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**DIFFUSION ENGINEERS  
LIMITED**

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**IPO NOTE**

*September 2024*

## ISSUE HIGHLIGHTS

- ❑ Established on November 5, 1982, **Diffusion Engineers** is engaged in the business of manufacturing welding consumables, wear plates and wear parts and heavy engineering machinery for core industries.
- ❑ With over 4 decades of experience, the company is dedicated to providing specialized repairs and reconditioning services for heavy machinery and equipment. Additionally, they are also involved in trading of anti-wear powders and welding and cutting machinery.
- ❑ They have developed a synergistic system of forward integration whereby they manufacture special purpose electrodes and flux cored wires.
- ❑ These wear plates then become an integral part of majority of large industrial equipment which are made in their heavy engineering division and are significant contributor in manufacturing of industrial equipment used in core industries like cement, steel, power, mining, engineering, oil & gas, sugar, etc.
- ❑ This forward integration helps them in achieving efficiency in the production process and gaining competitive advantage, reducing product costs, enhancing supply chain control and reducing the dependency on third-party suppliers for their operations.
- ❑ During fiscal 2021-2024, DEL has recorded 3<sup>rd</sup> highest CAGR of 21% in operating income, 2<sup>nd</sup> highest CAGR of 38% in PAT and 3<sup>rd</sup> highest CAGR of 33% in EBITDA.
- ❑ DEL presently operates from 4 manufacturing units which are located in Nagpur. They also have overseas presence through their Subsidiaries in Singapore, Turkey and Philippines, and Joint Ventures/ Associates in United Kingdom and Malaysia.
- ❑ In the last 3 fiscals, they have exported to Singapore, Uganda, Kenya, Nepal, Malaysia, Philippines, United Arab Emirates, Oman, Sri Lanka, Vietnam, Bangladesh, Tanzania, United Kingdom, Germany, Kuwait, United States of America, Indonesia, Russia, Senegal, Switzerland, Lebanon, Bulgaria, Croatia, Zambia, Nigeria

## BRIEF FINANCIAL DETAILS\*

(₹ IN Cr)

	As at Mar' 31,		
	2024	2023	2022
Share Capital	28.02	3.74	3.74
Net Worth as stated	190.70	142.00	120.65
Total Borrowings	34.44	48.09	24.60
Revenue from Operations	278.14	254.88	204.59
Revenue Growth (%) as stated	9.13%	24.58%	-
EBITDA as stated	47.39	34.80	27.52
EBITDA Margin (%) as stated	17.04%	13.65%	13.45%
Net Profit for the year	30.80	22.15	17.05
Net Profit (%) as stated	10.79%	8.56%	8.17%
EPS – Basic & Diluted (₹)	10.94	7.91	6.08
ROE (%)	18.52%	16.86%	15.10%
ROCE (%)	20.63%	18.46%	17.30%
NAV (₹)	68.06	50.67	43.06
Debt to Equity	0.18	0.34	0.20

Source: RHP, \*Restated Consolidated

## Issue Details

### Fresh Issue of 9,405,000 Equity Shares

**Issue size:** ₹ 150 - 158 Cr

**Face value:** ₹ 10/-

**Employee Reservation:** Upto 50,000 Shares

**Price band:** ₹ 159 - 168

**Bid Lot:** 88 Shares and in multiple thereof

**Employee Discount:** ₹ 8/- per share

**Post Issue Implied Market Cap =**

₹ 595 – 629 Cr

**BRLMs:** Unistone Capital

**Registrar:** Bigshare Services

**Issue opens on:** Thursday, 26<sup>th</sup> Sep'2024

**Issue closes on:** Monday, 30<sup>th</sup> Sep'2024

## Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	01-10-2024
Refunds/Unblocking ASBA Fund	03-10-2024
Credit of equity shares to DP A/c	03-10-2024
Trading commences	04-10-2024

## Issue Break-up

	No. of Shares	₹ In Cr		% of Issue
		@Upper	@Lower	
QIB	4,677,500	74.37	78.58	50%
NIB	1,403,250	22.31	23.57	15%
-NIB2	935,500	14.87	15.72	-
-NIB1	467,750	7.44	7.86	-
RET	3,274,250	52.06	55.01	35%
EMP	50,000	0.76	0.80	
<b>Total</b>	<b>9,405,000</b>	<b>149.50</b>	<b>157.96</b>	<b>100%</b>

