

# IPO Note: Mindspace Business Parks REIT

Industry: Real Estate

Reco: Subscribe

Date: July 27, 2020

## Issue Snapshot

Company Name	Mindspace Business Parks REIT
Issue Opens	July 27, 2020 to July 29, 2020
Price Band	Rs. 274 to Rs. 275
Bid Lot	200 Equity Shares and in multiples thereof.
The Offer	Public issue of 122,727,364 Equity shares, (Comprising of fresh issue and Offer for Sale by Selling Shareholder).
Issue Size	Rs. 4,500 Crore
IPO Process	100% Book Building
Exchanges	NSE & BSE
BRLM	Morgan Stanley India Company Private Limited, DSP Merrill Lynch Limited, Axis Capital Limited, Citigroup Global Markets India Private Limited, JM Financial Limited, Kotak Mahindra Capital Company Limited, CLSA India Private Limited, Nomura Financial Advisory and Securities (India) Private Limited, UBS Securities India Private Limited, Ambit Capital Private Limited, HDFC Bank Limited, IDFC Securities Limited and ICICI Securities Limited
Registrar	Kfin Technologies Private Limited
Sponsor	Cape Trading LLP, Anbee Constructions LLP
Manager	K Raheja Corp Investment Managers LLP
Trustee	Axis Trustees Services Ltd

## Issue Break up

Issue Size	Allocation	Equity Shares*	Amount (Rs. Cr.)*
Anchor Investor	45%	55,227,314	1,518.8
Institutional Investors ex Anchor	30%	36,818,209	1,012.5
Non -Institutional Investors	25%	30,681,841	843.8
<b>Total Public</b>	<b>100%</b>	<b>122,727,364</b>	<b>3,375.0</b>
Strategic Investors		40,909,000	1,125.0
<b>Total</b>		<b>163,636,364</b>	<b>4,500.0</b>

\*Higher Price Band @ Rs. 275

## Objects of the Offer

### Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder.

### Fresh Issue

- Partial or full pre-payment or scheduled repayment of certain debt facilities of the Asset SPVs availed from banks/financial institutions (including accrued interest) (Rs. 900 cr.);
- Purchase of NCRPS of MBPPL (Rs. 33.4 cr.); and
- General corporate purposes.

## Company Highlights

MindSpace REIT is the owner of a high quality office portfolio in India that serves as essential corporate infrastructure to multinational tenants and has significant embedded growth prospects. It would be the second public issue of REIT after Embassy Office Parks REIT. Over the last two decades, India has emerged as a leading hub for technology and corporate services due to its favourable demographics, large talent pool and competitive cost advantage in providing high value -added services. This has led to an increased demand for quality office space from multinational as well as large domestic corporations.

MindSpace portfolio consists of five integrated business parks with superior infrastructure and amenities and five quality independent offices aggregating to 29.5 msf of total leasable area. It is one of the largest Grade-A office portfolios in India located in four key office markets of India at Mumbai Region, Hyderabad, Pune and Chennai. These markets have exhibited strong market dynamics with world leading absorption and constrained forecast supply resulting in high rent growth and low vacancy on average.

Portfolio Assets are well diversified across 172 tenants with no single tenant contributing more than 7.7% of the Gross Contracted Rentals. Approximately 84.9% of the Gross Contracted Rentals were derived from leading multinational corporations and approximately 39.4% from Fortune 500 companies (as on March 31, 2020). The tenant base comprises a mix of multinational and Indian corporates, including affiliates of Accenture, Qualcomm, BA Continuum, JP Morgan, Amazon, Capgemini, Facebook, Barclays. It has a high quality tenant base with 92.0% Committed Occupancy along with long-term contracted rentals (WALE of 5.8 years, as of March 31, 2020) which provides long-term visibility of its revenue. It is well positioned to achieve further organic growth through a combination of contractual rent escalations, re-leasing at market rents, lease-up of vacant space and new construction to accommodate tenant expansion.

