

FIRST GLOBAL

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India Research



Sector: Media

What Happened Last Quarter

Zee Entertainment Enterprise Ltd. **(Z.IN)/(ZEE.BO)**

Outperform (CMP: Rs.286.5, Mkt. Cap. Rs. 124.3 bn, \$ 3.05 bn May 08,'07)

Relevant Index: S&P CNX Nifty: 4077.0 (May 08,'07)

Uptrend in Zee TV's ratings & improved performance by other channels to drive ad revenues

Speedy digitisation due to CAS implementation & entry of more players in DTH market to drive subscriber penetration & ARPU

Recommendation: Moderate Outperform (MP: Rs.252.5, April 04,'07)

Relevant Index: CNX Nifty: 3733.25 (April 04,'07)

Relative performance since last rating change: CNX Nifty: Up 9.2% ZEEL: Up 13.5%

May 08, 2007

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Research Note issued by First Global Securities Ltd., India

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IMPORTANT DISCLOSURES CAN BE FOUND AT THE END OF THIS REPORT.



Price and Rating History Chart

Ratings Key

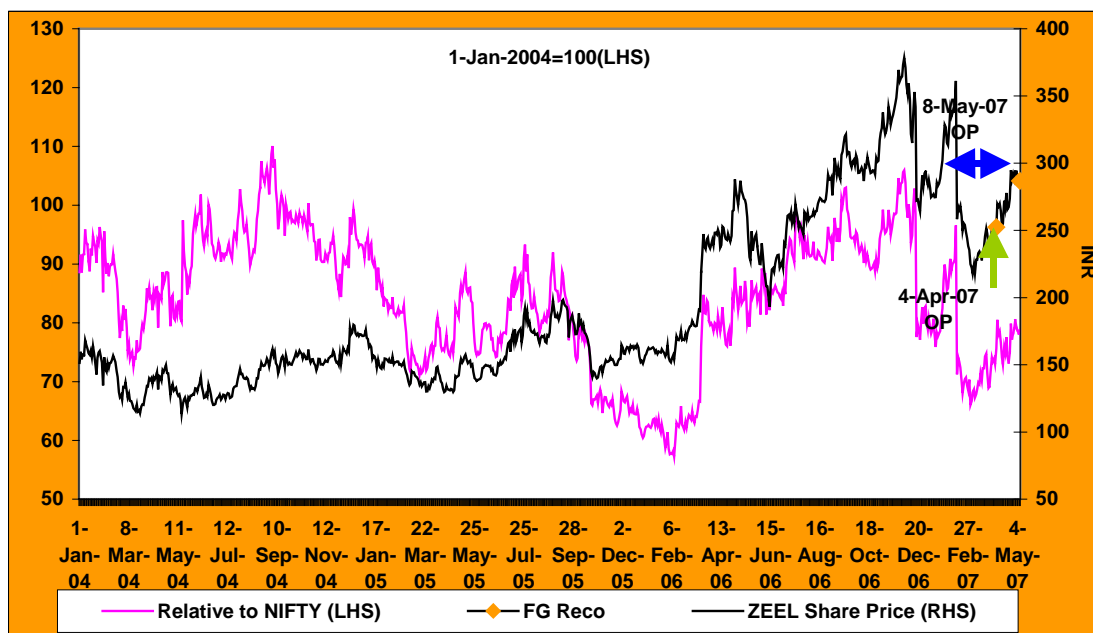
Positive Ratings	B = Buy	BD = Buy at Declines	OP = Outperform
	S-OP = Sector Outperform	M-OP = Market Outperform	MO-OP = Moderate Outperform
Neutral Ratings	H = Hold	MP = Market Perform	SP = Sector Perform
Negative Ratings	S = Sell	SS = Sell into Strength	UP = Underperform
	A = Avoid	MO-UP = Moderate Underperform	S-UP = Sector Underperform

