

A Baljit Group Venture

equity people



# INVESTMENT *focus*

## IFGL Refractories Ltd. - ACCUMULATE

<b>CMP</b>	<b>Rs. 42.1</b>
<b>Target Price</b>	<b>Rs. 100.0</b>
<b>Upside</b>	<b>137.5%</b>

### STOCK INFO

Market Cap	Rs 145.5 Crore
O/S Equity Shares	3.5 Crore
Face Value	Rs 10
52-Week H/L	43.5/ 27.75
1Yr-Avg. Daily Vol. (Nos.)	16,513
Sector	Refractories
Dividend Yld.	1.21%
Beta Vs. Sensex (3-Yr)	1.1x
NSE/ BSE Code	IFGLREFRAC/ 532133
Bloomberg Ticker	IFGL@IN

Price Performance (%)	3M	6M	1YR
Absolute	19.0	47.5	21.2
Relative-Sensex	18.1	45.2	22.9
Relative-BSE Small Cap	21.5	60.8	39.8

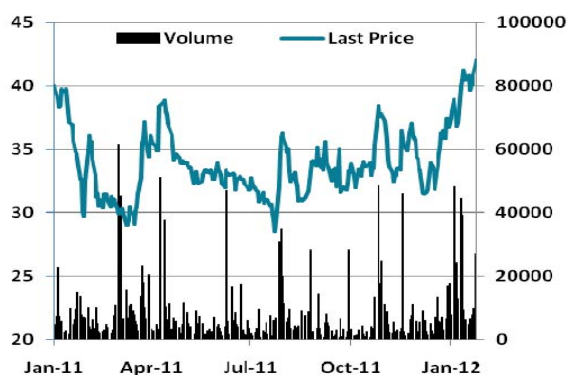
Shareholding (%)	Sep-11	Dec-11
<b>Promoter</b>	<b>71.30</b>	<b>71.30</b>
FII	0.00	0.00
DII	1.86	1.86
Corporate & Public	25.84	25.84
% Shares Pledged of Total	0.0	0.0

### Peer Comparison\*

		Vesuvius India	IFGL	OCL India
CMP	Rs	360.3	42.1	100.9
Mkt Cap.	Rs Cr	731.3	145.5	573.8
P/E	x	13.1	3.8	7.6
P/B	x	2.6	0.8	0.6
EV/EBITDA	x	7.5	3.9	4.9
EV/Sales	x	1.4	0.5	0.8
Mcap/ Sales	x	1.4	0.3	0.4
Net D/E	x	(0.1)	0.6	0.7
ROE	%	19.9	20.0	8.4

\*(On TTM basis)

### 1-Year Price Performance



### Company Description

IFGL Refractories Ltd., incorporated in 1989, is a Kolkata based company, engaged in manufacturing of Specialized Refractories and ceramics. The company mainly caters to steel industry and has the latest know-how from Krosaki Harima Corporation, Japan, a subsidiary of Nippon Steel Corporation. IFGL has manufacturing facilities in the geographies like Brazil, China, Germany, India, UK and USA. IFGL has a market share of 15-20% domestically.

IFGL operate in the niche market of flow control, and have a small share (5%) in the global market. However, over the last few years IFGL has been able to enhance its reputation and brand name which will help in improving global market share.

At CMP of Rs 42.10, the stock is trading 3.8x EPS, 0.8x BVPS and 3.9x EV/EBITDA on its TTM consolidated financials. We initiate ACCUMULATE on the stock, with a target of Rs 100, offering a return potential of ~138% over 1 year.

