

Inventories would clear in 1-2 quarters. BharatNet and BEAD will be the opportunity.

CMP: INR 116

Rating: ACCUMULATE

Target Price: INR 138

Stock Info

BSE	532374
NSE	STLTECH
Bloomberg	SOTL:IN
Reuters	STTE.NS
Sector	Cables
Face Value (INR)	2
Equity Capital (INR mn)	975
Mkt Cap (INR mn)	56,558
52w H/L (INR)	179 / 110
Avg Yearly Volume (in 000')	2,544

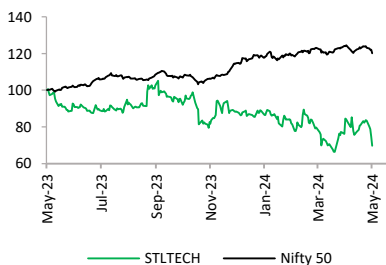
Shareholding Pattern %

(As on Mar, 2024)

Promoters	44.19
Public & Others	55.81

Stock Performance (%)	3m	6m	12m
STLTECH	-9.4	-14.7	-30.3
NIFTY	-1.7	13.2	20.2

STLTECH vs Nifty



Abhishek Jain

abhishek.jain@arihantcapital.com
022-422548871

Balasubramanian A

bala@arihantcapital.com
022-67114780

Sterlite Technologies Ltd reported weak numbers, Q4FY24 revenue de-grew by 39.1% YoY (-13.8% QoQ) to INR 11,400mn, below our estimates of INR 13,752mn due to muted performance in Optical networking business. Gross Profit stood at INR 5,680mn (-44.9% YoY/-16.1% QoQ); below our estimates of INR 7,082mn. Gross margins contracted by 520 bps YoY (down by 139bps QoQ) to 49.8% vs 55% in Q4FY23. The raw material cost in terms of sales stood at 50.2% vs 45% in Q4FY23. EBITDA stood at INR 530mn (-79.3% YoY/-41.1% QoQ), below our estimates of INR 1,499mn. EBITDA margin contracted by 903bps YoY (down by 216 bps QoQ) to 4.6% vs 13.7% in Q4FY23. PAT stood at INR -830mn vs INR 800mn in Q4FY23; below our estimates of -INR 38mn. PAT margin stood at -7.3% vs 4.3% in Q4FY23.

Key Highlights

Lower volumes has impacted Optical Networking business: Optical networking business revenue stood at INR 7,770mn (-48.4% YoY/-9.3% QoQ); due to lower OFC volumes. Volumes are relatively lower in North America and higher volumes in other markets. EBIT Stood at INR 600mn (-81.3% YoY/-42.3% QoQ). EBIT margin contracted by 1,361 bps YoY (down by 441 bps QoQ) to 7.7% vs 21.3% in Q4FY23 due to fixed expenses and lower capacity utilization (~50%). The profitability is expected to be bring back at 60%-65% of capacity utilization. The inventory piled up with operator levels has reduced due to strong deployment. The inventory is expected to clear in 1-2 quarters. BharatNet project response is expected in 1-2 months and work is expected in Q3FY24 onwards; BEAD program is expected from CY25 onwards would be key triggers for the company.

Favorable project mix led to higher margin in Global services: Global service business revenue stood at INR 3,230mn (-8.2% YoY/-20.2% QoQ); EBIT Stood at INR 390mn (+178.6% YoY/+77.3% QoQ). EBIT margin improved by 810 bps YoY (up by 664 bps QoQ) to 12.1% vs 4% in Q4FY23. The margin improvement is led by a favorable project mix. UK services become breakeven in Q4FY24. The margins are expected to be 8%-10% on a conservative basis. The company is selective in order intake and execution. The company is taking orders based on better margin profiles, cash flows, etc.

Digital and Technology solutions breakeven is expected Q4FY24E: Digital and technology solutions revenue stood at INR 780mn (+122.9% YoY/-2.5% QoQ); EBIT Stood at INR -170mn vs INR -350mn in Q4FY23. The company acquired customers in the US and India across the tech & services industry in FY24. The company has signed a partnership with SAP and Google. The company has more than 40 active partners.

Strong order book leads to better business visibility: The order book stood at INR 102.9bn (-6.9% YoY/+4.5% QoQ) as of Q4FY24. Around INR 8.98bn of the order book is expected to be executed in Q1FY25E and the remaining INR order book of INR 93.92bn is expected to be executed post FY25E onwards.

Outlook & Valuation: Sterlite Technologies profitability has impacted due to lower volumes due to inventory piled-up with global operators and expected to clear in 1-2 quarters. The company has lost market share of 400bps YoY to 8% (FY24) in the global (ex-china) OFC market. We believe, BharatNet and BEAD program would lead to business opportunities. The interconnect attach rates increased by 300bps YoY to 13% in FY24 and increase in attach rates would improve the margins. The selective order intake and execution will improve the global service business and the digital business is expected to be profitable going forward. We believe telecom capex for 5G and the upcoming 6G would provide business visibility. We downgrading to "ACCUMULATE" (earlier "BUY") rating at a Target Price of INR 138 per share based on DCF; an upside of 18.8%.