ST: Short Term

MT: Medium Term

LT: Long Term

Zee Entertainment Enterprise Ltd. (Z.IN)/(ZEE.BO)



Represents an Upgrade



Represents a Downgrade



Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report



Financial Snapshot

Key Financials					
(YE March 31st) (Rs. mn)	2005	2006	2007	2008E	2009E
Net Sales Revenue	13,252	16,544	14,412	17,657	20,654
Revenue Growth (Y-o-Y)	3.6%	24.8%	-12.9%	22.5%	17.0%
EBIDTA	4,212	2,649	3,188	4,826	6,238
EBIDTA Growth (Y-o-Y)	-2.3%	-37.1%	20.3%	51.4%	29.3%
Net Profit	3,334	2,232	2,195	3,250	4,138
Net Profit Growth (Y-o-Y)	7.6%	-33.1%	-1.7%	48.1%	27.3%
Shareholders Equity	24,536	21,286	25,981	28,710	32,329
Number of Diluted shares(mn)	412.4	432.5	433.4	433.4	433.4
Key Operating Ratios					
(YE March 31st)	2005	2006	2007	2008E	2009E
EPS (Rs) (Diluted)	8.08	5.16	5.07	7.50	9.55
EPS Growth (Y-o-Y)	7.6%	-36.2%	-1.7%	48.1%	27.3%
CEPS (Rs.)	8.88	5.99	5.60	8.14	10.28
EBIDTA (%)	31.8%	16.0%	22.1%	27.3%	30.2%
NPM (%)	25.2%	13.5%	15.2%	18.4%	20.0%
RoE (%)	14.3%	9.8%	9.3%	11.9%	13.6%
RoCE (%)	12.2%	8.7%	9.0%	11.5%	13.0%
Book Value per share (Rs.)	59.4	49.2	60.0	66.2	74.6
Debt/Equity (x)	0.22	0.23	0.15	0.14	0.12
Dividend Payout (%)	12.4%	19.5%	20.7%	14.0%	11.0%
Valuation Ratios					
(YE March 31st)	2005	2006	2007	2008E	2009E
P/E (x)				38.2	30.0
P/BV (x)				4.3	3.8
P/CEPS (x)				35.2	27.9
EV/EBIDTA (x)				25.2	19.1
Market Cap./ Sales (x)				7.0	6.0
Dividend Yield (%)				0.37%	0.37%
DuPont Model					
(YE March 31st)	2005	2006	2007	2008E	2009E
EBIDTA/Sales (%)	32%	16.0%	22.1%	27.3%	30.2%
Sales/Operating Assets (x)	0.49	0.67	0.62	0.73	0.79
EBIDTA/Operating Assets (%)	15.7%	10.7%	13.6%	19.9%	23.9%
Operating Assets/ Net Assets(x)	0.92	0.87	0.82	0.76	0.74
Net Earnings/ EBIDTA (%)	79%	84.3%	68.9%	67.3%	66.3%
Net Assets/ Equity (x)	1.25	1.24	1.20	1.17	1.16
Return on Equity (%)	14.3%	9.8%	9.3%	11.9%	13.6%

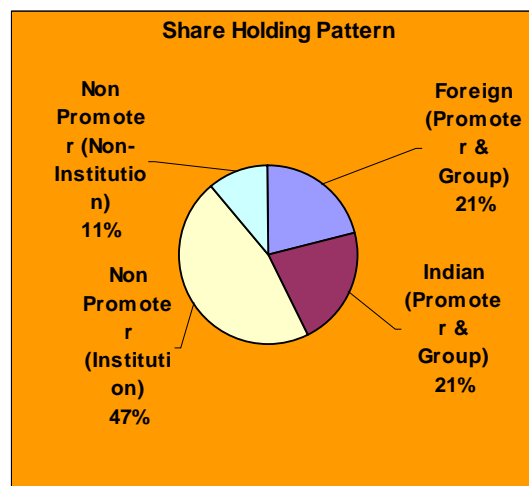
*Note: * The revenues growth is negative after adjusting the financials of ZEEL for the restructuring of Cable, News and DTH businesses. The FY06 numbers also include the cable, news and direct consumer business undertakings, which have now been demerged. Hence the numbers are not comparable.*