Between period April 2017 to March 2020, through its disciplined operating and investment expertise, MindSpace has:

- Leased 7.6 msf of office space and achieved average re-leasing spreads of 28.9% on 3.0 msf of re-leased space, leased 4.6 msf of new area (including Pre-Leased Area and Committed Area, as of March 31, 2020) to 60 tenants; achieved re-leasing spread of 23.1% for 1.1 msf of area re-leased during fiscal year 2020;
- Grown its Portfolio by 4.9 msf primarily through strategic on-campus development of its business parks;
- Maintained consistently high Occupancy and achieved Committed Occupancy of 92.0%;
- Grown In-place rent of its Portfolio at a CAGR of 6.7%;
- Undertaken strategic renovations, such as lobby and facade upgrades and addition of cafes, food courts and boardwalks, at certain assets, to improve tenant experience - cumulatively invested Rs 737.0 million to renovate its Portfolio.

## Business Update – COVID-19

Since all of company's business and operations are located in India, the COVID-19 pandemic affects its operations due to majority of its tenants limiting their operating staff and hours while others opting to work from home, interruption in construction activities at its under-construction sites due to the government directives to contain the spread of COVID-19, negative impact on the business and financial condition of some of its tenants and their ability to pay rent.

While the company did not face significant disruptions in its operations from COVID-19 during the financial year ended March 31, 2020 and collected 99.4% of the Gross Contracted Rentals for the month of March 2020, its properties were not fully occupied by the tenants for the months of April and May 2020. However, they maintained and managed their properties throughout the lockdown to ensure business continuity and safety of its tenants.

As of May 31, 2020, Committed Occupancy of its Portfolio was 92.4% and In-place Rent across its Portfolio was ₹ 52.5 psf. The company derive 99.4% of its Gross Contracted Rentals from leasing of office premises, and they have not seen a significant decline in the rent receipts during these 2 months (They have collected 97.8% and 95.2% of its Gross Contracted Rentals for the months of April and May 2020, respectively). Further, they continue to enter into commitments with potential tenants for securing pre-leasing as well as lease-up of vacant space in its assets.

Since April 1, 2020, they have leased 0.7 msf of area (of which 40.5% was leased to its existing tenants and 59.5% was leased to new tenants) including pre-committed 42,567 sf of area in its under-construction asset, Commerzone Porur. Also, they have not availed any deferments or moratoriums with respect to any of its financial commitments. However, the complete extent of pandemic's impact on its business and operations for the quarter ending June 30, 2020 and fiscal year 2021 is currently uncertain and its effect on the business and operations in the medium to long term will depend on future developments, including the scope, severity and duration of the pandemic, the actions to contain COVID-19, and the direct and indirect economics of the pandemic and containment measures, among others.

