

February 15, 2007

FOR PRIVATE CIRCULATION
Equity

	14 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,010	(0.6)	(0.8)	4.0
Nifty	4,047	0.1	(0.8)	4.4
Banking	6,977	(4.0)	(5.7)	(1.2)
IT	3,783	0.7	1.8	10.4
Healthcare	3,734	0.3	(4.5)	(1.9)
FMCG	1,869	0.1	(3.3)	(8.5)
PSU	6,119	(0.4)	(1.7)	(0.3)
CNX Midcap	5,095	0.2	(3.1)	1.2
World indices				
Nasdaq	2,488.4	1.2	(0.6)	1.9
Nikkei	17,753	0.7	3.7	9.9
Hangseng	20,210	0.4	2.3	7.5

Value traded (Rs cr)

	14 Feb 07	% Chg - 1 Day
Cash BSE	4,056	(11.6)
Cash NSE	8,879	(11.3)
Derivatives	42,022	(14.3)

Net inflows (Rs cr)

	13 Feb 07	% Chg	MTD	YTD
FII	(239.6)	(209.6)	(599.2)	(599.2)
Mutual Fund	24.9	(106.4)	(70.2)	194.7

FII open interest (Rs cr)

	13 Feb 07	% chg
FII Index Futures	14,548.7	8.5
FII Index Options	7,330.8	1.1
FII Stock Futures	17,926.3	3.0
FII Stock Options	35.9	21.9

Advances/Declines (BSE)

	14 Feb 07	A	B1	B2	Total	% Total
Advances	99	267	278	644	42	
Declines	109	362	376	847	56	
Unchanged	2	9	16	27	2	

Commodity

	14 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	58.1	0.1	9.6	(1.2)
Gold (US\$/OZ)	669.1	0.7	6.6	7.2
Silver (US\$/OZ)	14.0	1.1	8.5	8.4

Debt/forex market

	14 Feb 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	8.08	7.89	7.83	7.52
Re/US\$	44.12	44.20	44.29	45.18

Sensex


Source: Bloomberg

ECONOMY NEWS

- The Prime Minister is believed to have kicked off a discussion at the highest level on whether peak tariffs should be reduced to Asean levels this budget itself. This may require reduction of about 500 bps in the peak customs duty. (ET)
- The Center is planning a series of steps to mount an assault on inflation. The Finance Ministry and the department of industrial policy & promotion have been asked to come up with measures to control prices of manufactured products. (ET)
- In an attempt to stem rising prices, the Government has imposed a ban on export of wheat and most categories of milk and milk powder. It has also removed all restrictions on import of corn. (ET)
- More monetary tightening, at much frequent intervals, is likely to contain the fallouts of foreign capital inflows, which are likely to soar on Standard & Poor's upgrading India to investment grade and positive growth surprises. (BS)
- To take the share of the manufacturing sector in the GDP to 22% from the present 15% by 2015, Ficci has asked the Government to reform the labor laws and incentivize innovation and technology. (BL)

CORPORATE NEWS

- **Infosys** is scouting for acquisitions of mid-sized BPO companies in Europe. Sources in the industry said the company is looking at deals valued at over Rs.4 bn. Infosys plans to increase the scale of its BPO outfit through an acquisition. (ET)
- **ICICI Bank** has decided to hold interest rates charged to existing home loan borrowers even as Government-owned Punjab National Bank and Bank of India hiked their interest rates across-the-board effective from Thursday. (BS)
- **Bharti Airtel** has cut roaming tariffs and scrapped rental rates for roaming services, in line with guidelines issued by the Telecom Regulatory Authority of India's last month. The reduction in tariffs is effective February 15. (BS)
- **Tata Motors** and Fiat, Italy have signed an agreement that provides for a Tata license to build a pick-up vehicle at Fiat's plant in Córdoba, Argentina. (BL)
- **BSNL** has awarded a 4-mn line cellular contract to Nortel, Ericsson and Nokia at an estimated cost of \$250 mn. (BL)
- **ONGC** and Italy-based Eni have signed two parallel agreements for the swap of participating interests for exploration blocks in India and Congo Brazzaville. (BS)
- **Videocon Industries** is beefing up its presence in LCD panel manufacturing. The company has announced investments worth 1.06 bn euros (Rs.61 bn) to set up a greenfield LCD panel manufacturing facility in Italy. (BS)
- **Gitanjali Gems** has announced that it has purchased a majority interest in Tri-Star Worldwide, the New York-based proprietor and marketer of Canadia branded diamonds and diamond jewelry. (ET)
- The **Bombay Stock Exchange** has taken its first step towards demutualization when it offered a 5% stake to Deutsche Boerse for Rs.1.89 bn. The deal pegs the enterprise value of BSE around \$910 mn, based on the post-issue equity capital of Rs.7.72 mn. (ET)
- Vodafone have said it would invest \$2 bn over the next couple of years to expand **Hutch-Essar's** reach in rural India and promised cheaper mobile rates and better services to customers. (BL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

