

SANSTAR Ltd.

Issue Detail	
Price Band (Rs)	90-95
Face Value (Rs)	2.00
Issue Size (Rs)	5101.5 mn
Issue Type	Book Building
Minimum lot	150
Issue Opens	19 th July, 2024
Issue Closes	23 rd July, 2024
Listing on	BSE and NSE
Sector Classification	Food Processing

Indicative Timeline	On or before
Finalization of Basis of Allotment	24 th July, 2024
Unblocking of Funds	25 th July, 2024
Credit of shares to Demat Account	25 th July, 2024
Listing on exchange	26 th July, 2024

Other Detail	
Book Running Lead Managers	Pantomath Capital Advisors Private Limited,
Registrar	Link Intime India Private Limited

Shareholding (%)		
Particulars	Pre Issue	Post Issue
Promoters	99.79%	70.37%
Public	0.21%	29.63%
Total	100%	100%

Research Desk
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Company Background

Sanstar Ltd. is one of the major manufacturers of plant-based specialty products and ingredients solutions in India for food, animal nutrition and other industrial applications. It has world class manufacturing facilities in Western and Central Region of India with widespread domestic and international distribution network.

The company is promoted by Mr. Gautam Choudhary, who has an experience of over 50 years. It is engaged in manufacturing of maize based specialty products and ingredients solutions and its co-products such as Gluten, Germ and Bran.

The specialty products and ingredient solutions are produced at large-volume, state of the art, strategically located manufacturing facilities at Dhule in Maharashtra and Kutch in Gujarat. It believes that their leading position in the industry, technical knowledge to bring specific functionality and nutrition to end products, more than five decades of experience, state of the art manufacturing facilities, diverse product portfolio and clientele in domestic and global markets, provides competitive edge.

Issue Details

The Offer comprises of the Fresh Issue of up to 41,800,000 Equity Shares & the Offer for Sale of up to 11,900,000 Equity Shares by the Selling Shareholders.

Issue Objectives

Objects of Fresh Issue	Amount (Rs. In mn)
1. Funding the capital expenditure requirement for expansion Dhule facility.	1,815.55
2. Repayment and/or pre-payment, in part or full, of certain borrowings availed by Company.	1,000.00
3. General Corporate Purpose and Unidentified Inorganic Acquisitions.	[●]

Source: Company RHP, ACMIIL Research

IPO Share Issue Structure

Category	Allocation	Number of Shares	Value at upper price band (Rs. in mn)
QIB (Institutional)	50%	2,68,50,000	2,550.8
Non Institutional	15%	80,55,000	765
Retail	35%	1,87,95,000	1,785.5
Total	100%	5,37,00,000	5,101.5

