



Economy News

- ▶ The Empowered Group of Ministers (EGoM) on oil prices, headed by Finance Minister Pranab Mukherjee, will meet on Friday to decide on the proposal to raise petrol and diesel prices. A meeting of the group was scheduled last week but Mukherjee deferred it to seek political consensus before taking a call. "The meeting of the EGoM is on Friday," said Petroleum Minister Murli Deora on Tuesday. However, he declined to comment on the possibility of a fuel price hike. (BS)
- ▶ Large outsourcing vendors, including Tata Consultancy Services (TCS), that count UK's government departments among their customers, are set to face renegotiation of existing contracts, after the country's coalition government on Tuesday announced tough measures to achieve significant savings over the next five years. George Osborne, Britain's treasury chief told the House of Commons that many government departments will face budget cuts up to 25% to help raise nearly \$44 billion in expenditure savings. (ET)

Corporate News

- ▶ Rabobank may take up the wholly-owned route to launch banking operations in India. As a prelude to setting up its banking operations, the Dutch lender on Monday sold 37.3mn shares in **YES Bank**, which works out to an 11% stake, paring its total shareholding to 4.9%. The shares were sold in a series of bulk deals at an average price of Rs 263 per share, amounting to over Rs 10bn. (ET)
- ▶ **Reliance Industries Limited (RIL)** is close to buying a 45% stake in shale gas assets owned by the US-based Pioneer Natural Resources for \$1.35 billion. An RIL spokesperson said the company couldn't make a comment at this point, but agencies quoted sources familiar with the development as saying the deal could be announced in a couple of days. (BS)
- ▶ **Shree Cement** will invest Rs 4.5bn this year to set up a 1.5 million tonne clinker and a grinding units in Rajasthan, said a senior company executive. "We will fund these projects by internal accruals," said managing director HM Bangur. "We expect a surge in demand early next year by when these units will be functional." (ET)
- ▶ **Piramal Healthcare**, whose formulations business is being taken over by US drugmaker Abbott Inc in a \$3.7-billion deal, will reward its over 8,000 employees with cash bonuses of up to six months of their fixed salary, a rare gesture in corporate India where such largesse are often limited to shareholders. (ET)
- ▶ **Reliance Industries** plans to invest more than \$3 billion over the next four to five years to build capacity for its entry into the fertiliser sector, a source with direct knowledge of the plan said. The move is related to Chairman Mukesh Ambani's announcement on Friday to set up a giant coke gasification project at Jamnagar, where Reliance's two refineries are located. Reliance's refining complex, the largest in the world, can process 1.24mn barrels of crude a day. (BS)
- ▶ **L&T** has been disqualified on technical grounds in NTPC's tender for 11 sets of supercritical boilers (and turbines) and the consequent re-tendering has invigorated other boiler manufacturers. Most of them see the re-tendering as correcting a wrong. There is likely to be a re-tender for boiler supplies, the others such as Ansaldo and Thermax are happy. (BL)

Equity

	22 Jun 10	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,750	(0.7)	7.9	1.7
NIFTY Index	5,317	(0.7)	7.8	1.7
BANKEX Index	11,012	(0.8)	6.0	6.1
BSET Index	5,369	(1.2)	6.4	(2.6)
BSETCG INDEX	14,702	(0.7)	9.8	5.5
BSEOIL INDEX	10,386	0.0	7.3	2.1
CNXMcap Index	8,045	(0.4)	6.1	6.0
BSESMCAP INDEX	8,960	0.1	6.5	6.1
World Indices				
Dow Jones	10,294	(1.4)	1.0	(5.5)
Nasdaq	2,262	(1.2)	1.5	(6.4)
FTSE	5,247	(1.0)	3.6	(7.5)
Nikkei	10,113	(1.2)	1.6	(7.7)
Hangseng	20,819	(0.4)	6.4	(1.0)

Value traded (Rs cr)