## View

MindSpace REIT is the owner of a high quality office portfolio in India that serves as essential corporate infrastructure to multinational tenants and has significant embedded growth prospects. MindSpace portfolio consists of five integrated business parks with superior infrastructure and amenities and five quality independent offices aggregating to 29.5 msf of total leasable area. It is one of the largest Grade-A office portfolios in India located in four key office markets of India at Mumbai Region, Hyderabad, Pune and Chennai. These markets have exhibited strong market dynamics with world leading absorption and constrained forecast supply resulting in high rent growth and low vacancy on average. Portfolio Assets are well diversified across 172 tenants with no single tenant contributing more than 7.7% of the Gross Contracted Rentals. Approximately 84.9% of the Gross Contracted Rentals were derived from leading multinational corporations and approximately 39.4% from Fortune 500 companies (as on March 31, 2020). The tenant base comprises a mix of multinational and Indian corporates, including Accenture, Qualcomm, BA Continuum, JP Morgan, Amazon, Capgemini, Facebook, Barclays. It has a high quality tenant base with 92.0% Committed Occupancy along with long-term contracted rentals which provides long-term visibility of its revenue. It is well positioned to achieve further organic growth through a combination of contractual rent escalations, re-leasing at market rents, lease-up of vacant space and new construction to accommodate tenant expansion. However, the outbreak of COVID-19 pandemic affected the commercial real estate companies as the prolonged lockdown across the country to curb the virus spread and growing culture of work from home adversely impacted the demand for commercial real estate. Though, MindSpace Business Parks REIT was able to collect 99.4% of their Gross Contracted Rentals for the month of March 2020, properties were not fully occupied by their tenants for the months of April and May 2020. The industries which affected most are aviation, education, entertainment and events, food and beverage, co-working, and hospitality. As per the company, during the months of March, April, and May 2020, 1.0% of their Gross Contracted Rentals were attributable to these industries. However, the company has shown strong commitment by not letting the pandemic hinder operations and continues to enter into commitments with potential tenants for securing pre-leasing and lease-up of vacant space. In current low interest regime, REIT is an attractive investment asset class given its fixed dividend income option. REITs must have to pay out at least 90% of their net distributable cash flows to stockholders as dividend and that is an attractive investment proposal amid declining interest rate regime. At Rs. 275 per unit, post-listing equity value stands at Rs. 16,308 crore, based on 59.30 crore units post IPO. NAV (as of 31-3-20) stands at Rs. 320 per unit, which leads to 14% discount to issue price of Rs. 275. On FY21E financials shared in the RHP, the yield works out to about 7.5-8.0%, on issue price of Rs. 275 per unit and there is further scope of growing in the yield with new lease/release offering and an average escalation of 15% from a three-year perspective hold good investment for investor who are seeking certainty in returns. Hence, we recommend our investors to **SUBSCRIBE** the IPO for long term investment perspective.

## Property-wise Revenue from Operations (Rs. Cr.)

Entity Name	Property Name	FY20	% to Revenue	FY19	% to Revenue	FY18	% to Revenue
Mindspace Business Parks Pvt. Ltd. (MBPPL)	Mindspace Airoli-East	356.9	20.2%	351.9	24.6%	332.0	26.3%
	Commerzone Yerwada	161.1	9.1%	142.7	10.0%	134.6	10.7%
	The Square, Nagar Road	91.6	5.2%	74.0	5.2%	24.3	1.9%
	Mindspace Pocharam	13.0	0.7%	13.9	1.0%	13.8	1.1%
Gigaplex Estate Pvt. Ltd. (Gigaplex)	Mindspace Airoli (West)	226.9	12.8%	194.7	13.6%	139.6	11.1%
Sundew Properties Ltd (Sundew)	Madhapur	299.2	16.9%	291.0	20.3%	272.2	21.5%
Intime Properties Ltd (Intime)	Madhapur	128.0	7.3%	117.8	8.2%	113.5	9.0%
K. Raheja IT Park (Hyderabad) Ltd (KRIT)	Madhapur	183.5	10.4%	175.3	12.3%	162.6	12.9%
KRC Infrastructure and Projects Pvt.Ltd.(KRC Infra)	Gera Commerzone Kharadi	229.6	13.0%	0.7	0.1%	-	-
Horizonview Properties Pvt. Ltd. (Horizonview)	Chennai	-	-	-	-	-	-
Avacado Properties And Trading (India) Pvt. Ltd. (Avacado)	Paradigm, Malad	76.2	4.3%	69.6	4.9%	70.5	5.6%
<b>Revenue from Operations</b>		<b>1766.0</b>	<b>100.0%</b>	<b>1431.6</b>	<b>100.0%</b>	<b>1263.1</b>	<b>100.0%</b>