### Investment Rationales

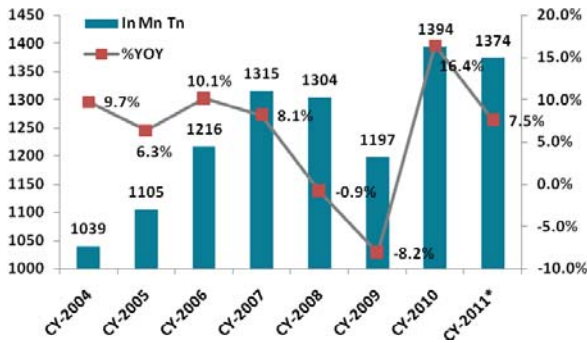
- Large steel capex to provide good business opportunity:** Around 75% of the refractories produced globally is consumed by the steel industry. Thus the growth of the refractory industry is directly related to the growth of steel industry. India is all set to become the 2<sup>nd</sup> largest producer of steel in the world by 2013, with an installed annual production capacity of 120 MT (vs 80 MT currently). The global production is expected to reach 1625 MT (vs 1414 MT in CY10) by CY2014. IFGL, with a 15-20% domestic and above 5% global market share, derives almost 100% of its revenues from steel and Foundry industry. The large capacity addition domestically and globally, is expected to provide good business opportunity to the sector and the company.
- Demand sustainable on periodic replacement:** IFGL operate in the niche market of steel flow control, and manufactures products like CCR (Continuous Casting Refractories, SGP (Slide Gate and Purging Systems and Slide Gate Refractories), Cast, Castables and Others for the steel and foundry industry. These products needs periodic replacement, hence the demand is repetitive in nature and not entirely depends on new capital expenditure spending.
- Clientele includes leading global steel makers:** The Company has got its plants spread across the Euro zone, USA, China, Latin America and India. Apart from domestic steel majors like Jindal Steel, Adhunik, JSW Steel, Bushan Steel, SAIL and Tata Steel, it supplies its products to the renowned steel maker Arcelor Mittal and steel companies in Australia, Newzealand and Middle East.

### Quarterly Earnings Snapshot (Consolidated)

In Rs Crore	Sep-11	Jun-11	%QoQ	Mar-11	Dec-10	Sep-10	%YoY
<b>Net Sales</b>	<b>159.9</b>	<b>125.2</b>	<b>27.7</b>	<b>138.5</b>	<b>114.9</b>	<b>112.7</b>	<b>41.8</b>
<b>Total Expenditure</b>	<b>139.6</b>	<b>107.1</b>	<b>30.3</b>	<b>122.7</b>	<b>105.8</b>	<b>103.7</b>	<b>34.6</b>
Raw Materials	84.5	54.7	54.5	70.4	57.3	58.5	44.6
Employee Expenses	20.2	19.1	5.8	19.5	17.6	15.2	32.9
Other Expenses	33.5	31.6	5.9	30.9	29.3	27.8	20.2
<b>EBITDA (bef OI)</b>	<b>20.6</b>	<b>18.6</b>	<b>10.3</b>	<b>18.7</b>	<b>9.3</b>	<b>9.3</b>	<b>120.1</b>
Interest	1.5	1.7	(11.2)	1.3	1.7	1.6	(6.8)
<i>Interest Coverage (x)</i>	<i>11.8</i>	<i>9.4</i>	-	<i>12.1</i>	<i>4.3</i>	<i>4.5</i>	-
Depreciation	2.7	2.6	1.5	2.6	2.2	2.0	33.3
PBT	16.7	14.3	16.6	15.2	5.5	5.7	191.6
Tax expenses	4.7	3.6	30.6	3.7	1.7	1.6	199.4
<b>Tax Rate%</b>	<b>28.2</b>	<b>25.2</b>		<b>24.1</b>	<b>29.9</b>	<b>27.4</b>	
Reported PAT	12.0	10.7	12.0	11.5	3.9	4.2	188.7
<b>PAT (post MI &amp; P/L Asso.Co.)</b>	<b>12.0</b>	<b>10.7</b>	<b>12.1</b>	<b>11.5</b>	<b>3.9</b>	<b>4.2</b>	<b>188.2</b>
<b>EPS (In Rs)</b>	<b>3.46</b>	<b>3.09</b>		<b>3.33</b>	<b>1.12</b>	<b>1.20</b>	
<b>OPM%</b>	<b>12.8</b>	<b>14.8</b>		<b>13.2</b>	<b>8.1</b>	<b>8.3</b>	
<b>NPM%</b>	<b>7.5</b>	<b>8.5</b>		<b>8.2</b>	<b>3.4</b>	<b>3.7</b>	

The refractories business is dependent on the prospects of the steel industry. Though the outlook for steel is uncertain in future, IFGL is insulated from this to a very large extent as it has got technical advantage and operates in the specialized refractory segment. IFGL is also working on the concept of Total Refractory Management.