NIB-1=NII Bid between ₹ 2 to 10 Lakhs

NIB-2 =NII Bid Above ₹ 10 Lakhs

Category	Retail Category	NII-Bid between ₹ 2 - 10 Lakhs	NII - Bid Above ₹ 10 Lakhs
Minimum Bid Lot (Shares)	88 Shares	1,232 Shares	5,984 Shares
Minimum Bid Lot Amount (₹)	₹ 14,784 <sup>^</sup>	₹ 2,06,976 <sup>^</sup>	₹ 10,05,312 <sup>^</sup>
Appl for 1x	37,207 Applications	380 Applications	759 Applications

## Listing: BSE & NSE

### Shareholding (No. of Shares)

Pre-issue	Post-issue~
28,021,259	37,426,259

~@Lower price Band ^@ Upper Price Band

### Shareholding (%)

	Pre-Issue	Post-Issue
Promoter	85.58%	64.07%
Promoter Group	7.52%	5.63%
Public	6.90%	30.30%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

## BACKGROUND

### Company and Directors

The Company was incorporated as 'Diffusion Engineers Private Limited', on November 5, 1982. Prashant Garg, Nitin Garg and Chitra Garg are the promoters of the company. Currently, the Promoters holds 23,979,291 Equity Shares constituting 85.58% of the pre-issue paid-up Equity Share capital of the company.

### Brief Biographies of Directors

**Prashant Garg** is one of the Promoter, Chairman and Managing Director of the company. He has been associated with the company since 2003 and he has approx. 20 years of experience in the industry.

**Dr. Nitin Garg** is one of the Promoter and Non-Executive Director of the company. He is currently practicing as a neurosurgeon in Bhopal.

**Chitra Garg** is one of the Promoter and Non-Executive Director of the company.

**Anil Trigunayat** is the Independent Director of the company since November 2023. He is a Director on the Board of Wapcos Ltd since 2022.

**Sherry Oommen** is an Independent Director of the company. He has been practicing in legal and taxation matters.

**Deepali Bendre** is an Independent Director of the company. She has been a practicing Chartered Accountant for over 27 years.

**Abhishek Mehta** is the Chief Financial Officer of the company. He has been associated with the company since July 2020.

**Chanchal Jaiswal** is the Company Secretary and Compliance Officer of the company. She has over 1.5 years of experience in secretarial compliance and corporate governance field. She was appointed since June 2023.

## OBJECTS OF THE ISSUE

Objects	Amount (₹ Cr)
• Funding capital expenditure requirements towards Proposed Expansion of the existing manufacturing facility at Unit IV	71.38
• Setting up of a new manufacturing facility at Hingna, Sonegaon District, Nagpur, Maharashtra ("Proposed Facility")	30.39
• Funding working capital requirements of the Company	22.00
• General Corporate Purposes	[ • ]
<b>Total</b>	[ • ]

## SHAREHOLDING PATTERN

Shareholders	Pre-offer		Fresh Issue Shares	Post-offer	
	Number of Equity Shares	% of Total Equity Share Capital		Number of Equity Shares	% of Total Equity Share Capital
Promoter	23,979,291	85.58%		23,979,291	64.07%
Promoters Group	2,107,679	7.52%		2,107,679	5.63%
<b>Total for Promoter and Promoter Group</b>	<b>26,086,970</b>	<b>93.10%</b>		<b>26,086,970</b>	<b>69.70%</b>
Public	1,934,289	6.90%	9,405,000	11,339,289	30.30%
<b>Total for Public Shareholders</b>	<b>1,934,289</b>	<b>6.90%</b>	<b>9,405,000</b>	<b>11,339,289</b>	<b>30.30%</b>
<b>Total Equity Share Capital</b>	<b>28,021,259</b>	<b>100.00%</b>	<b>9,405,000</b>	<b>37,426,259</b>	<b>100.00%</b>

## BUSINESS OVERVIEW

Diffusion Engineers Limited ("DEL") is engaged in the business of manufacturing welding consumables, wear plates and wear parts and heavy engineering machinery for core industries. With over 4 decades of experience, the company is dedicated to providing specialized repairs and reconditioning services for heavy machinery and equipment. Additionally, they are also involved in trading of anti-wear powders and welding and cutting machinery.

