

# VESUVIUS INDIA

## Domestic and technology leadership boost

India Equity Research | Miscellaneous



We present the key takeaways from the annual report of Vesuvius India (VIL) as well as highlights from parent Vesuvius Plc's growth strategy. They are: i) **Strong domestic growth, up 16% YoY, offset the 55% YoY downturn in exports.** ii) **The parent continues to focus on developing products, technology leadership and growing markets such as India.** iii) **VIL recovered dues from its three customers, which faced proceedings under the Insolvency and Bankruptcy Code (IBC).** Based on the waning impact of lower exports and market share gains in healthy domestic market, we estimate sales/PAT CAGR would be 10%/15% and RoCE would expand 85bps to 21.2% over CY18–20E. Maintain 'BUY' with a TP of INR1,415 (valued at 25x Q2CY20E EPS).

### Domestic outperforms, offsets weak exports

Revenue increased merely 1.5% and PAT decreased 5% in CY18. 1) While exports caved in 55% YoY — nil exports to ArcelorMittal (>10% of sales) — domestic market showed traction (up 16% YoY versus crude steel production growth of 4.9%) driven by an uptick in crude steel production at key customers and strong market share gains (healthy gains among PSUs). 2) VIL reduced net receivables from three customers facing insolvency proceedings. Overall, receivables days have improved from 98 to 79 in CY18.

### Execution priorities; excerpts from global commentary – Our take

The group's overall strategy remains centered on: i) **reinforcing its technology leadership and increasing the penetration of value-creating solutions**, e.g. high-technology steel (27% of India's steel production versus 56% for parent) is estimated to expand at a CAGR of 9% over CY18–30 in India, which would benefit VIL. Parent's new product sales make up 15.4% of total (versus 7% in CY12). ii) **Capture growth in developing markets.** iii) **Develop technical services offerings.** In India, revenue from repair and maintenance services has spiked 1.7x YoY. iv) **Improve cost leadership and margins.** OPM dropped to a four-year low of 15.9%, which would pick up with stabilising sales, price hikes and cost reduction in our view.

### Outlook and valuation: Positive; maintain 'BUY'

With the impact of lower exports waning, market share gains in domestic, and technology leadership of parent, VIL is well placed among large mills. Maintain 'BUY' with a TP of INR1,415. The stock is trading at 21.5x CY19E, near its three-year average.

#### Financials

Year to December	CY17	CY18	CY19E	CY20E
Revenues (INR mn)	9,113	9,251	10,139	11,197
EBITDA (INR mn)	1,659	1,474	1,708	1,905
Adjusted Profit (INR mn)	973	925	1,083	1,215
Diluted P/E (x)	23.9	25.2	21.5	19.2
EV/EBITDA (x)	11.9	12.9	11.2	9.6
ROACE (%)	24.3	20.4	21.2	21.2
ROAE (%)	15.8	13.2	13.9	14.0

#### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

#### MARKET DATA (R: VESU.BO, B: VI IN)

CMP	: INR 1,143
Target Price	: INR 1,415
52-week range (INR)	: 1,384 / 971
Share in issue (mn)	: 20.3
M cap (INR bn/USD mn)	: 23 / 338
Avg. Daily Vol. BSE/NSE ('000)	: 6.0

#### SHARE HOLDING PATTERN (%)

	Current	Q2FY19	Q1FY19
Promoters *	55.6	55.6	55.6
MF's, FI's & BKs	21.8	21.8	21.9
FII's	0.1	0.1	0.3
Others	22.4	22.4	22.3
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	6.8	4.2	(2.6)
3 months	(1.2)	3.5	4.6
12 months	(6.0)	(6.5)	(0.6)

#### Shradha Sheth

+91 22 6623 3308  
shradha.sheth@edelweissfin.com

#### Shanmuganandam T.

+91 22 6623 3357  
shanmuganandam.t@edelweissfin.com

April 5, 2019

### Company Description

Vesuvius India is part of the Vesuvius Group of UK, a world leader in the molten metal flow engineering. Vesuvius, UK, holds 56% of VIL's share capital. In India, VIL is the largest player in the steel flow control segment in the refractory industry with market share of about 50% and overall market share of about 12% in refractories.

Manufactured sale accounts for 65% and traded good contributes 35% to overall sales. Within overall sales, 38% are shaped manufactured, 27% unshaped manufactured sales, 18% is from shaped trading sales and 16% from unshaped trading sales.