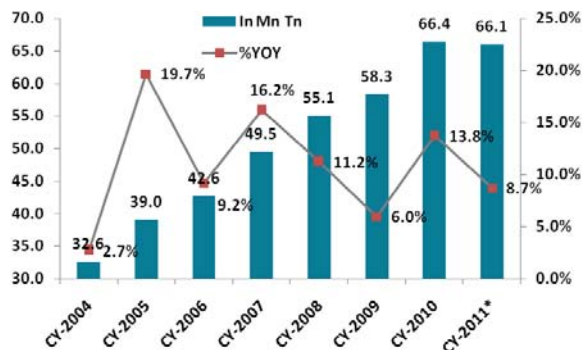
## Steel Production - Global



In last 6 years (CY2004-10), the global steel production has grown at a CAGR of 5%.

CYTD-11\* (till Nov-11), the production gr stood at 7.5%

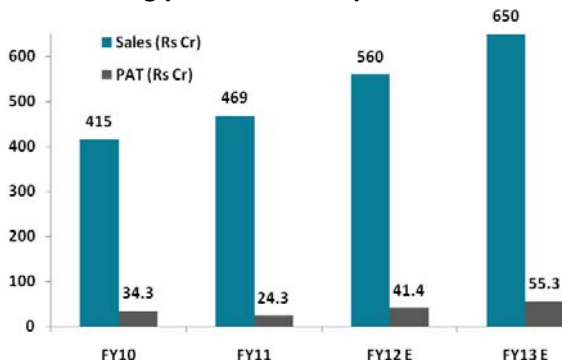
## Steel Production - India



In last 6 years (CY2004-10), India's steel production has grown at a CAGR of 12.6%.

CYTD-11\* (till Nov-11), the production gr stood at 8.7%

## IFGL – Strong performance expected to continue



- Exhibited Strong performance in 1H-FY12; Expects the performance to continue:** Despite the ongoing industrial slowdown domestically and globally, the company has been able to exhibit strong quarterly performance in the recent past due to healthy contribution from US subsidiary EIC, which posted a PAT of \$559k. The 1H-FY12 consolidated sales, EBITDA and PAT has grown 32.2%, 113.7% and 156.4% to Rs 285.1 crore, 39.2 crore and 22.7 crore, respectively. On the back of healthy order book for the rest of the year, the management expects the current performance to continue in the rest half of FY12 also. However, it may see some impact from Q1-FY13 onwards if the current global slowdown continues.

- Expanding footprints globally:** In September-2010, IFGL acquired EI Ceramics LLC (EIC) and CUSC International Limited (CUSC), both based in Cincinnati (Ohio), USA for \$13 million. EIC is engaged in manufacture of 'isostatically pressed Alumina Graphite Continuous Casting Refractories' and CUSC is its ancillary unit. EIC is a prominent supplier of CC Refractories to steel mills in USA and Canada. Prior to that, the company has acquired Hofman Ceramics GmbH in 2008 for Euro 6.4 million. IFGL acquired Monocon Group in September, 2005, with production facilities in the Brazil, China, UK, USA and Taiwan. With these acquisitions, IFGL has expanded its foot prints in completely different geographies. This will provide the company an opportunity to grow customer base in USA and Europe.

- Locational advantage:** IFGL Refractories Ltd's has its main manufacturing unit situated at Kalunga, Orissa which is the industrial belt of eastern India. Most of the key customers lie within distance of 0-400 KM from the IFGL's manufacturing site, which gives the company logistical advantage.

