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### Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aban Loyd	03-Mar-05	330	987	1,200
♦ Alphageo	27-Dec-05	81	110	135
♦ Indian Hotels	17-Nov-05	766	1,335	1,474
♦ Orient Paper	30-Aug-05	214	292	335
♦ TCS	06-Mar-06	1,705	1,764	1,980

# Media

## Sector Update

### CAS(E) heard

In a landmark judgement the Delhi High Court (DHC) has ordered the central government to roll out the conditional access system (CAS) in India within a period of four weeks. The DHC has also directed the central government to revoke its order dated February 24, 2004 that had scrapped the roll-out of CAS.

#### Why CAS is needed?

Three types of players are mainly involved in the distribution of a channel in a cable network.

- ♦ The broadcaster: the person who owns the channel and its content
- ♦ The multi system operator (MSO): the one who carries the signal from the broadcaster to the various access cable operators (ACOs)
- ♦ The ACO: the last link in the distribution chain, the ACOs carry the channels to the viewers. They act as a franchisee for the MSOs.

The Indian cable industry is very fragmented. It is estimated that besides the five major players, viz Siticable, Hathaway Cables, IndusInd Media, Sun TV and RPG Netcom, there are numerous MSOs operating in India, controlling at least 40% of the cable television viewers in India. Under these MSOs there are more than 25,000 ACOs, who redistribute the cable channels to the actual viewers.

The fragmented nature of the industry causes severe under-reporting of the subscriber number on part of the cable operators and results in a revenue loss to the broadcasting companies. In India even though 65 million households are estimated to have cable, the number of cable households as reported by the MSOs and ACOs is very less.

#### Gainers in listed space: NDTV, TV18

New Delhi Television (NDTV) and Television Eighteen India (TV18) will benefit the most from the implementation of

CAS. While initiating coverage on both these companies, one of our key investment arguments was that these companies would record a sharp growth in their subscription revenues as and when CAS is implemented in the country. With the DHC now directing the government to implement CAS in the country shortly, we remain bullish on both NDTV and TV18.

Company	Subscription revenues in our numbers for FY2007	Impact of 1 million additional subscribers on the EPS for FY2007
TVEIL	Rs35 crore	9.8%
NDTV	Rs24 crore	8.1%

#### Valuation tables

##### TVEIL

Year ended March 31	2004	2005	2006E	2007E
Net profit (Rs cr)	11.1	31.8	40.3	55.3
Shares in issue (cr)	1.5	1.7	1.8	1.9
EPS (Rs)	7.4	18.8	22.2	28.4
% y-o-y growth	10.4	153.6	17.8	28.1
PER (x)	54.6	3.7	32.0	20.2
Book value	35.3	60.5	90.7	123.8
P/BV (x)	16.1	9.4	6.3	4.6

##### NDTV

	FY2004	FY2005	FY2006E	FY2007E
EPS (Rs)	-9.8	5.3	4.5	8.0
PER (x)		42.0	49.5	31.2
Book value	36.0	36.0	39.0	47.0
P/BV	6.2	6.1	5.6	4.9
EV/EBITDA (x)	-	26.1	25.5	16.3
RoE (%)	-54.4	15.9	13.5	18.4
RoCE (%)	-41.8	14.1	12.9	17.7

The author doesn't hold any investment in any of the companies mentioned in the article.

# Telecom

## Sector Update

### Bharti rings the loudest

The upswing in the Indian cellular industry continued in February 2006 with the country's subscriber base increasing to 93 million users (65.2 million GSM users and 27.82 million CDMA users). The GSM subscriber base grew by 5.1% month on month (mom) to 65.2 million users. The GSM operators added 3.17 million subscribers in the month, led by the strong performance of Bharti Tele-Ventures and Hutchison. The CDMA operators added 1.11 million subscribers in the same period. According to the Cellular Operator Authority of India, the GSM mobile industry continues to hold 77% of the total domestic mobile market and accounts for 74% of the new additions.