DEL provides super conditioning process at their manufacturing facilities, a surface treatment solution for machine components that enhances wear resistance, eliminates stress and improves their repairability ultimately extending their lifespan and reducing production costs. They have developed a synergistic system of forward integration whereby they manufacture special purpose electrodes and flux cored wires which are utilized for manufacturing wear resistance plates

(commonly known as wear plates). These wear plates then become an integral part of majority of large industrial equipment which are made in their heavy engineering division and are significant contributor in manufacturing of industrial equipment used in core industries like cement, steel, power, mining, engineering, oil & gas, sugar, etc. This forward integration helps them in achieving efficiency in the production process and gaining competitive advantage, reducing product costs, enhancing supply chain control and reducing the dependency on third-party suppliers for their operations.

Amongst the players considered for the industry between fiscal 2021-2024, DEL has recorded 3<sup>rd</sup> highest CAGR of 21% in operating income, 2<sup>nd</sup> highest CAGR of 38% in PAT and 3<sup>rd</sup> highest CAGR of 33% in EBITDA.

DEL focuses on alloy and process development, quality and design to tailor-make products as per their customers' needs. With a team of over 130 qualified engineers deployed across various departments as of February 29, 2024 and decades of experience in welding consumables and wear plates, they possess the expertise to design, develop and manufacture complex and specialized industrial equipment and components for OEMs and end-user industries.

DEL presently operates from 4 manufacturing units which are located in Nagpur. Their manufacturing operations are distributed across different units as under:

- Unit I - Special purpose welding electrodes;
- Unit II - Flux cored wires, wear plates and wear parts through fabrication and machining;
- Unit III - Coatings for abrasion and corrosion resistance;
- Unit IV - Flux cored wires (since Fiscal 2024), wear plates and heavy engineering machinery.

DEL has invested in R&D activities to create a differentiating factor and sustainability in their welding consumables products vis-à-vis their competitors and to meet their clients' specific requirements.

The company was incorporated in the year 1982. They initially started trading in welding electrodes for super-conditioning. From the year 1993, they started manufacturing welding electrodes. In the year 1994, they acquired Unit I for manufacturing welding electrodes. Subsequently, they acquired Unit II as a dedicated unit for manufacturing wear plates and flux cored wires. In the year 2015, they acquired Unit III for manufacturing coatings for abrasion and corrosion resistances. In the year 2016, they set up and commenced operations at Unit IV for manufacturing heavy engineering equipment. Subsequently, they have also started production of flux cored wires and wear plates from Unit IV. They also have overseas presence through their Subsidiaries in Singapore, Turkey and Philippines, and Joint Ventures/ Associates in United Kingdom and Malaysia.

Prashant Garg, the Promoter and Managing Director, has been instrumental in steering the company towards forward integration from manufacturing welding consumables to heavy engineering equipment and adding new product lines to their business. He has paved the way for the concept of total wear solutions. The company intends to expand their portfolio of welding consumables by manufacturing of powders for corrosion and abrasion resistance to be used in welding applications into their product line.

In the last 3 fiscals, they have exported to Singapore, Uganda, Kenya, Nepal, Malaysia, Philippines, United Arab Emirates, Oman, Sri Lanka, Vietnam, Bangladesh, Tanzania, United Kingdom, Germany, Kuwait, United States of America, Indonesia, Russia, Senegal, Switzerland, Lebanon, Bulgaria, Croatia, Zambia, Nigeria.