Common Sized Profit & Loss Account					
(YE March 31st)	2005	2006	2007	2008E	2009E
Total Revenues	100%	100%	100%	100%	100%
Transmission & Programming cost	42.9%	57.1%	51.0%	42.8%	41.5%
Selling, Distn & Admn Exps	18.8%	20.3%	19.9%	22.6%	21.5%
Personnel	6.5%	6.6%	7.0%	7.3%	6.8%
EBITDA	31.8%	16.0%	22.1%	27.3%	30.2%
Depreciation and Amortization	2.5%	2.2%	1.6%	1.6%	1.5%
Interest	1.6%	1.1%	1.5%	0.9%	0.7%
Non-operating Income	3.2%	3.2%	4.4%	3.9%	3.6%
PBT	33.3%	17.2%	23.4%	28.8%	31.6%
Tax	7.7%	3.3%	6.7%	8.6%	9.7%
PAT before Minority Interest	25.6%	13.9%	16.7%	20.2%	21.8%
Minority Interest	0.4%	0.4%	1.5%	1.8%	1.8%
PAT after Minority Interest	25.2%	13.5%	15.2%	18.4%	20.0%

Key Statistics

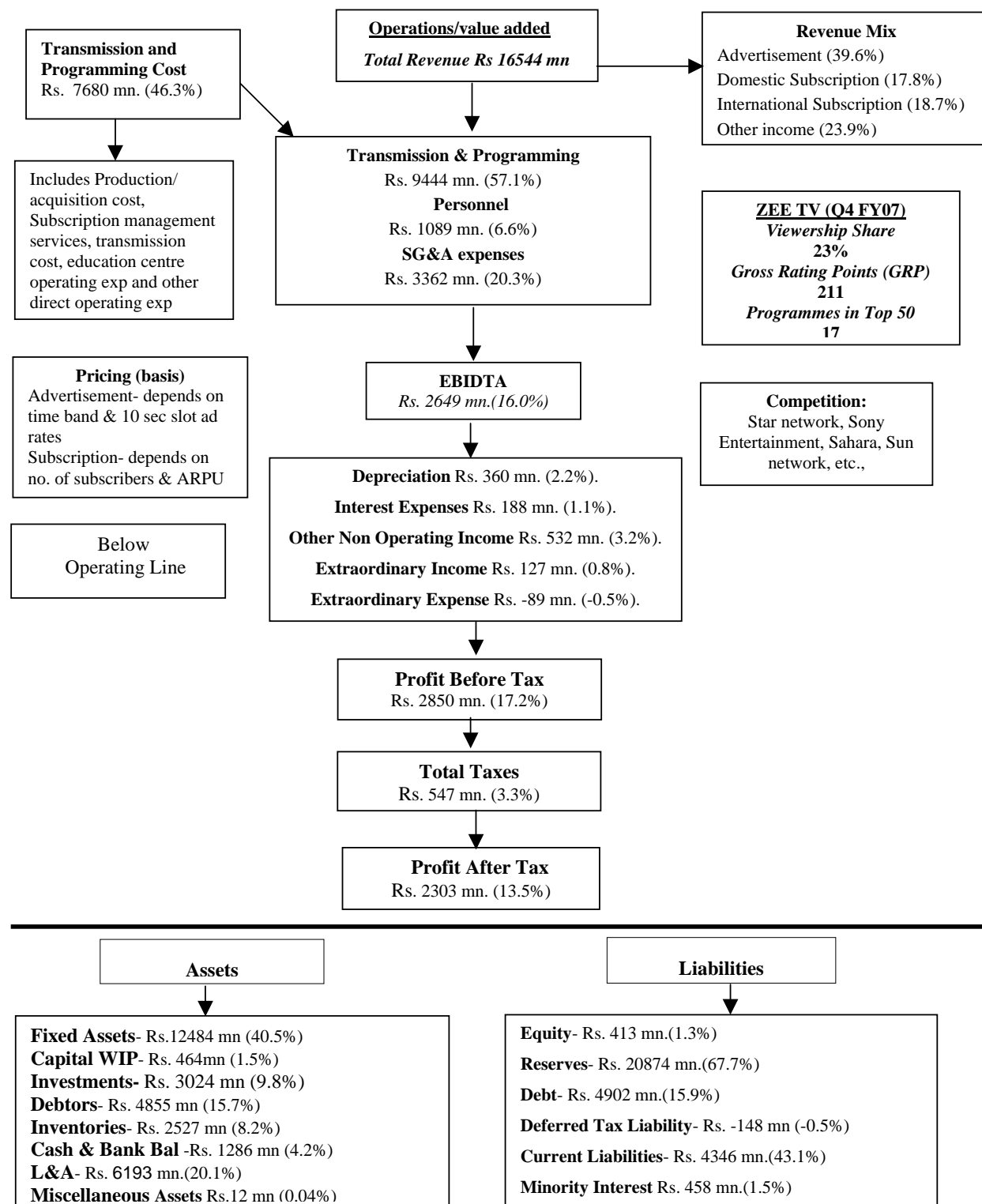
Industry:	Media Sector
52 Week Hi:Lo:	Rs.381/188.45
CMP:	Rs. 286.75
Avg Daily Vol (20 days):	1.48 mn
Avg Daily Val (20 days):	Rs.411.51 mn
Performance over 52 weeks:	
ZEEL	up 3.31 %
Nifty:	up 10.39 %