## Portfolio Details as of 31st March 2020

Portfolio	Type of Assets	Total Leasable Area (msf)	Committed Occupancy (%)	WALE (Years)	Revenue for FY20 (₹ Cr)	Market Value (₹ Cr)	% of Total Market Value
<b>Mumbai Region</b>		<b>12.1</b>	<b>86.5%</b>	<b>5.7</b>	<b>660.0</b>	<b>9202.2</b>	<b>38.9%</b>
Mindspace Airoli East	Business Park	6.8	98.0%	4.8	356.9	4310.7	18.2%
Mindspace Airoli West	Business Park	4.5	72.3%	8.1	226.9	3520.5	14.9%
Paradigm Mindspace Malad	Office	0.7	93.8%	3.3	76.2	940.9	4.0%
The Square, BKC	Office	0.1	-	-	-	430.2	1.8%
<b>Hyderabad</b>		<b>11.6</b>	<b>97.4%</b>	<b>5.5</b>	<b>623.7</b>	<b>9057.0</b>	<b>38.3%</b>
Mindspace Madhapur	Business Park	10.6	9760.0%	5.6	610.7	8758.5	37.0%
Mindspace Pocharam	Office	1.0	92.4%	2.9	13.0	298.4	1.3%
<b>Pune</b>		<b>5.0</b>	<b>90.0%</b>	<b>7.0</b>	<b>482.3</b>	<b>4268.1</b>	<b>18.0%</b>
Commerzone Yerwada	Business Park	1.7	99.9%	5.6	161.1	1910.0	8.1%
Gera Commerzone Kharadi	Business Park	2.6	71.3%	10.9	229.6	1548.6	6.5%
The Square, Nagar Road	Office	0.7	100.0%	5.5	91.6	809.4	3.4%
<b>Chennai</b>		<b>0.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>594.6</b>	<b>2.5%</b>
Commerzone Porur	Office	0.8	-	-	-	594.6	2.5%
Facility Management Div	-	-	-	-	-	553.2	2.3%
<b>Total Portfolio</b>		<b>29.5</b>	<b>92.0%</b>	<b>5.8</b>	<b>1766.0</b>	<b>23675.1</b>	<b>100.0%</b>

## Value Summary as on 31st March 2020

Asset Name and Location	Leasable Area (msf)		Market Value (Rs Cr)			REIT Ownership
	Completed	Under-construction/ Future development	Completed	Under construction	Total	
Mindspace Madhapur, Hyderabad	9.9 msf	0.6 msf	8672.9	85.6	8758.5	89%
Mindspace Airoli East, Mumbai Region	4.7 msf	2.1 msf	4118.4	192.2	4310.7	100%
Mindspace Airoli West, Mumbai Region	3.5 msf	1.0 msf	2964.5	556.1	3520.5	100%
Paradigm Mindspace Malad, Mumbai Region	0.7 msf	-	940.9	NA	940.9	100%
The Square, BKC, Mumbai Region	0.1 msf	-	430.2	NA	430.2	100%
Commerzone Yerwada, Pune	1.7 msf	-	1910.0	NA	1910.0	100%
Gera Commerzone Kharadi, Pune	1.3 msf	1.3 msf	1211.0	3376.0	1548.6	100%
The Square, Nagar Road, Pune	0.7 msf	-	809.4	NA	809.4	100%
Commerzone Porur, Chennai	-	0.8 msf	NA	594.6	594.6	100%
Mindspace Pocharam, Hyderabad	0.4 msf	0.6 msf	137.9	160.6	298.4	100%
<b>Sub-Total</b>	-	-	<b>21195.2</b>	<b>1926.7</b>	<b>23121.9</b>	-
Facility Management Business	-	-	460.6	92.6	553.2	-
<b>Total</b>	-	-	<b>21655.8</b>	<b>2019.3</b>	<b>23675.1</b>	-