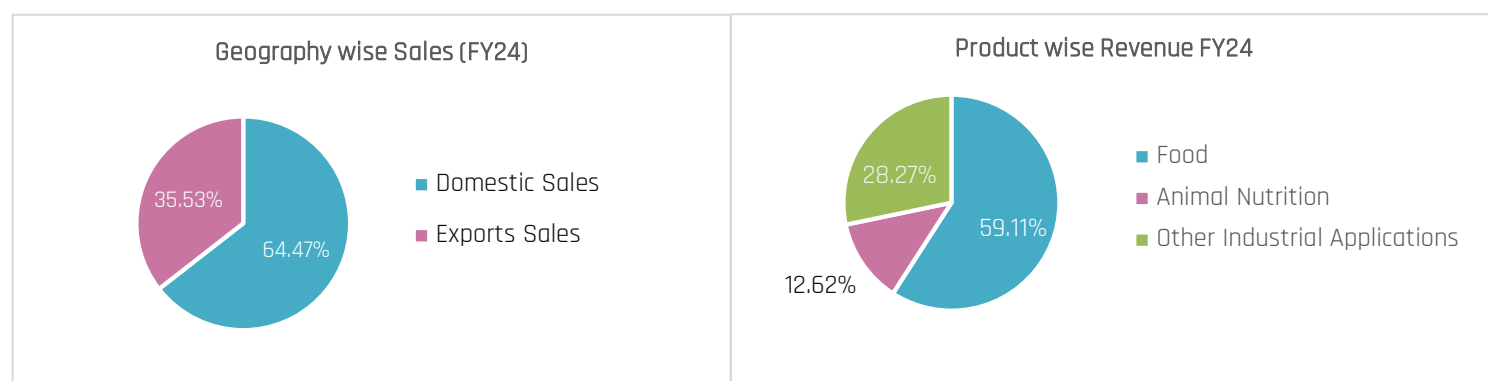
Source: Company RHP, ACMIIL Research

Company at a Glance

- Recognized as the third-largest manufacturer of specialty products and ingredient solutions in India with an installed capacity of 1,100 TPD.
- Recognized as the second-largest exporter of starch-based products from India, it proudly serve 58 countries, with 33% of their revenue attributed to exports.
- Sanstar's product portfolio finds diverse applications in food & beverages, animal nutrition, pharmaceuticals, adhesives, and more, tapping into large opportunities across various industry segments.
- State of the art manufacturing facilities with large scope for expansion.
- Two Generations of Promoters with over 6 decades of experience in the industry.
- Sanstar boasts attractive financial metrics, marked by robust growth, asset efficiency, and high returns.

Company Overview

SANSTAR is the third largest manufacturer of maize based specialty products and ingredient solutions in India. Their products include liquid glucose, dried glucose solids, maltodextrin powder, dextrose monohydrate, native starches, modified starches and co-products like germs, gluten, fiber and enriched protein, amongst others.



Source: Company RHP, ACMIIL Research

Manufacturing Facilities

Sanstar has installed two manufacturing plants in the country: Gujarat, and Maharashtra. These plants aim to supply products that benefit industries like pharmaceuticals, food, paper, and textiles.

Kutch, Gujarat: This region is home to one of the country's most advanced modern factories, with 115,000-ton annual crushing capacity for maize. SANSTAR's Greenfield unit was established in 2004, which enabled to expand presence in international markets. It offers strategic advantages due to its proximity to Kandla and Mundra ports and good air connectivity.

Dhule, Maharashtra: Founded in 2012, this is an advanced maize wet milling facility in India with a capacity of 247,500 MT per year. It is a state-of-the-art plant based on PLCs and is automated. These units are located near the Nava Sheva Mumbai and Hazira Port in the raw material belt and have easy access to international markets. Both this unit are contagion with the mumbai-agra national highway and Jamnagar-Bhatinda highway which is good domestic connectivity.

Product Overview

Through complex, multi-step value addition and manufacturing process, company turns maize into ingredients and solutions that add taste, texture, nutrients and increased functionality to:

- (i) foods as ingredients, thickening agents, stabilizers, sweeteners, emulsifiers and additives in food products (bakery products, confectionery, pastas, soups, ketchups, sauces, creams, deserts, amongst others),
- (ii) Animal nutrition products as nutritional ingredients, and
- (iii) Other industrial products as disintegrants, excipients, supplements, coating agents, binders, smoothing & flattening agents, finishing agents, among others.

End User Industry	Applications
Food	<p>In custard, desserts, sauces, instant foods, tablets, baked foods, confectioneries, pastas, soups and mayonnaise;</p> <ul style="list-style-type: none"> • As thickening agents, stabilizers and emulsifiers in various foods; • In cream fillings, gravies, tomato ketchup, pasty creams, dairy desserts • In confectionary, candies, syrups, ready to eat sweets, bakery • Used as sweetener and bodying agent in confectionary products, jams, jellies, preserves, syrup and toppings. • Food additive, anti-caking agent, bulking agent, and food flavour carrier, artificial sweeteners
Animal Nutrition and Medicine	<p>As protein and energy supplement, yield enhancer, binding or pelleting agent, expanding agent, as stabilizing, thickening, anticaking, and bulking agent, buffering agent in veterinary medicine</p>
Other Industrial Applications	<p>As disintegrants, coating- thickening-binding agents, excipients, granulating agents for tablet coating, supplements to replenish lost nutrients and electrolytes (including in ORS), intravenous fluids to provide nutrients to patients under intensive care, tablet and capsule diluent, glidant in Pharmaceuticals</p> <ul style="list-style-type: none"> • as nanoparticles to stabilize emulsions, pickering emulsions, which are useful in cosmetics, as humectant, texturizer, stabilizer, bulking agent in Personal Care products • As binders in adhesives. As ingredients for paper converting, coatings, surface sizing solution for paper processing, wet end additives, flocculant, binder, and bonding agent, aesthetic ingredient • Starch Ether is used in Dry Mix Building Mortar as it increases the performance, sag resistance, and consistency of mortar • Applications of biopolymers derived from modified starch include packaging, adhesives, agriculture, superabsorbent and wastewater treatment • Flavour compounds with low solubility can form complexes with highamylose maize starch, providing novel encapsulation and monetary benefits. Modified starches are used in encapsulated perfume particles which are then used in laundry compositions