ZEEL's Business in Picture...(FY06)

(All figures are in Rs. Mn except where stated otherwise. All percentages are percent of revenues, unless stated otherwise)





What Happened Last Quarter...

Zee Entertainment Enterprise Ltd. (Z.IN)/(ZEE.BO) delivered a surprisingly disappointing performance in Q4 FY07, as subscription revenues recorded a huge decline. ZEEL recorded a top line growth of around 10.6% Y-o-Y to Rs.3844 mn, which came in much lower than our estimate of Rs.4419 mn, as well as the consensus estimate. The impact of mandatory implementation of CAS in three metros was reflected in the decline of 5% sequentially in the company's overall subscription revenues to Rs.1849 mn in Q4 FY07.

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Nevertheless, ZEEL delivered an encouraging performance for the full year FY07, with a growth of 30.5% in overall net revenues, supported by a strong growth of 32% in ad revenues to Rs.7063 mn and a growth of 27% in subscription revenues to Rs.6606 mn. This, in turn, led to a sharp rise in the operating margin to 22.1%, which was the key positive highlight of ZEEL's strong FY07 results. There was a strong improvement in the ratings of its core channel, ZEE TV, which has gained a huge viewership share over time, coupled with a strong performance by its other channels, particularly, Zee Cinema, Zee Café and Zee Studio. Despite the intense competition for eyeballs from World Cup and other competition, Zee TV continues to be a leader in the time bands across 6 pm to 8.30 pm in the week days, averaging gross rating points (GRP) of 211 in the quarter, and maintained its No 2 position in the general entertainment channels (GEC) category. Zee TV has an average of 17-18 shows in the Top 50 and 29-30 shows in the Top 100 across the GEC.

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The company's international revenues grew marginally by 1.8% sequentially to Rs.995 mn in Q4 FY07. However, the company's domestic subscription revenues declined by 12.8% sequentially to Rs.854 mn in Q4 FY07, mainly due to lower revenues from the cable stream, as a result of the mandatory implementation of CAS, as more and more subscribers have retained only free-to-air channels. Management has estimated the impact of CAS on domestic subscription revenues to be around Rs.100 mn in Q4 FY07. Pay revenues accrued from the DTH stream rose by 20% to Rs.180 mn in Q4 FY07 and are expected to grow at a faster pace in the future in comparison to the cable stream, as more players are yet to enter the DTH market.

