



KEC INTERNATIONAL LTD.

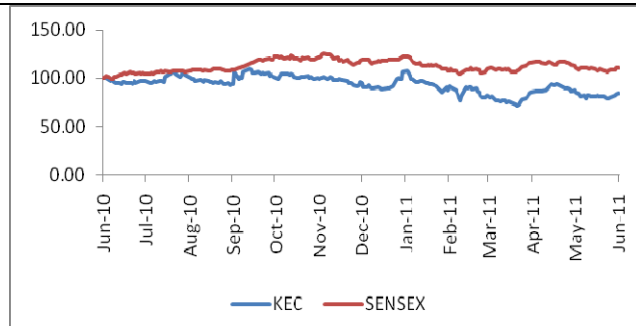
Initiating Coverage
KEC International Ltd.

Recommendation	BUY
CMP (03/06/2011)	Rs82.7
Target Price	Rs.113.0
Sector	Power Transmission

Stock Details

BSE Code	532714
NSE Code	KEC
Bloomberg Code	KECIN
Market Cap (Rs. crs)	2,126
Free Float (%)	58.4
52- wk HI/Lo	123/70
Avg. volume (monthly)	54,290
Face Value (Rs.)	2.0
Dividend (FY11) (%)	60%
Shares o/s (Nos. in cr)	25.71

Relative Performance	1 Mth	3 Mth	1 Yr
KEC	-3%	2%	-16%
Sensex	-3%	0%	10%


Shareholding Pattern (%) as on 31/03/2011

Promoters Holding	41.65
FII, Banks & Institutions	43.72
Corporate Bodies	3.33
Public & others	11.30

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Company Overview

KEC International (KEC), part of RPG Enterprises (a \$3.7 bn group), is a world leader in Power transmission EPC business with annual capacity of 3,00,000 MTs. In recent past, company has diversified into cables, railways, telecom tower-EPC & water infrastructure projects through organic and inorganic growth. The company's order book at the end of FY11 was around Rs. 7800 crs, with 74% contributed by transmission projects. The company is a global player in the field of T&D network, having presence in more than 40 countries across South Asia, MENA, Central Asia, North & Latin Amreica . International markets contributed 53% of total reveue.

Investment Rationale

- **Power Transmission capex to increase by 71% in 12th plan.**- According to CRISIL estimates Power Demand is estimated to grow at 7.8% between 2010 and 2015 on back of GDP growth of 8% to 8.5% over next five years. In line with the power requirement of the country 100 GW of power capacity is expected to be added in 12th plan. To evacuate the power from new plants, government has set total capex of Rs. 240,000 crs on power transmission, an increase of 71% over 11th plan.
- **Healthy order book provides revenue visibility:** - KEC International has healthy order book of Rs. 7800 Crs (1.75x FY11 revenues), providing strong revenue visibility for next couple of years. We expect strong order inflow of Rs. 7260 Crs in FY12E and Rs. 7986 crs in FY13E against order inflows of Rs. 6600 crs in FY11.
- **Recent Acquisition to add Synergy** – In recent past KEC has done three acquisitions to strengthen its current business (SAE Towers), diversified into new areas like (cables and Railways Signaling) and geography (North and Latin America). We believe these acquisition and diversification will aid growth and increase margin going forward.
- **Robust Financials:** - KEC clocked 22% CAGR in top line from FY07-11 on account of increase investment in Power T&D sector. We expect company's domestic order book to improve further and will remain strong due to government thrust on Power T&D sector. Thus over FY11-FY13E, we expect company's top line and bottom line to grow at CAGR of 21% and 24.8% respectively.