RESULT UPDATE

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AIA ENGINEERING LTD (Rs.1240, FY09E PER: 12.2x BUY)

The results were in line with our expectations. We maintain BUY with an unchanged price target of Rs.1510 (22% upside potential)

AIA Engineering has reported good Q3FY07 results, which were in line with our estimates. On a consolidated basis, the company produced 17512 MT in Q3FY07 against 17022 MT in Q3FY06, registering a YoY growth of 2.9%. Also, sequentially it grew by 2.3%

Consolidated summary table

Rs mn	FY06	FY07E	FY08E	FY09E
Sales	4,070	5,201	8,620	11,778
Growth (%)	38.6	27.8	65.7	36.6
EBITDA	815	1,315	2,086	2,753
EBITDA margin (%)	20.0	25.3	24.2	23.4
Net profit	543	978	1,441	1,911
Net debt	301	(1,123)	(821)	(1,318)
EPS (Rs)	29.5	52.0	76.6	101.7
Growth (%)	96.6	86.8	47.3	32.7
DPS (Rs)	2.5	2.5	2.5	2.5
ROE (%)	29.0	25.5	25.6	26.2
ROCE (%)	36.4	31.2	33.2	34.7
EV/Sales (x)	5.8	4.3	2.6	1.9
EV/EBITDA (x)	29.0	16.9	10.8	8.0
P/E (x)	42.1	23.8	16.2	12.2
P/BV (x)	8.5	4.7	3.7	2.8

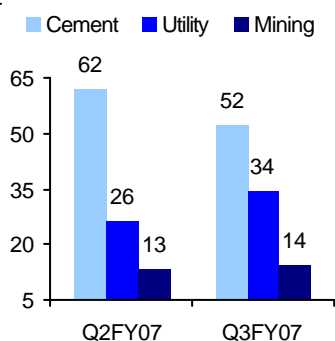
Source: Company & Kotak Securities - Private Client Research

Consolidated quarterly performance

(Rs mn)	Q3FY07	Q3FY06	YoY%	Q2FY07	QoQ (%)	9MFY07
Net Sales	1,235	945	30.8	1,311	(5.7)	3,704
Increase / decrease in stock	(68)	(183)	(62.8)	(1)	9,974.2	(82)
Raw materials	643	559	15.1	586	9.7	1,759
Staff cost	61	49	23.4	62	(2.8)	181
Other exp.	284	301	(5.7)	332	(14.5)	915
Total exp.	920	726	26.6	980	(6.1)	2,774
EBIDTA	316	218	44.6	331	(4.5)	930
Other income	52	23	124.5	19	169.7	116
Depreciation	22	18	18.5	18	22.4	58
EBIT	346	223	55.1	332	4.1	988
Interest	5	17	(70.5)	7	(24.9)	20
PBT	341	206	65.5	325	4.7	968
Tax & deferred tax	89	64	40.0	81	9.7	250
PAT	251.4	142	76.9	244	3.0	718
Minority Interest	2.5	6	(60.8)	2.6	(5.5)	7
NPAT	249	136	83.4	241	3.1	711
Equity shares o/s (mn)	18.8	18.8		18.8		18.8
Ratios						
Operating profit margin (%)	25.6	23.1	+250 bps	25.2	+40 bps	25.1
Raw Materials / Sales (%)	46.6	39.8		44.7		45.3
Staff cost / Sales (5)	4.9	5.2		4.8		4.9
Other Exp. / Sales (%)	23.0	31.9		25.3		24.7
EPS (Rs)	13.2	7.2		12.8		37.8
CEPS (Rs)	14.4	8.2		13.8		40.9
Qty Produced MT	17512	17022	2.9	17122	2.3	