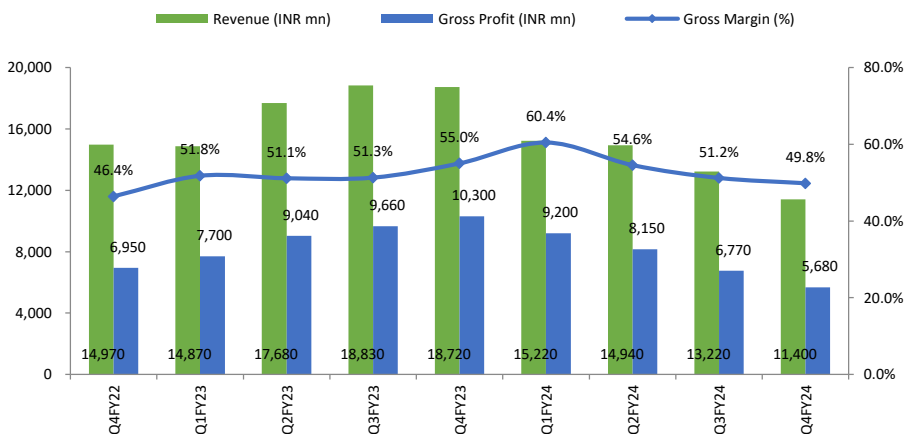
Q4FY24 Results

Income statement summary

Particular (INR mn)	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Revenue	18,720	13,220	11,400	-39.1%	-13.8%
Net Raw Materials	8,420	6,450	5,720	-32.1%	-11.3%
Gross Profit	10,300	6,770	5,680	-44.9%	-16.1%
Gross Margin (%)	55.0%	51.2%	49.8%	-520 bps	-139 bps
Employee Cost	2,620	2,530	2,030	-22.5%	-19.8%
Other Expenses	5,120	3,340	3,120	-39.1%	-6.6%
EBITDA	2,560	900	530	-79.3%	-41.1%
EBITDA Margin (%)	13.7%	6.8%	4.6%	-903 bps	-216 bps
Depreciation	780	840	850		
Interest expense	890	940	880		
Other income	240.0	190.0	140.0		
Share of profits associate & JV	10	10	-		
Profit before tax	1,140	(680)	(1,060)		
Taxes	340	(170)	(230)		
PAT	800	(510)	(830)	-203.8%	62.7%
PAT Margin (%)	4.3%	-3.9%	-7.3%	-1155 bps	-342 bps
EPS (INR)	2.0	(1.3)	(2.1)		

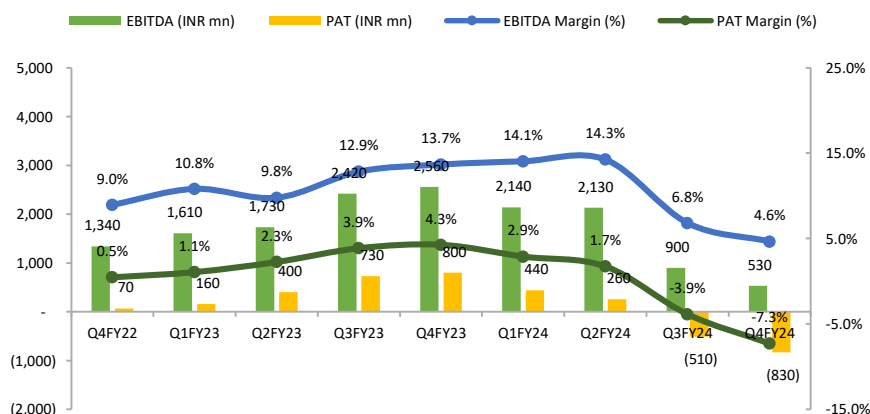
Source: Company Reports, Aриhant Capital Research

Exhibit 1: Gross margins contracted by 520 bps YoY (down by 139bps QoQ) to 49.8% in Q4FY24 due to higher raw material costs.



Source: Company Reports, Aриhant Capital Research

Exhibit 2: EBITDA margin contracted by 903bps YoY (down by 216 bps QoQ) to 4.6% in Q4FY24 due to higher employee and other expenses.



Source: Company Reports, Aриhant Capital Research

Q4FY24 Concall Highlights

BharatNet Projects

- In BharatNet projects, response is expected in 1-2 months for tenders. Some work is expected from Q3/Q4 onwards.
- The company has opportunities in deployments, selling cables, and supplying fibers to other players.

BEAD projects

- In the BEAD project, the initial impact is expected in Q3/Q4 onwards and meaningful demand is expected from CY25 onwards.
- The company has met BEAD compliance requirements.