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In Q4 FY07, ZEEL's EBIDTA margin improved to 24.7%, as compared to 12.9% in Q4 FY06, primarily due to the growth in revenues and cost optimisation, as a result of a huge decline in selling and administrative expenses. The overall EBIDTA improved significantly by 111.8% Y-o-Y in Q4 FY07. The overall PBT improved significantly by 56.8%, due to a huge decline in interest expenses, even after adjusting for higher depreciation expenses, as well as a lower non-operating income in Q4 FY07. Even after adjusting for the higher minority interest of Rs.96 mn and the higher effective tax rate of 34.3%, the net profit after minority interest grew by 12.7% Y-o-Y to Rs.603 mn in Q4 FY07.

Management provided a positive guidance of a 22% growth in ad revenues and 25-30% growth in subscription revenues over FY07-08. We estimate the company's ad revenues to grow by around

We estimate the subscription revenues to grow at around 25.8% to Rs.8249 mn in FY08, considering speedy digitisation with the implementation of CAS, as well as more players expected in the DTH market, which will lead to an increase in subscriber penetration and the average revenue per user (ARPU). We expect the company's EBIDTA margin to improve to 27.3% in FY08, due to higher operating leverage as well as cost optimisation

21.3% to Rs.8570 mn in FY08, considering the up trend in Zee TV's ratings and the improved performance by some of the company's other channels. The major risk would be the successful entry of two major players in the GEC segment, which will fragment the ad revenues. We estimate the subscription revenues to grow at around 25.8% to Rs.8249 mn in FY08, considering speedy digitisation with the implementation of CAS, as well as more players expected in the DTH market, which will lead to an increase in subscriber penetration and the average revenue per user (ARPU). We expect the company's EBIDTA margin to improve to 27.3% in FY08,

due to higher operating leverage as well as cost optimisation.

In light of the encouraging sector trends, improvement in ratings of the company's core channels and the scope for increasing ad rates, the outlook for ZEEL appears positive. We have revised our revenue estimate upwards for FY08 to Rs.17657 mn (as against to our previous estimates of Rs.17284 mn) and lowering our FY08E EPS estimate marginally to Rs.7.50 (as against to our previous estimate of Rs 7.54). We are introducing our FY09 revenue estimates of Rs.20654 mn and EPS estimates of Rs.9.55 in FY09 and have modelled for a diluted EPS of Rs.1.57 for Q1 FY08 on revenues of Rs.3904 mn.

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Comparative Valuations

		P/E (x)		P/S (x)		P/BV (x)		EV/Sales (x)		EV/EBIDTA (x)		EBITDA Margin %	ROE %	ROCE %	EPS Growth %	Sales Growth %
	YE	FY		FY		FY		FY		FY		FY	FY	FY		
Company		08E	09E	08E	09E	08E	09E	08E	09E	08E	09E	08E	08E	08E	09/08	09/08
ZEEL	Mar	38.2	30.0	7.0	6.0	4.3	3.8	6.9	5.8	25.2	19.1	27.3%	11.9%	11.5%	27.3%	17.0%
TV18	Mar	62.2	47.5	18.5	14.6	7.8	6.4	15.6	12.3	32.9	24.4	47.3%	24.8%	N.A	31.0%	26.9%
NDTV	Mar	63.3	39.6	7.2	5.9	8.6	7.3	6.2	5.1	29.7	19.8	21.0%	12.0%	N.A	59.8%	23.0%
Sun TV	Mar	57.1	38.8	24.3	16.5	10.1	8.2	22.7	15.4	34.8	23.3	65.1%	33.8%	N.A	47.3%	47.2%

Source- FG estimates for ZEEL. Consensus estimates for TV18, NDTV, SUNTV.