#### Bharti, Reliance post a good show, BSNL disappoints

Bharti and Reliance Communication Ventures emerged as the major winners of the month. Bharti topped the charts by adding 1.08 million subscribers, the highest ever addition. However, after adding more than a million subscribers for two consecutive months, Bharat Sanchar Nigam Ltd (BSNL) reported a slowdown in the addition and managed to secure only 0.69 million subscribers in February. During the month BSNL's total subscriber base increased by only 4.5% mom to 16.06 million subscribers.

Hutchison continued its impressive performance, adding 0.77 million subscribers in the period under review. If we also take into account the BPL figures, then it added a total of 0.786 million subscribers in February. The total subscriber base of Hutchison (including that of BPL) increased to 18.19 million subscribers, up 4.8% over January.

Among the CDMA mobile players, Reliance Infocomm added 1 million subscribers in February to reach 17.60 million subscribers. Tata Teleservices added 287,645 users in February, against the 406,242 subscribers added in January. The company's total subscriber base stands at 8,417,463 users.

#### Bharti leads the pack

Bharti still leads the pack with an overall market share of 21.9% and is closely followed by Reliance with a 19.5% share. BSNL's share declined marginally from 19.2% in January to 19% this month while Hutchison maintained its share at 17.2%.

The performance of the industry is impressive in general and that of Bharti in particular. The life-time validity recharge coupons launched in December 2005 had increased the growth momentum in subscriber addition and there has been no let-up since then.

(in million)	Additions in February	Total subscriber base	mom rise in subscriber base (%)	Market share (%)
Bharti	1.1	18.5	6.2	21.9
Reliance	1.0	17.6	5.2	19.5
BSNL	0.7	16.1	4.5	19
Hutchison	0.8	15.2	5.4	17.2
Idea	0.3	7.0	4.0	8.3
Total	4.3	93.02	5.1	

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# Motor Industries Company

Viewpoint

Margins under pressure

CMP: Rs3,197

Motor Industries Company Ltd (MICO) reported a 36% year-on-year (y-o-y) growth in its net sales in Q4CY2005. However, the strong growth in the top line failed to deliver the same growth in its earnings (which actually declined by 4%). We believe that as the company has to currently import the common-rail diesel injection (CRDi) system from its parent, the margins from the product are lower.

In the analyst conference call post-Q4CY2005 results, the company had announced its plans to produce the CRDi systems domestically and has committed an investment of Rs400 crore for the same. We believe that as the company shifts the source to domestic production from imports the profitability will be back on track.

The demand for the CRDi systems is expected to remain strong as companies like Maruti Udyog and Hyundai have announced plans to put up facilities for diesel engine cars.

## Q4CY2005 results highlights

### Strong top line growth, does not translate into profits

MICO reported a 36% y-o-y growth in its net sales in Q4CY2005 and the net earnings at Rs63.1 crore declined

by 4% year on year (yoy). The operating margins declined by 620 basis points to 18.4%, mainly due to an increase in the raw material costs. The raw material costs rose sharply to 50.8% of the sales mainly due to the change in the product mix towards distributor pumps (where the raw material content is high) from the multi and single cylinder pumps. Consequently, the operating profits growth was flat at 2.4% yoy.

### Higher depreciation charge, dampens results

The depreciation charges for Q4CY2005 jumped by 108% yoy to Rs77.7 crore and by 100% for CY2005 at Rs198 crore. This was mainly attributable to its aggressive capital expenditure (capex) plans. For CY2005 the capex of Rs400 crore has been implemented. This is mainly towards the ramping up of the capacity of distributor pumps from 0.20 million units to 0.45 million units and towards the common-rail diesel (CRDi) plant. The profit after tax (PAT) for Q4CY2005 was down 26% yoy to Rs63 crore.