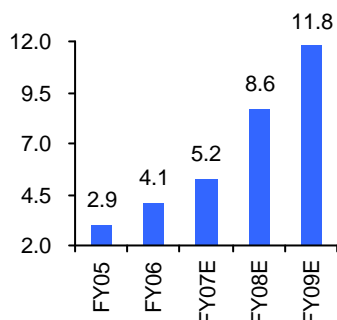
Source: Company

Domestic sales breakup (%)

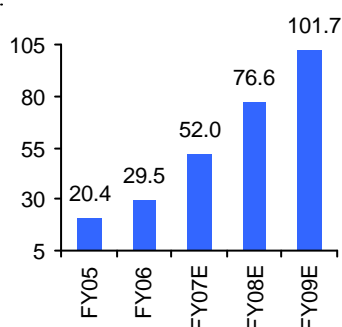


Source: Company

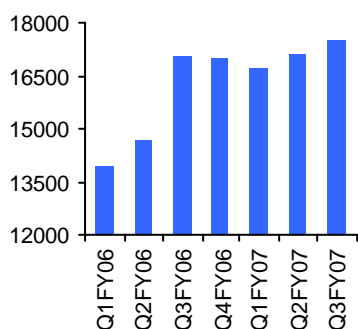
- Net sales for Q3FY07 were at Rs.1.2 bn. This was higher by 30.8% on a YoY basis. The average realization for mill internals also went up due to steady demand for the company's high quality products. The segmental break-up of the sales of mill internals within India is 52% for cement, 34% for utilities and 14% for the mining industry.
- Exports stood at Rs.550 mn in Q3FY07 as against Rs.350 mn in Q3FY06 constituting 44% and 37%, respectively, of the total consolidated revenues for the respective periods. Mill internals for the cement industry contributed nearly 100% of the exports as sales from the exports of mill internals for the mining sector would start flowing in from the current quarter as the expansion at Chandogar, near Ahmedabad is likely to be completed in the current quarter.
- EBIDTA margin during Q3FY07 was up 250 bps on a YoY basis and up 40 bps on a QoQ basis to 25.6% due to higher average realizations and sharp reduction in other expenditure to sales ratio. It stood at 23% in Q3FY07 as against 31.9% in Q3FY06.

Net sales (Rs bn)

Source: Company, Kotak Securities - Private Client Research

EPS (Rs)

Source: Company, Kotak Securities - Private Client Research

Quantity produced

Source: Company

**We maintain BUY on AIA
with a price target of
Rs.1510**

- EBIDTA for Q3FY07 was at Rs.316 mn, up 44.6% on a YoY basis and down 4.5% on a sequential basis.
- Higher depreciation was provided during Q3FY07 of Rs.22 mn. This was higher by 18.5% on a YoY basis due to ongoing expansion and modernization program of capacities.
- The other income of the company went up significantly to Rs.52 mn in Q3FY07 as against Rs.23 mn in Q3FY06. This was primarily due to income from the proceeds of the equity issue, which were invested in short-term fixed deposits and liquid mutual fund schemes, pending deployment in the business.
- PBT for Q3FY07 was up 65.5% on YoY and up 4.7% on sequential basis to Rs.341 mn.
- PAT for Q3FY07 was at Rs.249 mn, up 83.4% on a YoY basis and up 3.1% on sequential basis, thereby translating into quarterly EPS of Rs.13.2 and quarterly CEPS of Rs.14.4.

Expansion plans are on track

- At present, the company has 65,000 TPA capacities on a consolidated basis. The company will expand the capacity by 50,000 TPA to 115,000 TPA in the first week of March 2007. Further, the capacity is likely to rise by another 50,000 TPA to 165,000 TPA by October 2007.
- In order to cater to the significant demand of mill internals for the mining segment the company is setting up another 100,000 TPA plant for manufacturing high chrome mill internals. The first phase of 50,000 TPA of the expansion is expected to commence commercial production by October 2008 and the second phase is expected to commence commercial production by March 2009.
- The expanded capacity would lead to significant growth in the revenues and profitability of the company going forward.

Stable operating margins

On the margin front, AIA has been able to fully pass on the hike in its key raw material, that is, ferro chrome prices, thereby keeping its margins intact. Also, higher capacity utilization is leading to greater operational efficiency leading to lower cost per unit and increasing profitability. We expect this trend to continue. Hence, we are positive about the future prospects of the company.

Robust order book

As of December 31 2006, the company has a robust order book of Rs.3.7 bn. Out of this order book, nearly 40% is for projects and the balance approximately 60% is for replacement. Almost 55% of the order book is for exports. The project orders are mainly for new cement capacities that are being set up India. AIA has won major contracts to supply mill internals for new cement plants.