The stock appears attractive on the valuations front, with most of its peers trading at much higher valuations. ZEEL currently trades at a P/E of 38.2x and 30.0x our FY08 and FY09 earnings

ZEEL currently trades at a P/E of 39.4x and 29.9x our FY08 and FY09 earnings estimates respectively, which is actually lower in comparison to its peers and the industry average...

... considering the significant improvement in viewership ratings, existing potential for commanding higher ad rates, huge growth expected in subscription revenues, due to the change in delivery platforms, and the expected improvement in margins, we reiterate our rating of Outperform on ZEEL.

estimates respectively, which is actually lower in comparison to its peers and the industry average. However, the company's EBIDTA margin of 27.3% and a RoE of 11.9% are at the lower end of those of its peers. Considering the significant improvement in viewership ratings, existing potential for commanding higher ad rates, huge growth expected in subscription revenues, due to the change in delivery platforms, and the expected improvement in margins, we reiterate our rating of Outperform on ZEEL.

Key Quarterly Highlights

YE March 31 st	2007	2006	Y-o-Y	2007	Q-o-Q	2007	2006*	Y-o-Y
Figures in mn of Rs.	Q4	Q4*	Change	Q3	Change		Proforma	Change
Net Sales Revenue	3844	3476	10.6%	4177	-8.0%	14411	11042	30.5%
Transmission & Production cost	1632	1640	-0.5%	232	603.1%	7353	5126	43.4%
Personnel	292	226	29.2%	1721	-83.0%	1008	772	30.5%
Selling, Distn & Admn Exps	969	1161	-16.5%	867	11.8%	2863	2670	7.2%
Total Cost	2893	3027	-4.4%	2820	2.6%	11224	8568	31.0%
EBIDTA	951	449	111.8%	1357	-29.9%	3187	2474	28.8%
Less: Depreciation	56	34	64.1%	69	-19.5%	228	160	42.5%
EBIT	895	415	115.7%	1288	-30.5%	2959	2314	27.9%
Less: Interest	8	-68	-111.8%	68	-88.2%	220	131	67.9%
Non-operating Income	177	195	-9.4%	155	14.0%	630	562	12.1%
PBT	1064	678	56.9%	1375	586.8%	3369	2745	22.7%
Less: Total Tax	365	151	141.7%	417	-73.5%	964	603	59.9%
Profit After Tax	699	527	32.6%	958	67.7%	2405	2142	12.3%
Minority Interest	96	-8	-1300.0%	83	-90.0%	212	117	81.2%
PAT after Minority Interest	603	535	12.7%	875	626.3%	2193	2025	8.3%
Earnings Per Share (In Rs.)	1.61	1.22				5.55	4.94	
Weighted average Shares Outstanding (mn)	433.4	433.4				433.4	433.4	
EBIDTA Margin (%)	24.7%	12.9%	11.8%	32.5%	-7.8%	22.1%	22.4%	-0.3%
EBIT (%)	23.3%	11.9%	11.3%	30.8%	-7.5%	20.5%	21.0%	-0.4%
PBT Margin (%)	27.7%	19.5%	8.2%	32.9%	-5.2%	23.4%	24.9%	-1.5%
NPM (%)	15.7%	15.4%	0.3%	21.0%	-5.3%	15.2%	18.3%	-3.1%
Effective Tax Rate (%)	34.3%	22.3%	12.0%	30.3%	4.0%	28.6%	22.0%	6.6%

* Proforma numbers after demerger



World Cup and CAS impacts topline growth

ZEEL recorded a top line growth of around 10.6% Y-o-Y to Rs.3844 mn, which came in much lower than our estimate of Rs.4419 mn and the consensus estimate. This was mainly due to a muted growth in advertisement revenues, coupled with an unexpected decline in domestic subscription revenues.