## Top 10 Tenants

Company	Occupied Area (msf)	% of Gross Contracted Rentals	WALE (years)
Accenture	1.9	7.7	7.7
Qualcomm	1.0	5.3	5.3
Business and technology services company	1.2	5.1	5.1
Barclays	0.7	5.0	5.0
IT solutions and services company	0.9	4.5	4.5
BA Continuum	0.6	3.0	3.0
Schlumberger	0.3	2.9	2.9
JP Morgan	0.5	2.9	2.9
Amazon	0.5	2.9	2.9
UBS	0.4	2.4	2.4
<b>Total</b>	<b>8.2</b>	<b>41.6</b>	

## Projection

Project	Rental			Revenue from Operations			Net Operating Income		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
Mindspace Madhapur (Intime)	111.7	118.5	128.9	134.3	143.4	154.2	113.3	121.5	131.3
Mindspace Madhapur (Sundew)	300.0	380.1	403.2	363.9	457.8	486.2	299.4	386.9	408.4
Mindspace Madhapur (KRIT)	146.0	180.8	202.8	184.7	218.3	246.8	147.9	179.4	205.5
MBPPL	461.5	506.1	533.6	626.2	680.9	717.8	468.4	510.9	538.7
• Mindspace Airoli East	280.1	308.1	322.1	374.2	409.4	430.5	283.8	310.0	325.2
• Commerzone Yerwada	122.0	131.7	139.9	174.6	184.8	192.5	128.4	136.4	141.8
• The Square, Nagar Road	50.2	56.2	60.8	64.2	72.9	79.5	46.4	54.3	60.2
• Mindspace Pocharam	9.2	10.1	10.8	13.2	13.8	15.3	9.8	10.2	11.5
Gigaplex	165.4	211.7	279.5	229.3	292.5	387.0	166.3	205.8	290.5
Avacado	67.6	111.8	116.4	75.3	120.4	125.5	60.1	104.7	109.1
• Paradigm Mindspace Malad	67.4	74.0	75.3	75.1	82.6	84.4	62.7	69.7	70.8
• The Square, BKC	0.2	37.8	41.1	0.2	37.8	41.1	-2.6	35.0	38.3
KRC Infra	80.2	113.5	163.9	159.4	287.8	381.1	93.4	152.2	209.4
• Gera Commerzone Kharadi	80.2	113.5	163.9	94.2	137.6	211.0	74.7	109.6	161.8
• Facility management div(CAMPLUS)	-	-	-	65.2	150.2	170.1	18.7	42.6	47.6
Horizonview	5.8	48.4	57.9	6.2	57.1	73.8	-0.1	46.0	58.5
Elimination (inter segment revenue)	-	-	-	-65.2	-150.2	-170.1	-	-	-
<b>Total</b>	<b>1338.2</b>	<b>1670.9</b>	<b>1886.2</b>	<b>1714.1</b>	<b>2108.0</b>	<b>2402.3</b>	<b>1348.7</b>	<b>1707.4</b>	<b>1951.4</b>