Valuation and recommendation

- We maintain our earnings estimates for FY07E, FY08E, FY09E, and expect the company to report EPS of Rs.52.0, Rs.76.6 and Rs.101.7, respectively.
- At the current market price of Rs.1340, the stock trades at 4.7x for FY07E, 3.7x FY08E and 2.8x FY09E to book value.
- It discounts FY07E, FY08E and FY09E earnings at 23.8x, 16.2x, and 12.2x, respectively.
- It discounts FY07E, FY08E and FY09E cash earnings at 21.9x, 14.7x, and 11.1x respectively.
- We remain positive on the growth prospects of the company. The ongoing expansion plans would keep its position stronger in the future leading to increased revenues and profitability going forward.
- We maintain our **BUY** on AIA with an unchanged price target of Rs.1510 (22% upside potential).

RESULT UPDATE

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INDRAPRASTHA GAS

(Rs.112, FY08E PER: 10.5x, BUY)

IGL has posted good results for Q3FY07, which are in line with our estimates. We maintain our price target of Rs.145 (29% upside) and reiterate BUY on IGL.

- Net sales for Q3FY07 were at Rs.1.6 bn, up 16.7% YoY and 3.7%, on a sequential basis. Higher sales were a result of an increase in volumes of both CNG and PNG.
- During Q3FY07, IGL sold 88.8 mn kg of CNG as against 82.5 mn kg of CNG in the same period last year registering a YoY volume growth of 7.6%.
- IGL sold 9.1 mn SCM of PNG in Q3FY07 as against 6.8 mn SCM of PNG during the same period last year showing an impressive volume growth of 33.8%.
- Operational profit grew 12.4% on a YoY basis to Rs.654 mn. The company recorded EBIDTA margins of 40.9%, which is down 150 bps on a YoY basis. This was primarily due to higher raw materials to sales ratio at 45.1% in Q3FY07, as against 42.2% in the same quarter last year.
- IGL provided higher depreciation during Q3FY07 at Rs.150 mn, up 4.8% on a YoY basis due to the ongoing programme to widen reach within the NCR region.
- PBT for Q3FY07 was at Rs.528 mn up 19.9% on YoY and up 1.8% on sequential basis.
- PAT for Q3FY07 was at Rs.355 mn up 21% on YoY basis and up 1.9% on sequential basis. This translated into quarterly EPS of Rs.2.5 and CEPS of Rs.3.6.

Summary table

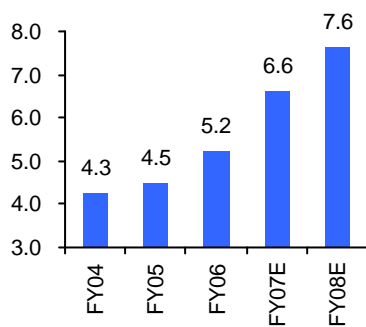
(Rs mn)	FY06	FY07E	FY08E
Sales	5,209	6,249	7,609
Growth (%)	15.7	20.0	21.8
EBIDTA	2,135	2,515	2,967
EBIDTA margin (%)	41.0	40.3	39.0
Net profit	1,061	1,319	1,495
EPS (Rs)	7.6	9.4	10.7
Growth (%)	14.5	24.3	13.4
CEPS (Rs)	11.6	13.8	15.7
DPS (Rs)	2.5	2.5	2.5
ROE (%)	30.7	31.0	28.3
ROCE (%)	40.8	43.4	42.6
EV/Sales (x)	3.0	2.5	2.1
EV/EBIDTA (x)	7.4	6.3	5.3
P/E (x)	14.8	11.9	10.5
P/BV (x)	4.1	3.3	2.7
P/CEPS (X)	9.6	8.1	7.1