➤ **World Cup and postponement of Zee Cinema awards impact ad revenues**

The viewership of general entertainment channels was impacted with the broadcast of World Cup cricket matches in prime time and Zee TV also recorded a decline in viewership to 23% in Q4 FY07, as compared to 29% in Q3 FY07. This, coupled with the huge ad spends committed for the World Cup and the postponement of Zee Cinema awards to Q1 FY08 impacted ad revenues, which grew by merely 8.1% Y-o-Y to Rs.1849 mn in Q4 FY07.

➤ **Mandatory implementation of CAS in metros impacts subscription revenues**

ZEEL's overall subscription revenues declined by 5.5% sequentially to Rs.1849 mn in Q4 FY07. The company's international revenues recorded a marginal growth of 1.8% sequentially to Rs.995 mn in the quarter. However, ZEEL's domestic subscription revenues recorded a decline of 12.8% sequentially to reach Rs.854 mn in Q4 FY07, mainly due to lower revenues from the cable stream, as a result of the mandatory implementation of CAS, as more and more subscriber retained only free-to-air channels. Management estimates the impact of CAS on domestic subscription revenues to be around Rs.100 mn in Q4 FY07. Pay revenues from the DTH stream were up 20% to Rs.180 mn in Q4 FY07 and are expected to grower at a faster pace in the future, in comparison to revenues from the cable stream, as more players are yet to enter the DTH market.

ZEEL's domestic subscription revenues recorded a decline of 12.8% sequentially to reach Rs.854 mn in Q4 FY07, mainly due to lower revenues from the cable stream, as a result of the mandatory implementation of CAS, as more and more subscriber retained only free-to-air channels

Margins on an expanding trend

In Q4 FY07, ZEEL's EBIDTA margin improved to 24.7%, as compared to 12.9% in Q4 FY06, primarily due to the growth in revenues and cost optimisation, as a result of a huge decline in selling and administrative expenses. The overall EBIDTA improved significantly by 111.8% Y-o-Y in Q4 FY07. The overall PBT improved significantly by 56.8%, due to a huge decline in interest expenses, even after adjusting for higher depreciation expenses, as well as a lower non-operating income in Q4 FY07. Even after adjusting for the higher minority interest of Rs.96 mn and the higher effective tax rate of 34.3%, the net profit after minority interest grew by 12.7% Y-o-Y to Rs.603 mn in Q4 FY07. The company's effective tax rates increased steeply to 34.3% in Q4 FY07 and 28.6% for FY07, as compared to 30.3% and 11.6% in Q3 FY07 and Q4 FY06 respectively.



Outlook

➤ Management provides guidance of 22% growth in ad revenues for FY08

Management provided a positive guidance of a 22% growth in ad revenues over FY07-08. We estimate the company's ad revenues to grow by around 21.3% to Rs.8570 mn in FY08, considering the up trend in Zee TV's ratings and the improved performance by some other channels of the company. The major risk would be the successful entry of two major players in the GEC segment, which will fragment the ad revenues.

➤ Management provides guidance of 25-30% growth in subscription revenues for FY08

Management has guided for subscription revenues to grow by around 25-30% in FY08. We estimate the subscription revenues to grow at around 25.8% to reach Rs. 8249 mn in FY08 considering the speedy digitisation with the implementation of CAS and also with the more players expected in DTH market, which will increase the subscriber penetration and also average revenue per user (ARPU). We expect the company's EBIDTA margin to improve to 27.3% in FY08 with the higher operating leverage and also due to the cost optimisations.

➤ Sports business expected to breakeven in FY08

ZEEL's sports business contributed around Rs.351 mn to its total revenues and posted a negative EBIDTA of Rs.60 mn after consolidating the results of Ten Sports. The contribution of Ten Sports declined to Rs.147 mn in Q4 FY07, as compared to Rs.200 mn in Q3 FY07. Management has guided for the sports business to breakeven in FY08, which has been putting a strain on the company's profits.



