



East India Securities Ltd
Excellent | Investment | Solutions

Skipper Ltd

3QFY19 Result Update

Target: Rs.121

Previous Rating: Buy

Current Rating: Buy

Dismal performance continuesBut Headwinds Likely to Abate

| | |
|----------------------|---------------------------------|
| CMP (Rs) | 62.2 |
| Target Price(Rs) | 121 |
| Upside (%) | 94.7 |
| Previous Target (Rs) | 151 |
| Share Holding (%) | 31 st December, 2018 |
| Promoter | 71.9 |
| Institutions | 16.0 |
| Others | 12.1 |
| Total | 100.0 |

Avg Vol (6m) (000) 17.23

FV 1

Beta 0.87

Mcap (Rs Mn) 6,380

52 week H/L 265.90/ 48.7

Bloomberg/Reuters SKIPPER IN / SKIP.BO

Group B / S&P BSE SmallCap

Sensex/Nifty 35,809 / 10,724

| ABS (%) | BSE Sensex | Skipper |
|---------|------------|---------|
|---------|------------|---------|

| | | |
|-----|-------|--------|
| 3 M | (3.3) | (54.1) |
|-----|-------|--------|

| | | |
|------|-----|--------|
| 1 Yr | 4.5 | (42.3) |
|------|-----|--------|

3QFY19 result highlights:

Revenue: Skipper 3QFY19 revenue reported 23% Y-o-Y/ 17% Q-o-Q drop to Rs.4.35 bn. Engineering business dropped 21% Y-o-Y / 20% Q-o-Q basis respectively to Rs.3.8 bn. Polymer business revenue growth disappointed again with 39% Y-o-Y/ 8% Q-o-Q decline respectively to Rs.331 mn. Infrastructure segment reported revenues of Rs.178 mn down 32% Y-o-Y but up 70% Q-o-Q. Reasons for drop in revenues as per management are:

- § Consciously slowed down supplies to the customer unwilling to give secured payment terms;
- § Slower Project Execution; Sites not ready for want of approvals;
- § Lack of short term orders in market

EBITDA: EBITDA fell by 43% Y-o-Y/ 21% Q-o-Q to Rs.422 mn while EBITDA margin contracted to 9.7% Vs 13.1% Y-o-Y/ 10.2% Q-o-Q.

- § Engineering EBITDA margin was lower at 7% (down from 10.2% Y-o-Y/ 11.0% Q-o-Q) due to sustained high prices of RM (steel & zinc).
- § Polymer EBITDA margin fell sharply to 1.0% (down from 9.6% Y-o-Y/ 1.6% Q-o-Q).
- § Infrastructure EBITDA margin was -0.1% (significantly lower than 11.8% Y-o-Y/ 2.1% Q-o-Q).
- § Due to reduction of revenues in all businesses, fixed overheads were not optimally absorbed leading to reduction in profitability.

Net profit: Net profit fell by 78% Y-o-Y/ up by 158% Q-o-Q to Rs.65 mn while PAT margin contracted to 1.5% Vs 5.2% Y-o-Y/ 0.5% Q-o-Q.

- § This is after accounting for Rs.151 mn of forex gain.
- § Depreciation was lower by ~28% Y-o-Y/ ~11% Q-o-Q due to Ind AS provisions wherein depreciation needs to be provided only for the residual useful life of the fixed assets and a lot of fixed assets of Skipper have completed their useful life.
- § Finance costs were higher by 33% Y-o-Y but lower by 8% Q-o-Q. Skipper has resorted to increase in working capital borrowings this year.



