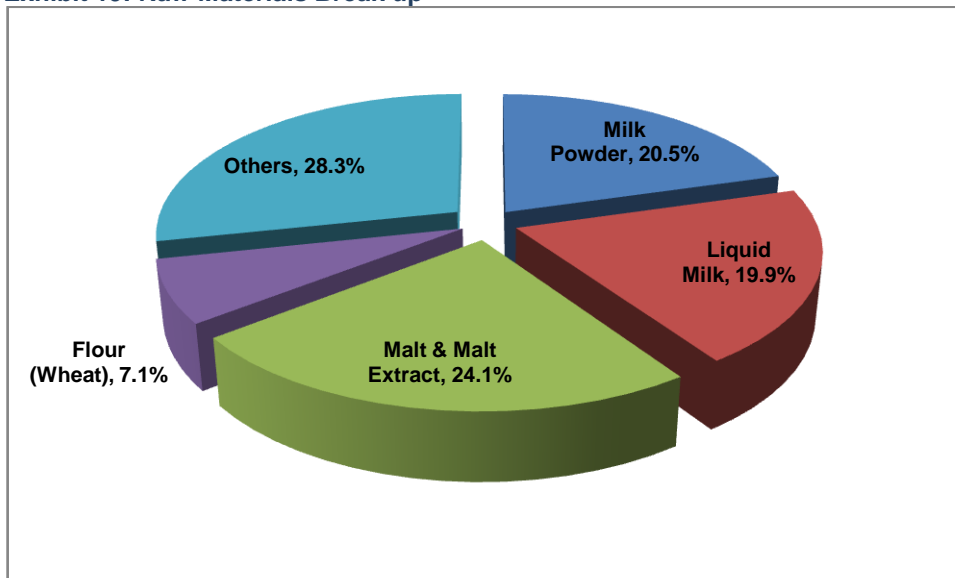
Exhibit 18: EBIDTA Margins



Source: Company, Shah Investor's Research

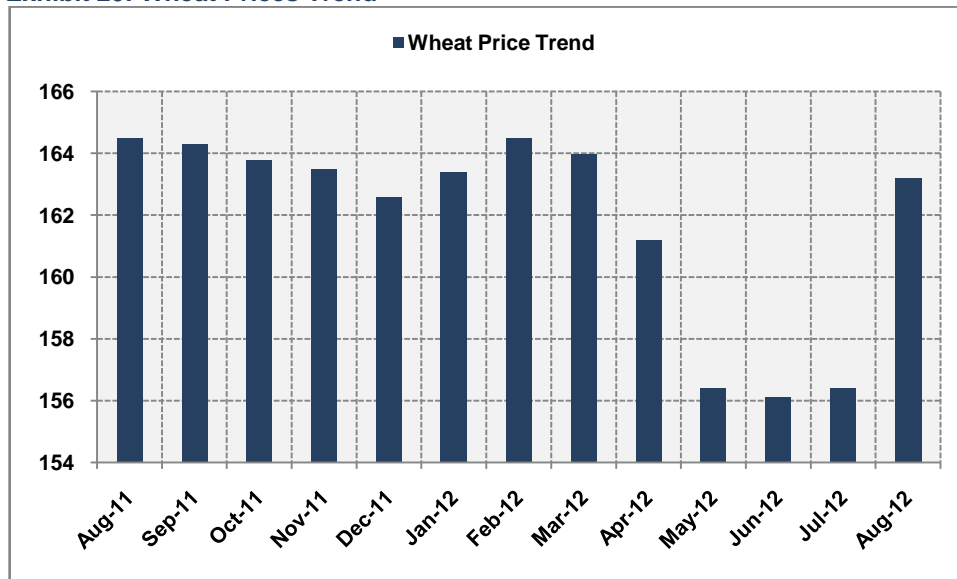
Raw material prices have shown mix performance with wheat prices increased in last month (August 2012) while SMP and Barley prices remain flat as compared to previous month.