We expect KEC to report EPS of Rs. 10.27 and 12.38 for FY12E and FY13E respectively. At CMP, stock is trading at 7.79x for FY12E & 6.46x for FY13E earnings We Initiate coverage on KEC International with a BUY rating and target price of Rs. 113,(assigning multiple of 11x FY12) which implies 37% upside from current levels

Year	Net Sales	Growth	EBIDTA	Margin (%)	Adj PAT	Margin (%)	EPS	P/E	ROE
FY2010	3,908.22	14.01%	405.86	10.38%	188.67	4.83%	7.34	10.90	24.58%
FY2011	4,476.74	14.55%	472.95	10.56%	205.07	4.58%	7.98	10.03	21.66%
FY2012E	5,570.39	24.43%	589.00	10.57%	263.99	4.74%	10.27	7.79	23.68%
FY2013E	6,553.08	17.64%	685.63	10.46%	318.38	4.86%	12.38	6.46	23.73%

Investment Rationale

Power Transmission capex to increase by 71% in 12th Plan

Historically, the Power Transmission segment in India has not received the attention as it deserves, due to successive Planning Commissions focusing primarily on the Power Generation segment. As a Thumb rule, every rupee invested in Generation is matched by an equal investment in the T&D Segments. However in India it has been different, with only 50% of the capex of generation being incurred on T&D capex. However, in recent times, emphasis is being laid on improving the country's T&D infrastructure due to the realization that a robust and adequate power Transmission network is essential to complement growth of the Power Generation Segment.

Power Demand is estimated to grow at 7.8% between 2010 and 2015 on the back of GDP growth of 8% to 8.5% over next five years. In line with the power requirement of the country 100 GW of power capacity is expected to be added in 12th plan. Increase in the generation capacity would require addition of transmission systems for the evacuation of power

Rs. Crs	10th Plan	11th Plan	12th Plan
PGCIL Capex	18900	55000	120000
State	28500	67000	120000
Private		18000	
Total Investment	47400	140000	240000

(Sources:- CEA, Nirmal Bang Research)

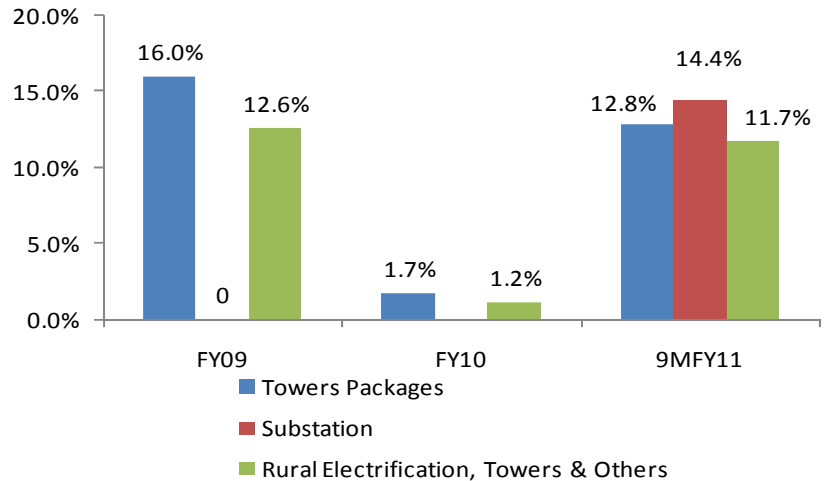
From the table, it is clearly indicative that the Ministry of Power has envisaged an investment of approximately Rs.240,000 crs in transmission sector in the 12th Plan (a 71% growth over the 11th Plan). This requirement is cumulative of the generation linked evacuation systems, upgrading and strengthening of existing system taking into account the increased requirements from IPPs and other critical issues necessary for the operation of a reliable grid.

KEC is well placed to secure orders from Domestic

KEC International is currently executing more than 30-35 projects for domestic companies especially PGCIL, Private and State utilities. With strong domestic client base and execution capabilities coupled with massive investment in power T&D sector, we believe KEC is well place to capitalize on domestic opportunity.

For the first half of FY11, we have witnessed subdued order inflow from PGCIL. But from Q3FY11 onwards, we have already seen traction in order intake with KEC securing good amount of orders. For FY11, KEC bagged total orders worth of Rs. 800 crs from PGCIL.

Share of KEC's in PGCIL across different segments.



(Sources:- PGCIL, Nirmal Bang Research)

HCPTC orders: - Key Trigger.....!