### Investment Theme

VIL is expected to deliver revenue and profit CAGR of 10% and 13% CAGR, respectively over CY18-20E. In the past 10 years (CY08-18), VIL has outpaced the steel industry with 12% PAT CAGR, along with healthy return ratios with an average of 26% plus. Going forward, the anticipated strong uptick in steel production, especially from large steel mills where VIL has a strong presence, will drive the revenue. The company has sufficient spare capacity to cater to the demand. With higher volumes, operating leverage should margin expansion and growth in profitability. We expect the company to post 13% PAT CAGR over CY18-20E.

### Key Risks

#### Dependent on raw material sourcing through imports

Industry is dependent on import of key raw materials like high grade alumina, bauxite, magnesite, silicon carbide, etc. China is a major supplier of imports and imposed heavy taxes on export of raw materials for refractories. This resulted in sharp increase in imported raw material costs. For VIL, imports constitute 26% of net sales. This includes currency headwinds of ~64% of raw material costs which are imported. However, the company has sourcing arrangements with key suppliers and avails benefits of the parent's longstanding relationship with global raw material suppliers.

#### Royalty rate increase

Royalty, trademark and service fee, as a percentage of overall sales, is around 1.8%. Any increase in the same could pose a risk.

#### Intensifying competition

International players like RHI, acquired 70% stake in peer, Orient Refractories recently; Krosaki Harima bought 51% in Tata Refractories; Calders, part of Imerys, France bought out full stake in ACE Refractories. All these players are setting up base in India through acquisitions. This will heighten competition in the refractory industry over the long term.

## Financial Statements

### Key Assumptions

Year to December	CY17	CY18	CY19E	CY20E
<b>Macro</b>				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
<b>Sector</b>				
Steel production growth	7.0	8.0	10.0	7.5
<b>Company</b>				
Raw Material (% net rev)	55.2	57.9	57.8	57.7
Shaped volume growth	12.6	6.0	9.0	10.0
Unshaped volume growth	11.9	6.0	8.0	9.0
Export revenue growth	20.9	(61.0)	13.0	13.0
Shaped sales growth	9.0	6.0	8.0	9.0
Unshaped sales growth	7.9	6.0	8.0	8.0
Manufactured	68.7	65.6	66.2	66.9
Traded	31.3	34.4	33.8	33.1
Mfg. gross margin (%)	47.0	44.5	44.7	44.8
Traded gross margin (%)	31.6	30.0	30.0	30.0
Employee (% of net rev)	6.1	6.3	6.3	6.3
Admin exp(as % of rev)	11.0	11.6	10.8	10.8

### Income statement

(INR mn)

Year to December	CY17	CY18	CY19E	CY20E
Net revenue	9,113	9,251	10,139	11,197
Materials costs	5,033	5,353	5,856	6,463
Gross profit	4,080	3,898	4,283	4,734
Employee costs	558	584	638	705
Other Expenses	1,863	1,840	1,938	2,124
Operating expenses	2,421	2,424	2,576	2,829
Total operating expenses	7,454	7,777	8,431	9,292
EBITDA	1,659	1,474	1,708	1,905
Depreciation	298	278	321	341
EBIT	1,361	1,196	1,386	1,564
Add: Other income	132.19	227.7	262.77	276.31
Profit Before Tax	1,449	1,424	1,649	1,840
Less: Provision for Tax	505	499	566	626
Add: Exceptional items	(44)	-	-	-
Reported Profit	944	925	1,083	1,215
Exceptional Items	(29)	-	-	-
Adjusted Profit	973	925	1,083	1,215
Shares o/s (mn)	20	20	20	20
Basic EPS (INR)	48.0	45.6	53.4	59.8
Diluted shares o/s (mn)	20	20	20	20
Adj. Diluted EPS (INR)	48.0	45.6	53.4	59.8
Adjusted Cash EPS	6.0	5.8	6.9	7.7
Dividend per share (DPS)	6.8	7.0	11.0	11.0
Dividend Payout Ratio(%)	17.0	18.0	24.1	21.5

### Common size metrics

Year to December	CY17	CY18	CY19E	CY20E
Gross margin	44.8	42.1	42.2	42.3
Operating expenses	26.6	26.2	25.4	25.3
EBITDA margins	18.2	15.9	16.8	17.0
EBIT margins	14.9	12.9	13.7	14.0
Net Profit margins	10.7	10.0	10.7	10.8