Source: Company & Kotak Securities - Private Client Research

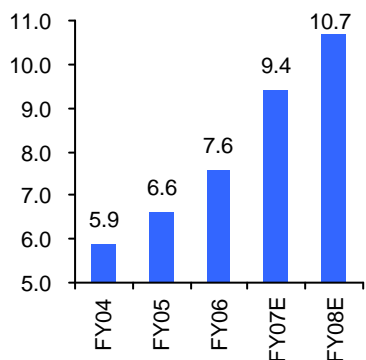
Quarterly performance

(Rs mn)	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)	9MFY07
Net Sales	1,599	1,370	16.7	1,542	3.7	4,498
Increase / decrease in stock	(0)	(0)	(87.3)	(0)	(92.1)	(0)
Raw materials	721	579	24.5	675	6.8	1,981
Staff cost	36	29	26.8	36	1.9	104
Other exp.	188	181	3.6	186	1.3	573
Total exp.	945	789	19.8	896	5.5	2,658
EBIDTA	654	582	12.4	646	1.2	1,840
Other income	24	7	227.8	23	4.6	68
Depreciation	150	143	4.8	150	(0.4)	450
EBIT	528	446	18.4	519	1.8	1,459
Interest	-	6	(100.0)	-	-	-
PBT	528	440	19.9	519	1.8	1,459
Tax & deferred tax	173	147	17.9	170	1.7	480
PAT	355	293	21.0	348	1.9	979
Equity shares o/s (mn)	140	140		140		140
Ratios						
Operating profit margin (%)	40.9	42.4	-150 bps	41.9	-100 bps	40.9
EPS (Rs)	2.5	2.1		2.5		7.0
CEPS (Rs)	3.6	3.1		3.6		10.2
Raw Materials / Sales (%)	45.1	42.2		43.7		44.0
Staff cost / sales	2.3	2.1		2.3		2.3
Other exp / sales	11.8	13.2		12.0		12.7
Tax / PBT	32.8	33.4		32.8		32.9

Source: Company

Net sales (Rs bn)

Source: Company, Kotak Securities - Private Client Research

EPS (Rs)

Source: Company, Kotak Securities - Private Client Research

We maintain BUY on IGL with a price target of Rs.145

Volume performance

	Q3FY07	Q3FY06	YoY (%)	Q2FY07	qoq (%)
CNG mn kg	88.8	82.5	7.6	85.9	3.4
PNG mn scm	9.1	6.8	33.8	8.8	3.4

Source: Company

Value (Rs mn)

	Q3FY07	Q3FY06	YoY (%)	Q2FY07	qoq (%)
CNG	1,685.7	1,461.1	15.4	1,629.8	3.4
PNG	152.3	117.7	29.4	143.2	6.4

Source: Company

Average Realisations

	Q3FY07	Q3FY06	YoY (%)	Q2FY07	qoq (%)
CNG Rs. per Kg	19.0	17.7	7.2	19.0	0.1
PNG Rs. per SCM	16.7	17.3	(3.3)	16.3	2.8

Source: Company

New city expansion on track

The company has obtained a no-objection certificate (NoC) from the Ghaziabad and Greater Noida authorities to set up pipeline distribution and gas stations for CNG. IGL has already been allotted some sites for setting up stations and construction work is going on. We expect these stations to become operational in less than a year and run on full scale within 18 months. The company is awaiting further allocation of land to set up stations in Panipat and Sonapat in Haryana. IGL expects one of its promoters, that is, GAIL to set up pipelines in these areas in less than 18 months. The above developments would substantially improve the revenues and profitability of the company going forward.

CNG for Indian Railways - awaiting formal approval

During FY06, IGL had supplied CNG to Indian Railways on a test basis. Various tests have been conducted on railway locomotives and railway authorities are satisfied with the performance of the locomotives. The formal approval from Indian Railways is expected within a short time, which could lead to huge demand for CNG in the years to come.

Growing PNG business

The PNG business of the company has recorded a robust growth in Q3FY07 both in terms of volume and value. The PNG business of the company has been growing at CAGR of 54% over the last three years. The company supplies PNG to three categories of customer, that is, domestic, small commercial and large commercial users. We expect PNG sales to continue to grow at a rapid pace considering the huge untapped potential like housing complex, hotels, hospitals, restaurants, educational institutions, shopping malls etc.

Recommendation and valuation

We maintain our EPS estimates for FY07E and FY08E at Rs.9.4 and Rs.10.6, respectively.

On the basis of our estimates, the stock at the current market price of Rs.112 is trading at 5.3x EV/EBIDTA, 10.5x P/E and 7.1x P/CEPS on the basis of FY08E earnings.