The Central Electricity Regulatory Commission (CERC) has approved the proposal to set-up nine High Capacity Power Transmission Corridors (HCPTCs) in the country by the Power Grid Corporation of India Limited (PGCIL) at a tentative cost of Rs.58,061 crs

We believe HCPTC will be the key trigger of KEC international going forward. The tenders of these orders are expected in next 6 months.

These HCPTC order are mainly of 765 kv and above where competition is less due to few players.

We expect KEC International to benefit from these orders as it is one of few companies which has got 765 KV + technology.

Serial No.	HCPTC	Rs. Crs
HCTPC-I	Generation Project in Orissa	8752
HCTPC-II	IPPs Project in Jharkhand	5709
HCTPC-III	IPPs in Sikkim	1304
HCTPC-IV	IPP Project in Bilaspur Complex, Chhattisgarh & IPP's in MP	1243
HCTPC-V	IPP's in Chhattisgarh	28824
HCTPC-VI	IPP's in krishnapatnam, (AP)	2065
HCTPC-VII	IPP in Tuticorn, (TN)	2357
HCTPC-VIII	IPP in Srikakulam, (AP)	2986
HCTPC-IX	IPP Project in Southern Region	4821
Total		58061

(Sources:- CEA, Nirmal Bang Research)

IPP:- Independent Power Producer

Global Opportunity

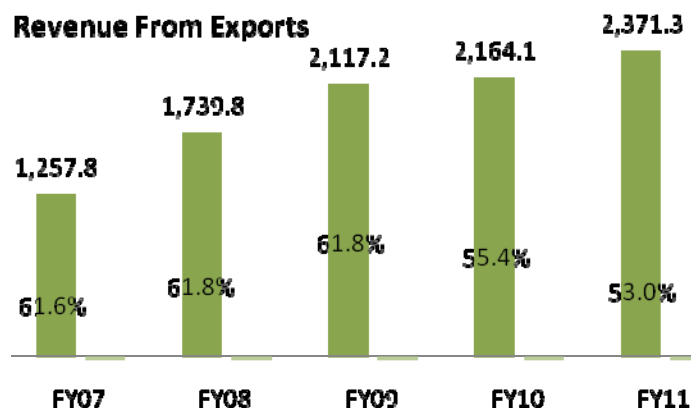
KEC's foot prints expanded to North and Latin America post SAE Towers acquisition

Geographical Region	Year 2007-15E Investmet			
	Capacity Addition (GW)	Generation In USD bn	Transmission In USD bn	Distribution In USD bn
North America	215	379	121	260
Europe	221	457	93	281
Pacific	78	146	65	115
E. Europe/Eurasia	137	180	55	183
Asia	781	794	433	894
Middle East	78	59	32	67
Africa	59	59	58	58
Latin America	121	123	41	84
Total	1690	2197	898	1942

(Sources:- Company presentation, Nirmal Bang Research)

Over the years KEC has marked its presence in international market from mere 20 countries in FY06 to more than 44 countries in FY11. KEC has made strong presence in International T&D market by bagging some prestigious orders and executing in difficult terrain. Some of the prestigious orders include: Rs. 942 crs order from Kazakhstan electricity grid for construction of 38 substations from 110KV-150KV, Rs. 98 crs order from South Africa for Transmission line, Order from Saudi Electricity company worth of Rs. 78 crs for 132 KV transmission line on turnkey basis, Rs. 150 crs order from SAE towers for supply of tower in US and Brazil.

On an avg., KEC accounts for 50-60% of its revenue from international markets.



(Sources:- Company data, Nirmal Bang Research)

KEC has strong presence in MENA region, South Asian and central Asia. With the acquisition of SAE towers, KEC has increased its presence in North and Latin America, also where significant investment is taking place. KEC accounts for 50-60% of revenue from international markets and going by the massive capacity addition in next 3-4 years we believe KEC is all set to tap the opportunity.

Acquisitions to add synergy with diversification

In last one year, KEC has grown inorganically in order to diversify into new business (RPG Cables and Jay Singling) & to create synergy for existing one (SAE Towers). Apart from acquisition, KEC has grown organically into business verticals like Water Business, e-BOP, telecom towers etc.