Project	EBITDA			Cash Flow			Net Distributable Cash Flow		
	FY21	FY22	FY23	FY21	FY22	FY23	H2FY21	FY22	FY23
Mindspace Madhapur (Intime)	148.4	143.1	152.2	83.0	93.6	99.4	75.2	230.7	234.7
Mindspace Madhapur (Sundew)	316.3	357.6	375.1	275.8	322.7	334.9	95.4	220.3	238.7
Mindspace Madhapur (KRIT)	218.5	224.8	247.2	78.0	114.6	130.9	134.7	303.9	339.7
MBPPL <sup>^</sup>	511.3	470.4	491.6	467.1	474.0	440.5	220.9	366.1	384.5
• Mindspace Airoli East	270.5	292.9	304.1	265.8	283.0	303.0	-	-	-
• Commerzone Yerwada	122.5	130.3	134.4	130.5	136.4	137.4	-	-	-
• The Square, Nagar Road	43.6	50.3	56.2	49.8	53.9	61.9	-	-	-
• Mindspace Pocharam	9.5	9.8	11.1	9.5	8.9	11.4	-	-	-
• Other income/ expenses at SPV level	65.2	-12.6	-14.2	11.5	-8.2	-73.2	-	-	-
Gigaplex	151.2	188.2	264.7	157.2	214.1	269.7	-	-	-
Avacado	74.1	95.9	99.2	69.9	90.0	84.8	31.7	65.3	64.5
• Paradigm Mindspace Malad	66.7	66.0	66.2	61.2	64.9	62.3	-	-	-
• The Square, BKC	-3.6	31.2	34.4	10.8	32.6	35.9	-	-	-
• Other income/expenses at SPV level	11.0	-1.3	-1.4	-2.1	-7.5	-13.4	-	-	-
KRC Infra	83.1	138.9	192.1	85.6	141.1	205.6	17.5	38.9	46.8
• Gera Commerzone Kharadi	66.4	98.3	147.0	68.9	106.5	163.8	-	-	-
• Facility management Div-CAMPLUS	18.8	42.6	47.4	18.8	42.6	47.4	-	-	-
• Other income/expenses at SPV level	-2.1	-2.0	-2.3	-2.1	-8.0	-5.6	-	-	-
Horizonview	-1.6	40.5	51.1	14.2	41.7	59.5	3.8	7.5	7.5
Mindspace REIT level expenses	-5.3	-9.6	-10.3	-5.3	-9.6	-10.3	-	-	-
Eliminations	-122.7	-98.6	-98.6	-	-	-	-	-	-
<b>Total/sub Total</b>	<b>1373.3</b>	<b>1551.2</b>	<b>1764.3</b>	<b>1225.5</b>	<b>1482.2</b>	<b>1615.0</b>	<b>579.2</b>	<b>1232.7</b>	<b>1316.4</b>
Manager Fees	-	-	-	-	-	--	-3.2	-7.3	-7.8
Trustee and other miscellaneous expenses at REIT level	-	-	-	-	-	-	-2.1	-2.3	-2.5
<b>Grand Total</b>	<b>1373.3</b>	<b>1551.2</b>	<b>1764.3</b>	<b>1225.5</b>	<b>1482.2</b>	<b>1615.0</b>	<b>573.9</b>	<b>1223.1</b>	<b>1306.1</b>

## Financial Statement

(In Rs. Cr)	FY18	FY19	FY20
Share Capital	50.0	50.0	50.0
Net Worth	1357.3	1847.0	2291.5
Long Term Borrowings	5255.5	5620.9	6356.9
Other Long Term Liabilities	572.4	329.0	539.5
Short-term borrowings	158.6	139.4	394.3
Other Current Liabilities	1114.4	1196.5	1635.6
Fixed Assets	128.5	124.0	147.5
Investment property	3941.1	4024.4	5671.0
Investment property under construction	1402.6	1905.9	1772.4
Non Current Assets	528.7	463.2	529.9
Current Assets	2468.7	2615.0	3090.6
Total Assets	8473.8	9143.7	11222.4
Revenue from Operations	1263.1	1431.6	1766.0
Revenue Growth (%)		13.3	23.4
EBITDA	785.8	1013.3	1111.6
EBITDA Margin (%)	62.2	70.8	62.9
Net Profit	148.3	478.9	474.7
Net Profit Margin (%)	11.7	33.5	26.9

Source: RHP, Ashika Research

## Cash Flow Statement

(In Rs. Cr)	FY18	FY19	FY20
Cash flow from Operations Activities	759.0	933.8	926.6
Cash flow from Investing Activities	(426.7)	(586.0)	(1355.1)
Cash flow from Financing Activities	(487.8)	(356.1)	474.3
Net increase/(decrease) in cash and cash equivalents	(155.5)	(8.3)	45.8
Cash and cash equivalents at the beginning of the year	52.0	(103.5)	(111.9)
Cash and cash equivalents at the end of the year	(103.5)	(111.9)	(66.1)

Source: RHP

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