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| | |
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| Others | 12.1 |
| Total | 100.0 |

| | |
|--------------------|-------|
| Avg Vol (6m) (000) | 17.23 |
|--------------------|-------|

| | |
|----|---|
| FV | 1 |
|----|---|

| | |
|------|------|
| Beta | 0.87 |
|------|------|

| | |
|--------------|-------|
| Mcap (Rs Mn) | 6,380 |
|--------------|-------|

| | |
|-------------|--------------|
| 52 week H/L | 265.90/ 48.7 |
|-------------|--------------|

| | |
|-------------------|----------------------|
| Bloomberg/Reuters | SKIPPER IN / SKIP.BO |
|-------------------|----------------------|

| | |
|-------|----------------------|
| Group | B / S&P BSE SmallCap |
|-------|----------------------|

| | |
|--------------|-----------------|
| Sensex/Nifty | 35,809 / 10,724 |
|--------------|-----------------|

| | | |
|---------|------------|---------|
| ABS (%) | BSE Sensex | Skipper |
|---------|------------|---------|

| | | |
|-----|-------|--------|
| 3 M | (3.3) | (54.1) |
|-----|-------|--------|

| | | |
|------|-----|--------|
| 1 Yr | 4.5 | (42.3) |
|------|-----|--------|

9mFY19 result highlights :

Revenue: Skipper 9mFY19 revenue reported ~3% Y-o-Y drop to Rs.14.4 bn. Engineering business dropped ~1% Y-o-Y basis to Rs.12.7 bn. Polymer business revenue growth disappointing again with 11% Y-o-Y decline to Rs.1.3 bn. Infrastructure segment reported revenues of Rs.468 mn down 22% Y-o-Y.

EBITDA: EBITDA fell by ~20% Y-o-Y to Rs.1.47 bn while EBITDA margin contracted to 10.2% Vs 12.3% Y-o-Y. The drop in EBITDA was observed in all 3 business segments.

Net profit: Net profit fell to Rs.134 mn down 80% Y-o-Y. Although, Depreciation was lower by ~14%, net profit was lower due to Rs.54 mn of forex loss and higher finance cost by 40% Y-o-Y.

Outlook and Valuation

Multiple headwinds like higher share of fixed price contracts in engineering division coupled with high metal prices and continued poor performance from polymer division along with profitability deterioration of infra resulted into fall in EBITDA margin as well as bottom line. The management is confident that most of the headwinds will abate in next 1-2 quarters. We also expect transmission capex to revive in a big way and skipper's effort to derisk PGCIL business will start paying off soon. Healthy order book of Rs 24.5 bn (1.4x FY18 Eng sales) gives good revenue visibility. We retain "Buy" rating on the stock valuing it at 7.0x FY21E giving us a target price of Rs.121/- per share.

| Rs mn | Revenues | EBITDAM(%) | PAT | EPS | PE (x) | PBV (x) | EV/EBITDA (x) | RoCE (%) | RoE (%) |
|-------|----------|------------|-------|------|--------|---------|---------------|----------|---------|
| FY17 | 16,646 | 13.2% | 1,242 | 12.1 | 5.1 | 1.2 | 4.7 | 26.1 | 23.4 |
| FY18 | 20,737 | 13.4% | 1,178 | 11.5 | 5.4 | 1.0 | 3.9 | 24.0 | 18.6 |
| FY19E | 20,351 | 10.8% | 455 | 4.4 | 14.0 | 0.9 | 5.2 | 14.7 | 11.6 |
| FY20E | 25,163 | 12.7% | 1,305 | 12.7 | 4.9 | 0.8 | 3.6 | 20.9 | 16.6 |
| FY21E | 27,899 | 13.3% | 1,778 | 17.3 | 3.6 | 0.7 | 1.9 | 12.3 | 10.3 |