Acquisition of SAE Towers, KEC has become one of largest global tower Manufacturing player...

In September, 2010 KEC International acquired 100% stake in US based transmission tower supplies company with consideration of USD 95 mn. SAE Towers has capacity of 1,00,000 Mts with manufacturing facilities in Mexico (35,000 Mts) and Brazil (65,000 MTs). We see this acquisition positively impacting KEC's overall business growth over a long run, given strong outlook for T&D capex from the US, Canada and Latin America. For now, KEC's Management intends to continue its business of tower manufacturing and supplies for SAE Towers in Mexico and Brazil, and has declined entry into EPC jobs in these regions. We, however, believe that the company will venture into EPC and project execution activity over the long term in the American markets. SAE Towers waults highest market share in both in North America and South America. . With this acquisition, KEC has become largest global transmission tower player. SAE Towers commands EBIDTA margin in the range of 12-13% against KEC 9-10%. SAE Towers currently operates at capacity utilization of 60-65% and going forwards management expects capacity utilization to exceed 75%.in FY12E.

Total Order book of SAE Tower increased from 580 crs (at time of acquisition) to Rs. 892 crs at the end of FY11.

Jay Railways to provide platform in signaling work

Last year in Sep., 2010, KEC acquired a railway signaling automation systems & technology company, Jay Railway Signaling Private Limited for an enterprise value of Rs. 13.96 Crs. KEC, with its strong EPC base, had the capability to undertake civil infrastructure, track works and railway electrification work, while it was lacking the expertise to provide signaling works that require high technical skills and experience, Jay Railway Signaling undertakes turnkey contracts for the Indian Railways having revenues of Rs10 Crs. The acquisition gave KEC the ability to offer services for the entire gamut of railway infrastructure projects such as railway electrification, civil infrastructure (including track lying) and signaling works. With an order backlog of Rs. 389 Crs of the railway segment, we believe, KEC's growth in the railway infrastructure projects can be quite strong considering the Indian railways investment plans.

At the end of FY11, railways division contributes around Rs. 389crs of total order book

Merger with RPG cables add competitive advantage

In March 2010, RPG cables were merged with KEC International. Merger provided KEC, in house capacity for cable and at the same time helped KEC to become an integrated Infrastructure project management player. To further strengthen its business, Company is now setting up a new cable unit with capacity of 3000 cables km /P.A, at vadodara and the production is expected to start from FY13 onwards. Total capex is around Rs. 150 Crs.

On Full capacity Utilization, Vadodara Plant to contribute revenues around Rs. 300 crs.

New Business Vertical to boost revenue and growth going forward.....

KEC has ventured into new business verticals to diversify its revenue stream.

Water business:- Recently KEC ventured into the water business by bagging its maiden order of Rs. 31 crs from Water Resource Department of Madhya Pradesh. The project comprises of renovation, repair and remodeling of canal under Urmil Tank Project. The company intends to mark its presence in complete value chain of Water Treatment and Water Resource Management which includes Irrigation, Embankment, Flood Control and Construction of dams, barrages, canals, tunnels etc. Recently, the company tied up with a German company BIOWORKS AG for advanced technologies such as Activated Sludge Process, Sequential Batch Reactor, Rotating Bed Bio Reactor, Moving Bed Bio Reactor etc. BIOWORKS AG is specialized in design and execution of water & wastewater treatment systems and executed projects in several countries across North America, Europe and Asia.

E-BOP:- KEC international ventured into e-BOP (Electrical work in Balance of Plant) by bagging its first ever contact from NMDC worth of Rs. 40 crs.

Distribution Space:- KEC has entered into a strategic alliance with Power engineers Inc, USA to provide complete designing and engineering of substation up to 500 KV in India and overseas. KEC international has made significant breakthrough in the substation space by bagging major order from Kazakhstan of 1150 KV. We believe successful execution of Kazakhstan order will help KEC to entry into 765 KV substation project from PGCIL.