Plant	Distance (In KM)
SAIL – Rourkela Steel Plant	<10 KM
SAIL – Bhilai Steel Plant	400 KM
SAIL – Bokaro Steel Plant	250 KM
SAIL – Durgapur Steel Plant	350 KM
Jindal Steel and Power	150 KM

- New CCR facility started in Kandla, Gujarat:** IFGL Exports Ltd. (IEL), an Associate Company, has inaugurated a new state-of-art facility at Kandla SEZ (near Gujarat) to manufacture 'Continuous Casting Refractories' on Oct-11. The commercial production has started already in Nov-11.

- ✓ The IFGL together with associate companies has 3 strategically located manufacturing facilities for Continuous Casting Refractories. EI Ceramics (EIC) in Cincinnati, Ohio (USA), caters to the US, Canada and Mexico. The unit at Rourkela (India) will be geared up to meet the increasing domestic demand and also to steel plants located in South East Asia. IFGL Exports Ltd. at Kandla, Gujarat will exports to the Middle East and European markets.

- ✓ IEL is expected to add revenues of Rs 15 crore in FY12, which will gradually increase to Rs 125 crore in next 5 years. The plant is designed for a final capacity of 250,000 Pcs p.a. with sales of approximately Rs 125 crore. Currently its installed capacity is approx. 84000 Pcs p.a., sales value of Rs 42 crore.

- ✓ Exports from IEL will reduce transit time and reduce delivery cost to customers in Middle East and Europe.

- ✓ About 20% of the equity share capital of IEL is held by Krosaki Harima Corporation (KHC), Japan, while the remaining 80% is held by IFGL and other Group entities (IFGL Refractories Ltd holds 9.7% of the total).

- Sees FY12 revenue growth of 17-28%:** The company expects revenues to grow approximately 19% and 16% to Rs 560 crore and Rs 650 crore in FY12 and FY13, respectively. On a consolidated basis, the company is expected to post EPS of Rs 11.9 and Rs 15.9 in FY12 and FY13. The 1H-FY12 annualized EPS stood at Rs 13.1.

## Geographical Revenue Break-up

In Rs Crore	FY11	FY10	% YoY
Domestic	100.8	95.1	6.0
Exports	107.4	80.1	34.0
<b>Net Sales (Standalone)</b>	<b>208.2</b>	<b>175.2</b>	<b>18.8</b>
United Kingdom	40.7	43.2	(5.9)
Europe (Ex. UK)	149.3	125.6	18.8
Asia (Ex. India)	43.8	47.4	(7.5)
Americas	96.8	69.9	38.6
Others	36.8	31.1	18.5
<b>Net Sales (Consolidated)</b>	<b>468.9</b>	<b>415.2</b>	<b>12.9</b>

## Installed Capacity and production (FY11 end)

Product	Unit	Installed	Prod.	C.U.
Refractories (Shaped)	Pcs.	776000	674487	86.9
Refractories (Unshaped)	M/T	24000	11661	48.6
Ceramics (Filters)	Pcs.	5700000	1589024	27.9
Ceramics (Shaped)	Pcs.	10000	1673	16.7
Ceramics (Unshaped)	Kgs	50	27	53.4

## Product wise Break-up of domestic sales

Products	1H-FY12 (Rs Cr)	% Sales
CCR	76.3	59.3%
SGP/Nozzles/Plugs	22.2	17.3%
Cast	5.9	4.6%
Castables	11.4	8.9%
Others	13.9	10.8%
<b>Total Sales</b>	<b>128.6</b>	<b>100.0%</b>