Quarterly/ 9 Monthly Performance

| INR in Mn | 3QFY19 | 3QFY18 | Y-o-Y (%) | 2QFY19 | Q-o-Q (%) | 9mFY19 | 9mFY18 | Y-o-Y (%) |
|---------------------------|--------|--------|-----------|--------|-----------|--------|--------|-----------|
| Total Revenue | 4,348 | 5,664 | -23.23 | 5,240 | -17.01 | 14,375 | 14,809 | -2.93 |
| Raw Material | 3,007 | 3,902 | -22.96 | 3,630 | -17.18 | 9,889 | 9,830 | 0.60 |
| Other expenses | 690 | 786 | -12.16 | 839 | -17.73 | 2,320 | 2,454 | -5.45 |
| Employee Cost | 230 | 236 | -2.53 | 236 | -2.76 | 700 | 697 | 0.50 |
| Total Expenditure | 3,926 | 4,923 | -20.26 | 4,705 | -16.55 | 12,910 | 12,981 | -0.55 |
| EBITDA | 422 | 741 | -43.03 | 535 | -21.07 | 1,465 | 1,828 | -19.86 |
| Depreciation | 85 | 118 | -27.51 | 97 | -11.73 | 297 | 346 | -14.05 |
| EBIT | 337 | 623 | -45.96 | 438 | -23.13 | 1,168 | 1,482 | -21.21 |
| Finance cost | 235 | 176 | 33.33 | 257 | -8.39 | 766 | 545 | 40.43 |
| Other Income | 3 | 3 | 4.55 | 3 | 2.37 | 10 | 14 | -28.55 |
| Exceptional & forex Items | 0 | 0 | | (147) | | (205) | 112 | |
| PBT | 105 | 450 | -76.64 | 38 | 174.62 | 207 | 1,063 | -80.51 |
| Tax | 41 | 158 | -74.32 | 13 | 204.12 | 73 | 379 | -80.79 |
| PAT | 65 | 292 | -77.89 | 25 | 158.82 | 134 | 684 | -80.34 |
| Adj EPS | 1 | 3 | -77.89 | 0 | 158.82 | 1 | 7 | -80.34 |
| No of shares | 102 | 102 | | 102 | | 102 | 102 | |

| % of Total Revenue | 3QFY19 | 3QFY18 | 2QFY19 | 9mFY19 | 9mFY18 |
|--------------------|--------|--------|--------|--------|--------|
| Raw Material | 69.1% | 68.9% | 69.3% | 68.8% | 66.4% |
| Other expense | 15.9% | 13.9% | 16.0% | 16.1% | 16.6% |
| Employee Cost | 5.3% | 4.2% | 4.5% | 4.9% | 4.7% |
| Total Expenditure | 90.3% | 86.9% | 89.8% | 89.8% | 87.7% |
| EBITDA | 9.7% | 13.1% | 10.2% | 10.2% | 12.3% |
| Other Income | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| PAT | 1.5% | 5.2% | 0.5% | 0.9% | 4.6% |
| Tax | 38.6% | 35.1% | 34.9% | 35.1% | 35.6% |

Segmental Performance

| INR in Mn | 3QFY19 | 3QFY18 | Y-o-Y (%) | 2QFY19 | Q-o-Q (%) | 9mFY19 | 9mFY18 | Y-o-Y (%) |
|-------------------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|--------------|
| Revenues | | | | | | | | |
| Engineering | 3,839 | 4,863 | -21.05 | 4,776 | -19.61 | 12,656 | 12,809 | -1.19 |
| Polymers | 331 | 540 | -38.71 | 359 | -7.81 | 1,251 | 1,401 | -10.71 |
| Infrastructure projects | 178 | 261 | -31.86 | 105 | 70.15 | 468 | 599 | -21.87 |
| Total Revenue | 4,348 | 5,664 | -23.23 | 5,240 | -17.01 | 14,375 | 14,809 | -2.93 |

| INR in Mn | 3QFY19 | 3QFY18 | Y-o-Y (%) | 2QFY19 | Q-o-Q (%) | 9mFY19 | 9mFY18 | Y-o-Y (%) |
|--|--------------|--------------|---------------|--------------|---------------|--------------|--------------|---------------|
| EBIDTA (without forex gain/ loss) | | | | | | | | |
| Engineering | 268 | 496 | -46.11 | 527 | -49.20 | 1,272 | 1,437 | -11.45 |
| <i>Margin %</i> | <i>7.0%</i> | <i>10.2%</i> | | <i>11.0%</i> | | <i>10.1%</i> | <i>11.2%</i> | |
| Polymers | 3 | 52 | -93.63 | 6 | -44.07 | 16 | 135 | -88.38 |
| <i>Margin %</i> | <i>1.0%</i> | <i>9.6%</i> | | <i>1.6%</i> | | <i>1.3%</i> | <i>9.6%</i> | |
| Infrastructure projects | (0) | 31 | -100.65 | 2 | -109.09 | 26 | 72 | -64.22 |
| <i>Margin %</i> | <i>-0.1%</i> | <i>11.8%</i> | | <i>2.1%</i> | | <i>5.5%</i> | <i>12.0%</i> | |
| Overall EBITDA | 271 | 579 | -53.27 | 535 | -49.39 | 1,314 | 1,644 | -20.09 |
| <i>Overall EBITDA margin (%)</i> | <i>6.2%</i> | <i>10.2%</i> | | <i>10.2%</i> | | <i>9.1%</i> | <i>11.1%</i> | |