Source: Company RHP, ACMIIL Research

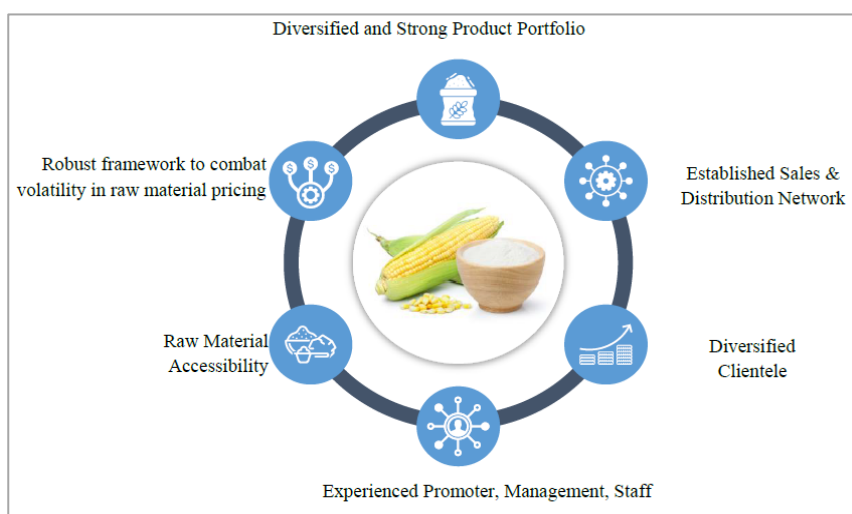
Sanstar manufacturers maize starch, dextrin, modified starches, liquid glucose, high maltose maize syrup, maltodextrin, dextrose monohydrate, sorbitol, gluten, germ and steep liquor. The products find application in Textiles, Paper, Pharmaceutical, Food, Adhesives, Animal Nutrition & many other industries. Noval application such as bio polymers, bioethanol, biomaterials, mock meats also boost the demand for starch.

Investment Rationale

- **Experience and Leadership:** Over six decades of industry expertise guide Sanstar Ltd, offering a solid base for strategic and operational excellence.
- **Strategic Location Advantages:** Locations near key production areas and ports boost logistics and supply chain efficiency.
- **Strong Procurement Network:** Reliable raw material supply through well-established relationships with farmers and traders.
- **Competitive Entry Barriers:** A lengthy product approval process up to two years serves as a significant barrier to new entrants, securing Sanstar's market position.
- **Capital efficient operations:** Managing operations with efficient working capital and high ROE & ROCE.
- **Global Market Presence:** A strong export market presence showcases Sanstar's competitiveness and brand recognition on a global scale.
- **Economies of Scale:** Being the third-largest producer with capital efficiency, Sanstar achieves lower production costs, boosting profitability and market competitiveness.

Competitive Strengths

Overview of competencies required in specialty products and ingredient solutions industry:



Source: Company RHP, ACMIIL Research

One of the largest manufacturers of maize based specialty products and ingredient solutions in India with diverse product portfolio.

SANSTAR is the third largest manufacturer of maize based specialty products and ingredient solutions in India. They commenced commercial manufacturing from the manufacturing facilities located at Kutch, Gujarat and Dhule, Maharashtra in the year 2006 and 2017 respectively and have grown business to the current scale with an installed capacity of 3,63,000 tons per annum (1,100 tons per day). The company is recognised Two Star Export House from Director General of Foreign Trade, Government of India (while Sanstar Biopolymers Limited, the erstwhile Company which was merged with Company vide NCLT order dated November 23, 2023, is a recognised Three Star Export House). They exported products to 49 countries across Asia, Africa, Middle East, Europe & Oceania and Americas. Company offers a diversified portfolio of specialty products and ingredient solutions including liquid glucose, dried glucose solids, maltodextrin powder, dextrose monohydrate, native maize starch, modified maize starches and co-products like germs, gluten, fiber and enriched protein, amongst others.