- Export revenues at 60%, RM imports at 55% provide natural Hedge against forex fluctuations:** In FY11, IFGL cloaked consolidated Net Sales of Rs 468.9 crore, a growth of 12.9% over previous year. The domestic sales contributed ~21.5% to the total sales, while the Europe (In. UK), Americas and Asia (Ex. India) accounted for 40.5%, 20.6% and 9.3% of the total sales, respectively. On Standalone basis, the net sales stood at Rs 208.2 crore. Around ~48% of the revenues derived from domestic sales, while the rest from foreign markets. As the company imports ~55% of its total raw material (Magnesia, Graphite, Alumina and Cement) requirements for the domestic facility, the company has natural hedge against forex fluctuations.
- Average C.U. at ~60% on consolidated basis; Scope for increasing utilizations on higher demand:** At present the combined capacity utilization of IFGL in India and abroad are at an average of ~60%. The domestic CCR capacities are operating at ~80% c.u., while the Slide Gate Refractories at ~65% c.u. The CCR products, which are larger in size and are premium products, accounted for more than 59.3% or Rs 76.3 crore to the domestic sales of Rs 128.6 crore in 1H-FY12. The Slide Gate Refractories contributed Rs 22.2 crore or 17.3% to the sales during the period. Any increase in demand for their products can be easily met without resorting to any capital expenditure.
- Scope for further expansion limited at Kalunga plant; Group started new unit at Gujarat:** At the Kalunga facility, the scope of further expansion is limited due to shortage of space. The company can increase its capacity by a maximum of 20-25% only. The group has set up a new CCR plant at Kandla Special Economic Zone in Gujarat under the company 'IFGL Exports Limited'. IFGL Refractories has 9.7% equity participation in the company. The commercial production has already started.
- Diversification into health business:** IFGL is also pursuing Bio Ceramic business for health segment, being a diversification from producer of specialised Refractories for Iron and Steel Industry. The company has achieved reasonable success during the year. The company deals in Bio Ceramic Implants for Dental, Oral & Maxillofacial, Orthopaedic and Ophthalmic segments.

## IFGL Group's country wise plants and product details

Country	Company	Products	Units	Capacity
India	IFGL Refractories Ltd.	Carbon Bonded Refractories for Continuous Casting	pcs.	360000
		Slide Gate Refractories	pcs.	320000
		Purge Plugs	pcs.	24000
		Cast Products	pcs.	72000
		<b>Refractories Shaped Total</b>	pcs.	<b>776000</b>
		Refractories Unshaped/ Castables etc.	MT	24000
	IFGL Exports Ltd.	Continuous Casting Refractories	pcs.	84000*
UK	Monocon International Refractories Ltd.	Lances	pcs.	10400
		Darts	pcs.	260000
		Unshaped	MT	31200
Germany	Hofmann Ceramics GmbH	Ceramic Filters	pcs.	3000000
		SIC Chill Plates	pcs.	520000
USA	MonoCeramics Inc.	Lances	pcs.	7200
		Well Block	pcs.	720
		Pyometric Nozzle	pcs.	8640
		Porus Plug	pcs.	12000
	EI Ceramics LLC	Carbon Bonded Refractories for Continuous Casting	pcs.	96000
Brazil	Monotec Refractories Ltd.	Unshaped	MT	6000
China	Tianjin Monocon Refractories Co. Ltd.	Unshaped	MT	84000
	Tianjin Monocon Aluminous Refractories Co Ltd.	Darts	pcs	180000

\* The plant is desinged for a final capacity of 2,50,000 pcs, to be achieved over 5 years

*Snapshots taken during IFGL Refractories Ltd's plant visit at Kalunga, Near Rourkela (Orissa)*