Order book

- The order book stood at INR 102.9bn (-6.9% YoY/+4.5% QoQ) as of Q4FY24.

Market share

- The global (ex-china) OFC market share stood at 8% vs 12% in FY23.

Interconnect attach rate

- Optical connectivity rate stood at 13% (+300 bps) in FY24. The company is focused on product development.

Inventory levels

- The inventory piled up with operator levels has reduced due to strong deployment. The inventory is expected to clear in 1-2 quarters.
- Product portfolio improvement and US factory ramp-up will improve the business.

Volumes

- Volumes are majorly impacted in North America followed by Europe.
- Volumes are lower in North America and higher volumes in other markets. The company is focused on geographical expansion.

Capacity utilisation

- The capacity utilization is around 50% across plants. The profitability is expected to be back at 60%-65% utilisations.

Realization

- OFC realization is relatively lower in India & Europe compared to the US.
- OF and OFC prices were fairly stable in Q4FY24.

Optical networking business

- Optical networking business revenue stood at INR 7,770mn (-48.4% YoY/-9.3% QoQ) due to lower OFC volumes.

Q4FY24 Concall Highlights**Global Business**

- Global service business revenue stood at INR 3,230mn (-8.2% YoY/-20.2% QoQ).
- The company is selective in order intake and execution. The company is taking orders based on better margin profiles, cash flows, etc.
- UK services become breakeven in Q4FY24.
- Global services margins witnessed the highest-ever margin of 12.1% in Q4FY24. The margin improvement is led by a favorable project mix. The margins are expected to be 8%-10% on a conservative basis.

Digital and technology business

- Digital and technology solutions revenue stood at INR 780mn (+122.9% YoY/-2.5% QoQ); driven by order book execution.
- The company acquired customers in the US and India across the tech & services industry in FY24.
- The company has signed a partnership with SAP and Google. The company has more than 40 active partners.

Demerger

- In global services business, 1st hearing was conducted in Apr-24 for demerger.

Other highlights

- The company has reduced net debt by INR 3,340mn which will reduce the interest cost going forward.
- India's revenue growth is around 25% YoY in FY24.

Outlook & Valuation: Sterlite Technologies profitability has impacted due to lower volumes due to inventory piled-up with global operators and expected to clear in 1-2 quarters. The company has lost market share of 400bps YoY to 8% (FY24) in the global (ex-china) OFC market. We believe, BharatNet and BEAD program would lead to business opportunities. The interconnect attach rates increased by 300bps YoY to 13% in FY24 and increase in attach rates would improve the margins. The selective order intake and execution will improve the global service business and the digital business is expected to be profitable going forward. We believe telecom capex for 5G and the upcoming 6G would provide business visibility. We downgrading to "ACCUMULATE" (earlier "BUY") rating at a Target Price of INR 138 per share based on DCF; an upside of 18.8%.

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3.5%
Rf	7.1%
Rm	12%
Beta	1.2
CMP	116

Valuation Data

Total Debt (long term borrowings) (2024)	10,510
Cash & Cash Equivalents (2024)	4,030
Number of Diluted Shares (2024)	488
Tax Rate (2025)	26%
Interest Expense Rate (2025)	10%
MV of Equity	56,558
Total Debt	10,510
Total Capital	67,068

WACC

We	84.3%
Wd	15.7%
Ke	13.0%
Kd	7.1%
WACC	12.0%

FCFF & Target Price

FCFF & Target Price Particular (INR mn)	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT * (1-Tax Rate)	2,026	2,950	4,284	5,307	6,217	7,023	7,822	8,590	9,296	9,915	10,418	10,783
Dep	3,441	3,625	3,811	3,939	3,984	4,028	4,486	4,926	5,332	5,686	5,975	6,184
Purchase of Assets	(3,073)	(3,104)	(3,135)	(2,157)	(749)	(741)	(826)	(907)	(981)	(1,047)	(1,100)	(1,138)
Changes in Working Capital	(3,290)	(959)	(2,862)	(3,427)	(2,914)	(3,306)	(2,347)	(2,577)	(2,789)	(2,974)	(3,125)	(3,235)
FCFF	(898)	2,512	2,099	3,663	6,539	7,004	9,136	10,032	10,858	11,580	12,168	12,594
Terminal Value												1,47,299
Total Cash Flow	(898)	2,512	2,099	3,663	6,539	7,004	9,136	10,032	10,858	11,580	1,59,468	

Enterprise Value (EV)	73,645
Less: Debt	10,510
Add: Cash	4,030
Equity Value	67,165