Speciality products and ingredients solutions player catering to diverse industry segments and poised to benefit from mega industrial trends.

SANSTAR is specialty products and ingredients solutions company manufacturing native and modified maize starches, derivatives and co-products for applications including ingredients, thickening agents, stabilizers, sweeteners, emulsifiers, additives, nutritional ingredients, disintegrants, excipients, supplements, coating agents, binders, smoothing & flattening agents, finishing agents, amongst others, across diverse end user industries. The manufacturing facilities, exports presence & exposure in over 55 countries and track record of commercialising and scaling up new products, position as advantageously to capture requirements of diverse end user industrial sectors. The growth of business is directly linked to the growth in end user industries including food and beverages, animal nutrition, pharmaceuticals, adhesives, personal care, paper, textiles, among others.

Strategically located, sustainability driven, state of the art manufacturing facilities

Company proposes to expand the capacity of the Dhule Facility by utilising the existing land available for expansion. The capital expenditure for the proposed expansion is estimated at ₹ 2,015.55 million, which is proposed to be funded entirely out of the Net Proceeds of this Offer. Once operational, the aggregate installed capacity of the Dhule Facility is expected to be at 1,750 tons per day (Source: TEV Report from Dun & Bradstreet dated December 30, 2023).

The company had a belief that large, state of the art manufacturing facilities along with availability of land for future expansion at both the facilities provides sufficient competitive advantage for future growth and further scaling up business. Additionally, sustainability focused manufacturing capabilities enable to add additional clientele in both international and domestic markets due to their increased focus on having sustainability driven vendors.

Global presence in a market with high entry barriers

SANSTAR has sold products to 58 countries across Asia, Africa, Middle East, Europe, North America, South & Central America and Oceania regions during the six months period ended September 30, 2023 and Fiscal 2023. The top export destinations include Malaysia, Vietnam, Kenya, Indonesia, United Arab Emirates, Nigeria, Sri Lanka, Ghana, Thailand, among others. They are recognised Two Star Export House under the Indian Ministry of Commerce (while Sanstar Biopolymers Limited, the erstwhile Company which was merged with Company is a recognised Three Star Export House). The maize based speciality products and ingredient solutions industry in which they operate has high entry barriers, which include the high capital costs of building manufacturing facilities, the lead time and expenditure required for research and development and building customer confidence and relationships which can only be achieved through a long gestation period, the limited availability of raw materials necessary for manufacturing due to alternative applications of the raw materials, certain level of capacities required for achieving economies of scale, competition from well established players like SANSTAR, among others.

Large, diversified customer base with long lasting relationships

SANSTAR has cumulatively served over 660 customers as they had served over 410 and 540 unique customers previously. They have also established long term relationships where 63 customers had placed repeat orders with company in each of the previous three Fiscals on the basis of Restated Standalone Financial Statements.

Key Customers:

Hindustan Uniliver Limited	ITC Limited	Godrej Agrovet
Zydus Wellness	Capital Foods	AB Mauri

Source: Company RHP, ACMIIL Research

Key Business Strategies

Expanding manufacturing capacities to capture additional market share

To cater to the growing demand of products from its existing customers and to meet requirements of new customers, company intend to expand manufacturing capacities for existing products including native starches, modified starches, liquid glucose, dextrose monohydrate. They also intend to add manufacturing capacities for new products like dextrose anhydrous. To achieve this, company intend to expand the manufacturing capabilities at Dhule, Maharashtra facility by installing additional factory building, machineries and equipments and utilities to increase installed capacities by 1,000 Tons Per Day (TPD). The total area of the land at Dhule Facility is 7.90 million square feet (approximate 181 acres). The cost of the proposed expansion is estimated to be ₹ 2,015.55 million as per the TEV Report dated December 30, 2023 prepared by Dun & Bradstreet. Of this, cost of the proposed expansion upto ₹ 1,815.55 million is proposed to be funded by Net Proceeds of this Offer.