**CAST CERAMIC MADE FROM CEMENT**



**PACKAGING**



**Loading**



## Financial Summary (Annual) - Consolidated

### Profit/ Loss Statement-Consolidated

In Rs Cr	FY08	FY09	FY10	FY11
<b>Net Sales</b>	<b>378.0</b>	<b>398.2</b>	<b>415.2</b>	<b>468.9</b>
Total Expenditure	325.3	370.8	356.9	426.3
<b>EBITDA (bef. OI)</b>	<b>52.7</b>	<b>27.4</b>	<b>58.3</b>	<b>42.7</b>
Other Income	1.8	2.4	3.4	4.3
<b>EBITDA</b>	<b>54.5</b>	<b>29.7</b>	<b>61.8</b>	<b>47.0</b>
Depreciation	6.3	7.4	7.5	8.7
<b>EBIT</b>	<b>48.1</b>	<b>22.3</b>	<b>54.2</b>	<b>38.3</b>
Interest	8.2	9.5	4.5	5.6
EBT	40.0	12.8	49.7	32.7
Tax	11.7	6.7	15.5	8.4
PAT	28.3	6.1	34.3	24.3
<b>PAT (post MI, EOI, P/L of Asso. Co)</b>	<b>28.5</b>	<b>6.1</b>	<b>34.3</b>	<b>24.3</b>

### Balance Sheet

	FY08	FY09	FY10	FY11
<b>SOURCES OF FUNDS :</b>				
Share Capital	34.6	34.6	34.6	34.6
Reserves Total	62.3	78.9	102.6	126.6
Red. Non-Cum. Pref. Share	0.0	0.0	0.0	14.5
<b>Total Shareholders Funds</b>	<b>96.9</b>	<b>113.6</b>	<b>137.2</b>	<b>175.7</b>
Minority Interest	0.1	0.8	0.4	0.4
Secured Loans	81.2	99.7	77.5	124.3
Unsecured Loans	5.8	0.7	1.8	1.0
<b>Total Debt</b>	<b>86.9</b>	<b>100.3</b>	<b>79.3</b>	<b>125.3</b>
Net Deferred Tax	4.1	3.8	3.7	4.0
<b>Total Liabilities</b>	<b>188.0</b>	<b>218.5</b>	<b>220.6</b>	<b>305.4</b>

### APPLICATION OF FUNDS :

	FY08	FY09	FY10	FY11
<b>Net Fixed Assets</b>	<b>81.6</b>	<b>117.3</b>	<b>113.0</b>	<b>179.9</b>
<b>Investments</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>	<b>1.4</b>
Inventories	47.4	51.4	59.2	70.2
Sundry Debtors	100.2	59.6	89.5	109.6
Cash and Bank	7.7	12.9	12.0	10.0
Loans and Advances	15.2	12.1	13.3	15.2
<b>Total Current Assets</b>	<b>170.4</b>	<b>136.0</b>	<b>174.0</b>	<b>205.0</b>
Current Liabilities	53.9	34.6	60.8	74.9
Provisions	10.2	0.2	6.0	6.0
<b>Total Current Liabilities</b>	<b>64.0</b>	<b>34.8</b>	<b>66.8</b>	<b>80.9</b>
<b>Net Current Assets</b>	<b>106.4</b>	<b>101.2</b>	<b>107.2</b>	<b>124.1</b>
<b>Total Assets</b>	<b>188.0</b>	<b>218.5</b>	<b>220.6</b>	<b>305.4</b>

### Cash Flow Statement

	FY08	FY09	FY10	FY11
EBT	40.9	12.8	49.7	32.7
Depreciation	6.3	7.4	7.5	8.7
Interest	8.2	9.5	4.5	5.6
Others	3.6	31.6	2.1	(1.7)
In./ De. In Working Capital	(18.6)	29.0	(14.2)	(14.6)
Taxes paid & others	(11.9)	(9.0)	(13.8)	(7.0)
<b>Cash flow from Operations</b>	<b>28.5</b>	<b>81.4</b>	<b>35.9</b>	<b>23.7</b>
Capital Expenditure	(8.8)	(9.9)	(11.5)	(15.4)
Investment & Others	2.6	(43.6)	(0.4)	(52.4)
<b>Cash flow from Investments</b>	<b>(6.1)</b>	<b>(53.5)</b>	<b>(11.9)</b>	<b>(67.8)</b>
Capital Raised/ (Repaid)	0.0	0.0	0.0	14.5
Debt Raised/ (Repaid) (Net)	(8.8)	1.5	(27.6)	24.5
Dividend Paid	(6.6)	(6.8)	(0.0)	(3.5)
Interest Paid	(8.7)	(9.8)	(4.7)	(6.0)
Others	(2.1)	(9.4)	8.3	11.3
<b>Cash flow from Financing</b>	<b>(26.1)</b>	<b>(24.5)</b>	<b>(24.1)</b>	<b>40.8</b>
Exch. Diff on translation of forex	(0.5)	(0.9)	(0.7)	0.3
<b>Cash flow during year</b>	<b>(4.3)</b>	<b>2.4</b>	<b>(0.8)</b>	<b>(2.9)</b>
<b>Closing Cash</b>	<b>7.7</b>	<b>12.9</b>	<b>12.0</b>	<b>10.0</b>