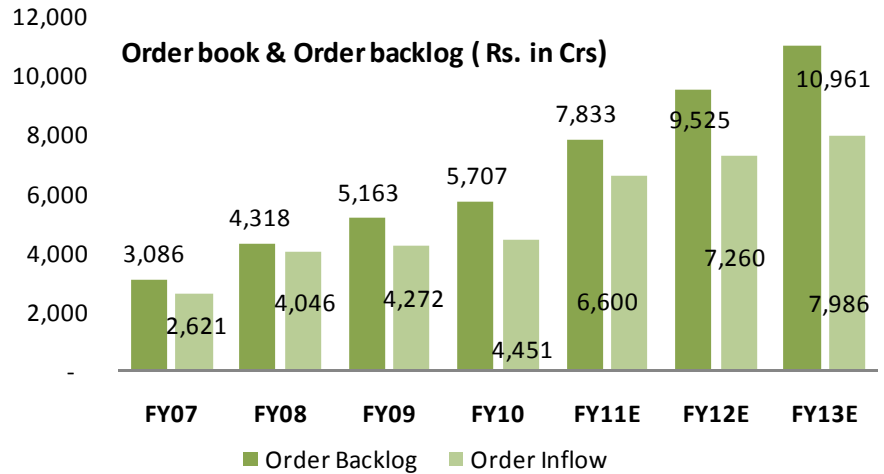
Recently KEC has won 2 orders from PGCIL of 400 KV substation. This will lead KEC to bid for orders from PGCIL for High Capacity Power Transmission Corridors (HCPTC).

We believe KEC's recent merger, acquisition and diversifying into new high growth sector will provide boost to its growth and profitability going forward.

EBIDTA margin in Water business are in range of 12-15%.

Robust order book gives revenue visibility

KEC International has order book of Rs. 7800 crs, which is 1.75x of FY11 revenue. In spite of the slowdown in inflow in domestic order (delay by PGCIL), KEC bagged large amount of orders from international market. During Q4FY11, company registered order inflow of Rs. 1390 crs, an increase of 75% YoY. KEC has posted 26% CAGR in its order book over 2007-11. KEC's order book is dominated mainly by Transmission segment, which accounts for 73% of total order book and on geographical basis, South Asia accounts for 47%.



(Sources:- Company data, Nirmal Bang Research)

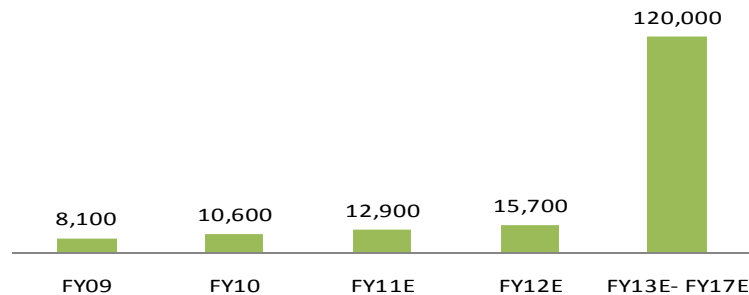
We expect the company to report robust order inflow in FY12 being the last year of 11th plan. We expect healthy Order inflow to continue over the next 2-3 years on account of increased domestic orders from majors companies like PGCIL and other state utilities.

PGCIL orders to drive growth in Domestic market.....

Going ahead in 12th five year plan (FY13-FY17), a significant portion of T&D investment is expected to be incurred by PGCIL to strengthen the national grid. The government of India is targeting to spend at least Rs. 2.4 trillion on transmission alone during the 12th plan of which PGCIL is expected to incur 50% of total capex.

Total capex of PGCIL for 12th plan is around Rs. 1, 20, 000 crs

PGCIL capex (Rs. Crs)



(Sources:- Power Grid, Nirmal Bang Research)

Thus owing to superior execution skills and excellent track record KEC is well poised to bag more orders from PGCIL going ahead.

Risk Concerns

Execution delay:-

Timely execution of projects is the key to success for KEC. Any major hiccups or delays in the execution timeline could negatively impact its revenue and profitability estimates.