### Company's Business Operations

Welding and Anti-Wear Consumables	Wear Plate / Wear Parts	Heavy Engineering Equipment	Trading
<ul style="list-style-type: none"> <li>• Special purpose electrodes</li> <li>• Flux cored wires</li> <li>• Cold Repair Compounds</li> </ul>	<ul style="list-style-type: none"> <li>• Wear Plates</li> <li>• Wear Parts</li> <li>• Welding Service – Job-work</li> </ul>	<ul style="list-style-type: none"> <li>• Air Separator</li> <li>• High Pressure Grinding Rollers</li> <li>• FD fan</li> <li>• Mill body</li> <li>• RAPH Rotter</li> </ul>	<ul style="list-style-type: none"> <li>• Thermal Spray Powder</li> <li>• Welding Equipment</li> </ul>

## COMPANY PRODUCTS

### • Welding and Anti-wear Consumables

#### • **Special Purpose Electrodes**

A special purpose electrode is specially formulated maintenance purpose welding electrodes that ensure the enhancement of working performance with minimum heat input. They manufacture a range of electrodes using alloys such as tungsten, nickel, chromium, cobalt, molybdenum, niobium, vanadium, etc.

#### • **Flux Cored Wire**

Flux-cored welding is often chosen for its ability to achieve higher welding speeds compared to some other processes. It is suitable for both semi-automatic and automatic welding applications.

- **Cold Repair Compounds**  
The company manufactures cold repair compounds based on polymer chemistry and ceramic composites that withstand high wear and tear. These products are used for maintenance coatings, anti-corrosive coating, electrical insulation coating, structural coatings and floor coatings.
- **Wear Plates/Wear Parts**
  - **Wear Plates**  
Wear plates which are also known as abrasion-resistant plates, are used to reduce wear and tear on equipment surface caused by harsh working environment prevalent in industries. Since the company has backward integrated to manufacture flux cored wires, they can produce a variety of wear plates according to the severity of the application and have significant control on cost.
  - **Wear Parts**  
The company has manufactured several wear parts including Grizzly Bars, Coal Nozzle Tip, Wear Liners, Chutes & Ducts, Hard Face Pipe, Guide Vanes, Sinter Spikes, Sinter Screen Decks, Screw Conveyors, Grit Cone, Bell Housing, Rotor Bearing and Separator Casing and Rotor.
  - **Welding service – job work**  
The company specializes in enhancing the lifespan, reducing life cycle costs, and addressing the demand for spare parts in heavy machinery used by prominent core industries, including cement, power, and steel.
- **Heavy Engineering Equipment**  
The company is into manufacturing and fabrication of heavy engineering equipment used in cement, steel, power, sugar, engineering sectors and other core industries.
- **Trading**
  - **Thermal Spray Powder**  
The company offers a wide range of atomized powders (also known as thermal spray powders) for surface coating applications, available in nickel, cobalt, and iron-based alloys. They source these thermal spray powders from LSN Diffusion Ltd, their joint venture based out of United Kingdom, for selling in the domestic market.
  - **Welding Equipment**  
The company provides a comprehensive range of welding solutions, including welding machines, protective gear, and various welding essentials.

### Operational KPIs for the Company

(₹ Cr)

Metric	Fiscal		
	2024	2023	2022
Revenue per salesperson	1.77	1.71	1.38
Revenue per order of Wear Plates and Job Work	0.06	0.06	0.04
Revenue per order of Heavy Engineering Division	0.18	0.30	0.34

### REVENUE FROM OPERATIONS

(₹ Cr)

Particulars	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
Domestic market	251.80	90.53%	219.07	85.95%	188.42	92.09%
International market	26.35	9.47%	35.81	14.05%	16.17	7.91%
<b>Total</b>	<b>278.14</b>	<b>100.00%</b>	<b>254.88</b>	<b>100.00%</b>	<b>204.59</b>	<b>100.00%</b>

### Industry-wise Revenue from Sale of products on Restated Standalone basis:

End-use segment	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
Cement	94.26	36.66%	74.71	30.61%	71.91	36.74%
Engineering	35.79	13.92%	26.24	10.75%	14.55	7.43%

End-use segment	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
Power	18.80	7.31%	32.58	13.35%	29.18	14.90%
Steel	33.21	12.92%	29.12	11.93%	21.34	10.90%
Sugar	11.50	4.47%	10.40	4.26%	9.16	4.68%
Others	63.56	24.72%	71.02	29.10%	49.62	25.35%
<b>Total</b>	<b>257.13</b>	<b>100.00%</b>	<b>244.07</b>	<b>100.00%</b>	<b>195.76</b>	<b>100.00%</b>

Others includes sales to other sectors such as defense, glass, mining, paper, railways and also sales through the distributors, both in domestic and overseas market.