Equity Value per share (INR) 138

% Returns 18.8%

Rating ACCUMULATE

Sensitivity Analysis

		Terminal Growth (%)								
		2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%	4.3%	4.5%
WACC (%)	11.0%	149	152	156	161	165	170	175	181	187
	11.3%	143	146	150	154	158	162	167	172	178
	11.5%	137	140	144	147	151	155	160	164	169
	11.8%	132	135	138	141	145	149	153	157	161
	12.0%	127	130	132	136	139	142	146	150	154
	12.3%	122	125	127	130	133	137	140	144	148
	12.5%	117	120	122	125	128	131	134	138	141
	12.8%	113	116	118	120	123	126	129	132	135
	13.0%	109	111	114	116	118	121	124	127	130

Source: Company reports, Arianth Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	48,252	57,543	69,250	54,780	57,921	63,600	72,147
Net Raw Materials	23,949	28,646	32,990	24,990	27,454	29,956	33,548
Employee Cost	6,474	8,707	9,120	9,520	9,383	9,794	10,750
Other Expenses	9,722	14,842	18,240	14,570	14,898	16,227	18,232
EBITDA	8,107	5,348	8,900	5,700	6,185	7,623	9,617
EBITDA Margin (%)	16.8%	9.3%	12.9%	10.4%	10.7%	12.0%	13.3%
Depreciation	(2,853)	(3,255)	(3,090)	(3,350)	(3,441)	(3,625)	(3,811)
Interest expense	(2,030)	(2,414)	(3,110)	(3,690)	(3,050)	(2,634)	(2,526)
Other income	430	593	410	570	478	525	595
Profit before tax	3,802	482	3,150	(730)	173	1,888	3,875
Taxes	(1,113)	(147)	(840)	90	(45)	(495)	(1,015)
PAT	2,690	334	2,310	(640)	127	1,394	2,860
PAT Margin (%)	5.6%	0.6%	3.3%	-1.2%	0.2%	2.2%	4.0%
Other Comprehensive income	415	107	(140)	290	-	-	-
Net profit	3,105	441	2,170	(350)	127	1,394	2,860
EPS (INR)	6.8	0.8	5.8	(1.6)	0.3	2.9	5.9

Source: Company Reports, Aриhant Capital Research

Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	793	796	800	800	975	975	975
Reserves	19,081	18,771	20,110	19,430	29,355	30,470	32,757
Net worth	19,874	19,567	20,910	20,230	30,330	31,445	33,733
Minority Interest	981	857	40	-	-	-	-
Provisions	110	253	660	390	159	174	198
Debt	35,279	37,857	41,030	35,820	27,720	27,160	25,460
Other non-current liabilities	1,567	1,303	980	770	869	954	1,082
Total Liabilities	57,811	59,837	63,620	57,210	59,078	59,733	60,472
Fixed assets	27,828	28,554	28,540	28,390	28,069	27,518	26,811
Capital Work In Progress	2,272	1,424	1,290	620	573	604	635
Other Intangible assets	991	1,866	1,670	1,420	1,420	1,420	1,420
Goodwill	2,921	2,960	2,250	2,280	2,280	2,280	2,280
Investments	1,319	1,096	1,070	960	869	954	1,082
Other non current assets	569	1,695	1,740	3,200	1,332	1,463	1,443
Net working capital	17,251	15,849	20,410	14,600	17,890	18,849	21,711
Inventories	6,264	9,202	8,320	8,220	8,274	8,617	9,008
Sundry debtors	14,514	17,065	18,220	15,980	16,345	17,076	19,173
Loans & Advances	148	45	30	10	58	64	72
Other current assets	19,240	17,151	18,870	16,490	16,662	17,425	18,976
Sundry creditors	(19,437)	(24,200)	(21,520)	(21,780)	(20,552)	(21,471)	(22,271)
Other current liabilities & Prov	(3,479)	(3,413)	(3,510)	(4,320)	(2,896)	(2,862)	(3,247)
Cash	2,484	5,296	5,070	4,030	5,196	5,055	3,359
Other Financial Assets	2,177	1,096	1,580	1,710	1,448	1,590	1,732
Total Assets	57,811	59,837	63,620	57,210	59,078	59,733	60,472

Source: Company Reports, Aриhant Capital Research

Du-Pont Analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.7	0.7	0.7	0.9	0.7	0.7	0.7
Interest burden (x)	0.7	0.2	0.5	(0.3)	0.1	0.5	0.7
EBIT margin (x)	0.1	0.0	0.1	0.0	0.0	0.1	0.1
Asset turnover (x)	0.7	0.7	0.9	0.7	0.8	0.8	0.9
Financial leverage (x)	3.5	3.9	4.0	3.9	3.0	2.5	2.4
RoE (%)	13.8%	1.7%	11.4%	-3.1%	0.5%	4.5%	8.8%

