

NOVEMBER 15, 201010

RESULT

Coverage view: **Attractive**

Price (Rs): **61**

Target price (Rs): **83**

BSE-30: **20,157**

Merchant dilemma. Lanco Infratech (LITL) reported a 43% yoy decline in net income on account of (1) weak merchant tariffs, (2) scheduling problems at Amarkantak and Kondapalli, and (3) declining construction margins. We note that the sharp weakness in realizations during the quarter may be an aberration, though we maintain our conservative stance on the sustainability of lucrative merchant tariffs. We maintain our BUY rating with a target price of Rs83/share.

Company data and valuation summary

Lanco Infratech

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	75-41	EPS (Rs)	2.1	3.6	4.9
Market Cap. (Rs bn)	154.2	EPS growth (%)	46.6	67.4	36.8
Shareholding pattern (%)		P/E (X)	30.1	18.0	13.1
Promoters	67.9	Sales (Rs bn)	80.3	102.5	133.0
FIs	20.2	Net profits (Rs bn)	4.7	7.9	10.8
MFs	2.4	EBITDA (Rs bn)	14.5	30.3	44.7
Price performance (%)		EV/EBITDA (X)	16.2	10.4	7.8
Absolute	1M (8.2) 3M (3.5) 12M 23.1	ROE (%)	17.4	21.0	22.5
Rel. to BSE-30	(9.3) (15.3) 0.8	Div. Yield (%)	0.0	0.0	0.0

Weakness in short-term tariffs weighs on earnings

LITL reported consolidated revenues of Rs20.4 bn, operating profit of Rs4.2 bn and net income of Rs705 mn against our estimate of Rs22.7 bn, Rs6.6 bn and Rs2.4 bn, respectively. Lower-than-estimated revenues were primarily on account of (1) lower merchant realization at both Kondapalli and Amarkantak and (2) larger contribution of construction revenues from project subsidiaries.

Revenues met estimates on account of low margin power trading business, resulting in a further dilution of margins from the power business. EBIT margins in the construction business declined sequentially by 500 bps on account of a delay in final-leg payment for Udupi project, which is yet to be capitalized.

Low realizations may be an aberration, but remain cautious on sustenance in the long-term

LITL's merchant realizations took a hit for both Kondapalli and Amarkantak plants. Kondapalli sold 516 MU in short-term market at an average rate of Rs4.3/kwh (Rs6.15/kwh in 1QFY11) and Amarkantak sold 411 MU at an average rate of Rs3.8/kwh. Management has indicated that owing to synchronization activities at Kondapalli, a bulk of the power had to be sold through exchange, fetching lower realizations. For Amarkantak, most of the power had to be sold through very short-term PPAs (yielding lower tariffs) as the plant had taken its annual maintenance shutdown during the month of August.

We discuss below in detail the dynamics of merchant tariffs in 2QFY11 and conclude that the weakness is not attributable to a structural shift driven by oversupply but largely driven by demand de-growth in 2QFY11. We therefore remain optimistic that short-term rates would strengthen post the monsoons, though we would watch closely whether the current premium enjoyed by merchant tariffs sustains.

Retain BUY rating with a revised target price of Rs80/share

We retain our BUY rating with a revised target price of Rs80/share. Upside risk to our target price emanates from improved visibility on planned projects that could add another Rs9/share to our target price.

We note that LITL will likely sell only 17% of its overall portfolio (post commissioning of Udupi and Anpara) through short-term contracts.

Murtuza Arsiwalla
murtuza.arsiwalla@kotak.com
Mumbai: +91-22-6634-1125

Shubham Satyarth
shubham.satyarth@kotak.com
Mumbai: +91-22-6634-1320

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Our SOTP-based target price now comprises (1) DCF-equity of power project portfolio at Rs64/share, (2) construction business valued at Rs15/share at EV/EBITDA of 6X on FY2012E, (3) real estate project at 50% of NAV ~Rs3/share, (4) DCF equity of BOT road projects at Rs1/share and (5) value from sale of carbon credits of Rs1/share and (6) net debt of Rs1/share. We have reduced our EPS estimates to Rs3.6/share in FY2011E (previously Rs4.1/share) and to Rs4.9/share in FY2012E (previously Rs5.4/share) as we adjust for higher inter-segment elimination of construction revenues and delays in COD of Udupi.