	22 Jun 10	% Chg - Day
Cash BSE	4,496	16.0
Cash NSE	12,460	(2.6)
Derivatives	116,379.5	(2.8)

Net inflows (Rs cr)

	21 Jun 10	% Chg	MTD	YTD
FII	1,799	159	6,642	27,179
Mutual Fund	(46)	(84)	486	(6,680)

FII open interest (Rs cr)

	21 Jun 10	% Chg
FII Index Futures	21,285	34.9
FII Index Options	60,567	2.6
FII Stock Futures	30,449	(1.2)
FII Stock Options	1,582	(0.4)

Advances / Declines (BSE)

22 Jun 10	A	B	S	Total	% total
Advances	76	910	212	1,198	44
Declines	126	1063	242	1,431	52
Unchanged	2	80	20	102	4

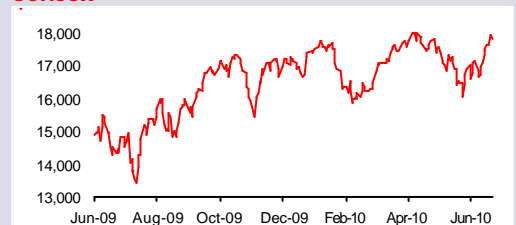
Commodity

	22 Jun 10	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	78	(0.4)	10.8	(5.3)
Gold (US\$/OZ)	1,240	0.5	5.4	12.2
Silver (US\$/OZ)	19	0.5	6.7	10.6

Debt / forex market

	22 Jun 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.84	N/A	N/A	N/A
Re/US\$	46.25	45.75	46.98	45.60

Sensex



RESULT UPDATE**Apurva Doshi**doshi.apurva@kotak.com
+91 22 6621 6308**AIA ENGINEERING LTD. (AIA)****PRICE: Rs.396****TARGET PRICE: Rs.340****RECOMMENDATION: SELL****CONS. FY11E P/E: 17.6x**

- ❑ **AIA reported disappointing set of set of Q4FY10 and FY10 results which are below our estimates both on revenues and profitability front**
- ❑ **Operating margin impacted as it could not pass on increase in raw material cost to its customers and rupee appreciation**
- ❑ **We feel that operating margins would be under pressure for couple of quarters**
- ❑ **Revise FY11E EPS to Rs.22.5 (Rs.24.0 earlier)**
- ❑ **Due to rich valuations and 14% downside potential we downgrade the stock of AIA to SELL with revised price target of Rs.340 (Rs.350 earlier)**

Cons. Summary table (FV Rs.2)

(Rs mn)	FY09	FY10	FY11E
Revenues	10,233	9,497	12,735
Growth (%)	48.0	(7.2)	34.1
EBITDA	2,467	2,289	2,940
EBITDA margin (%)	24.1	24.1	23.1
Net profit	1,736	1,707	2,126
Net debt	(2,146)	(2,011)	(2,099)
EPS (Rs)	18.4	18.1	22.5
Growth (%)	30.3	(1.6)	24.5
DPS (Rs)	1.5	2.5	3.0
ROE (%)	22.5	18.9	21.4
ROCE (%)	30.8	26.2	30.1
EV/Sales (x)	3.4	3.7	2.8
EV/EBITDA (x)	14.3	15.4	12.0
P/E (x)	21.5	21.9	17.6
P/CEPS (x)	19.3	19.3	15.6
P/BV (x)	4.8	4.1	3.4