Volatility in Raw Material Prices.

The company receives a major portion of its revenue from international operations, which are partly fixed price basis. Hence, its Bottom-line is likely to suffer if there is an abnormal increase in the raw material costs.

Concern in MENA Region. :- In recent times MENA region has seen some turmoil due to unrest in countries like Libya, Egypt etc. . MENA region accounts for 15% of order book. According to management apart from Libya, Egypt and Tunisia, all other projects are on schedule. But any delay in execution of projects due to spreading of turmoil may hamper revenues.

Rising Interest Rate: - Total Debt of KEC has increased from Rs. 786 crs to Rs. 1432 crs on account of acquisition of SAE towers. A higher interest rate scenario could result in higher interest expenses for KEC which could lower the profitability.

Peer Comparison

Peers Comparison	CMP	Sales (Rs. In crs)		EBIDTA Margin (%)		PAT Margin (%)		Order book /Sales	EPS		P/E	
		FY11	FY12E	FY11	FY12E	FY11	FY12E		FY11	FY12E	FY11	FY12E
KEC International	80	4,476.7	5,570.4	10.6%	10.6%	4.58%	4.74%	1.74	7.98	10.27	10.03	7.79
Kalpatru*	122	2,878.7	5,427.3	11.7%	11.0%	6.6%	5.2%	1.91	12.60	18.10	9.68	6.74
Jyoti Structure*	81	2,426.3	2,825.7	11.5%	11.0%	4.7%	4.6%	1.69	13.46	14.52	6.02	5.58

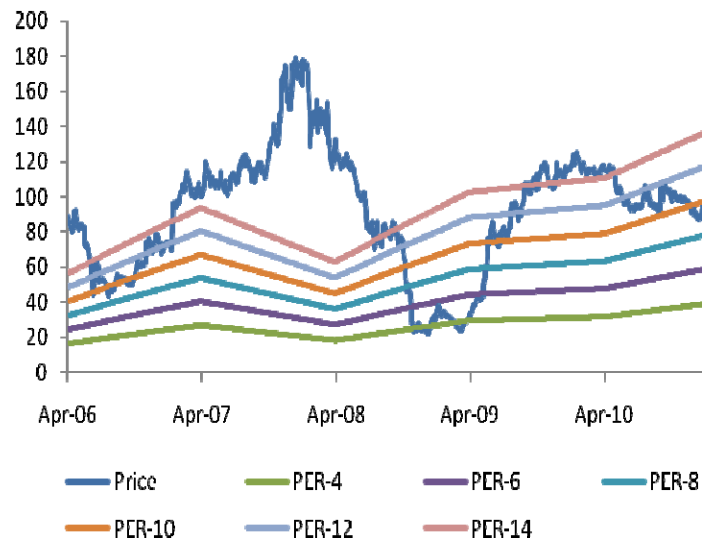
*;- Bloomberg consensus

Outlook & Valuation

KEC has grown at a CAGR 22% on top line over FY07-FY11 on account of robust investment in Power T&D sector. The twelfth plan has proposed an investment of Rs. 2.4 trillion, which is expected to throw up substantial opportunities for T&D players like KEC international over next 3-5 years.

On Global front, KEC's international operations are also expected to do well on account of recovery in international markets and robust investment. Total order book of company is around Rs. 7800crs (1.75x) FY11 revenue gives strong revenue visibility. Further recent acquisition and diversification in new area and geography are likely to add fuel to growth.

1 Year Forward P/E Chat



Sources:- (Company Presentation, Nirmal Bang Research)

The company has traded in wide forward P/E band range with an average P/E of 10-12x. We are assigning the multiple of 11x, due to robust order book, diversified into high growth areas & opportunity going ahead which will result into robust order inflow.