### Growth ratios (%)

Year to December	CY17	CY18	CY19E	CY20E
Revenues	10.9	1.5	9.6	10.4
EBITDA	12.3	(11.2)	15.8	11.6
Adjusted Profit	11.7	(5.0)	17.1	12.1
EPS	11.7	(5.0)	17.1	12.1

Balance sheet				
(INR mn)				
As on 31st December	CY17	CY18	CY19E	CY20E
Share capital	203	203	203	203
Reserves & Surplus	6,406	7,175	7,997	8,950
Shareholders' funds	6,609	7,378	8,200	9,153
Long Term Liabilities	125	125	125	125
Def. Tax Liability (net)	(155)	(175)	-	-
<b>Sources of funds</b>	<b>6,579</b>	<b>7,327</b>	<b>8,325</b>	<b>9,278</b>
Gross Block	3,343	3,683	4,283	4,548
Net Block	1,130	1,193	1,472	1,396
Capital work in progress	381	260	150	-
Intangible Assets	1	15	15	15
Total net fixed assets	1,512	1,468	1,637	1,410
Cash and Equivalents	3,457	4,193	4,149	5,062
Inventories	947	1,231	1,043	1,151
Sundry Debtors	2,199	1,814	2,822	3,123
Loans & Advances	53	63	63	63
Other Current Assets	130	187	187	187
Current Assets (ex cash)	3,329	3,295	4,115	4,524
Trade payable	1,531	1,434	1,380	1,523
Other Current Liab	188	195	195	195
Total Current Liab	1,719	1,629	1,575	1,718
Net Curr Assets-ex cash	1,610	1,666	2,540	2,806
<b>Uses of funds</b>	<b>6,579</b>	<b>7,327</b>	<b>8,325</b>	<b>9,278</b>
BVPS (INR)	325.6	363.5	404.0	451.0

Free cash flow				
(INR mn)				
Year to December	CY17	CY18	CY19E	CY20E
Reported Profit	944	925	1,083	1,215
Add: Depreciation	298	278	321	341
Others	(161)	(228)	(263)	(276)
Less: Changes in WC	(572)	(12)	874	266
Operating cash flow	1,653	988	268	1,013
Less: Capex	407	235	490	115
<b>Free Cash Flow</b>	<b>1,246</b>	<b>753</b>	<b>(221)</b>	<b>898</b>

Cash flow metrics				
Year to December	CY17	CY18	CY19E	CY20E
Operating cash flow	1,653	988	268	1,013
Financing cash flow	(143)	61	177	15
Investing cash flow	(407)	(235)	(490)	(115)
Net cash Flow	1,104	815	(45)	913
Capex	(407)	(235)	(490)	(115)
Dividend paid	(160)	(166)	(261)	(261)

Profitability and efficiency ratios				
Year to December	CY17	CY18	CY19E	CY20E
ROAE (%)	15.8	13.2	13.9	14.0
ROACE (%)	24.3	20.4	21.2	21.2
Inventory Days	69	74	71	62
ROA	15.8	13.3	13.8	13.8
Debtors Days	98	79	83	97
Payable Days	99	101	88	82
Cash Conversion Cycle	68	52	67	77
Current Ratio	3.9	4.6	5.2	5.6
Debt / Cap employed (%)	23.8	19.8	18.9	18.5

Operating ratios				
Year to December	CY17	CY18	CY19E	CY20E
Total Asset Turnover	1.5	1.3	1.3	1.3
Fixed Asset Turnover	7.7	7.9	7.5	7.7
Equity Turnover	1.5	1.3	1.3	1.3

Valuation parameters				
Year to December	CY17	CY18	CY19E	CY20E
Adj. Diluted EPS (INR)	48.0	45.6	53.4	59.8
Y-o-Y growth (%)	11.7	(5.0)	17.1	12.1
Adjusted Cash EPS (INR)	6.0	5.8	6.9	7.7
Diluted P/E (x)	23.8	25.1	21.4	19.1
P/B (x)	3.5	3.1	2.8	2.5
EV / Sales (x)	2.2	2.1	1.9	1.6
EV / EBITDA (x)	11.9	12.9	11.2	9.5
Dividend Yield (%)	0.6	0.6	1.0	1.0