Growth	FY09	FY10	FY11
Revenue	5.3%	4.3%	12.9%
EBITDA (bef. OI)	-48.0%	113.2%	-26.9%
EBDITA	-45.4%	107.6%	-23.9%
PAT	-78.5%	461.3%	-29.2%

Profitability	FY09	FY10	FY11
EBITDA margin (bef. OI)	6.9%	14.1%	9.1%
EBDITA margin	7.5%	14.9%	10.0%
PAT margin	1.5%	8.3%	5.2%
ROCE	10.4%	25.1%	13.4%
RONW	5.4%	25.0%	15.1%
ROA	2.8%	15.6%	8.0%

Per Share Ratio	FY09	FY10	FY11
Adjusted EPS	1.8	9.9	7.0
CEPS	3.8	12.1	9.6
BVPS	32.8	39.6	46.6
DPS	0.0	1.0	0.5
Actual O/S shares (Cr.)	3.5	3.5	3.5

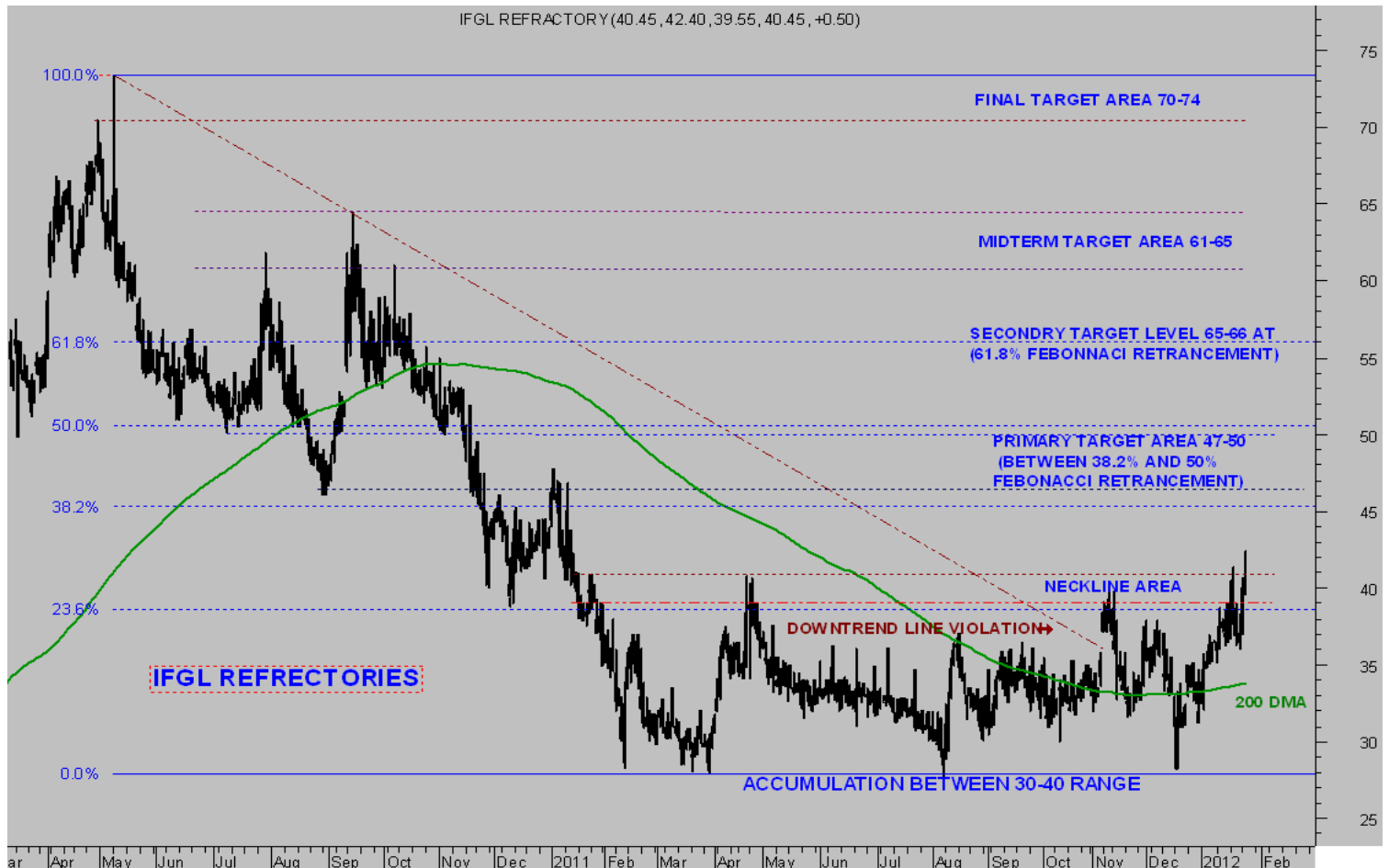
Valuation Ratios (x)	FY09	FY10	FY11
P/E	23.8	4.2	6.0
P/CEPS	11.1	3.5	4.4
P/B	1.3	1.1	0.9
EV/EBDITA	8.5	3.7	6.1
EV/Sales	0.6	0.5	0.6