At CMP, stock is trading at 7.79x FY12E earnings with an EPS of Rs. 10.27. **We initiate coverage on KEC International with a BUY rating and a target price of Rs113, which implies around 37% upside from current levels**

Business & Background

KEC International (KEC) is a part USD 3.7bn RPG group mainly involved in execution of EPC project in the Power Transmission and Distribution. The company is global player in T&D space having presence in more than 40 countries across South Asia, MENA region, Central Asia, North and South America. Company has five functional divisions:-

Power Transmission	<ul style="list-style-type: none"> • Tower Supply and Tower testing upto 1200 KV • Turnkey Transmission line Upto 1200 KV
Power Systems	<ul style="list-style-type: none"> • Distribution include design & Construction of Substation
Cables	<ul style="list-style-type: none"> • Power & Control cables • Telecom Cables
Railways	<ul style="list-style-type: none"> • Civil Infrastructure -Construction of bridges, Tunnels etc. • Track laying, Signaling, & Railway electrification
Telcom	<ul style="list-style-type: none"> • Telecom Towers
Water	<ul style="list-style-type: none"> • Construction of dams, canals, • Irrigation projects, Flood Control & Embankment

(Sources:- Company data, Nirmal Bang Research)

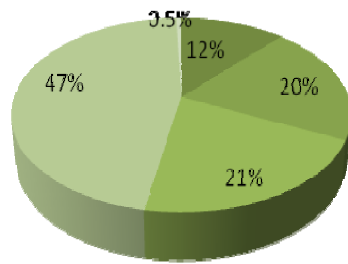
On Transmission front, KEC service portfolio includes design, testing and erection of transmission towers. On Distribution side, company executes various substation projects both in International and domestic markets.

No.	Key Manufacturing Facilities	Capacity
1	Transmission Facility in India-Nagpur, Jabalpur & Jaipur	1,51,000 MT
2	International- SAE Towers:- Mexico and Brazil	1,00,000 MT
3	Cables-Thane, Silvassa and Mysore	25,780 Kms

(Sources:- Company data, Nirmal Bang Research)

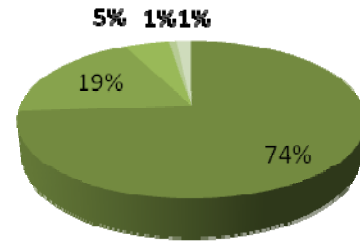
Apart from T&D space KEC has also presence in Railways, Telecom towers, Cables & Water business. In Railway business, after the acquisition of Jay Signaling Ltd., it has transformed into a complete turnkey solution provider in the EPC space.. The scope of work includes construction of bridges, tunnels, station building, facilities, track laying, Signaling, Railway electrification etc. In Telecom towers, KEC is leading players and provides services on EPC basis.

Geography Wise Order book



■ MENA ■ Africa & Central Asia ■ America ■ South Asia ■ Others

Segment Wise Order book



■ Transmission ■ Power System
■ Railways ■ Telecom & Water
■ Cables

Sources:- (Company Presentation, Nirmal Bang Research)

The total order book of company is around Rs. 7800crs with transmission accounts for 74% followed by power system. On Geographical basis, South Asia accounts for more than 46% total order book followed by Africa & Central Asia and America. On the revenue front, International sales accounted for 51% and balance by domestic.

Initiating Coverage

KEC International Ltd.