| INR in Mn | 3QFY19 | 3QFY18 | Y-o-Y (%) | 2QFY19 | Q-o-Q (%) | 9mFY19 | 9mFY18 | Y-o-Y (%) |
|--|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|
| EBIT | | | | | | | | |
| Engineering | 419 | 639 | -34.35 | 380 | 10.47 | 1,201 | 1,684 | -28.70 |
| <i>Margin %</i> | <i>10.9%</i> | <i>13.1%</i> | | <i>7.9%</i> | | <i>9.5%</i> | <i>13.1%</i> | |
| Polymers | (11) | 36 | -130.85 | (11) | 2.78 | (29) | 95 | -130.89 |
| <i>Margin %</i> | <i>-3.4%</i> | <i>6.7%</i> | | <i>-3.0%</i> | | <i>-2.3%</i> | <i>6.8%</i> | |
| Infrastructure projects | (1) | 32 | -101.56 | 0 | -216.28 | 24 | 73 | -67.36 |
| <i>Margin %</i> | <i>-0.3%</i> | <i>12.3%</i> | | <i>0.4%</i> | | <i>5.1%</i> | <i>12.1%</i> | |
| Overall EBIT before unallocable items | 408 | 707 | -42.31 | 369 | 10.44 | 1,195 | 1,852 | -35.46 |
| <i>Overall EBIT margin (%)</i> | <i>9.4%</i> | <i>12.5%</i> | | <i>7.0%</i> | | <i>8.3%</i> | <i>12.5%</i> | |

| | 3QFY19 | 3QFY18 | 2QFY19 | 9mFY19 | 9mFY18 |
|-------------------------|--------|--------|--------|--------|--------|
| % to sales | | | | | |
| Engineering | 88.3% | 85.9% | 91.2% | 88.0% | 86.5% |
| Polymers | 7.6% | 9.5% | 6.9% | 8.7% | 9.5% |
| Infrastructure projects | 4.1% | 4.6% | 2.0% | 3.3% | 4.0% |
| % to EBIT | | | | | |
| Engineering | 102.8% | 90.4% | 102.8% | 100.5% | 90.9% |
| Polymers | -2.7% | 5.1% | -2.9% | -2.5% | 5.1% |
| Infrastructure projects | -0.1% | 4.5% | 0.1% | 2.0% | 3.9% |

Revision in Estimates

Post 3QFY19 performance , we are revising our earning estimates accommodating adjustments for higher fixed price component in engineering order book, higher raw material prices, lower average realization on account of company's strategy of garnering higher share of new railway business, polymer business challenges in terms of sales expansion efforts at higher costs and poor infra segment profitability.

Further, the company has also indicated that there is reduction in payable days affecting cash conversion cycle and need for higher working capital borrowings resulting in higher finance costs. The company further indicated, the change in depreciation policy as per guidelines of Indian accounting standards towards usable life of assets.

Accordingly our EPS estimates for FY 19/ FY 20 stand revised to Rs.4/ 13 Vs our earlier estimates of Rs.6 /14 respectively.

| Rs Mn | FY19 Old | FY19 New | % change | FY20 Old | FY20 New | % change |
|------------|----------|----------|----------|----------|----------|----------|
| Revenues | 22,800 | 20,351 | -10.7% | 26,428 | 25,163 | -4.8% |
| EBITDA | 2,356 | 2,203 | -6.5% | 3,380 | 3,198 | -5.4% |
| EBITAM (%) | 10.3% | 10.8% | | 12.8% | 12.7% | |
| Net profit | 613 | 455 | -25.9% | 1,441 | 1,305 | -9.5% |
| EPS | 6 | 4 | -25.9% | 14 | 13 | -9.5% |

Revision in Target Price

Post the company's decision to demerge its polymer business into a separate entity, we are valuing its core business and polymer businesses separately.