### Profit for CY2005 down by 10%

The net sales for the full year CY2005 have risen by 27.8% yoy while the net profits for the year have declined by 10%

## Result table

Particulars	Q4CY2005	Q4CY2004	% yoy chg	CY2005	CY2004	% yoy chg
Net sales	868.4	636.5	36.4	3089.2	2416.9	27.8
Expenditure	708.3	480.1	47.5	2433.2	1808.4	34.6
Operating profit	160.1	156.4	2.4	656.0	608.5	7.8
Other income	2.9	3.1		13.7	17.5	-21.6
EBIDTA	163.0	159.5	2.2	669.7	626.1	7.0
Interest	-10.4	-6.9		-49.3	-32.5	
PBDT	173.4	166.4	4.2	719.0	658.6	9.2
Depreciation	77.7	37.4	107.5	198.1	98.9	100.3
PBT	95.7	129.0		520.9	559.7	
Tax	32.8	43.2		185.9	188.8	
PAT	63.0	85.8	-26.6	335.0	370.9	-9.7
Extraordinary items	0.1	-25.0		8.1	3.8	
Net profit	63.1	60.8	3.8	343.1	374.8	-8.5
EPS	19.7	19.0		107.0	116.9	
<b>Margins</b>						
OPM (%)	18.4	24.6		21.2	25.2	
EBIDTAM (%)	18.8	25.1		21.7	25.9	
PATM (%)	7.3	9.6		11.1	15.5	

yoy. During CY2005, the company's exports were impacted adversely due to capacity constraints, in the wake of which it focused primarily on meeting the domestic demand for its products. Due to the higher raw material costs, the operating profits have just risen by 7.8% yoy as the margins declined by 400 basis points to 21.2%. Further, the depreciation costs rose on the back of the aggressive capex plans of the company.

#### **Domestic production to change the scene**

Bosch plans to invest about Rs1,800 crore in India between FY2005 and FY2008. This commitment is an extension of the previously announced investment plan of Rs1,000 crore between 2004 and 2007.

Out of this, the company plans to invest Rs400 crore per annum for the next 2 years, to set up a facility to manufacture high-pressure CRDi systems at its Nasik and Bangalore facilities. The CRDi systems are based on the most advanced and efficient diesel engine technology and Bosch is the world leader in CRDi technology, which should aid Mico to build its network in India. We believe that MICO would be a big beneficiary of the increased use of diesel technology in India.

We believe that the profitability on this product is currently low, as the company has to import the product from its parent. The company has started supplying imported CRDi engines to Mahindra & Mahindra. However, with the first locally manufactured common rail systems scheduled to come off the production lines by mid-2006 we believe that the profitability will bounce back.

The Bosch group has also decided to bring all the new applications developed in India under the Bosch brand in order to leverage on its brand name. Eventually, the applications under the MICO brand name will be reduced with the exception of specific areas such as after market sales where MICO has a significant presence.

#### **Valuations**

At the current market price of Rs3,197 the stock is trading at 29.8x its CY2005 earnings. We expect the company to continue the strong growth in the top line backed by the strong growth in diesel engine cars production in India. With indigenisation of the CRDi system, the profitability growth shall also bounce back.

The author doesn't hold any investment in any of the companies mentioned in the article.

# Tulip IT Services

Viewpoint

In an expansion mode

CMP: Rs268

Tulip IT Services (TIS) has announced the roll-out of its IP (internet protocol)-based virtual private network (VPN) wireless network connectivity across 350 cities under the brand name of Tulip Connect Services. With this launch, the company aims to become the largest managed data services player in the country.

## The project details

- ♦ TIS has launched its multi-protocol label switching (MPLS) enabled IP/VPN network that provides end-to-end connectivity to the customers' premises. The inter-city connectivity is through the leased out bandwidth on the optic fibre network of multiple service providers and the intra-city connectivity is based on the wireless network technology.
- ♦ The company is ahead of its target (stated in the public offer draft prospectus) to rollout services in 130 cities by the end of FY2006, as 350 cities have already been covered with an investment of Rs138 crore. It is expected to pump in another Rs42 crore to expand the network in additional 130-150 cities. Apart from this, the company plans to set up data centres in Delhi, Mumbai, Chennai and Bangalore.
- ♦ Though the company has not disclosed its order book, it has indicated that some new customers like HDFC Bank and Samsung were added during the current quarter. The management expects the total opportunity in the managed data services segment to grow to Rs1,200 crore over the next couple of years and the company will garner a substantial share of it. The key growth drivers for the demand are the implementation of the core banking software solutions and the increasing use of enterprise resource planning (ERP) and customer relationship management (CRM) products by small-and-medium enterprises, which requires secure data connectivity.