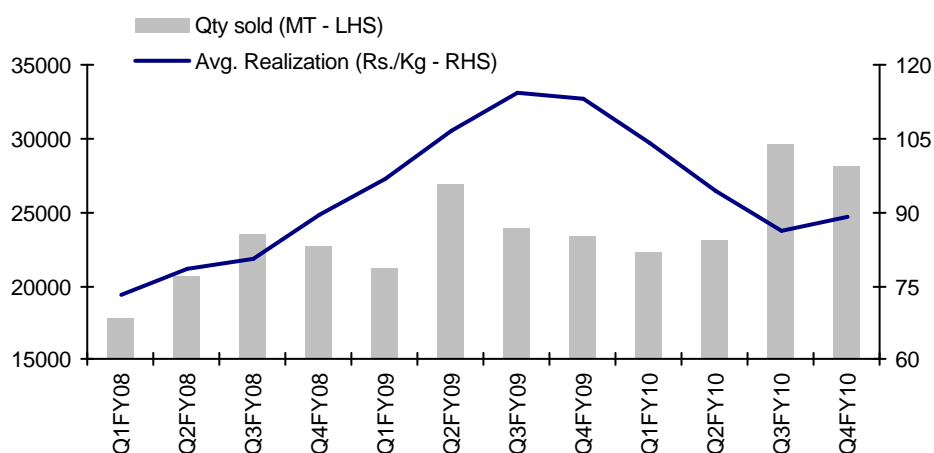
Source: Company, Kotak Securities - Private Client Research

- The company produced 28500 MT in Q4FY10, up 33.8% on YoY basis and it sold 28000 MT in Q4FY10, up 20.0% on YoY basis. The growth is on account of sale of 4200 MT of mill internals for the mining segment. However the volumes are down 5.1% on sequential basis on account of lower off take from the global cement business.
- The average realizations are down sharply 21.1% YoY basis to Rs.89.3 per kg. This was primarily due to lower raw material prices in terms of lower Ferro chrome and mild steel scrap prices which is passed on to its customers. Also it has ramped up the export of mill internals for the mining segment which typically enjoy lower average realizations than mill internals for the cement segment.
- However it is important to note that the average realization are up 3.5% on sequential basis to Rs.89.3 per kg as the Ferro chrome prices have started moving up and in fact there was a spike of ~50% in Ferro chrome price in Q4FY10.
- In Q4FY10, the company reported revenues of Rs.2.5 bn, down 5.4% YoY and down 1.8% on sequential basis.
- The operating margins were down sharply by 210 basis points YoY and down 680 basis points on sequential basis to 19.3% primarily due to rise in the prices of its key raw material i.e. Ferro chrome which the company was unable to pass on to its customers. This is well supported by the fact that the raw materials to sales ratio increased sharply from 49.3% in Q4FY09 to 58.2% in Q4FY10. Also the company had to take hit due to rupee appreciation against US dollar and Euro. The company has also provided for forex derivative loss of Rs.40 mn, which is recorded in other expenditure.
- EBITDA for Q4FY10 was at Rs.483 mn down 14.7% YoY and down 27.3% on sequential basis.
- PBT for Q4FY10 was at Rs. 507 down 19.0% YoY and down 28.1% on sequential basis.
- PAT for the Q4FY10 was at Rs.391 mn down 8.1% YoY and down 20.4% on sequential basis thereby translating into quarterly EPS of Rs.4.1 and CEPS of Rs.4.7.