Accordingly, we have used EV/EBITDA based on FY21E estimates and arrive at SOTP valuation of Rs.121. The Company has garnered new order worth Rs.5,060 mn during the quarter for engineering business and its current order book stands at Rs.26,380 mn which gives us revenue visibility of 1.5x FY18 for engineering business.

Polymer division restructuring into a separate entity is a positive move as it would enable the management to the focus on the core engineering business. Further, the various efforts for enhancing polymer sales and capacity rationalization would enable the company to grow its polymer segment with enhanced profitability although next 3-4 quarters to witness profitability pressures.

| Segments | Sales FY21 | EBITDAM% | EBITDA | EV multiple | Total Value |
|---------------------------------|------------|----------|--------|-------------|-------------|
| | Rs mn | | Rs mn | xs | |
| Engineering | 24,662 | 12.0% | 2,677 | 6.0 | 16,062 |
| Polymers | 2,360 | 3.5% | 70 | 4.0 | 278 |
| Infra | 877 | 10.0% | 87 | 6.0 | 521 |
| Total | | | | | 16,861 |
| Less: Debt | | | | | 4,613 |
| Add: cash | | | | | 176 |
| Proposed market cap | | | | | 12,423 |
| No of Equity shares | | | | | 103 |
| Value per share | | | | | 121 |
| CMP | | | | | 62.2 |
| Upside potential | | | | | 94.7% |
| Core business valuation (Rs mn) | | | | | 12,145 |
| Core value per share (Rs) | | | | | 118 |
| Polymer valuation (rs mn) | | | | | 278 |
| Core value per share (Rs) | | | | | 3 |
| Total value per share (Rs) | | | | | 121 |

Financial Summary

| Income statement (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|--------------------------|----------|----------|----------|----------|----------|
| Total revenues | 16,646 | 20,737 | 20,351 | 25,163 | 27,899 |
| % growth | 10.5% | 24.6% | -1.9% | 23.6% | 10.9% |
| Operating expenses | (14,445) | (17,967) | (18,148) | (21,965) | (24,195) |
| EBITDA | 2,201 | 2,770 | 2,203 | 3,198 | 3,704 |
| % growth | -8.1% | 25.8% | -20.5% | 45.2% | 15.8% |
| Depreciation | (316) | (459) | (456) | (489) | (511) |
| EBIT | 1,886 | 2,311 | 1,747 | 2,709 | 3,193 |
| Interest | (676) | (793) | (944) | (890) | (736) |
| Other Income | 558 | 298 | 102 | 189 | 279 |
| Exceptional items | (1) | (12) | (205) | - | - |
| PBT | 1,767 | 1,804 | 700 | 2,008 | 2,736 |
| Tax | (525) | (626) | (245) | (703) | (958) |
| PAT | 1,242 | 1,178 | 455 | 1,305 | 1,778 |
| EPS | 12.1 | 11.5 | 4.4 | 12.7 | 17.3 |
| % growth | 30.6% | -5.4% | -61.4% | 187.1% | 36.3% |