Financials

Y/E - March	FY10	FY11	FY12E	FY13E	Financial Health (Rs. Cr)	FY10	FY11E	FY12E	FY13E
Revenues - Net	3,908.22	4,476.74	5,570.39	6,553.08	Share Capital	49.34	51.42	51.42	51.42
% Growth	14.0%	14.5%	24.4%	17.6%	Reserves & Surplus	716.16	895.17	1,063.28	1,290.30
EBITDA	405.86	472.95	589.00	685.63	Net Worth	767.57	946.59	1,114.70	1,341.72
% change in EBITDA	35.3%	16.5%	24.5%	16.4%	Total Loans	786.74	1,432.17	1,575.20	1,653.96
Interest	86.47	107.50	126.02	132.32	Deferred Tax Liab	46.11	49.69	49.69	49.69
EBDT	319.39	365.45	462.99	553.31	Total Liabilities	1,600.43	2,428.45	2,739.59	3,045.37
Depreciation	27.02	40.81	54.97	61.22	Net Fixed Assets	713.33	840.86	960.89	974.67
Other Income	-	-	-	-	Investments	1.87	-	-	-
PBT	292.37	324.64	408.02	492.09	Good will	-	281.25	281.25	281.25
Tax	103.70	111.08	144.03	173.71	Inventories	249.75	335.86	408.46	483.16
PAT	188.67	205.07	263.99	318.38	Debtors	1,944.92	2,617.69	3,017.29	3,549.59
Equity(in Cr.)	51.42	51.42	51.42	51.42	Cash & Bank	67.80	161.35	186.61	129.52
EPS	7.34	7.98	10.27	12.38	Loans & Adv	397.26	472.35	601.40	752.62
Cash EPS	8.39	9.56	12.41	14.76	Current Assets	2,659.73	3,587.25	4,213.76	4,914.88
					Current Liabilities	1,718.89	2,224.83	2,655.27	3,060.26
					Provisions	55.61	56.08	61.03	65.16
					Current liab & Prov	1,774.50	2,280.91	2,716.30	3,125.42
					Working Capital	885.23	1,306.34	1,497.45	1,789.46
					Total Assets	1,600.43	2,428.45	2,739.59	3,045.38
Operational Ratio	FY10	FY11	FY12E	FY13E	Cash Flow (Rs. Cr)	FY10	FY11E	FY12E	FY13E
EBITDA margin (%)	10.38%	10.56%	10.57%	10.46%	Operating				
PAT margin (%)	4.83%	4.58%	4.74%	4.86%	EBT	273.95	316.15	408.02	492.09
PAT Growth (%)	63.07%	8.69%	28.73%	20.61%	Change in WC	(229.96)	(327.56)	(165.85)	(349.09)
Price Earnings (x)	10.90	10.03	7.79	6.46	Interest Exp	86.47	107.50	126.02	132.32
Book Value (Rs.)	31.11	36.82	43.36	52.19	Dep & Other Adjustment	(16.19)	40.81	54.97	61.22
ROE (%)	24.58%	21.66%	23.68%	23.73%	Tax Paid	(77.82)	(111.08)	(144.03)	(173.71)
ROCE (%)	23.67%	17.79%	19.49%	20.50%	CF from Opeartion	36.45	25.82	279.12	162.83
Interest coverage	4.38	4.02	4.24	4.72	Investment				
Debt Equity Ratio	1.02	1.51	1.41	1.23	Capex	(60.49)	(168.34)	(175.00)	(75.00)
Price / Book Value (x)	2.57	2.17	1.85	1.53	Other Investment	10.07	-	-	-
EV / Sales	0.30	0.78	0.65	0.57	Total Investment	(193.51)	(182.78)	(175.00)	(75.00)
EV / EBITDA	2.91	7.38	6.17	5.41	Financing				
Orderbook/ Sales	1.46	1.75	1.71	1.67	Dividend Paid	(28.52)	(36.96)	(36.96)	(36.96)
Qtrly	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Premium / Reserve	-	-	-	-
Revenue	846.02	949.71	1,070.68	1,557.36	Borrowing (Net)	55.10	380.72	84.12	24.36
Total Exp.	761.63	863.21	946.38	1,395.35	Other Income	-	-	-	-
EBIDTA	84.39	86.50	124.30	162.01	Interest	(94.40)	(107.50)	(126.02)	(132.32)
EBIDTA Margin (%)	9.97%	9.11%	11.61%	10.40%	Total Financing	(67.83)	236.26	(78.86)	(144.92)
Depreciation	8.63	8.54	11.32	11.87	Net Chg. in Cash	(81.80)	93.74	25.26	(57.09)
Interest	26.43	19.86	28.68	32.01	Cash at beginning	136.47	67.61	161.35	186.61
Other Income	0.08	0.56	0.32	1.6	Cash at end	67.61	161.35	186.61	129.52
EBT	49.41	58.66	84.62	119.73					
Tax	23.04	18.83	26.65	41.12					
PAT	26.37	39.83	57.97	78.61					
EPS	1.03	1.22	2.25	3.06					

NOTE

Disclaimer

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