#### The sales turnover of the product categories:

Product Category	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
<b>Revenue from Company</b>	<b>257.13</b>	<b>92.44%</b>	<b>244.07</b>	<b>95.77%</b>	<b>195.76</b>	<b>95.69%</b>
Welding and Anti-wear Consumables	78.09	28.07%	97.87	38.40%	72.19	35.29%
Wear plate / Wear parts	83.42	29.99%	75.61	29.67%	54.42	26.60%
Heavy Engineering Equipment	72.27	25.98%	53.13	20.85%	55.01	26.89%
Trading	23.34	8.39%	17.46	6.85%	14.14	6.91%
<b>Revenue from Subsidiaries</b>	<b>21.02</b>	<b>7.56%</b>	<b>10.80</b>	<b>4.24%</b>	<b>8.83</b>	<b>4.32%</b>
Welding and Anti-wear Consumables	6.38	2.29%	6.59	2.58%	5.04	2.46%
Wear plate / Wear parts	13.66	4.91%	0.88	0.35%	2.56	1.25%
Trading	0.98	0.35%	3.34	1.31%	1.24	0.61%
<b>Total</b>	<b>278.14</b>	<b>100.00%</b>	<b>254.88</b>	<b>100.00%</b>	<b>204.59</b>	<b>100.00%</b>

## COMPETITIVE STRENGTHS

- Synergistic business models focused on forward integration**

The company has embarked on forward integration journey, transitioning from a manufacturer of welding electrodes to producing flux-cored wires, wear plates, wear parts, and now to heavy engineering, broadening their scope and expertise in the industry. Over the years, they have expanded their capabilities to offer not only quality welding consumables but also comprehensive welding services for core industries.

- Serving industry major players directly as well as through OEMs**

The company serves diverse clientele, which includes both OEMs who service major players in the cement, steel, and power sectors, as well as direct customers. These OEMs, in turn, service major players of their respective industry. This intricate network positions them as a vital link in the OEM ecosystem of some of the major players in core industries.

- Long-standing relationships with customers across industries**

The company has a diversified customer base and over 4 decades of business operations, established long-standing relationships with several Indian and global customers across industries. They have served 503, 500 and 444 customers for the Fiscals 2024, 2023 and 2022, respectively.

- Consistent financial performance**

Company's revenue from operations has grown from ₹87.84 crore in Fiscal 2013 to ₹257.13 crore in Fiscal 2024, registering a CAGR of 10.26% in last 11 years. Their PAT has grown from ₹7.32 crore in Fiscal 2013 to ₹ 23.40 crore in Fiscal 2024, registering a CAGR of 11.14% in last 11 years. Further, amongst the players considered for the industry between fiscal 2021-2024, the company recorded 3<sup>rd</sup> highest CAGR of 21% for operating income, 2<sup>nd</sup> highest CAGR of 38% for PAT and 3<sup>rd</sup> highest CAGR of 33% for EBITDA.

- Experienced promoters and strong management team**

Prashant Garg, Promoter and Managing Director of the company and a second-generation entrepreneur has been associated with the company since 2003. The company has grown rapidly over the last few years primarily due to the vision, commitment and dynamism demonstrated by the promoter and he continues to be the driving force for the company. In addition to the promoters, the key management and senior management team includes qualified, experienced and skilled professionals who possess requisite experience across various division of their business.

- Strategically located manufacturing facilities**



Company's manufacturing units centrally located, they can efficiently serve diverse industries and segments, reaching both urban and remote areas alike. This central location minimizes transit times for shipments, enhances their operational efficiency and supports prompt responses to customer demands.