Exhibit 1: Weak merchant realizations and disappointing construction margins in 2QFY11
Lanco Infratech (Consolidated), Quarterly performance, March year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% Chg.)			FY2010	FY2011E	(% Chg.)
					2QFY11E	2QFY10	1QFY11			
Net sales	20,417	22,779	19,266	21,256	(10)	6	(4)	80,320	102,476	28
Construction, generation and operat	(14,914)	(14,776)	(14,903)	(13,899)						
Personnel costs	(1,082)	(948)	(851)	(1,157)						
Other expenses and provisions	(255)	(450)	(371)	(248)						
Total expenses	(16,251)	(16,174)	(16,125)	(15,303)				(65,805)	(72,449)	
EBITDA	4,167	6,604	3,141	5,954	(37)	33	(30)	14,515	30,027	107
Depreciation	(1,703)	(1,590)	(332)	(1,551)				(3,479)	(9,478)	
EBIT	2,464	5,014	2,808	4,403				11,036	20,549	
Other income	725	250	187	251				1,839	1,998	
Net interest	(1,754)	(1,600)	(519)	(1,567)				(3,554)	(7,788)	
PBT	1,435	3,664	2,477	3,087	(61)	(42)	(54)	9,322	14,759	58
Tax	(378)	(916)	(769)	(353)				(3,487)	(4,041)	
Profit before Minority Interest	1,057	2,748	1,707	2,734	(62)	(38)	(61)	5,835	10,718	84
Minority interest	(352)	(334)	(464)	(427)				(1,093)	(2,789)	
Net Profit	705	2,414	1,244	2,306	(71)	(43)	(69)	4,742	7,929	67
Extraordinary income (loss)	-	-	(18)	(359)				487	-	
EBITDA margin (%)	20.4	29.0	16.3	28.0				18.1	29.3	
Effective tax rate (%)	26.4	25.0	31.1	11.4				37.4	27.4	
Segment Revenues										
Construction	10,883		14,676	10,375		(26)	5	58,867		
less inter-segment revenues	(4,177)		(2,677)	(4,252)		56	(2)	(17,660)		
Net construction revenues	6,706		11,999	6,123		(44)	10	41,207		
Power	13,373		7,134	14,251		87	(6)	16,020		
Property development	308		109	345		184	(11)	562		
Infrastructure development	-		-	-				-		
Others	31		25	537		24	(94)			
Net revenues	20,417		19,266	21,256		6	(4)	57,789		
EBIT										
Construction	1,338		2,488	1,758		(46)	(24)	7,201		
Power	1,807		923	3,168		96	(43)	6,862		
Property development	(16)		(31)	(30)		(49)	(48)	(78)		
EBIT Margin (%)										
Construction	12.3		17.0	16.9				-		
Power	13.5		12.9	22.2				12.2		
Property Development	(5.1)		(28.2)	(8.7)				42.8		

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Progress on Vidarbha and Kondapalli III projects could provide Rs9/share upside to our target price
SOTP-based valuation of LITL

	Capacity	Est. CoD	Total value	Equity Inv.		Attributable value	
	(MW)		(Rs mn)	(Rs mn)	(X) BV	(%)	(Rs mn) (Rs/share)
Operating power plants and power trading							
Lanco Kondapalli	368		3,886	3,400	1.1	59.0	2,293 1
Aban Power	120		1,949	1,318	1.5	51.0	994 0
Lanco Electric Utility (Power trading)			2,025	212	9.5	100.0	2,025 1
Lanco Amarkantak	600		26,043	5,598	4.7	100.0	26,043 11
Lanco Kondapalli extn.	366		15,474			59.0	9,129 4
Vamshi Hydro	10		153	155	1.0	91.1	139 0
Vamshi Industrial	10		177	153	1.2	91.1	161 0
Power plants under construction							
Lanco Green	70	Oct-10	1,113	840	1.3	90.0	1,002 0
Nagarjuna Power	1,200	July-10/Nov-10	20,517	13,440	1.5	100.0	20,517 9
Anpara	1,200	Mar-11/June-11	16,983	7,480	2.1	100.0	16,983 7
Lanco Energy - Teesta VI	500	Sep-12	7,746	6,498	1.6	74.0	5,732 2
Lanco Amarkantak Extn	1,320	Jan-13 / Apr-14	49,390	13,200	4.4	100.0	49,390 21
Lanco Hydro	150	Mar-13	2,207	2,079	1.7	91.1	2,011 1
Babandh	1,320	Sep-13/Dec-13	16,934	13,901	2.1	100.0	16,934 7
Power (A)							153,354 64
Construction (B)							36,424 15
Property development (C)							6,442 3
Road projects (D)							1,370 1
Net debt (E)							(3,536) (1)
Carbon credits (F)							1,276 1
Total (A+B+C+D+E+F)							195,330 81