Exhibit 19: Raw Materials Break up



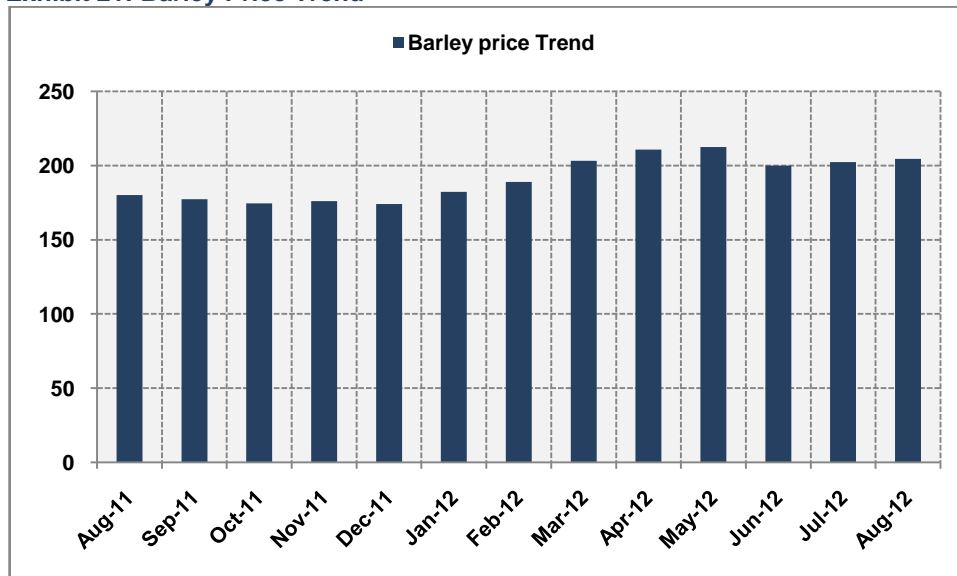
Source: Company, Shah Investor's Research

Exhibit 20: Wheat Prices Trend



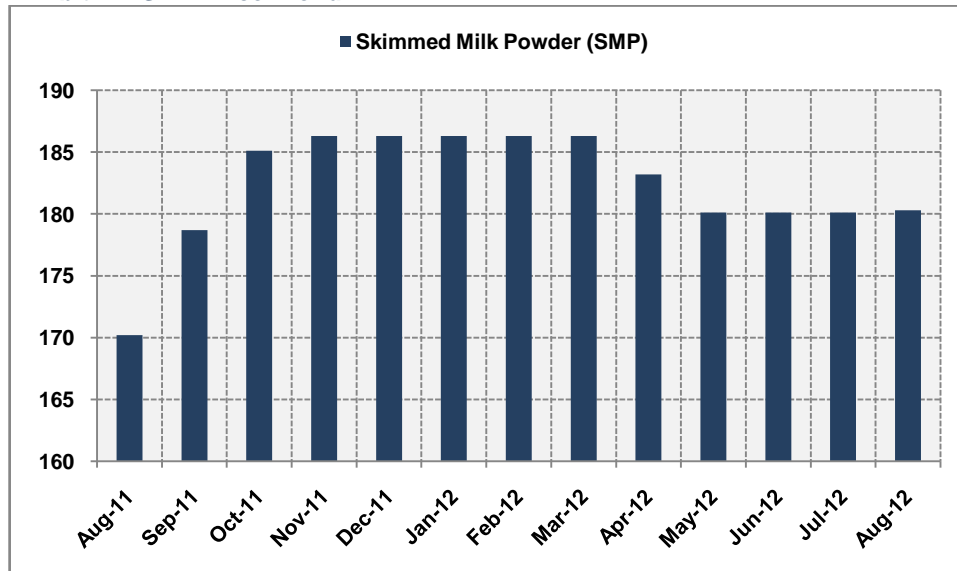
Source: Company, Shah Investor's Research