Source: Company Reports, Aриhant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	3,802	482	3,150	(730)	173	1,888	3,875
Depreciation	2,853	3,255	3,090	3,350	3,441	3,625	3,811
Tax paid	(1,113)	(147)	(840)	90	(45)	(495)	(1,015)
Working capital Δ	(2,034)	1,401	(4,561)	5,810	(3,290)	(959)	(2,862)
Change in Goodwill	(1,703)	(40)	710	(30)	-	-	-
Operating cashflow	1,805	4,951	1,550	8,490	278	4,060	3,809
Capital expenditure	(3,222)	(3,133)	(2,942)	(2,530)	(3,073)	(3,104)	(3,135)
Free cash flow	(1,417)	1,818	(1,392)	5,960	(2,796)	956	674
Equity raised	(687)	29	(1,584)	330	9,998	-	-
Investments	(167)	223	26	110	91	(85)	(128)
Others	1,062	(920)	(333)	(1,340)	2,130	(273)	(122)
Debt financing/disposal	2,246	2,578	3,173	(5,210)	(8,100)	(560)	(1,700)
Dividends paid	(1,378)	(794)	(200)	(410)	(25)	(279)	(572)
Other items	378	(121)	84	(480)	(133)	101	152
Net Δ in cash	38	2,812	(226)	(1,040)	1,166	(140)	(1,696)
Opening Cash Flow	2,445	2,484	5,296	5,070	4,030	5,196	5,055
Closing Cash Flow	2,484	5,296	5,070	4,030	5,196	5,055	3,359

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)							
Revenue growth	-6.4%	19.3%	20.3%	-20.9%	5.7%	9.8%	13.4%
Op profit growth	-24.2%	-34.0%	66.4%	-36.0%	8.5%	23.2%	26.2%
Profitability ratios (%)							
OPM	16.8%	9.3%	12.9%	10.4%	10.7%	12.0%	13.3%
Net profit margin	5.6%	0.6%	3.3%	-1.2%	0.2%	2.2%	4.0%
RoCE	7.5%	3.3%	7.6%	4.1%	5.7%	8.0%	9.5%
RoNW	13.8%	1.7%	11.4%	0.5%	4.5%	8.8%	11.3%
RoA	4.7%	0.6%	3.6%	0.2%	2.3%	4.7%	6.3%
Per share ratios (INR)							
EPS	7.8	1.1	5.4	(0.9)	0.3	2.9	5.9
Dividend per share	3.5	2.0	0.5	1.0	0.1	0.6	1.2
Cash EPS	14.0	9.0	13.5	6.8	7.3	10.3	13.7
Book value per share	50.1	49.2	52.3	50.6	62.2	64.5	69.2
Valuation ratios (x)							
P/E	14.8	104.6	21.4	-	444.3	40.6	19.8
P/CEPS	8.3	12.9	8.6	17.1	15.9	11.3	8.5
P/B	2.3	2.4	2.2	2.3	1.9	1.8	1.7
EV/EBITDA	9.6	14.5	9.1	13.5	12.6	10.2	8.1
Payout (%)							
Dividend payout	51.2%	237.5%	8.7%	-	20.0%	20.0%	20.0%
Tax payout	29.3%	30.6%	26.7%	12.3%	26.2%	26.2%	26.2%
Liquidity ratios							
Debtor days	114	100	93	114	102	96	92
Inventory days	82	99	97	121	110	103	96
Creditor days	153	153	138	161	149	137	128
WC Days	43	46	52	74	62	62	60
Leverage ratios (x)							
Interest coverage	2.6	0.9	1.9	0.6	0.9	1.5	2.3
Net debt / equity	1.7	1.7	1.7	1.6	0.7	0.7	0.7
Net debt / op. profit	4.0	6.1	4.0	5.6	3.6	2.9	2.3

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 3: Inventory levels is expected to clear in next 1-2 quarters and demand will be normalize. BharatNet and BEAD would be a key triggers.

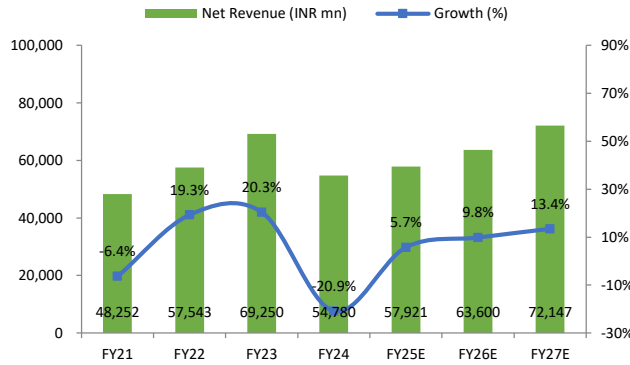


Exhibit 4: Softening of RM costs will lead to improvement in gross margins.