Source: Company, Kotak Institutional Equities estimates

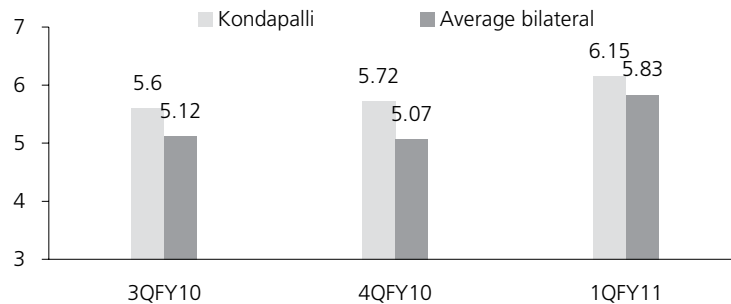
Weak short-term rates weigh down on power earnings

LITL reported power revenues of Rs5.8 bn (net of power trading revenues) in 2QFY11. Overall power revenues declined from Rs14.3 bn in 1QFY11 to Rs13.4 bn in 2QFY11 primarily due to lower merchant realization at both Kondapalli and Amarkantak, which was partly offset by higher power trading revenues.

- ▶ Kondapalli sold 516 MU in the short-term market at an average realization of Rs4.3/kwh. Owing to synchronization activities, almost 50% of the power had to be sold through exchange (247 MU) at a much lower realization of Rs3.6/kwh. Balance was sold through bilateral trades at an average realization of Rs4.9/kwh.
- ▶ Amarkantak sold 411 MU in the short-term market at an average realization of Rs3.8/kwh. , most of the power had to be sold through very short-term PPAs (yielding lower tariffs) as the plant had taken its annual maintenance shutdown during the month of August.
- ▶ LITL traded 1,942 MU in 2QFY11 (31% qoq) at an average rate of Rs3.91/kwh.

We note that historically, LITL's short-term sale of power from Kondapalli has been at a premium to the Industry average (see Exhibit 3). LITL's average realization for Kondapalli was Rs6.15/kwh in 1QFY11 against average bilateral rates of Rs5.83/kwh. However, as highlighted above, due to scheduling issues, average realizations at Kondapalli were below the industry average in 2QFY11.

Exhibit 3: LITL's average realizations in short-term market has been higher than industry average
Average short-term realizations of LITL's Kondapalli plant against average bilateral rates (Rs/kwh)



Source: CERC, Kotak Institutional Equities

Merchant dynamics: Demand-driven weakness in short-term rates

Energy deficit in India declined from 9.6% in 2QFY10 to 7.1% in 2QFY11. We believe the decline in deficit is as much attributable to demand de-growth as it is to oversupply as overall availability increased marginally by 1.9% yoy while demand shrunk by 0.9% yoy during the same period (see Exhibit 4).

De-growth in demand can be attributed to reduced offtake by large industrial consumers of power that operated at low utilization rates (as seen in the cement and steel sector) during the monsoon quarter. Given the reduced demand for power in 2QFY11, we believe weak merchant tariffs during the quarter were an aberration and do not consider this as a structural shift in short-term rates driven by oversupply. We therefore remain optimistic that short-term rates would strengthen post the monsoons and would remain lucrative for generating companies in the near term, though we maintain a cautious stance on merchant tariffs sustaining their premium.

Accordingly, we believe that LITL will have robust near-term earnings from power division driven primarily by sale of power in short-term market and commissioning of new capacities in FY2011. We note that LITL has 666 MW of capacity (366 MW at Kondapalli and 300 MW at Amarkantak I) for sale in the short-term market. Along with that, LITL will add an incremental capacity of 2,400 MW in FY2011 with commissioning of 1,200 MW each at Udupi and Anpara. We note that Unit I at Udupi has already been synchronized. Commissioning of Anpara will add another 100 MW to the merchant portfolio of LITL.