- ♦ In terms of threats, the company believes that the lack of fresh spectrum allocation will prevent new entrants from foraying into the wireless connectivity space. Moreover, there is no technological obsolescence issue as the new competing technologies like Wi-Max are not financially viable yet.

However, it is still unclear on the company's ability in the long run to compete with the telecom service providers having a national footprint like Bharti and Reliance Infocomm. Especially since they already have the required network in place and generate substantial revenues from the data connectivity services business. For instance, Bharti reported revenues of Rs186 crore from the enterprise services segment (which is primarily data connectivity services) in Q3FY2006.

- ♦ In the first nine months, the company has reported revenues of Rs42.6 crore from the VPN business while the balance of Rs288 crore has been contributed by the network integration business. With this launch, the contribution from the high-margin VPN services is likely to increase considerably and boost the overall profitability of the company.

## Network integration, steady growth

In addition to the exponential growth expected in the VPN business, the company is expected to maintain the growth momentum in the network integration business and is moving up the value chain by providing remotely managed network services. The network integration segment is growing at a double-digit rate and has been estimated at Rs4,164 crore in FY2005 by the Voice & Data magazine.

## Valuation

At the current market price the scrip trades at 20.4x its FY2006 annualised earnings and around 13x its FY2007 estimated earnings.

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## What's In—What's Out

### Mutual Fund

### Fund Analysis: March 2006

An analysis has been undertaken on equity and mid-cap funds' portfolios, indicating the favourite picks of fund managers for the month of February 2006. Equity funds comprise of all diversified, index, sector and tax planning funds, whereas mid-cap funds include a universe of 16 funds such as Reliance Growth, Franklin India Prima Fund, HDFC Capital Builder, Birla Mid-cap Fund etc.

#### What's in

Top new stocks added to equity funds' portfolios.

Company name	No of shares	Mkt value (Rs cr)
Alstom	69993	3.55
Entertainment Network	102037	2.39
Gujarat State Petronet	2881237	12.97
GVK Power & Infrastructure	365562	11.37
Inox Leisure	1049283	18.08
Jagran Prakashan	1345271	34.18
Jay Shree Tea & Industries	39219	0.72
K Sera Sera Productions	247300	1.68
Lanxess ABS	268435	2.99
Morarjee Textiles	1154279	13.91
Mukand	399467	3.37
Royal Orchid Hotels	416362	7.93
Sadbhav Engineering	244318	4.52
Sangam (India)	100000	0.83
Saw Pipes	222254	9.84
Shaw Wallace & Company	326488	5.41
Sical Logistics	58400	2.59
SSI	1992957	22.67
Sterling Biotech	300249	3.61
TRF	96800	3.15

Top new stocks in the mid-cap funds' portfolios.

Company name	No of shares	Mkt value (Rs cr)
Asian Paints	50521	3.38
Assam Company	4300000	11.48
BPCL	1038022	45.21
Cadila Healthcare	125755	6.73
Chettinad Cement Corp	--	1.29
Coromandel Fertilisers	193381	1.57
Gateway Distriparks	424040	10.47
Gujarat State Petronet	2199813	8.14
IBP	55044	3.06
Jagran Prakashan	347367	8.83
Kesoram Industries	86914	1.47
McNally Bharat Engineering	125000	1.74
Mukand	399467	3.37
Royal Orchid Hotels	115153	2.19
RPG Life Sciences	115013	1.96
Sadbhav Engineering	65705	1.22
Sasken Communication	70514	2.32
Shaw Wallace & Company	326488	5.41
Sical Logistics	58400	2.59
TRF	96800	3.15

#### What's out

Complete exits in the equity funds' portfolios.

Company name
Amforge Industries
Bharat Gears
DCM
D-Link (India)
Kirloskar Electric Company
Oudh Sugar Mills
Subhash Projects & Marketing
Sunflag Iron & Steel Company
Tata Timken
Themis Medicare

Complete exits in the mid-cap funds' portfolios.