Payout	FY09	FY10	FY11
Dividend Payout	0.0%	10.1%	7.1%
Dividend Yield	0.0%	2.4%	1.2%
Tax Payout	52.5%	31.1%	25.8%

B/S Sheet Ratios (x)	FY09	FY10	FY11
Fixed Asset Turnover	3.4	3.7	2.6
Total Asset Turnover	1.8	1.9	1.5
Current Ratio	3.9	2.6	2.5
Debtor days	54.7	78.7	85.3
Inventory days	47.1	52.1	54.6
Creditor days	31.7	53.4	58.3

Leverage Ratios (x)	FY09	FY10	FY11
Debt/ Equity	0.9	0.6	0.8
Net debt/equity	0.8	0.5	0.7
Net debt/EBDITA	3.2	1.2	2.7
Interest coverage	2.3	12.0	6.9

## IFGL REFRACTORIES LTD. – TECHNICALS



The price graph of IFGL Refectories shows an upward breakout from the neckline resistance of 40. The script was in accumulation between 30-40 areas since February last year. A close above 40 now shows end of accumulation and beginning of an uptrend.

The script is one of the few stocks which are trading above long term 200 days average. An upward slope of the average is a sign of strength. Oscillators are also supporting an up move in the script. MACD on daily has crossed it's previous high and is trading above zero line. The same on weekly has started rising once again into positive territory. A similar kind of move in September 2009 resulted into sustained rise in price of the stock. Stochastic oscillator and RSI are also supporting the upward momentum. 14 days RSI is rising and is at 66 points on daily and at 63 points on weekly. A rise above previous high of 76 in weekly stochastic oscillator is also showing rising momentum and suggesting inherent strength in the underlying.

The script can be purchased for at current market price and on dip to 35-36 for long term investment with a stop of 27 with primary target between 47-50 followed by secondary target at 65-66 level and midterm target between 61-65 and final target between 70-74 levels.

**Note:** For further queries you can ask us at [research@baljitgroup.com](mailto:research@baljitgroup.com)

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