Exhibit 4: Total energy requirement decline by 0.9% yoy in 2QFY11
Energy and peak power deficit in India in 2QFY11

	2QFY11	2QFY10	1QFY11	Change (%)	
				qoq	yoy
Energy deficit					
Requirement (MU)	208,754	210,628	220,656	(5.4)	(0.9)
Availability (MU)	193,905	190,311	194,416	(0.3)	1.9
Deficit (MU)	14,849	20,317	26,240	(43.4)	(26.9)
Deficit (%)	7.1	9.6	11.9		

Source: CEA, Kotak Institutional Equities

Visibility on upcoming projects improves as Babandh achieves financial closure while Vidarbha, Kondapalli and Amarkantak Ext. tie up debt

LITL announced financial closure of the first phase of its Babandh project (1,320 MW) in Orissa. The estimated cost of project is Rs69.3 bn which would include a debt component of Rs55.4 bn. A consortium of 14 banks and financial institutions with ICICI Bank in the lead will be providing the debt for the project. LITL also received debt sanctions for Vidarbha, Kondapalli and Amarkantak Ext. during the quarter although financial closure has not been formally announced.

We do not ascribe value to Vidarbha and Kondapalli III as the projects are yet to tie up the necessary inputs. However, we do highlight that visibility on these projects could be a near-term catalyst for the stock. These projects could add another Rs9/share to our 12-month forward fair value of LITL. The Exhibit below highlights the execution status of the projects.

Exhibit 5: Upcoming projects could provide an upside of ~Rs9/share to our target price
Execution status of upcoming projects of LITL

Project	Capacity	Cost	Fuel	Land	Environmental clearance	Fuel arrangement	Financial closure	Expected value
	(MW)	(Rs bn)						(Rs/share)
Kondapalli III	732	25.2	Thermal	✓	✓	WIP	WIP	4.0
Vidarbha	1,320	69.5	Thermal	WIP	✗	WIP	WIP	5.0
Total	2,052	94.7						9.0

Source: Company, Kotak Institutional Equities estimates

Construction – inter-segment elimination increases as execution for subsidiaries kick in

LITL reported construction revenues of Rs10.9 bn. EBIT margins declined from 17% in 1QFY11 to 12% in 2QFY11 on account of delay in last-mile payment for Udupi which is yet to be capitalized. We note that inter-segment elimination of construction revenues was Rs4.2 bn (38% of total construction revenues) as execution for Udupi and Anpara (classified as associates) has slowed down while execution for projects classified as subsidiaries has gained momentum.

LITL's has a healthy order book of Rs254 bn as of Sep 30, 2010 (see Exhibit 6) which does not include the order for the above-mentioned Mahagenco contract.

Exhibit 6: Pace of execution has moderated in the past few quarters
Details of order book position as of September 2010 (Rs bn)

	Project value	Balance	% complete (%)	Execution			
		order book		2QFY11	1QFY11	2QFY10	FY2010
Amarkantak I & II	13.3	0.0	97.4	0.3	0.0	1.4	2.5
Amarkantak III & IV	55.2	51.3	4.6	1.4	1.6		0.0
Teesta VI	23.2	15.4	31.1	0.6	0.9	0.4	6.2
Anpara	34.9	6.6	75.3	2.0	3.5	5.6	20.2
Udupi (Nagarjuna)	36.4	4.2	87.6	0.4	1.2	3.7	16.2
Kondapalli Expn.	9.7	0.0	96.9	0.3	0.2	1.6	5.6
Kondapalli Phase III	21.1	19.4	6.2	0.3	0.4	0.0	
Vidarbha	56.8	56.8	0.0	0.0		0.0	
Babandh	55.8	54.6	0.0	1.3			
Koradi	11.9	11.9					
Others		7.4			0.3		0.8
Power		227		7	8	13	51
Others		27					
Total		254					

Source: Company, Kotak Institutional Equities

Exhibit 7: Delay in milestone payment for Udupi hit construction margins during 2QFY11
Lanco Infratech (Standalone), Quarterly performance, March year-ends (Rs mn)