Company name	Company name
Amforge Industries	South India Corp(Agencies)
Apollo Tyres	Tata Infotech
Arvind Mills	Texmaco
Ballarpur Industries	Welspun India
Canara Bank	Prithvi Nandy Comm
Colgate-Palmolive (India)	D-Link (India)
Escorts	Pharmacia Healthcare
Finolex Industries	Solelectron Centum Elec
Gabriel India	Datamatics Technologies
Gujarat Heavy Chemicals	Kenna Metal
Lloyd Electric & Engineering	Jindal Stainless
Max India	Themis Medicare
Navneet Publications (India)	Shivani Oil & Gas Exploration
Novartis India	Linc Pens & Plastic
Oswal Chemicals & Fert	Everest Kanto Cylinder
Oudh Sugar Mills	

## Favourite picks for the month

Top additions to the existing holdings of equity funds' portfolios.

Company name	No of shares added	Mkt value added (Rs cr)
Andhra Bank	7663033	67.13
Bajaj Auto	303800	79.03
Bharat Petroleum Corporation	1874616	81.55
Bharati Tele - Ventures	977557	35.32
Deccan Chronicle Holdings	771433	33.90
Dr Reddys Laboratories	398987	51.98
Gammon India	588562	31.51
Grasim Industries	418982	73.01
Hindustan Lever	3992916	96.61
Indian Oil Corporation	907579	50.41
ITC	8599417	148.43
Jain Irrigation Systems	2321847	52.30
Maruti Udyog	347604	28.59
Orchid Chemicals	935213	30.09
Raymond	740592	32.23
Reliance Capital	1886647	94.33
Shoppers Stop	1470749	78.11
Steel Authority of India	9544859	60.75
Tata Consultancy Services	250425	42.44
Trent	418028	37.34

Top additions to the existing holdings of mid-cap funds' portfolios.

Company name	No of shares added	Mkt value added (Rs cr)
Assam Company	4300000	11.48
Bank of Baroda	1901183	42.43
BPCL	1038022	45.15
Cadila Healthcare	125755	6.77
Dena Bank	5365425	19.34
Gateway Distriparks	424040	10.47
Gujarat State Petronet	2199813	8.13
HCL Infosystems	516640	9.07
Hindustan Lever	240174	5.81
Indraprastha Gas	853840	11.87
IDBI	1500189	12.56
Jagran Prakashan	179372	4.56
MTNL	573211	8.17
Matrix Laboratories	252034	6.35
Oil & Natural Gas Corpn	199910	22.72
Pantaloon Retail (India)	34572	5.99
Reliance Industries	825582	58.51
Shaw Wallace & Company	326488	5.41
Sundaram Finance	179620	7.23
TVS Motor Company	1540973	18.40

## Popular stocks in mid-cap funds

Company name	No of shares	Mkt value (Rs cr)
Aditya Birla Nuvo	2000000	147.72
Bharat Earth Movers	1177083	174.23
Crompton Greaves	1170882	104.5
Cummins India	3490447	83.56
EID Parry (India)	4244001	102.43
Goodlass Nerolac Paints	1327940	108.82
Hindustan Construction Co	5266307	79.24
Hindustan Lever	5070003	123.56
IPCA Laboratories	2751162	92.82
Jaiprakash Industries	3601800	227.83
Jindal Saw	2064867	91.4
Jindal Steel and Power	512516	78.34
Kirloskar Brothers	0	95.52
Maharashtra Seamless	1576925	90.82
MICO	324417	95.77
Mphasis BFL	6880750	119.35
Reliance Industries	1525545	108.14
State Bank of India	1100001	96.53
Strides Arcolab	2644568	92.03
United Phosphorus (New)	3103853	84.1

## Exclusive stocks

Some stocks held by only one fund.