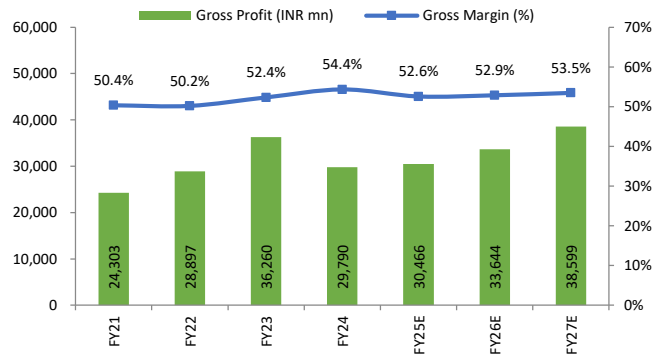


Exhibit 5: Growth in EBITDA & PAT levels

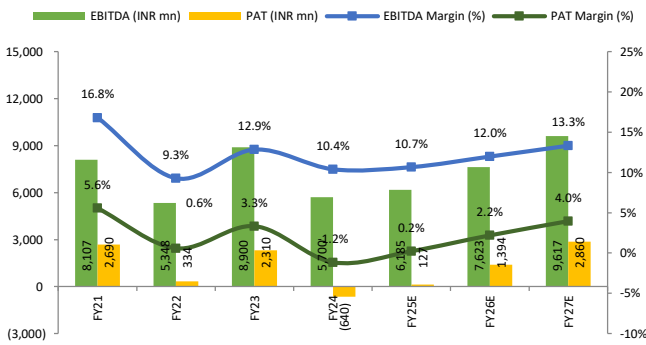


Exhibit 6: Return ratios to be improve

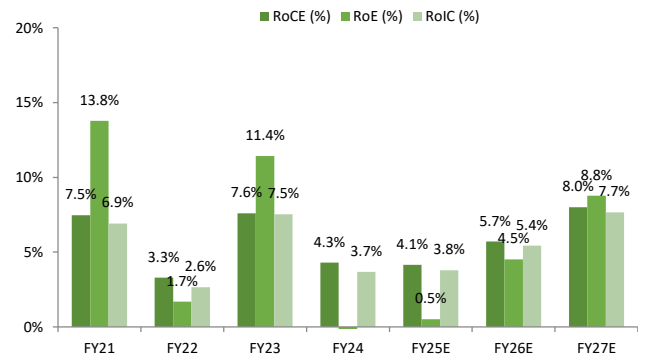


Exhibit 7: Working capital days to be improve

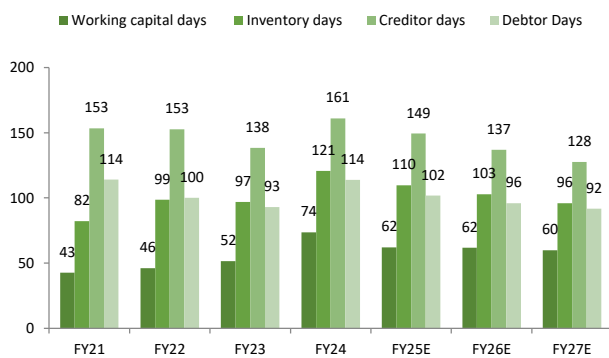
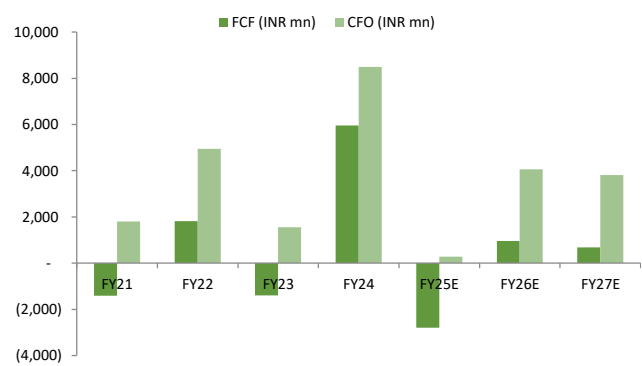


Exhibit 8: Cash flows to be improve



Source: Company reports, Arianth Capital Research

Story in Charts

Exhibit 9: Working capital in-terms of sales is expected to maintain going forward.

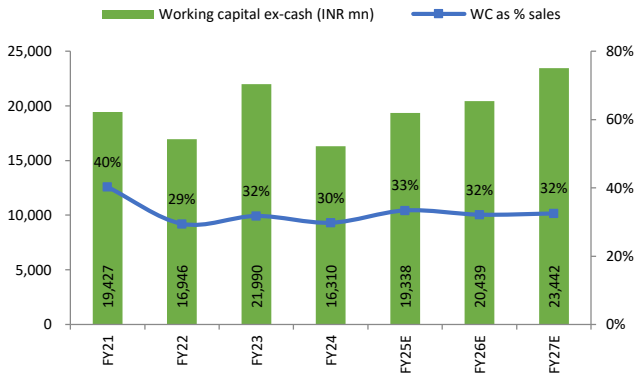


Exhibit 10: Interest cost as % of EBIT is expected to reduce going forward.