	2QFY11	2QFY10	1QFY11	(% Chg.)		FY2010	FY2011E	(% Chg.)
				2QFY10	1QFY11			
Net sales	10,883	14,676	10,375	(26)	5	58,867	46,976	(20)
Total expenses	(9,871)	(12,414)	(8,883)			(2,013)	(1,879)	
EBITDA	1,011	2,262	1,492	(55)	(32)	56,854	45,097	(21)
Depreciation	(178)	(141)	(151)			(598)	(710)	
EBIT	833	2,121	1,342			56,256	44,387	
Other income	680	156	537			1,115	1,643	
Net interest	(881)	(470)	(806)			(1,979)	(2,351)	
PBT	632	1,807	1,073	(65)	(41)	55,392	43,679	(21)
Tax	(174)	(533)	(360)			(2,337)	(1,728)	
Net Profit	458	1,274	713	(64)	(36)	53,055	41,951	(21)
EBITDA margin (%)	9.3	15.4	14.4			96.6	96.0	
Effective tax rate (%)	27.5	29.5	33.5			4.2	4.0	

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Sharp increase in loans and advances in 1HFY11
Balance sheet (consolidated) of LITL as of September 2010 (Rs mn)

	Sep-10	Sep-09	Mar-10
Balance sheet			
Net block	78,331	61,747	70,015
Investments	21,158	10,796	20,229
Cash & bank balances	19,481	8,938	9,628
Accounts receivable	19,033	15,504	22,270
Inventories	20,444	12,737	16,267
Loans & advances	44,285	21,591	21,800
Others	141	200	74
Current liabilities	52,129	33,408	35,110
Net current assets	51,255	25,562	34,929
Utilization of funds	150,744	98,105	125,173
Total debt	106,609	60,562	83,614
Paid-up common stock	2,386	2,383	2,385
Reserves and surplus	33,465	28,065	31,062
Shareholders' funds	35,850	30,447	33,448
Def. tax liability	959	200	1,003
Minority Interest	7,327	6,896	7,108
Source of funds	150,744	98,105	125,173

Source: Company, Kotak Institutional Equities

Exhibit 9: Capex picks up at Babandh and Amarkantak III&IV
Project-wise capex incurred by LITL as of September 2010 (Rs mn)

	Project cost	Cum. capex incurred (Rs mn)			%age capex
	(Rs mn)	Mar-10	Jun-10	Sep-10	(%)
Nagarjuna Power	54,000	47,031	48,956	53,408	98.9
Anpara C	44,000	29,191	33,020	38,180	86.8
Lanco Hydro - Teesta	32,490	9,325	10,354	11,287	34.7
Lanco Energy - Uttaranchal	10,395	2,139	2,252	2,395	23.0
Lanco Hydro	10,395	2,109	4,269	4,542	43.7
Lanco - Amanrkantak - III & IV	52,800	1,036	8,327	14,948	28.3
Babandh	69,502	1,258	4,280	12,065	17.4
Vidarbha	69,480	398	6,128	7,983	11.5
Total	343,062	92,487	117,586	144,808	42

Source: Company, Kotak Institutional Equities

Exhibit 10: Segmental breakup of LITL financials, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Revenue flows						
Power	10,990	17,501	27,170	38,075	66,115	100,734
Construction	5,417	15,745	40,826	58,867	46,976	44,954
Real estate	—	1,039	1,732	562	1,129	5,264
Less inter-segmental	(349)	(1,873)	(9,008)	(17,184)	(11,744)	(17,982)
Total	16,058	32,413	60,720	80,320	102,476	132,970
EBITDA flows						
Power	3,216	3,706	3,588	11,151	24,845	39,600
Construction	1,141	3,141	5,671	8,663	6,501	5,322
Real estate	—	341	514	77	307	1,861
Less inter-segmental	(52)	(281)	(1,251)	(2,529)	(1,625)	(2,129)
Total	4,305	6,907	8,522	17,362	30,027	44,655
Net profit						
Power	1,454	2,261	2,190	4,276	8,219	11,387
Minority interest	(577)	(940)	(828)	(689)	(2,176)	(2,077)
Attributable PAT from Power	878	1,321	1,362	3,587	6,043	9,310
Construction	732	2,002	2,664	4,864	3,355	2,988
Less inter-segmental	(52)	(281)	(453)	(1,459)	(839)	(1,195)
Attributable PAT from Construction	679	1,721	2,211	3,405	2,516	1,793
Real estate	—	218	288	(180)	(17)	484
Minority interest	—	(57)	(75)	47	5	(126)
Attributable PAT from Real Estate	—	161	213	(133)	(13)	358
EPS (Rs)						
Power	0.4	0.6	0.6	1.6	2.7	4.2
Construction	0.3	0.8	1.0	1.5	1.1	0.8
Real estate	—	0.1	0.1	(0.1)	(0.0)	0.2
Total	0.7	1.4	1.7	3.1	3.8	5.2
EPS differential due to accounting for depreciation	0.1	0.0	(0.2)	(1.0)	(0.3)	(0.3)
Reported EPS	0.8	1.5	1.5	2.1	3.6	4.9
Attributable net debt						
Total	34,032	57,183	85,182	123,141	149,794	165,370