Leverage industry-leading capabilities by continuing to diversify customer base and increase wallet share with existing customers

SANSTAR intend to continue to expand customer base by leveraging relationships with existing customers in India and globally, while simultaneously pursuing opportunities to develop new relationships. They aim to continue to maintain track-record of repeat orders from existing customers as well as expand and strengthen relationships as part of organic growth efforts. Company intend to focus on leveraging relationships with customers to improve existing products and also increase the number of products that currently manufacture for each customer.

Increasing global footprint and augments growth in current geographies

Currently SANSTAR exports products to over 55 countries across Asia, North America, Central America, South America, Middle East, Africa and Europe. Historically, countries like Malaysia, Vietnam, Kenya, Indonesia and United Arab Emirates have been the top 5 export destinations by revenue. With a view to further diversify customer base and increase market share, they intend to augment sales in the geographic markets where they sell products as well as expand into new geographies. Company intend to achieve this by having dedicated sales and marketing teams, opening dedicated warehouses and sales offices to serve these markets better and on real-time basis. Additionally, intend to expand exports presence in markets where current penetration is low or negligible including into North America, Europe and Africa. For example, Kutch, Gujarat facility is registered with United States Food and Drug Administration (USFDA) which is regarded as a crucial certification for selling the goods in United States.

Foray into manufacturing of Ethanol through leveraging our maize sourcing capabilities

The Company has established strong maize sourcing capabilities over the period, leveraging both the relationships with farmers, particularly in the states of Maharashtra and Madhya Pradesh, which cumulatively account for 25% of the maize production in India, as well as sourcing from traders and aggregators of maize across the country. They believe that these capabilities along with the experience in the value chain of manufacturing speciality products and ingredient solutions could be well leveraged to foray into and scale up the production of Ethanol based on maize grain.

Industry Overview

Maize is the third most important cereal crop in India after rice and wheat. It is a staple for human consumption and a quality feed for animals too. In addition, maize also serves as a basic raw material for manufacture of various industrial products like food sweeteners, starch, pharmaceuticals, cosmetics, textiles etc. Steady demand from the poultry and aqua feed sector supported maize consumption in 2022 and 2023 for the animal nutrition segment. With recovery from the COVID-19 pandemic, India's poultry and aquaculture feed industry has grown on account of improving consumer demand for poultry products and exports demand for aqua products, namely shrimp.