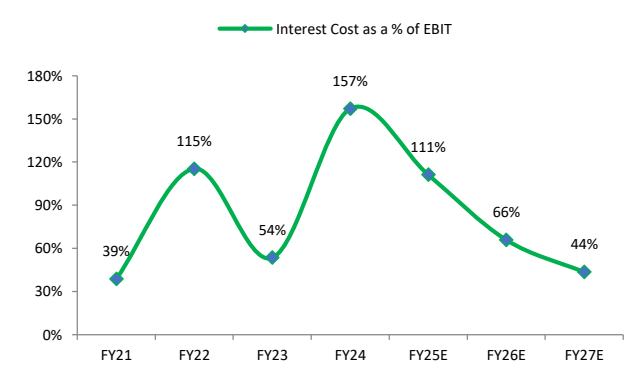


Exhibit 11: The inventory build-up in North America is expected to liquidate in 1-2 quarters. Post that, Optical networking business is expected to pick-up.

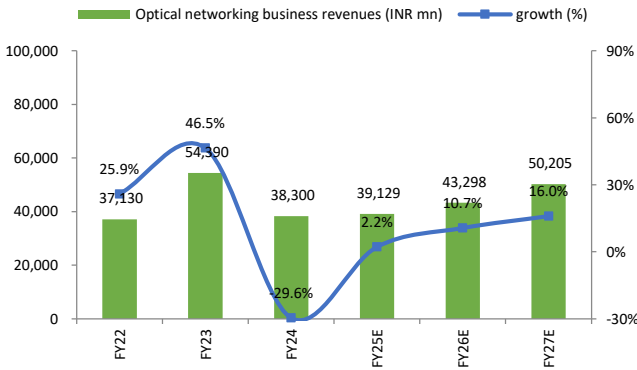


Exhibit 12: Selective order intake and execution will improve global service business going forward.

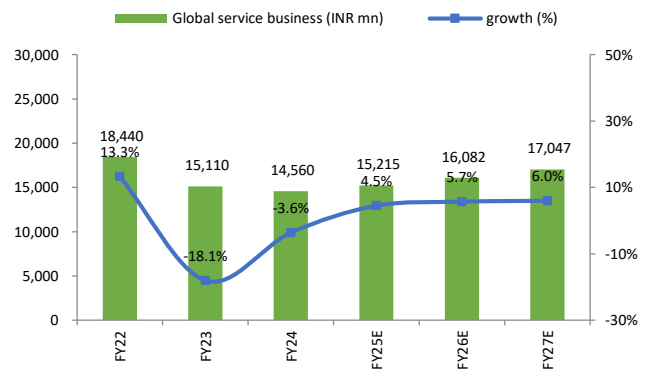


Exhibit 13: Digital and Technology solutions has strong order book of INR 6.6bn shows potential revenue visibility.

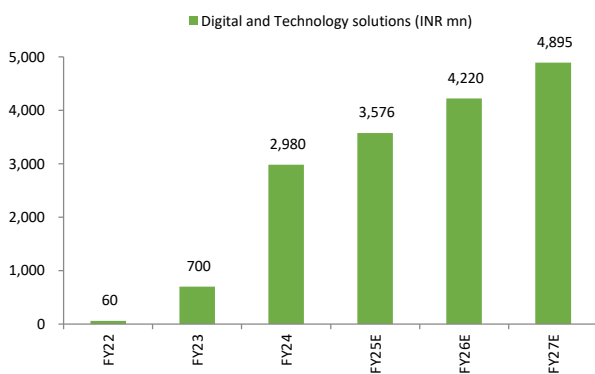
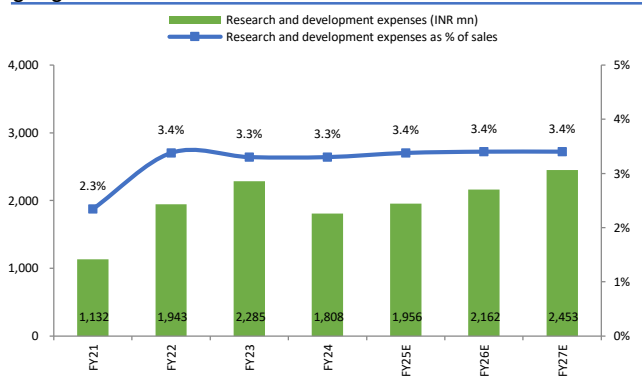


Exhibit 14: R&D expenses are expected to be 3.3%-3.4% of sales going forward.



Source: Company reports, Arianth Capital Research

Story in Charts

Exhibit 15: The order book stood at INR 102.9bn (-6.9% YoY/+4.5% QoQ) as of Q4FY24.