We maintain **BUY** with an unchanged price target of Rs.145, implying 29% upside potential.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
14-Feb	Allianz Secu	Girdharilal V. Lakhi	B	102,659	53.72
14-Feb	Allianz Secu	Satish Madanlal Gupta	S	68,562	54.50
14-Feb	Cerebra Int	ISF Securities Limited	B	40,000	12.95
14-Feb	Chamatkar.Nt	Shanti Financial Ser. Pvt	B	150,000	22.90
14-Feb	Cinemax Ind	ICICI Prudential Life Ins	B	170,000	155.49
14-Feb	Cinemax Ind	Sam Global Securities Ltd	S	186,268	157.32
14-Feb	Commit Cap S	Satyanarayana P V V	B	20,600	15.72
14-Feb	Commit Cap S	M K Consultatnts Pvt Ltd	S	50,000	15.50
14-Feb	Deep Inds	D.K.Stock Investments	S	100,000	49.86
14-Feb	Dhampure Sgr	Jaya Varjesh Shah	B	50,000	111.55
14-Feb	Dynamatic Te	Kotak Securites PMS	S	53,516	1,299.98
14-Feb	Filat Fash	Beni Prasad Jain	S	30,000	10.62
14-Feb	Fort Fin Ser	Vimal Arvindkumar Varia	S	50,000	53.25
14-Feb	Ganeshforgin	Basantkumar B Rungta	S	105,025	41.00
14-Feb	Gemstone Inv	Hemant Madhusudan Sheth	B	50,000	23.00
14-Feb	Gemstone Inv	Sharman Appliances Pvt Ltd	S	50,000	23.00
14-Feb	Godrej Indus	Deutsche Securities Mauri	B	2,000,000	170.50
14-Feb	Gravity Ind	Alliance Intermediateries	S	50,534	11.64
14-Feb	JMT Auto Ltd	Kanaiyalal M Sheth	S	54,176	94.00
14-Feb	Kadamb Const	Laxmi Choudhary	S	17,000	27.00
14-Feb	Karut Net L	Raj Investments	B	25,500	193.96
14-Feb	Karut Net L	HSBC Financial Sercices M	S	25,000	188.16
14-Feb	LKP Mer Fin.	Blue Roof Properties Priv	B	70,000	69.97
14-Feb	Minax Textil	Jolapara Vijay J	B	80,895	28.88
14-Feb	Mohit Indust	Shaishil Tusharkumar Jhav	B	25,000	60.05
14-Feb	Panyam Cemen	V Ramnath	B	80,000	107.30
14-Feb	Panyam Cemen	Rajya Lakshmi Devi M	S	79,600	107.30
14-Feb	Prajay Eng S	Blackstone Asia Advisors	S	122,800	250.10
14-Feb	Simplex Trad	Girish Metal Pvt Ltd	B	5,000	157.00
14-Feb	Spectra Indu	Mayur Dashrath Panchal	B	50,250	33.54
14-Feb	Sumeet Indus	Master Finlease Ltd	B	152,905	28.50
14-Feb	Sumeet Indus	Krishnakumar Badridas Tao	S	100,000	28.50
14-Feb	Technocraft	OPG Securities Pvt Ltd	B	223,488	113.17
14-Feb	Tricom India	Charmi Investments	S	70,000	109.37
14-Feb	Tyche Periph	Bakliwal Financial Servic	B	37,044	54.87
14-Feb	Tyche Periph	M V Securities	S	48,437	54.99
14-Feb	Uniflex Cabe	Mita D Shah	S	75,000	38.82
14-Feb	Zenith Birla	Karnavati Dye Chem Pvt. Ltd	B	474,604	47.95
14-Feb	Zenith Birla	Anil Kumar Gaggar	B	320,000	48.50
14-Feb	Zenith Birla	Karnavati Dye Chem Pvt. Ltd	S	474,604	48.51

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Bharti Airtel	762	3.0	8.4	1.1
ONGC	901	1.7	6.5	1.4
Reliance Com	451	2.3	4.1	6.2
Losers				
SBI	1,102	(6.1)	(7.5)	2.2
ICICI Bank	914	(4.3)	(7.4)	3.1
HDFC Bank	1,017	(4.8)	(3.3)	1.3

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
15-Feb	House of Pearl Fashions hosts listing ceremony at BSE; Redington (India) listing on BSE & NSE; Hexaware Tech to announce earnings and dividend; Abhishek Mills holds press conference to announce IPO; Hewlett Packard organizes conference for its new product; Artemis Health Sciences and Philips Electronics holds press conference
15-23 Feb	Initial Public Offer of Jagjanani Textiles, AMD Metplast opens
16-Feb	ABB, Glaxo SmithKline Pharma to announce earnings and dividend
20-Feb	HLL to announce earnings and dividend
22-Feb	Wockhardt to announce 4th quarter earnings and dividend

Source: Bloomberg

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