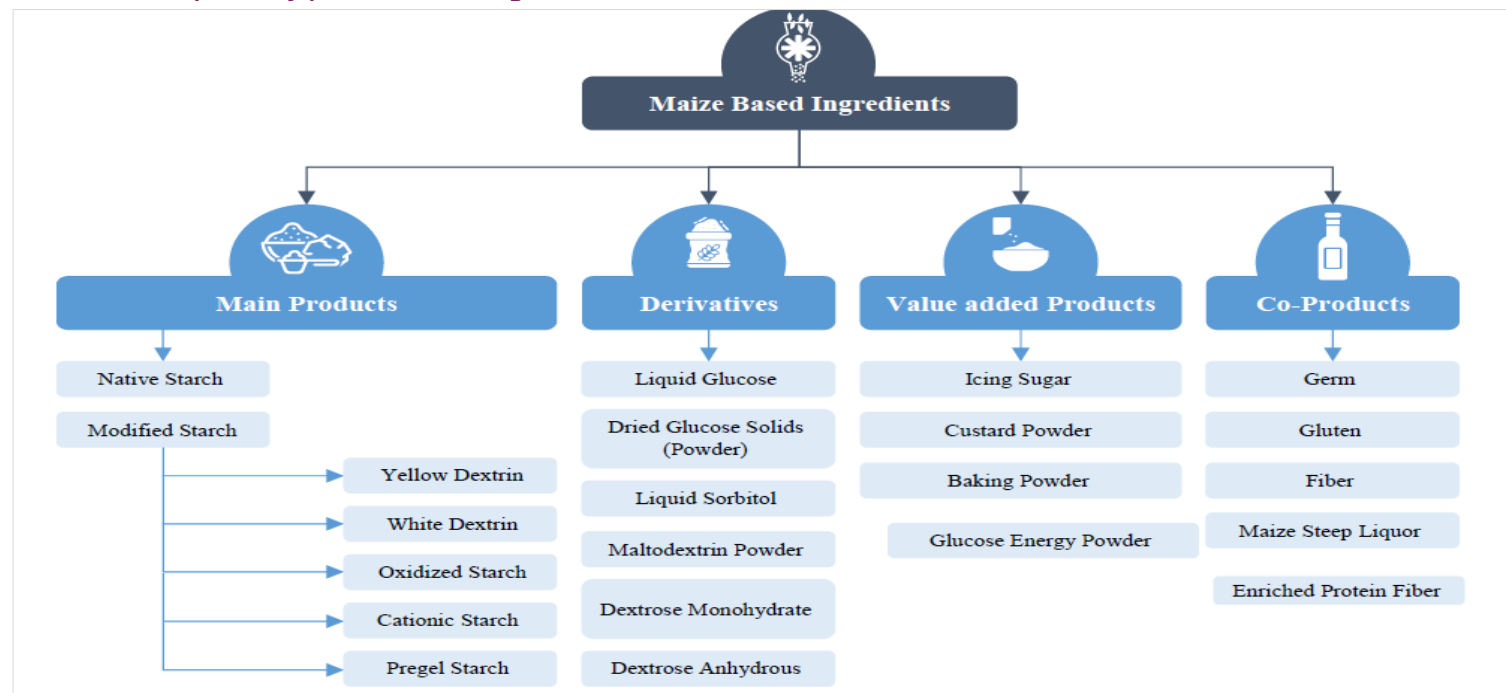
Particulars	Details
Animal Nutrition	<p>Steady demand from the poultry and aqua feed sector supported maize consumption in 2022-2023. With recovery from the COVID-19 pandemic, India's poultry and aquaculture feed industry has witnessed growth on account of improved consumer demand for poultry products and export demand for aqua products, particularly shrimp. The major growth drivers for usage of maize for Animal nutrition in India can be attributed to:</p> <p>High Nutritional Value: Maize holds significant importance in animal nutrition due to its exceptional Nutritional value. It serves as an excellent source of energy, due to its high starch content thus readily digested by animals.</p> <p>Usage for different varieties of feed and fodder: Maize provide different options for animal nutrition manufacturers to create customised feed mixes that can be aligned to the livestock specific nutritional requirements.</p> <p>Cost Effective Feed: Maize provides cost-effectiveness for animal nutrition manufacturers. As a producer of maize, India plays a crucial role in its global supply. The abundant availability of maize coupled with its relatively stable prices contributes to reducing overall production costs.</p>
Food use	<p>Maize for human consumption (6-7 MMT) represents a small share of the production compared to that for feed use. The other coarse grains – sorghum, millet, and barley – see a larger share of production go to food use. These grains were the staple diet for rural and lower income semi-urban households.</p>
Industrial use	<p>Some 3.5 to 4 MMT of maize is used by the starch industry to cater to the textile industry's needs. India's domestic ethanol program uses molasses (a sugar industry by-product) as feedstock for ethanol production for fuel use. However, small quantities of ethanol are produced from rice milling industry waste (broken rice), and low-quality rice, wheat, maize, and coarse grains for potable liquor and other industrial uses. Small quantities of Distillers Dried Grains with Solubles (DDGS) (300,000 MMT to 500,000 MMT) from these ethanol plants are used by the animal nutrition industry.</p>

Source: Company RHP, ACMIIL Research

Key Trends and Growth Drivers for End use Industries for Maize Consumption

- Growing Demand from Poultry and Aqua feed sector, contributing to more than half of the domestic production.
- Growing urbanization, leading to increased demand for Processed Food Products like Maize flakes, Bakery products.
- Growing Organised Dairy sector, requiring more of Fine Cereals or Maize-based concentrates.
- Rising International Price due to Diversion of Maize Grain towards Biofuel Production.

Maize based speciality products and ingredient solutions



Source: Company RHP, ACMIIL Research

Growth drivers for maize based specialty products and ingredients solutions industry in India