Exhibit 21: Barley Price Trend



Source: Company, Shah Investor's Research

Exhibit 22: SMP Price Trend



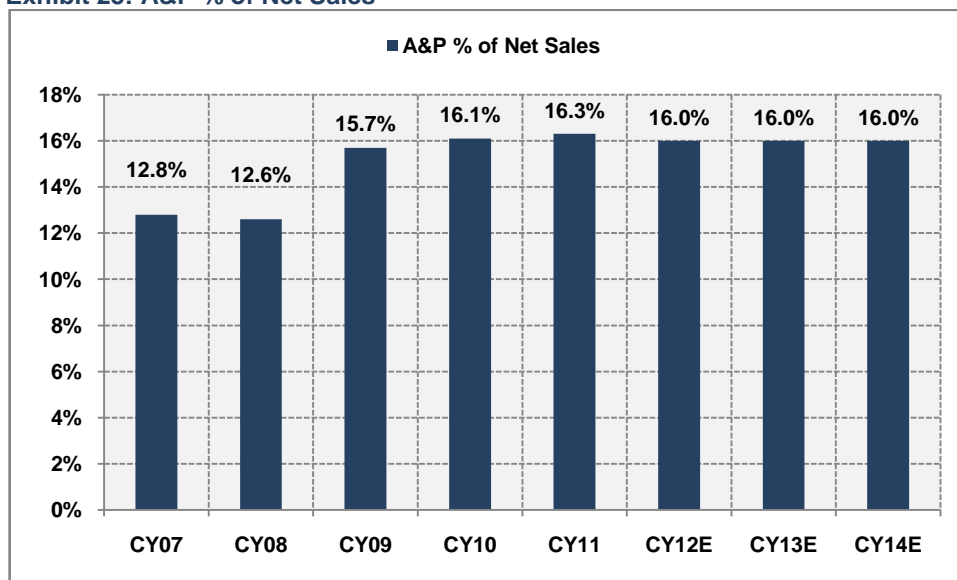
Source: Company, Shah Investor's Research

A & P Expenses

We believe A & P expenses is a key driver for sustainable revenue growth of the company. Company has reported increase in A & P expenses as % of sales in last five years (CY07-11) from 13% in CY07 to 16% in CY11 which we believe would support sustainable revenue growth in years ahead. We expect this high level (16%) of A & P expenses to sustain in the future.

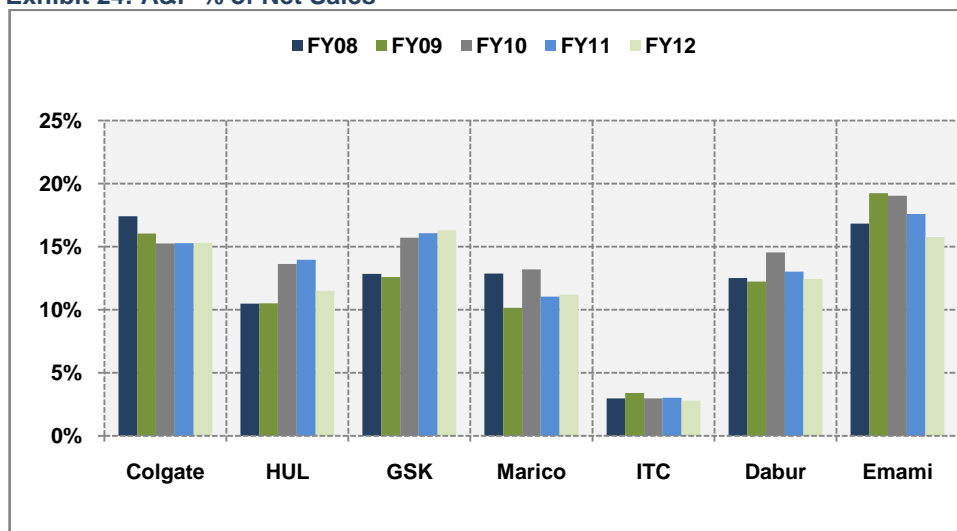
Also, company has used celebrity like Kapil Dev, Sachin Tendulkar, Virender Sehwag and Mahendra Singh Dhoni to endorse its products.

Exhibit 23: A&P % of Net Sales



Source: Company, Shah Investor's Research

Exhibit 24: A&P % of Net Sales



Source: Ace Equity, Shah Investor's Research

Exhibit 25: Peer Comparison

Company	CMP (Rs.)	Mkt Cap (Rs. Cr.)	EPS CAGR(%) (FY12-14E)	PE (x) FY14E	PB (x) FY14E	EV/EBITDA (x) (FY14E)
ITC	261	204,892	17.3%	23.6	8.9	15.7
Marico	194	12,498	24.4%	24.3	5.5	17.3
Dabur	125	21,699	18.5%	23.9	8.3	18.1
Godrej Consumer	673	22,887	9.6%	25.1	5.7	17.5
Colgate-Palmolive	1199	16,308	17.9%	26.3	28.2	18.9
Hindustan Unilever	528	114,236	12.9%	32.1	22.1	24.2
Jyothy Laboratories	160	2,575	19.8%	21.5	2.6	23.0
Britannia Industries	470	5,620	17.7%	20.3	2.6	13.8
Emami	482	7,286	18.4%	20.1	7.9	17.5
Industry Weighted Average	-	-	16.8%	25.3	10.4	17.3
GSK Consumer*	2913	12,251	18.4%	24.6	6.6	15.2