Consolidated performance - AIA

(Rs mn)	Q4FY10	Q4FY09	YoY (%)	Q3FY10	QoQ (%)	FY10	FY09	YoY (%)
Net Sales	2,501	2,644	(5.4)	2,546	(1.8)	9,497	10,233	(7.2)
Inc/dec in stock	109	324	(66.5)	(42)	-	76	(152)	(150.2)
Raw materials	1,347	980	37.5	1,189	13.3	4,389	5,100	(13.9)
Staff cost	122	121	1.1	106	14.8	433	426	1.7
Other exp.	440	654	(32.7)	628	(29.9)	2,310	2,392	(3.4)
Total exp.	2,018	2,078	(2.9)	1,881	7.3	7,208	7,766	(7.2)
EBIDTA	483	566	(14.7)	665	(27.3)	2,289	2,467	(7.2)
Other income	82	124	(33.7)	98	(16.5)	322	249	29.4
Depreciation	57	57	(0.6)	57	(0.7)	227	203	12.1
EBIT	508	633	(19.7)	706	(28.0)	2,384	2,514	(5.2)
Interest	2	8	(75.9)	2	12.4	14	21	(32.5)
PBT	507	625	(19.0)	704	(28.1)	2,370	2,493	(4.9)
Extraord loss/ (gain)	-	-	-	-	-	-	-	-
Tax & deferred tax	115	204	(43.6)	213	(46.0)	659	750	(12.2)
PAT	392	422	(7.1)	492	(20.3)	1,711	1,743	(1.8)
Minority Interest	1	(3)	(130.0)	1	(16.5)	4	7	(47.9)
NPAT	391	425	(8.1)	491	(20.4)	1,707	1,736	(1.6)
Equity shares o/s (mn)	94.3	94.0		94.3		94.3	94.0	
FV Rs.2								
Ratios								
Operating profit margin (%)	19.3	21.4	down 2.1%	26.1	down 6.8%	24.1	24.1	
Raw Materials / Sales (%)	58.2	49.3		45.0		47.0	48.4	
Staff cost / Sales (%)	4.9	4.6		4.2		4.6	4.2	
Other Exp. / Sales (%)	17.6	24.7		24.7		24.3	23.4	
EPS (Rs)	4.1	4.5		5.2		18.1	18.5	
CEPS (Rs)	4.7	5.1		5.8		20.5	20.6	
Tax / PBT (%)	22.7	32.5		30.2		27.8	30.1	
Qty Produced MT	28500	21300	33.8	28405	0.3	101528	104117	(2.5)
Qty Sold MT	28000	23340	20.0	29513	(5.1)	102931	95376	7.9
Avg. Realisations (Rs/kg)	89.3	113.3	(21.1)	86.3	3.5	92.3	107.3	(14.0)

Source: Company, Kotak Securities - Private Client Research

Quantity Sold & Avg. Realizations

Source: Company

FY10 financials

- For full year i.e. FY10 AIA sold 102931 MT of mill internals (up 7.9% YoY), reported revenues of Rs.9.5 bn (down 7.2% YoY), operating margin of 24.1% (no change) and PAT of Rs.1.7 bn (down 1.6% YoY) thereby translating into FY10 EPS of Rs.18.1 and CEPS of Rs.20.5.
- Exports contributed 63% of total revenues in FY10 and balance 37% was from the Indian business.
- The other income is up 29.4% YoY to Rs.322 mn as it includes Rs.145 mn on account of DEPB scheme for exports and balance is dividend and interest income.
- For FY10, the segmental breakup of the sales of mill internals within India is 55% for Cement, 30% for utilities and 15% for the mining industry.
- During FY10 it sold ~20000 MT of mill internal for the mining segment which is up 150% on YoY basis.

Further capacity expansion

During FY09 the company has successfully expanded its capacity from 65000 TPA to 165000 TPA. However looking at the potential demand for mill internals from the mining segment it has decided to further expand the production capacity by 35000 TPA to a total of 200000 TPA. This would be done at a capex of Rs.400 mn which would be fully funded through internal cash generations as it enjoys healthy cash flows. It is expected to be commercially operational in H2FY11.

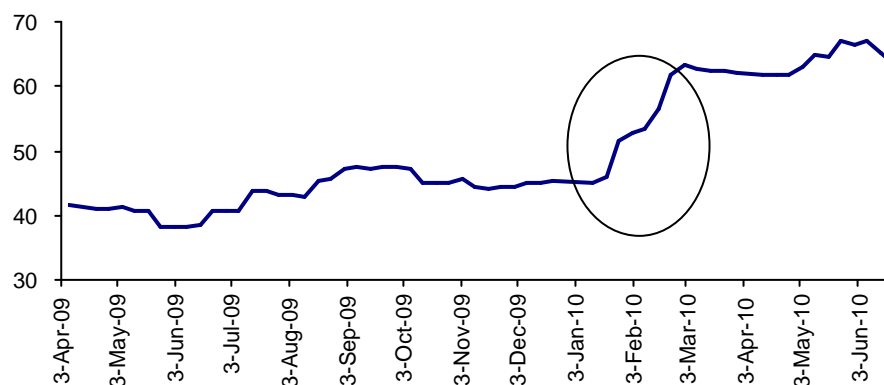
Sale of mill internal for the mining segment to pick up in FY11E