## KEY BUSINESS STRATEGIES

- **Strategic expansion by venturing into nickel, cobalt and iron-based powder manufacturing for enhanced welding consumables portfolio**

In a strategic move to diversify and enhance the portfolio of welding consumables, the company intends to venture into manufacturing of nickel, cobalt and iron-based powders to cater to the growing demand for these powders within their customer base and the industry at large. Manufactured through inert gas and water atomization, these powders find applications in surface engineering, high-temperature brazing, wear protection, and defense against heat and corrosion.

- **Expanding the geographical reach**

The company intends to expand their customer base and increase their market share in their existing geographies as well as explore new geographies. They intend to focus their efforts in the select geographies such as Turkey and establish a greater presence there. For this purpose, they have incorporated a subsidiary Diffusion Eurasia Mühendislik Sanayi Ve Ticaret Anonim Şirketi in Turkey.

- **Strategic Leasing and Maintenance Business Model for Heavy Equipment**

Company's strategic leasing program enables customers to access heavy equipment without incurring substantial upfront costs associated with outright purchase. Leasing and maintenance fees are pre-determined, providing customers with a predictable and manageable financial outlay. This transparency aids in budgeting and financial planning.

- **Diversifying the Anti Wear Solutions and Heavy Engineering Equipment business into new Industries**

The company is strategically expanding their business horizon beyond their current focus on cement, steel, and power sectors. Their primary objectives include tapping into sectors such as defense and mining, both characterized by the extensive use of heavy equipment. Fostering a culture of innovation, they aim to provide customized solutions that address the evolving demands of heavy engineering equipment across various industries.

## COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31<sup>ST</sup> MARCH 2024)

Company Name	Face Value	Total Income (₹ in Cr)	EPS		NAV	P/E	RoNW (%)
			Basic	Diluted			
Diffusion Engineers Limited	10	278.14	10.94	10.94	68.06	[ • ]	18.52%
Ador Welding Limited	10	883.83	46.46	46.46	266.49	29.01	18.43%
AIA Engineering Limited	2	4,853.76	120.40	120.40	705.86	35.88	18.41%

Source: RHP; All the financial information for listed industry peers mentioned above is on a consolidated/standalone basis as available and uploaded on the NSE website for the year ended March 31, 2024; P/E Ratio has been computed based on the closing market price of equity shares on the NSE website on September 12, 2024.

### Comparison of financial KPIs and Operational KPIs of the Company and the listed peer

(₹ in crore, except percentages)

Metric	Diffusion Engineers			Ador Welding			AIA Engineering		
	As of and for the Fiscal			As of and for the Fiscal			As of and for the Fiscal		
	2024	2023	2021	2024	2023	2021	2024	2023	2021
Revenue From operations	278.14	254.88	204.59	883.83	776.76	661.48	4,853.76	4,908.77	3,566.55
EBITDA	47.39	34.80	27.52	89.92	87.21	58.37	1,335.27	1,240.64	720.95
EBITDA Margin (%)	17.04%	13.65%	13.45%	10.17%	11.23%	8.82%	27.51%	25.27%	20.21%
Restated profit for the year	30.80	22.15	17.05	63.19	60.09	36.04	1,136.99	1,056.50	619.62
Restated profit for the year as % of Total Revenue (PAT margin)	10.79%	8.56%	8.17%	7.05%	7.67%	5.40%	22.14%	20.54%	16.64%
Average Capital employed	207.61	167.67	135.03	372.13	310.99	274.02	6,649.83	5,472.56	4,593.29
Return on Capital Employed (ROCE) (%)	20.63%	18.46%	17.30%	24.07%	26.45%	19.32%	22.80%	25.26%	17.09%
Return on Equity (ROE) (%)	18.52%	16.86%	15.10%	18.43%	19.85%	13.88%	18.41%	20.23%	15.73%
Debt To Equity Ratio	0.18	0.34	0.20	0.12	0.05	0.00	0.07	0.09	0.00
Revenue per salesperson	1.77	1.71	1.38	Na	Na	Na	Na	Na	Na
Revenue per order of Wear Plates and Job Work	0.06	0.06	0.04	Na	Na	Na	Na	Na	Na
Revenue per order of Heavy Engineering Division	0.18	0.30	0.34	Na	Na	Na	Na	Na	Na

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