Source: Company, Shah Investor's Research

*Year end December

Key Risks

- Inflationary Pressure on Raw materials – Milk and malt extract are the major cost drivers for the company, so food inflation is the major risk faced by the company.
- New Product Failure - Apart from HFD, new products face greater risk of failure. Horlicks Chill Doodh and Lucozade have failed to make an impact in the market.
- High dependence on MFD segment – Company' revenues comprises of about 94% of MFD segment, thus competitive intensity in MFD segment could affect revenue growth of the company.
- HFD face competitive pressure from other categories – Other categories like tea, coffee, cereals pose competition to HFD category.

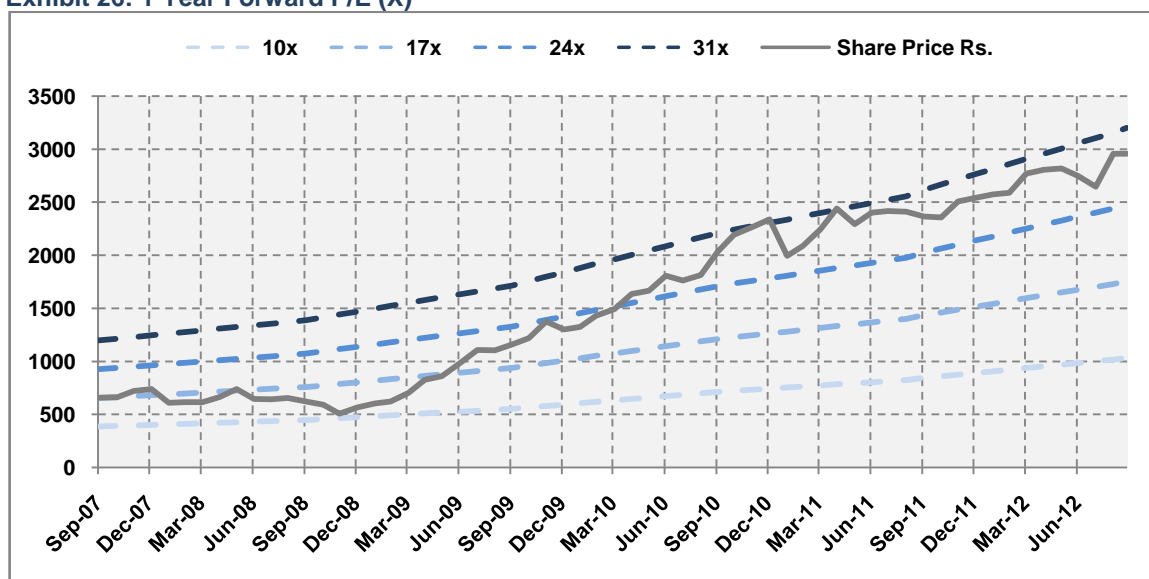
Outlook & Valuation

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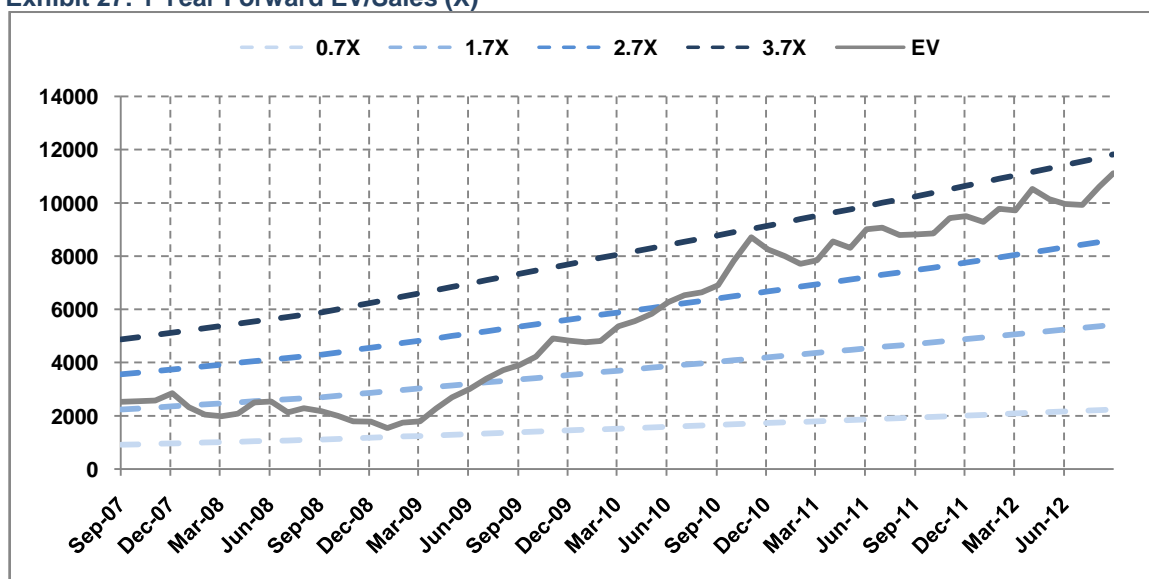
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Exhibit 26: 1 Year Forward P/E (X)