The company has started exporting mill internals for the mining segment for the iron ore, gold, copper and platinum mines and the business is picking up. It has successfully dispatched ~3500 MT of mill internals to CVRD Vale of Brazil which is a very large mining group. Going forward the company is hopeful of getting large orders from this group and also from other mining companies across the globe. Considering this we expect the sale of mill internals for the mining segment to increase sharply by 100% to ~40000 MT in FY11E.

Order book

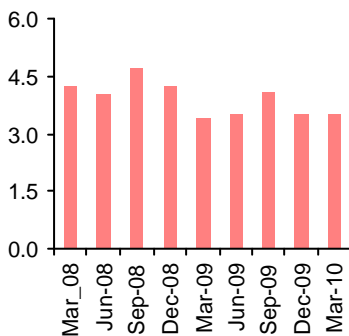
As of 31st March 2010 the company has an order book of Rs.3.5 bn. Out of this order book, more than 95% is for the replacement demand and more than 50% of the order book is for exports. It has already got its products approved for various mines abroad and thus going forward we expect growth in the order book for the export of mill internals for the mining segment.

Ferro Chrome prices (Rs/kg)



Source: Bloomberg, Kotak Securities - Private Client Research

Order book as on



Source: Company

Change in Earning Estimates - FY11E

	Old	Revised	% shift
Revenues	13,498	12,735	(5.6)
EBIDTA (%)	24.8	23.1	(7.1)
Profit	2,265	2,126	(6.1)
EPS	24.0	22.5	(6.1)
CEPS	27.2	25.4	(6.6)
Qty. sold (MT)	150000	140000	(6.7)
Avg. Realization (Rs./Kg)	90	91	1.1
WACC (%)	13.1	13.1	-
Terminal Growth (%)	4.0	4.0	-
Price Target (Rs/share)	350	340	(2.9)

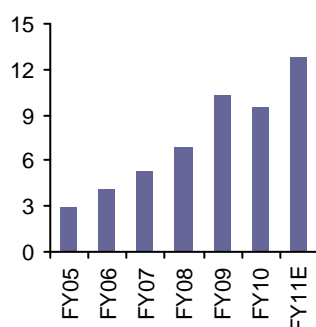
Source: Kotak Securities - Private Client Research

Revise earning estimates

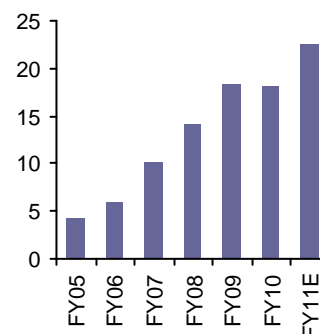
- We have revised our earning estimates to account for slower than expected ramp up of the mill internals for the mining segment. Also we have accounted for the inability of the company to pass on the hike in the prices of its key raw material i.e. Ferro chrome. We believe the company would take couple of more quarters to fully adjust for raw material price hikes and rupee appreciation and this would lead to lower operating margins in FY11E.
- We now expect AIA to sell 140000 MT (down 6.7%) mill internals in FY11E at an average realization of Rs.91 per kg (up 1.1%). For FY11E and expect AIA to report revenues of Rs.12.7 bn (down 5.6%), EBIDTA margin of 23.1% (down 170 bps) and PAT of Rs.2.1 bn (down 6.1%).
- Accordingly we expect AIA to report lower EPS of Rs.22.5 and CEPS of Rs.25.4 in FY11E as against our earlier estimate of Rs.24.0 and Rs.27.2 respectively.