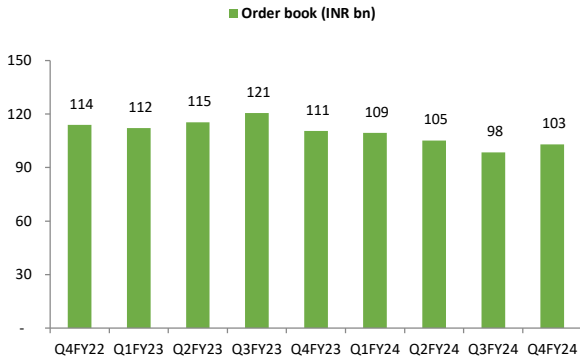


Exhibit 16: Optical networking margins were impacted due to lower utilization and volumes. The profitability is expected to back at 60%-65% capacity utilization.

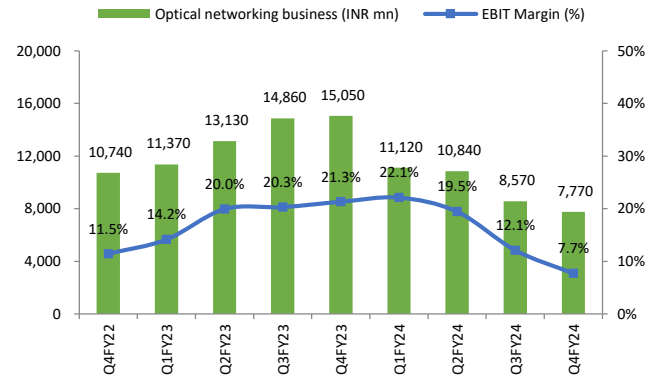


Exhibit 17: Global services margins are expected around 8%-10% going forward.

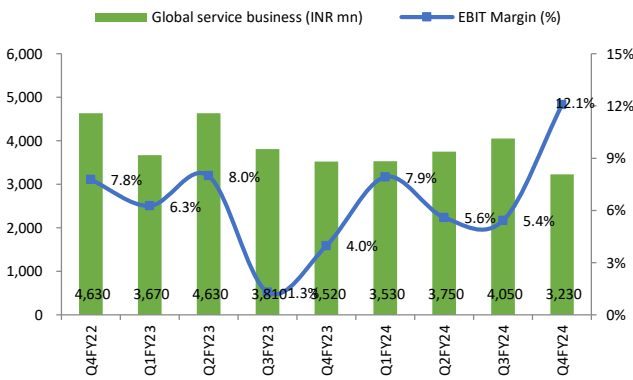


Exhibit 18: Digital and Technology services are expected to be profitable going forward.

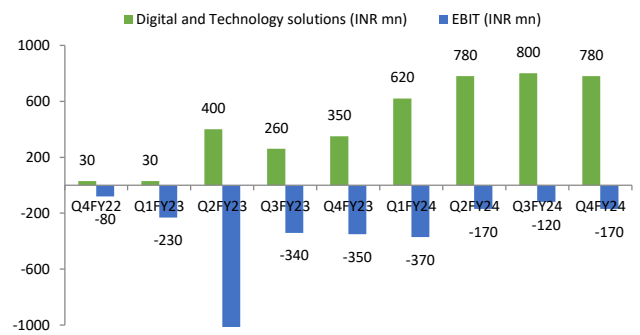


Exhibit 19: Employee cost is expected to reduce as a % of sales going forward.

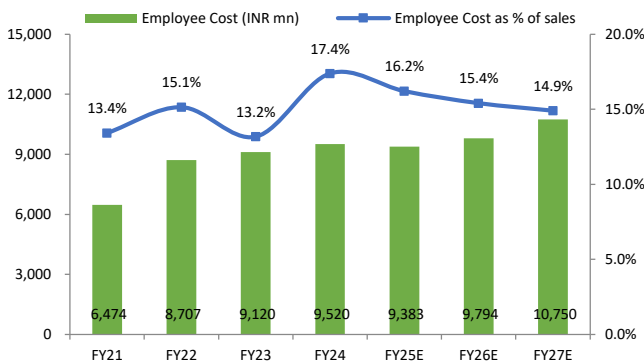
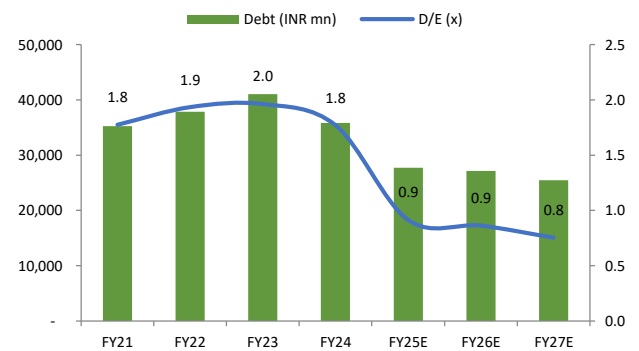


Exhibit 20: The fundraising of INR 10bn utilised for debt reduction would improve balance sheet.



Source: Company reports, Arianth Capital Research

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880