| Cash flow (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------------------|---------|---------|---------|---------|---------|
| Profit before tax | 1,767 | 1,804 | 700 | 2,008 | 2,736 |
| Depreciation | 316 | 459 | 456 | 489 | 511 |
| Change in working capital | (283) | (2,177) | (1,069) | (1,213) | (384) |
| Total tax paid | (452) | (476) | (245) | (703) | (958) |
| Others | 413 | 1,194 | 1,149 | 890 | 736 |
| Cash flow from operation (a) | 1,760 | 804 | 991 | 1,471 | 2,641 |
| Capital expenditure | (939) | (499) | (550) | (500) | (210) |
| Change in investments | 117 | 67 | - | - | - |
| Others | 30 | 14 | - | - | - |
| Cash flow from investing (b) | (791) | (419) | (550) | (500) | (210) |
| Free cash flow (a+b) | 969 | 386 | 441 | 971 | 2,431 |
| Change in Equity / Preference | - | 27 | 0.1 | - | - |
| Debt raised/(repaid) | (257) | 564 | 1,567 | (500) | (1,550) |
| Dividend (incl. tax) | (172) | (191) | (60) | (215) | (267) |
| Others | (671) | (793) | (944) | (890) | (975) |
| Cash flow from financing (c) | (1,100) | (392) | 562 | (1,605) | (2,792) |
| Net chg in cash (a+b+c) | (132) | (7) | 1,003 | (634) | (360) |

| Balance Sheet (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------------------|--------|--------|--------|--------|--------|
| Share Capital | 102 | 103 | 103 | 103 | 103 |
| Share Options outstanding | 28 | 47 | 47 | 47 | 47 |
| Reserves & Surplus | 5,191 | 6,223 | 6,618 | 7,707 | 9,219 |
| Total Networkth | 5,321 | 6,373 | 6,767 | 7,857 | 9,369 |
| Total Debt | 4,154 | 4,613 | 6,180 | 5,680 | 4,130 |
| Other non-current liabilities | 651 | 588 | 588 | 588 | 588 |
| Other current liability | 3,782 | 5,861 | 4,299 | 5,195 | 5,427 |
| Total Liabilities | 13,909 | 17,435 | 17,835 | 19,321 | 19,515 |
| Net Fixed Assets | 5,112 | 5,224 | 5,319 | 5,330 | 5,028 |
| Investments | - | - | - | - | - |
| Long term advance & Other NCA | 164 | 38 | 38 | 38 | 38 |
| Debtors and Inventory | 7,404 | 10,787 | 10,183 | 12,029 | 13,385 |
| (A) Cash & current investment | 249 | 176 | 1,179 | 545 | 184 |
| (B) Other current assets | 979 | 1,210 | 1,115 | 1,379 | 879 |
| Total Assets | 13,909 | 17,435 | 17,835 | 19,321 | 19,515 |

| Ratio analysis | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------|------|------|-------|-------|-------|
| EBIDTA margin (%) | 13.2 | 13.4 | 10.8 | 12.7 | 13.3 |
| PAT margin (%) | 7.5 | 5.7 | 2.2 | 5.2 | 6.4 |
| ROCE (%) | 26.1 | 24.0 | 14.7 | 20.9 | 12.3 |
| ROE (%) | 23.4 | 18.6 | 11.6 | 16.6 | 10.3 |
| Asset Turnover | 3.3 | 4.0 | 3.8 | 4.7 | 5.5 |
| Inventory days | 123 | 155 | 140 | 130 | 130 |
| Receivable days | 82 | 91 | 90 | 90 | 90 |
| Payable days | 97 | 135 | 85 | 90 | 90 |
| Debt to equity | 0.8 | 0.7 | 0.9 | 0.7 | 0.4 |

| Valuation parameters | FY17 | FY18 | FY19E | FY20E | FY21E |
|----------------------|------|------|-------|-------|-------|
| EPS | 12.1 | 11.5 | 4.4 | 12.7 | 17.3 |
| P/E (x) | 5.1 | 5.4 | 14.0 | 4.9 | 3.6 |
| EV/ EBIDTA (x) | 4.7 | 3.9 | 5.2 | 3.6 | 1.9 |
| EV/ Sales (x) | 0.6 | 0.5 | 0.6 | 0.5 | 0.3 |
| P/BV (x) | 1.2 | 1.0 | 0.9 | 0.8 | 0.7 |

| Stock rating (1 year target scale) | | |
|------------------------------------|---|------------|
| <0% | - | Sell |
| 0-10% | - | Reduce |
| 10-30% | - | Accumulate |
| >30% | - | Buy |

Disclaimer & Disclosure

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