Change in price target to Rs.340

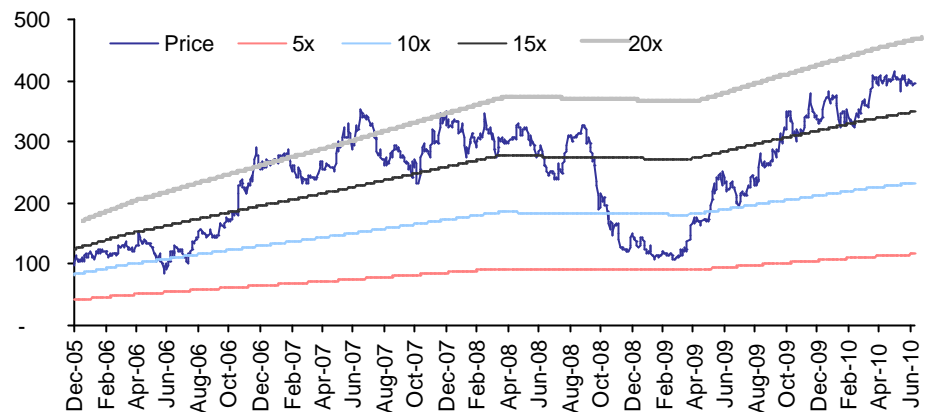
We have valued AIA on DCF method of valuation with 13.1% WACC and 4.0% terminal growth rate (no change) based on FY11 earning estimates. Due to downward revision in earning estimates the price target is also revised downwards from Rs.350 to Rs.340.

Cons. Revenues (Rs. bn)

Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs.) FV Rs.2

Source: Company, Kotak Securities - Private Client Research

AIA one year forward rolling P/E band

Source: Capitaline, Kotak Securities - Private Client Research

Trading at higher end of P/E band

We have also done one year forward rolling P/E band analysis for AIA which revealed that it traditionally traded between 5x to 20x with average of 15x one year forward P/E band. Currently it is trading at 17.6x FY11E EPS of Rs.22.5 and thus it is trading ~18% above its average P/E. Also it is trading very near to the top end of the P/E band and thus it reinforces our view that it is richly valued at current levels.

Valuation and recommendation

- As of 31st March 2010, AIA has net cash of Rs.3.5 bn thereby translating into cash of Rs.37 per share.
- We continue to remain positive on the long term growth prospects of the company due to strong business model with quality products, stable operating margins and expanding markets of mill internals for the mining segment.
- However due to lag effect in passing on the hike in prices of its key raw material i.e. Ferro chrome and impact of rupee appreciation (exports expected to contribute ~70% of total revenues in FY11E) we feel the stock would be under pressure for couple of quarters.
- At the current market price of Rs.396, the stock of AIA is richly valued at 3.4x book value, 17.6x earnings and 15.6x cash earnings based on FY11E.
- Due to 14% downside potential and rich valuation we downgrade the stock of AIA to **SELL** with revised price target of Rs.340.