Source: Company, Shah Investor's Research

Exhibit 27: 1 Year Forward EV/Sales (X)



Source: Company, Shah Investor's Research

Financials**Exhibit 28: Annual P&L Statement**

Particulars, Rs. Cr.	CY10	CY11	CY12E	CY13E	CY14E
Gross Sales	2,431	2,832	3,272	3,785	4,379
Excise Duty	125	147	170	197	228
Net Sales	2,306	2,686	3,101	3,588	4,151
Other Operating Income	68	85	96	117	144
Total Revenue	2,374	2,771	3,197	3,706	4,295
Expenditure					
Inc/(dec) in inventories	(30)	(44)	(44)	(44)	(44)
Cost of Raw Material Consumed	585	701	799	921	1,064
Cost of Packing Material Consumed	193	232	278	322	372
Purchase Finished Goods	116	134	162	186	205
Employee Cost	230	258	294	337	387
Other Expenses	837	983	1,113	1,285	1,477
Total Expenditure	1,932	2,264	2,602	3,007	3,461
Gross Profit	1,509	1,748	2,002	2,321	2,698
<i>Gross Margin %</i>	64%	63%	63%	63%	63%
EBITDA	442	507	595	699	834
<i>EBITDA Margin %</i>	19%	18%	19%	19%	19%
Depreciation & Amortization	40	46	54	63	74
EBIT	402	461	541	636	760
<i>EBIT Margin %</i>	17%	17%	17%	17%	18%
Other Income	50	80	107	123	141
Interest Expenses	-	-	-	-	-
PBT	452	540	648	758	901
<i>PBT Margin %</i>	19%	19%	20%	20%	21%
Tax Expenses	152	185	222	260	309
Effective Tax Rate	34%	34%	34%	34%	34%
PAT	300	355	426	498	592
<i>PAT Margin %</i>	13%	13%	13%	13%	14%
EPS, Rs.	71.3	84.5	101.3	118.4	140.8

Source: Company, Shah Investor's Research

Exhibit 29: Annual Balance Sheet Statement

Particulars, Rs. Cr.	CY10	CY11	CY12E	CY13E	CY14E
Sources of Funds					
Shareholder's Funds	960	1,144	1,367	1,628	1,938
Share Capital	42	42	42	42	42
Reserves & Surplus	918	1,102	1,325	1,586	1,896
Total Loans	-	-	-	-	-
Total Liabilities	960	1,144	1,367	1,628	1,938
Application of Funds					
Gross Block	599	637	701	775	861
Less: Depreciation	397	436	490	553	627
Net Block	202	201	211	222	233
Capital WIP	108	171	171	171	171
Investments	-	-	-	-	-
Current Assets, Loans & Advances					
Inventory	312	370	429	497	577
Sundry Debtors	50	99	79	91	106
Cash & Bank	976	1,080	1,275	1,563	1,911
Other Current Asset	35	49	53	61	71
Loans & Advances	50	72	79	91	106
Total Current Assets	1,423	1,670	1,914	2,304	2,770
Current Liabilities & Provision					
Current Liabilities	470	666	666	772	894
Provision	330	271	303	338	382
Total Current Liabilities	800	938	969	1,109	1,277
Net Current Assets	623	733	945	1,195	1,493
Deferred Tax Assets	27	40	40	40	40
Total Assets	960	1,144	1,367	1,628	1,938