Company	Fund house
Balmer Lawrie Investments	PRINCIPAL Mutual Fund
Bartronics India	HDFC Mutual Fund
Control Print (I)	HDFC Mutual Fund
Dhunseri Tea & Industries	PRINCIPAL Mutual Fund
Ennore Foundries	PRINCIPAL Mutual Fund
Godrej Industries	PRINCIPAL Mutual Fund
Kernex Microsystems (India)	DSP Merrill Lynch Mutual Fund
Moser Baer (India)	DSP Merrill Lynch Mutual Fund
Sanjivani Paranteral	Tata Mutual Fund
Z F Steering Gear (India)	Kotak Mahindra Mutual Fund



### Cash rich funds: Top 10 funds having more cash compared to the others (%)

Reliance RSF - Equity, UTI Master Value Fund, JM Emerging Leaders Funds, HSBC Advantage India fund, JM Equity and Principal Global Opportunities Fund are some of the cash rich equity diversified funds waiting for the right valuations to invest.

Scheme	Equity (%)	Debt (%)	Cash & equivalent (%)
Reliance RSF - Equity	48.28	0	51.72
UTI Master Value Fund	60.7	0	39.3
JM Emerging Leaders Fund	61.24	0	38.76
HSBC Advantage India Fund	64.5	0	35.5
JM Equity	70.11	0	29.89
Escorts Growth Plan	70.3	0	29.7
Can D MAT	72.15	0	27.85
PRINCIPAL Global Opportunities Fund	74.69	0	25.31
Sahara Wealth Plus Fund	77.71	0	22.19
Reliance NRI Equity Fund	79.55	0	20.45

**Disclaimer:** mutual fund investments are subject to market risk. Please read the offer document carefully before investing. Past performance may or may not be sustained in the future.

## Evergreen

HDFC Bank  
 Infosys Technologies  
 Reliance Industries  
 Tata Consultancy Services

## Apple Green

Aditya Birla Nuvo  
 Associated Cement Companies  
 Bajaj Auto  
 Balrampur Chini Mills  
 Bharat Bijlee  
 Bharat Heavy Electricals  
 Container Corporation of India  
 Corporation Bank  
 Crompton Greaves  
 Emco  
 Godrej Consumer Products  
 Grasim Industries  
 Hindustan Lever  
 Hyderabad Industries  
 ICICI Bank  
 Indian Hotel Company  
 ITC  
 Mahindra & Mahindra  
 Marico Industries  
 Maruti Udyog  
 McDowell & Company  
 MRO-TEK  
 Lupin  
 Nicholas Piramal India  
 Omax Auto  
 Ranbaxy Laboratories  
 Satyam Computer Services  
 Sintex Industries  
 SKF India  
 State Bank of India  
 Tata Motors  
 Tata Tea  
 Unichem Laboratories

## Vulture's Pick

Esab India  
 Mahanagar Telephone Nigam  
 Orient Paper and Industries  
 WS Industries India

## Emerging Star

3i Infotech  
 Aarvee Denim and Exports  
 Aban Loyd Chiles Offshore  
 Alok Textile Industries  
 Alphageo India  
 KSB Pumps  
 Marksans Pharma  
 Navneet Publications (India)  
 New Delhi Television  
 Orchid Chemicals & Pharmaceuticals  
 ORG Informatics  
 Solectron Centum Electronics  
 Television Eighteen India  
 Thermax  
 Tube Investments of India  
 UTI Bank  
 Welspun Gujarat Stahl Rohren  
 Welspun India

## Ugly Duckling

Deepak Fertilisers & Petrochemicals Corporation  
 Genus Overseas Electronics  
 HCL Technologies  
 ICI India  
 Jaiprakash Associates  
 JM Financial  
 KEI Industries  
 Nelco  
 Numeric Power Systems  
 Punjab National Bank  
 Ratnamani Metals and Tubes  
 Sanghvi Movers  
 Saregama India  
 Sun Pharmaceutical Industries  
 Surya Pharmaceuticals  
 UltraTech Cement  
 Union Bank of India  
 Universal Cables  
 Wockhardt

## Cannonball

Balmer Lawrie & Company  
 Cipla  
 Gateway Distriparks  
 International Combustion (India)  
 JK Cements  
 Madras Cement  
 Shree Cement  
 Transport Corporation of India

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