We now recommend SELL on AIA Engineering with a revised price target of Rs.340

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
22-Jun	Abl Biotech	Silver Golden Property Develop Fin	S	90,000	20.0
22-Jun	Ashiana Ispat	Satya Narayana Yadav M	S	38,545	13.8
22-Jun	Bharat Immun	IFCI Limited	S	200,000	22.2
22-Jun	BNK Cap Mkets	Brijnath Khandelwal And Co.	B	37,970	40.2
22-Jun	Brahmaputra In	Gaurav Agrawal	S	41,140	112.1
22-Jun	Channel Guide	Amee Bhupendra Zaveri	B	40,000	15.7
22-Jun	Dazzel Conf	Dharmesh Kumar Jain	B	33,000	29.5
22-Jun	Dazzel Conf	Rajesh Navlani	B	30,000	30.0
22-Jun	Globus Spr	Wasatch Global Opportuni Ties Fund	B	107,102	161.4
22-Jun	Gujarat Capital	Bharat G Vaghela	B	75,000	68.4
22-Jun	Gujarat Capital	Rushil Chetanbhai Tamboli	S	95,000	68.4
22-Jun	IFL Promoters	Laleshwar Kumar Raut	B	35,709	18.8
22-Jun	IFL Promoters	Chimanlal Maneklal Securities Pvt.Ltd	B	18,554	18.8
22-Jun	IFL Promoters	Chetan Dogra Huf	S	17,000	18.8
22-Jun	IFL Promoters	Shark Communication Pvt Limited	S	30,000	18.8
22-Jun	Interlink Petro	Infraline Technoliges India Private Ltd	S	43,600	59.9
22-Jun	Jamna Auto	Aarken Advisors Private Limited	S	220,000	86.0
22-Jun	Kay Power	Bampsl Securities Ltd	B	98,972	18.1
22-Jun	Kiri Dyes	Well Prospering Limited (FDI)	S	150,000	530.1
22-Jun	Marathwada Re	Kumar Surender Saraf	B	6,000	459.8
22-Jun	Marathwada Re	Raguhari Dalmia	S	6,450	459.7
22-Jun	Master	Narasimha Rao Mandavalli	B	35,500	34.1
22-Jun	Master	Garikipatys V	B	29,506	34.1
22-Jun	Master	Mallikhar Junarao V	B	51,310	34.0
22-Jun	Master	Venkatesh Vaddepally	B	45,478	33.9
22-Jun	Master	Medepudi Nagendra Babu	S	36,459	34.1
22-Jun	Master	Pabbathibadari Narayana Murthy	S	39,516	34.1
22-Jun	Master	Gopala Krishna Bonam	S	49,000	33.9
22-Jun	Mohit Inds	Hasmukhlal Shah	B	25,700	39.1
22-Jun	Mohit Inds	BP Fintrade Private Limited	S	26,475	38.8
22-Jun	Omkar Overseas	Bhavesh Shantilal Trivedi	B	25,700	84.6
22-Jun	Oregon Comm	Nilesh Sureshbhai Shah	B	10,000	387.2
22-Jun	Oregon Comm	Darshankumar Mukundrai Desai	S	8,500	386.7
22-Jun	Polypro Fibrils	Prashant Mahadev Kamble	S	63,779	38.6
22-Jun	Priyadarshini Sp	Kailash Jindal	B	62,500	38.3
22-Jun	Priyadarshini Sp	Jag Par Securities Ltd	B	87,740	39.4
22-Jun	Priyadarshini Sp	Pradeep Kumar Aggarwal	S	105,001	38.8
22-Jun	Provogue India	Nailsfield Limited	B	588,600	53.4
22-Jun	Provogue India	Bennett Coleman & Co Ltd	S	587,500	53.4
22-Jun	Ranklin Sol	Mallikhar Junarao V	B	30,907	88.1
22-Jun	Ranklin Sol	Anjaiah Chakali	B	32,000	83.8
22-Jun	Sacheta Metals	Nilpa K Patel	B	50,000	42.3
22-Jun	Sacheta Metals	Sanjay Popatlal Shah	S	40,200	42.0
22-Jun	Shah Foods	Vishal Agarwal	B	15,017	33.6
22-Jun	Suave Hotels	Hindustan Continental Limited	S	74,788	28.3
22-Jun	Vishal Retl	Alok Tandon	B	220,100	68.6
22-Jun	Yes Bank	Life Insurance Corporation Of India	B	6,250,000	263.0
22-Jun	Yes Bank	Citigroup Global Markets Mauritius	B	3,064,952	263.0
22-Jun	Yes Bank	Rabobank International Holding B V	S	31,050,000	263.3

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ITC	302	0.9	2.4	3.1
Hindustan Unilever	262	1.2	1.1	4.3
BPCL	550	4.5	1.1	1.3
Losers				
Infosys Tech	2,767	(1.2)	(5.6)	0.6
ICICI Bank	892	(0.9)	(3.2)	3.3
SBI	2,355	(1.4)	(3.0)	0.9

Source: Bloomberg

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