Source: Company, Shah Investor's Research

Exhibit 30: Annual Cash Flow Statement

Particulars, Rs. Cr.	CY10	CY11	CY12E	CY13E	CY14E
Cash Flow from Operating Activities					
PBT	452	540	648	758	901
Adjustment for :	(5)	(16)	(41)	(47)	(54)
Depreciation/Amortisation	40	46	54	63	74
Interest Expense	3	3	3	3	3
Interest Income	(44)	(70)	(98)	(113)	(131)
Operating Profit before Working Capital Changes	447	524	608	711	847
Adjustment for (Increase)/Decrease in Working Capital :	-	-	(50)	4	5
Current Assets	(94)	(157)	(49)	(102)	(118)
Sundry Debtors	(20)	(49)	20	(13)	(15)
Loans and Advances	(20)	(32)	(7)	(13)	(15)
Other Current assets	(3)	(8)	(3)	(8)	(10)
Inventories	(51)	(68)	(59)	(68)	(79)
Current Liabilities and Provisions	133	202	(1)	106	123
Cash Generated from Operations	486	569	558	716	852
Direct Taxes Paid (Net)	(160)	(182)	(222)	(260)	(309)
Net Cash from/(used in) Operating Activities	326	387	336	455	543
Cash Flow from Investing Activities					
Purchase of Fixed Assets/Additions to Capital Work in Progress	(114)	(96)	(64)	(74)	(86)
Interest Received	29	59	98	113	131
Net Cash from/(used in) Investing Activities	(79)	(36)	34	39	46
Cash Flow from Financing Activities					
Interest Paid	(2)	(3)	(3)	(3)	(3)
Dividend Paid	(76)	(210)	(147)	(175)	(204)
Dividend Tax Paid	(13)	(35)	(24)	(28)	(33)
Net Cash from/(used in) Financing Activities	(91)	(247)	(175)	(206)	(241)
Net Increase in Cash	156	104	195	288	348
Beginning of the Year	820	976	1,080	1,275	1,563
Cash and Cash Equivalents at the end of the year	976	1,080	1,275	1,563	1,911

Source: Company, Shah Investor's Research

Exhibit 31: Key Ratios

Y/E March	CY10	CY11	CY12E	CY13E	CY14E
Profitability					
EBITDA Margin	18.6%	18.3%	18.6%	18.9%	19.4%
PAT Margin	12.6%	12.8%	13.3%	13.4%	13.8%
RoCE	41.9%	40.3%	39.6%	39.0%	39.2%
RoE	31.2%	31.0%	31.2%	30.6%	30.6%
Per Share Data (Rs.)					
Adj. EPS	71.3	84.5	101.3	118.4	140.8
Adj. CEPS	77.6	92.1	79.8	108.3	129.1
BVPS	228.3	272.1	325.1	387.1	460.8
Adj. DPS	50.0	35.0	41.5	48.6	57.7
Valuation, x					
P/E	40.9	34.5	28.8	24.6	20.7
P/CEPS	37.6	31.6	36.5	26.9	22.6
P/BV	12.8	10.7	9.0	7.5	6.3
EV/Sales	2.7	3.5	3.4	2.9	2.4
Dividend Yield	2.1%	1.4%	1.4%	1.7%	2.0%
Gearing Ratios					
Net Debt/Equity	(1.0)	(0.9)	(0.9)	(1.0)	(1.0)
Net Debt/EBITDA	(12.5)	(16.8)	(16.3)	(13.1)	(10.1)
Performance Ratios, x					
Cash Flow-to-Revenue	1.1	1.1	0.8	0.9	0.9
Cash Return-on-Assets	0.5	0.6	0.5	0.6	0.6
Cash Return-on-Equity	0.3	0.3	0.2	0.3	0.3
Cash-to-Income	0.14	0.14	0.11	0.12	0.13
DUPONT Analysis,x					
PAT/PBT	0.66	0.66	0.66	0.66	0.66
PBT/EBIT	1.12	1.17	1.20	1.19	1.18
EBIT/Total Income	0.17	0.17	0.17	0.17	0.18
Total Income/Total Assets	3.84	4.14	4.33	4.53	4.99
Total Assets/Total Equity	0.59	0.53	0.49	0.46	0.44

Source: Company, Shah Investor's Research

Contact Details

Shah Investor's Home Ltd
105/B, 1st Floor, Sahayog Tower,
Above Central Bank of India,
SV Road, Kandivali (W)
Mumbai 400 067
www.sihl.in

Contact: research@sihl.in, +91-2801 6715/16

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