Earnings Model - Zee Entertainment Enterprise Ltd.

Profit and Loss account (In millions)	Q1*	Q2*	Q3	Q4	FY 07**	Q1E	Q2E	Q3E	Q4E	FY 08E
Total Revenue	3884	4638	4177	3844	16542	3904	4226	4732	4795	17657
Personnel	334	328	232	292	1185	328	330	274	350	1282
Transmission & Programming cost	2205	3041	1721	969	7936	1659	1881	1988	2038	7565
Other Expenses	619	931	867	1632	4048	956	955	994	1079	3984
Total Cost	3158	4300	2820	2893	13169	2943	3165	3256	3467	12831
EBIDTA	726	338	1357	951	3373	960	1061	1476	1328	4826
Depreciation	92	102	69	56	318	74	72	71	62	279
EBIT	635	237	1288	896	3055	886	989	1406	1266	4546
Interest	125	30	68	8	232	31	30	43	53	156
Minority Interest Before Net Profit	109	0	0	0	109	0	0	0	0	0
Non Operating Income	162	203	155	177	697	144	165	194	192	695
Profit before Tax	562	409	1375	1064	3410	999	1124	1557	1405	5085
Total Tax	0	76	417	365	858	250	309	501	457	1517
PAT before Minority Interest	562	333	958	699	2552	749	815	1056	948	3568
Minority Interest	13	-12	83	95	179	70	68	95	86	319
Profit after Tax & Minority Interest	549	345	875	604	2374	679	747	961	862	3250
Earnings Per Share (In Rs.)	1.33	0.84	2.02	1.39	5.48	1.57	1.72	2.22	1.99	7.50
Weighted average Shares Outstanding (mn)	412.5	412.5	433.4	433.4	433.4	433.4	433.4	433.4	433.4	433.4
EBIDTA Margin (%)	18.7%	7.3%	32.5%	24.8%	20.4%	24.6%	25.1%	31.2%	27.7%	27.3%
EBIT (%)	16.3%	5.1%	30.8%	23.3%	18.5%	22.7%	23.4%	29.7%	26.4%	25.7%
PBT Margin (%)	14.5%	8.8%	32.9%	27.7%	20.6%	25.6%	26.6%	32.9%	29.3%	28.8%
NPM (%)	14.5%	7.2%	22.9%	18.2%	15.4%	19.2%	19.3%	22.3%	19.8%	20.2%
Effective Tax Rate (%)	0.0%	18.6%	30.3%	34.3%	25.1%	25.0%	27.5%	32.2%	32.5%	29.8%

**The previous figures include the results of Demerged undertaking of Zee News Limited, Wire & Wireless (India) Limited & Direct Consumer Business, hence are not comparable.*

*** Q1 & Q2 FY07 numbers of Earnings model includes pre merger numbers, hence are not comparable. Proforma numbers for FY07 are reported in Financial Snapshot page no: 2 and also in Key quarterly Highlights in page no: 7.*



IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and nonfinancial data of the concerned company using a combination of P/E, P/Sales, earnings growth, discounted cash flow (DCF) and its stock price history.

The risks that may impede achievement of the price target/investment thesis are -

- **Adverse changes in the economic climate**
- **Loss in Viewership share**
- **Increase in the competition of general entertainment genre**
- **Slower than expected offtake in subscription revenues**



Rating system of First Global

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: CNX Nifty 50 Index

Positive Ratings

(i) Buy (B) – *This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.*

(ii) Buy at Declines (BD) – *This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.*

(ii) Outperform (OP) – *This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.*

Neutral Ratings

(i) Hold (H) – *This rating means that we expect no substantial move in the stock price over the specified time period.*

(ii) Marketperform (MP) – *This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.*

Negative Ratings

(i) Sell (S) – *This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.*

(ii) Sell into Strength (SS) – *This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.*

(iii) Underperform (UP) – *This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.*

(iv) Avoid (A) – *This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.*



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