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: Lanco: Profit model, balance sheet, cash model 2008-2013E, March fiscal year-ends (Rs mn)

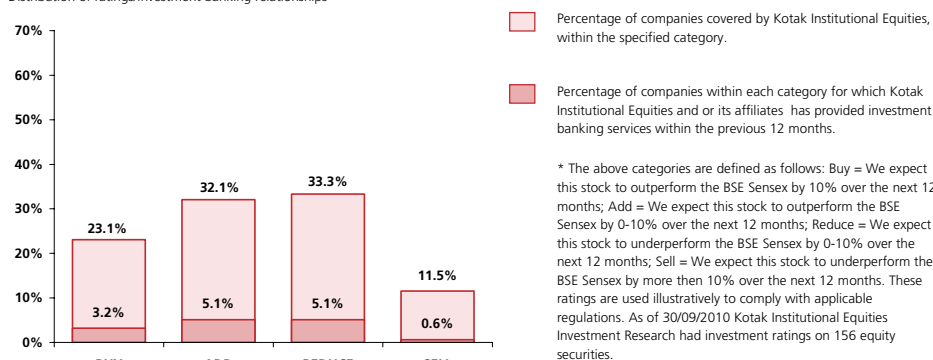
	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	32,413	60,720	80,320	102,476	132,970	140,418
EBITDA	6,993	8,874	14,515	30,027	44,655	49,104
Other income	708	562	1,839	1,998	2,523	3,819
Interest	(920)	(1,773)	(3,554)	(7,788)	(14,704)	(17,271)
Depreciation	(776)	(1,073)	(3,479)	(9,478)	(14,040)	(20,287)
Pretax profits	6,005	6,590	9,322	14,759	18,434	15,365
Tax	(1,404)	(1,674)	(3,491)	(4,041)	(4,770)	(3,845)
Minority Interest	(1,304)	(1,684)	(1,093)	(2,789)	(2,820)	(2,743)
Net profits	3,297	3,232	4,737	7,929	10,844	8,777
Extraordinary items	245	(429)	(152)	—	—	—
Earnings per share (Rs)	1.6	1.3	2.1	3.6	4.9	3.9
Balance sheet (Rs mn)						
Total equity	18,333	20,976	33,448	42,216	54,255	63,412
Deferred taxation liability	173	175	1,003	1,653	2,093	2,020
Total borrowings	37,200	62,962	90,681	198,522	251,644	303,353
Current liabilities	27,038	31,331	35,110	40,396	39,992	32,347
Minority Interest	41	41	41	42	43	44
Total liabilities and equity	82,785	115,485	160,283	282,828	348,026	401,177
Cash	7,411	9,905	9,628	38,172	56,571	80,777
Current assets (excl cash)	30,379	39,438	60,412	49,970	53,384	51,353
Total fixed assets	38,029	56,306	70,015	192,749	236,134	267,110
Investments	6,966	9,837	20,229	1,937	1,937	1,937
Deferred Expenditure	0	0	0	0	0	0
Total assets	82,785	115,485	160,283	282,828	348,026	401,177
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	5,632	6,919	11,367	25,304	37,402	41,716
Working capital	(2,752)	(4,766)	(17,195)	15,727	(3,818)	(5,613)
Capital expenditure	(14,415)	(19,350)	(17,188)	(132,213)	(57,425)	(51,263)
Investments	(936)	(2,871)	(10,392)	18,292	—	—
Free cash flow	(12,472)	(20,068)	(33,407)	(72,890)	(23,840)	(15,160)

Source: Company, Kotak Institutional Equities estimates

"I, Murtuza Arsiwalla, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: **Attractive, Neutral, Cautious.**

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office

Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel:+1-914-997-6120

Copyright 2010 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

1. Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.