- **Abundant availability of Raw Material** - India is major producer of maize globally. It ranked 6th in the world's maize production and 4th in terms of maize acreage. Maize is 3rd most grown cereal after paddy and wheat in India. Rising demand of maize for Ethanol production will also push Indian farmer to increase the productivity in coming years. Thus, abundance in maize availability is allowing many wet millers to increase the plant capacities.
- **Wide range of applications** - Starch has multiple uses across industries. Food industry is largest consumer of maize based specialty products and ingredients solutions. Starch is used in making of western snacks, pudding, salad dressings, noodles, pasta, gravies, and sauces. Sweetener such as liquid glucose is major ingredient in confectionary, candies, gums, cakes, pastries, and other sweet items. Paper industry is one of the key industries where industrial Starches is used in large quantities. Cardboard paper uses significant quantities of modified starches, actively and in processing. Starch is also used for manufacturing adhesives. Native and modified starch is used in pharma industry as a tablet and capsule diluent, an excipient, a tablet and capsule disintegrants, as binder or as a glidant. Thus, demand for maize based specialty products and ingredients solutions have diversified applications boosting its demand.
- **Increasing demand for ready to eat category** - With the changed lifestyles, ready to eat/cook foods are gaining popularity. Baby food, chips, baked goods, drinks, candies, sauces, soups, noodles, pasta and ready to eat snacks are some sectors where consumption of starch is increasing. Crispiness, bulkiness/carriers, texturization, humectant, dusting, extrusion, and thickening agent are among some of the functional uses of Maize starch which are essential in ready to eat/cook category. The demand for starch is anticipated to increase in the future, except for textiles, as it is seen as a cost-efficient element with no effective replacements anticipated.

- **Global opportunities** - India is the largest exporter of Maize starch globally. It exported ~478 KT of Maize starch in 2022 which accounted for 20% of global trade. Export volumes have increased by 15% since 2018-2022. India is also amongst the Top 10 global exporter of sweetener like liquid glucose. With local raw material availability, abled processing sector and good quality at lower cost with further increase the demand of Indian maize based specialty products and ingredients solutions globally.

Financial Snapshot (Restated Consolidated)

As per Restated Consolidated Financial Statements

Particulars (in mn)	FY22	FY23	FY24
Revenue from Operations	5044.02	12050.67	10672.71
EBITDA	397.2	724.147	981.41
EBITDA Margin (%)	7.87	6.01	9.2
PAT	159.21	418.05	667.67
PAT%	3.15	3.46	6.17
EPS (Basic & Diluted)	1.08	2.98	4.75
Total Borrowings	852.24	1117	1276.36
ROE (%)	32.51	28	30.92
ROCE (%)	23.19	23.82	25.43
Debt - Equity Ratio (no. of times)	1	0.6	0.5
Fixed Assets Turnover Ratio (no. of times)	3.79	6.16	5.28

Source: Company RHP, ACMIIL Research

Peer Analysis:

There is scope of future margin expansion with compared to peers based on:

- Strategic location advantage for sourcing raw material.
- Future growth in export opportunities.

Comparison of accounting ratios with listed industry peers as on 31st March, 2024.

Particulars (in Mn)	Sanstar	Gujarat Ambuja Exports Limited	Gulshan Polyols Limited	Sukhjit Starch and Chemicals Limited	Manorma Industries Ltd.	Food & Ins
Revenue From Operations	10672.71	49267	13779.76	13753.5	4571	10201
EBITDA	981.41	4423.7	580.77	1280.2	735	1203
EBITDA Margin (%)	9.2	8.98	4.21	9.31	16.1	12
PAT	667.67	3458.7	177.58	499.6	401	368
PAT (%)	6.17	6.82	1.28	3.61	9	4
EPS- Basic & Diluted	4.75	7.54	2.85	31.98	6.7	6.5
Total Borrowings	1276.36	1970.2	3536.95	3244.9	3460	4690
ROE (%)	30.92	12.49	2.3	9.94	13	10
ROCE (%)	25.43	10.9	2.31	11.48	7	4
Debt-Equity Ratio	0.5	0.07	0.46	0.65	0.8	1.1
PE	[-●]	18.65	73.31	15.01	59.57	20.02

Source: Company RHP, ACMIIL Research

Risks and Concerns

- **Supply Chain Vulnerability:** Reliance on a few local suppliers and unorganized marketplaces for raw materials may lead to supply interruptions and cost fluctuations, impacting product pricing and profitability.
- **Market Dependency:** Products tailored for specific industries means demand reduction in these sectors could significantly affect revenue and business sustainability.
- **Competitive Industry Challenges:** Maintaining a competitive edge is crucial in a highly competitive market. Failure to innovate and adapt could lead to a loss of market share and negatively impact financial performance.

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