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		CY19E	CY20E	CY19E	CY20E	CY19E	CY20E
Vesuvius India	338	21.4	19.1	11.2	9.5	13.9	14.0
Orient Refractories	409	24.7		15.8		28.3	
Median	-	23.0	9.6	13.5	4.8	21.1	7.0
AVERAGE	-	23.0	19.1	13.5	9.5	21.1	14.0

Source: Edelweiss research

## Additional Data

### Directors Data

Biswadip Gupta	Chairman	Tanmay Kumar Ganguly	Director
Subrata Roy	Managing Director	Sudipto Sarkar	Director
Francois Clement Wanecq	Director	Nayantara Palchoudhuri	Director
Patrick Georges Felix Andre	Director		

Auditors - BSR & Co LLP

*\*as per last available data*

### Holding Top -10

	Perc. Holding		Perc. Holding
Reliance Capital Trustee	9.62	Wasatch Advisors	0.46
HDFC Asset Management Co Ltd	9.02	Uniion Mutual Fund	0.27
Catamaran Advisors	3.59	Axis Asset Management	0.22
Acacia Banyan Partners	3.33	Dimensional Fund Advisor	0.16
Sundaram Asset Management	0.70	Nippon Life Insurance	0.07

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
------	-------------------	-----	------------	-------

No Data Available

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
----------------	-------------------	-----	------------

No Data Available

*\*as per last available data*

**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: [research@edelweissfin.com](mailto:research@edelweissfin.com)

Aditya Narain

Head of Research

[aditya.narain@edelweissfin.com](mailto:aditya.narain@edelweissfin.com)

### Coverage group(s) of stocks by primary analyst(s): Miscellaneous

AIA Engineering, Apar Industries Ltd, Balkrishna Industries, CCL Products India, Essel Propack, Orient Refractories, Sheela Foam Ltd, Vesuvius India, VIP Industries

#### Recent Research

Date	Company	Title	Price (INR)	Recos
04-Apr-19	SRF	Dahej plant back in action; <i>EdelFlash</i>	2,384	Buy
01-Apr-19	VIP Industries	Unpacking growth; <i>Visit Note</i>	483	Buy
01-Apr-19	SRF	Dahej plant under fire for violating pollution norms; <i>Event Update</i>	2,403	Buy

#### Distribution of Ratings / Market Cap

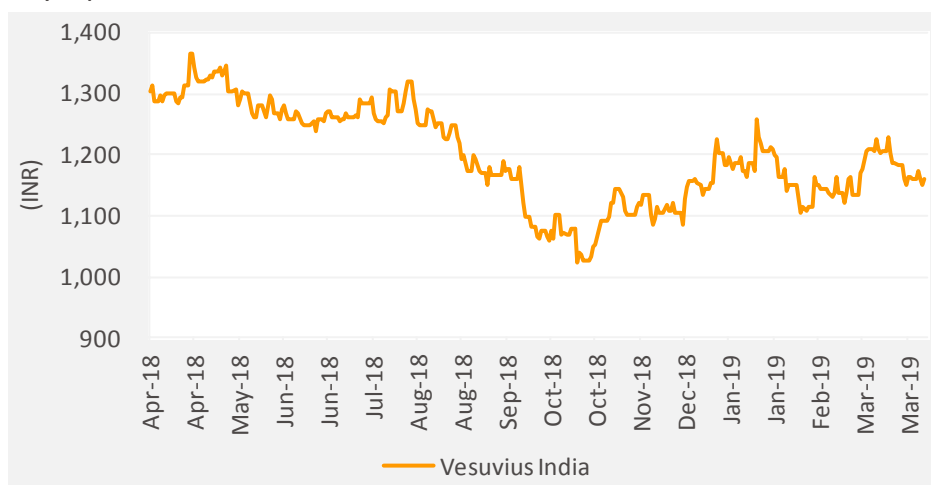
##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

#### Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

#### One year price chart



**DISCLAIMER**

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on [www.edelweissfin.com](http://www.edelweissfin.com)) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No.INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: ( i) exchange rates can be volatile and are subject to large fluctuations; ( ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at [www.nseindia.com](http://www.nseindia.com)

### **Analyst Certification:**

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

### **Additional Disclaimers**

#### **Disclaimer for U.S. Persons**

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.



In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

#### **Disclaimer for U.K. Persons**

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

#### **Disclaimer for Canadian Persons**

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

#### **Disclaimer for Singapore Persons**

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR). Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved