



## Economy News

- ▶ The Intelligence Bureau has asked the communication ministry to block all internet telephony (VoIP) services to and from the country until the Department of Telecom (DoT) puts in place a mechanism to track such calls. The IB is of the view that currently, India does not have the capabilities to track internet telephony calls — both domestic & international — and had asked the DoT find an “early solution to this issue in the interest of national security”. (ET)
- ▶ The proposed Foreign Educational Institutions (Regulation of Entry and Operations, Maintenance of Quality and Prevention of Commercialisation) Bill is expected to be cleared by the Union Cabinet this week, after which it will be tabled in the winter session of Parliament. If the Bill is passed, it will allow for 100% foreign direct investment (FDI) in higher education. This, it is hoped, will help provide cheaper and better education, beside saving India billions of dollars in foreign exchange outgo. (BS)

## Corporate News

- ▶ The \$23-billion deal between **Bharti** and MTN deal to create a transcontinental mobile behemoth has hit a hurdle. South African government has sought dual listing for MTN that would allow MTN shares - not depository receipts - to be traded on Indian and South African bourses simultaneously with equal voting rights. Since dual listing needs major changes in the Indian legal system such as changes in the listing norms and allowing capital account convertibility and also changes under FEMA Act, it seems to be difficult implement such changes under the current scenario, said a government official. (ET)
- ▶ The board of Hyderabad-based **Gayatri Projects Limited (GPL)** has approved allotment of 1 million warrants convertible into equity shares of Rs 10 each at a premium of Rs 132.52 per share on preferential basis to the promoters. Last week, the company allotted 1 million shares at a premium of Rs 175 per share on a preferential basis to Reliance Capital Trustee Company Limited - Reliance Infrastructure Fund belonging to the Anil Dhirubhai Ambani Group. (BS)
- ▶ **SREI Infrastructure** has got in-principle approval from the Securities & Exchange Board of India (SEBI) to launch its mutual fund business in the country. (BL)
- ▶ **Yes Bank** would raise \$250 million in the current fiscal by private placement of shares and through bonds issue. As part of its fund raising plans, French financial institution Proparco will invest \$20 million in the bonds of Yes Bank. (BL)
- ▶ **HDIL** has agreed to pay tax on additional income of Rs 3.5bn following raids by the revenue department, the company said in a statement today, denying it had done any wrong. (BS)
- ▶ **Sadbhav Engineering** has said that, it has bagged a contract worth Rs.2.25bn from a subsidiary of Coal India Ltd (CIL) for mining related works. The company has received the mining project from Mahanadi Coalfields (subsidiary of CIL). (BS)
- ▶ France's **Areva** has not pushed back a bidding deadline for its power transmission and distribution (T&D) business, a source close to the matter said, confirming offers would have to be handed in by Sept 18. "Nothing has changed. There has been no extension," the source said on Monday after French magazine Le Journal des Finances said state-owned Areva had asked its bankers to push back the bidding deadline to the end of September. (ET)

### Equity

	14 Sep 09	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	16,214	(0.3)	5.2	9.0
NIFTY Index	4,809	(0.4)	5.0	7.2
BANKEX Index	8,955	0.5	8.1	11.6
BSET Index	4,354	(0.3)	9.5	34.3
BSETCG INDEX	13,199	(0.5)	6.9	5.4
BSEOIL INDEX	10,260	0.2	4.0	2.2
CNXMcap Index	6,249	0.3	5.2	14.1
BSESMCAP INDEX	7,134	0.5	11.2	21.2
<b>World Indices</b>				
Dow Jones	9,627	0.2	3.3	11.8
Nasdaq	2,092	0.5	5.4	15.2
FTSE	5,019	0.1	6.5	16.0
Nikkei	10,202	(2.3)	(3.6)	1.7
Hangseng	21,161	-	0.2	13.2

### Value traded (Rs cr)

	14 Sep 09	% Chg - Day
Cash BSE	4,977	(10.0)
Cash NSE	13,939	(18.6)
Derivatives	58,032	(5.9)

### Net inflows (Rs cr)

	11 Sep 09	% Chg	MTD	YTD
FII	331	(42)	2,503	43,046
Mutual Fund	(343)	42	(323)	4,604

### FII open interest (Rs cr)

	11 Sep 09	% Chg
FII Index Futures	15,028	1.2
FII Index Options	30,489	0.5
FII Stock Futures	22,000	1.7
FII Stock Options	1,544	4.9

### Advances / Declines (BSE)

	14 Sep 09	A	B	S	Total	% total
Advances	107	925	257	1,289	52	
Declines	96	873	169	1,138	46	
Unchanged	1	45	10	56	2	

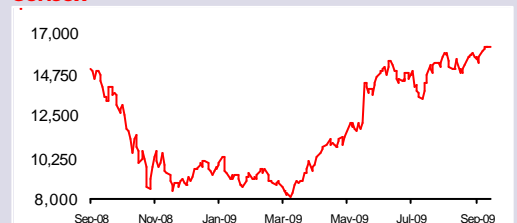
### Commodity

		14 Sep 09	% Chg		
			1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US\$/BBL)	68.8	(0.0)	2.0	(2.5)
Gold (US\$/OZ)		1,000.2	(0.5)	5.5	7.8
Silver (US\$/OZ)		16.5	(1.2)	13.0	18.2

### Debt / forex market

	14 Sep 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.35	7.51	7.30	7.03
Re/US\$	48.75	48.48	48.25	47.75

### Sensex



## COMPANY UPDATE

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## VOLTAS LTD

PRICE: Rs. 147  
TARGET PRICE: Rs. 165

RECOMMENDATION: ACCUMULATE  
FY10E P/E: 17.1x

- ❑ The Voltas stock is down 10% from its high. We rate the stock an ACCUMULATE, thereby recommending investors to start buying the stock on successive declines. (Earlier recommendation was REDUCE)
- ❑ Order backlog is down but revenue visibility is adequate
- ❑ Exploring new markets in the Middle East
- ❑ Upgrade to Accumulate as enquiries for orders from Middle East has begun to trickle in. Strengthening industrial recovery augers well for the company's Engineering services business.
- ❑ Target price raised to Rs 165 (Rs 140 earlier) on sustained cash generation and lean working capital as highlighted in the Annual Report. We also incorporate subsidiary numbers for FY10 and FY11, which are earnings accretive.

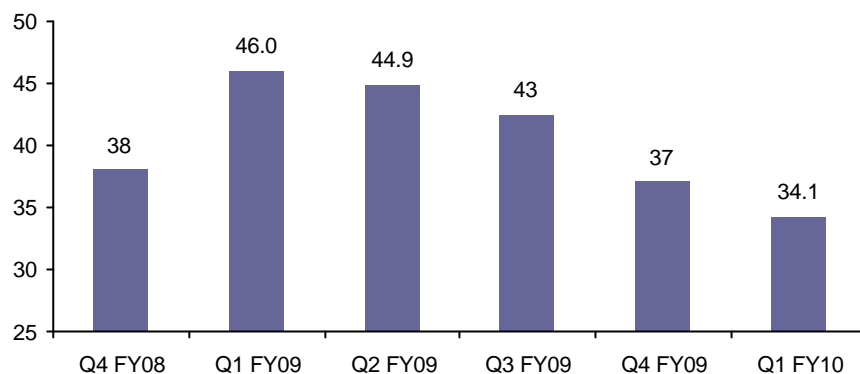
## Summary table - Consolidated

(Rs mn)	FY09	FY10E	FY11E
Sales	43,259	51,471	59,084
Growth (%)	35.1	19.0	14.8
EBITDA	2831	3995	4766
EBITDA margin (%)	6.5	7.8	8.1
Net profit (adj)	2320	2830	3347
Net cash (debt)	2756	8572	7343
EPS (Rs)	7.0	8.6	10.1
Growth (%)	31.8	22.0	18.3
CEPS	7.7	9.3	10.9
DPS (Rs)	1.6	1.6	1.6
ROE (%)	33.9	31.4	29.2
ROCE (%)	40.8	35.0	34.7
EV/Sales (x)	1.1	0.8	0.7
EV/EBITDA (x)	16.1	9.9	8.6
P/E (x)	20.8	17.1	14.4
P/Cash Earnings	19.1	15.8	13.4
P/BV (x)	6.4	4.9	3.9

Source: Company, Kotak Securities - Private Client Research

## Middle East should continue to generate growth opportunities for Voltas

- Voltas is an established player in the Middle East market which also forms a large part of the company's international order book. Since most government's in the Middle East rely heavily on oil revenues for infrastructure development, the sharp drop in oil price in second half of CY08 has affected the infrastructure creation activity.
- This is reflected in slowdown in order backlog in FY09-10. At the end of Q1 FY10, overseas order backlog is down 26% yoy to Rs 34.1 bn.
- However, the management has indicated that the growth opportunities remain strong as much of the capex which was undertaken during the period 2004-07 was based on a crude price of USD 30 per barrel. Thus, despite the fall from peak, crude price at USD 70 per barrel remain at healthy levels, from public spending point of view in the Middle East.
- While the Dubai market is expected to go through slack phase, other countries like Qatar (large gas reserves), Abu Dhabi (large sovereign funds) and Saudi Arabia (largest economy in the Middle East) are better placed. These countries have continued their plans of developing large infrastructure projects.
- In the Middle East, the market is witnessing an emergence of new and high-growth areas such as environmentally-responsible refrigerants, energy-efficient systems, sustainable construction and district cooling.
- Voltas has indicated that although the company has not booked any large order in recent months, but the enquiries are encouraging. The company is expecting some prestigious orders from the healthcare segment. The company expects that order book would be in a much better position by the end of the second quarter. Also, the company is targeting some large orders in the second half of this fiscal. Voltas has indicated that Education is emerging as a major priority area for the Abu Dhabi government and should create significant opportunities for airconditioning.
- Voltas is looking at the new markets of Saudi Arabia, Kuwait and South Africa. The Saudi market is large and is dominated by few large contractors. However, the market is not as transparent as the Dubai and Abu Dhabi market and Voltas is taking a cautious approach towards tapping this country. Voltas does not see major activity in the Libyan market.
- The company has plans to take small orders in Saudi and later on graduate to larger ones.
- The company has bid for orders worth Rs 35 bn in Abu Dhabi and Qatar.

**International order book (Rs bn)**

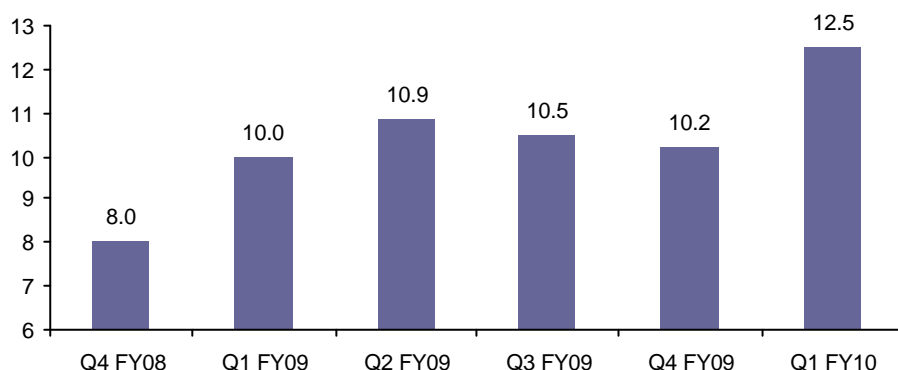
Source: Company

**Domestic market for Central Airconditioning (CAC) has recovered**

The domestic market for CAC has been on a recovery path and order inflows have been healthy. At the end of Q1 FY10, order book is up 25% yoy.

The management has indicated that plans are to increase value addition through greater share of design and build jobs. The company has target to raise segment margins in domestic CAC jobs from 8.5% in FY09 to 10% by FY10.

The cold chain business has significant business potential, but growth has been marred by lack of good quality power and infrastructure.

**Domestic order book (Rs bn)**

Source: Company

**Recovery in Engineering Services segment likely to be by end of FY10**

The engineering services business includes agency (commission revenues as marketing agents for LMW and other textile machinery makers), spare parts and manufacture of material handling equipments. This segment is dependent on the recovery in overall industrial economy.

The material handling divisions order backlog was down 37% at the end of FY09 due to slowdown in construction activity and competition from imports. The company is also upgrading its products in this segment to improve its marketability.

The agency business forms 20% of the revenues of engineering services segment and is dependent on capex plans of textile manufacturers and management expects this segment to pick up in the H2 FY10.

### Looking at a suitable acquisition in Water Treatment segment

Voltas has been adding new business verticals. Through Rohini Electricals it is now undertaking electrical projects for industrial and power sector. Voltas is looking at adding new verticals including water treatment projects. The company is currently handicapped due to lack of membrane technology in water treatment. It is looking at suitable acquisitions in this area.

### Incorporated subsidiary numbers for FY11

Post the management meeting, we have introduced our consolidated FY11 earnings estimates. We expect adjusted earnings to grow as 18% as

- Expected order inflows in H2 FY10 aids momentum in revenue growth in projects segment.
- Unitary cooling division was growing at a brisk pace of 25-30% till FY08. However, this segment slowed down to 11% in FY09. We expect growth in this segment to grow at a faster clip in the coming quarters.
- With increasing signs of a recovery in the manufacturing sector, the engineering services division should also report healthy growth in FY11.

### We upgrade the stock to ACCUMULATE

- As the economic outlook has improved across the globe, enquiries have started trickling in from the Middle East.
- Even on the domestic front, outlook has improved with order backlog increasing 25% yoy.
- Improving industrial output augers well for the company's engineering services business.

### Target price raised to Rs 165

- Annual report highlights continued strong cash generation as the company has been able to maintain its lean working capital structure. Cash surplus has increased from Rs 2.7 bn to Rs 40 bn in FY09.
- Value accretion from subsidiaries like Rohini Electricals, Universal Comfort Products and Weathermaker Ltd. Voltas has increased its stake in these companies.

**We now recommend  
ACCUMULATE on Voltas with a  
price target of Rs.165**

## EVENT UPDATE

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## TRANSPORT CORPORATION OF INDIA (TCI)

PRICE: Rs.84

TARGET PRICE: Rs.75

RECOMMENDATION: REDUCE

CONS. FY10E P/E:14.3x

- ❑ We have gone through the annual report for FY09
- ❑ TCI to focus on high margin integrated logistics solution business
- ❑ Stock fairly valued at 14.3x FY10E EPS of Rs.5.8 (Rs.5.5 earlier)
- ❑ Due to 10% downside potential we continue to recommend REDUCE on TCI with revised price target of Rs.75 (Rs.55 earlier)

We spoke with the management of TCI and have also gone through the FY09 annual report of TCI and following are our key takeaways:

## Focus on high margin integrated logistics solution

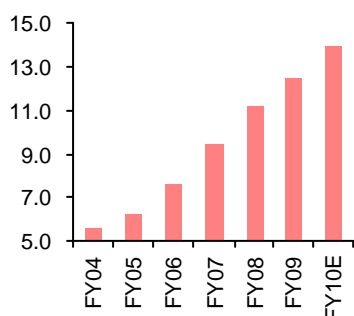
- The business of TCI is provided by its five divisions, TCI Freight, TCI XPS (courier), TCI Supply Chain Solution, TCI Seaways (coast-to-coast shipping) and TCI Global. The company has formed a strategy in place to cross sell its services and thereby each division acts as a business development manager for others thereby enhancing cross marketing and providing single point logistics solutions to its clients.
- In order to improve margins and profitability TCI Freight is focusing on over dimensional cargo and project cargo from institutional customers. It is also focusing on rail cargo in tie up with Container Corporation of India (CONCOR) for full rake and leased out special parcel trains. It has formed a strategy to enhance its railways focus for long distance transport of more than 1000 km on account of cost competitiveness, quicker turnaround and timeliness. It is also focusing on high margin less than truck load cargo leading to cargo consolidation.
- TCI supply chain solutions is a single window provider of supply chain solutions, from conceptualizing and designing the logistics network to actual implementation. It is an asset based 3PL controlling operations to the last detail. SCM is typically a high margin business as it involves detailed planning and execution of various activities leading end-to-end multimodal transportation and distribution of goods. During FY09 it has acquired customers like General Motors, Nitco, Wadhwan Foods, Hero Honda and Samsung among others.
- We are seeing early signs of revival in the India economy and we expect H2 of FY10 to be good in terms of economic growth. Thus we expect good growth in the overall business of TCI in FY10. The management is also seeing business picking up on a day to day basis and this should lead to increased revenues and profitability for TCI going forward.

## Summary table - consolidated

(Rs mn)	FY08	FY09	FY10E
Sales	12,428	13,513	15,008
Growth (%)	14.5	8.7	11.1
EBITDA	858	1,022	1,225
EBITDA margin (%)	6.9	7.6	8.2
Net profit	330	333	422
Net debt	2,194	2,214	2,370
EPS (Rs)	4.5	4.6	5.8
Growth (%)	7.8	1.0	26.6
DPS (Rs)	0.6	0.6	0.6
ROE (%)	12.0	11.1	13.2
ROCE (%)	12.9	13.7	15.8
EV/Sales (x)	0.7	0.6	0.6
EV/EBITDA (x)	9.6	8.1	6.8
P/E (x)	18.3	18.1	14.3
P/CEPS (x)	10.7	9.5	7.9
P/BV (x)	2.2	2.0	1.8

Source: Company, Kotak Securities - Private Client Research

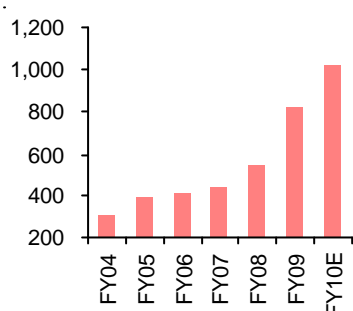
## Logistics revenues (Rs bn)



Source: Company, Kotak Securities - Private Client Research

## Strong base of assets

- During FY09 TCI has increased the warehousing space from 7.5 mn sq. ft. to 7.8 mn sq. ft. it has also added one super hub centre for express service at Bangalore. It has also started construction of a large logistics warehouse in Pune.
- The hub and spoke distribution of TCI has 37 transshipment hubs, 1200 owned branches and 800 franchisees which make it possible to transport the largest material across the widest footprint in the shortest possible time. TCI serves over 300 locations across the country and has 6500 strong workforce.
- TCI Global holds licenses at six different ports for custom clearance and is tied up with agents in 170 countries worldwide. Going forward it intends to widen its direct presence from 8 to 29 countries in next five years and an indirect presence in 30 countries thereby covering more than 95% of the global GDP and 98% of India's trade.
- Going forward TCI has plans to increase the warehousing space from 7.8 mn sq. ft. to 10 mn sq. ft. by FY11.

**Shipping revenues (Rs mn)**

Source: Company, Kotak Securities - Private Client Research

**Coast-to-coast shipping business**

Currently it has a fleet strength of five vessels (16500 DWT) and 1200 containers. It regularly serves Visakhapatnam - Port Blair, Chennai - Port Blair, Yangon - Kolkata and Kolkata - Port Blair routes. The management is looking to acquiring vessels to expand its tonnage and make the fleet younger. It is also looking to expand its services to Myanmar and Thailand. The shipping business of TCI is better placed to whether the impact of the global financial downturn as it is in a niche segment of catering to the coastal cargo requirements i.e. transporting containers and bulk cargo from islands and ports to neighbouring countries.

**Real estate division - long term potential**

TCI has initiated the real estate division to develop the unused properties in to commercial, residential and budget hotels within city limits. It has already shortlisted properties at Delhi, Chennai and Bangalore. We await further details from the management regarding the same and thus we have not considered it in our earnings estimates and price target.

**Mark to market forex losses of Rs.41.8 mn**

The mark to market forex loss on the outstanding derivatives contract as on 30th June 2009 is Rs.41.8 mn. These contracts are due for settlement in September 2009. The company had already provided for Rs.40 mn in FY09 and out of this actual loss of Rs.19.5 mn has been booked in Q1FY10. Further the company has provided for Rs.12.5 mn in Q1FY10 and the balance loss if any would be provided on settlement of the contract in September 2009. However out of current loss of Rs.41.8 mn, Rs.33.0 mn has already been provided for and thus we do not expect any significant negative impact of it on FY10E financials.

**Consolidated debt**

The consolidate debt of the company has gone up by 2.5% to Rs.2.5 bn in FY09 as the company had to take additional debt to fund its expansion plans and to meet its working capital requirements. However the company has replaced the high cost working capital loans with short term instruments like commercial paper and non convertible debenture which is expected to lead to lower interest costs.

**Improvement in working capital cycle**

The operations of the company are working capital intensive due to intrinsic nature of the logistics industry. However even in a challenging year it improved the working capital cycle due to better realizations from debtors, regulating operating costs and enhanced mobilization of short term instruments.

**Change in earning estimates (FY10E)**

(Rs mn)	Old	Revised	Shift (%)
Net sales	15,008	15,008	0.0
EBIDTA (%)	8.0	8.2	1.9
PAT	400	422	5.6
EPS (Rs.)	5.5	5.8	5.6
CEPS (Rs.)	10.1	10.6	4.6
WACC (%)	12.6	12.4	-2.1
Target Price (Rs.)	55	75	36.1

Source: Kotak Securities - Private Client Research



### Change in earning estimates and price target

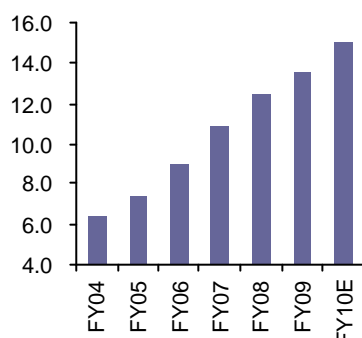
- We have revised the earning estimates to account for higher than expected profitability on account of increasing focus on the high margin SCM, 3PL and integrated logistics solutions business of the company.
- For FY10E, we now expect TCI to report revenues of Rs.15.0 bn (no change), EBIDTA margin of 8.2% (as against 8.0%) and PAT of Rs.422 mn (up 5.6%). Accordingly we expect TCI to report higher EPS of Rs.5.8 in FY10E as against our earlier estimate of Rs.5.5.
- We have valued TCI on DCF method of valuation with 12.4% WACC (12.6% earlier) and 4.0% terminal growth rate (3.0% earlier). We have also accounted for improved working capital cycle and expected pick up in the growth of the Indian economy going forward leading to increased rates of growth for TCI going forward. Thus the price target is revised upwards from Rs.55 to Rs.75.

### Recommendation and Valuation

**We recommend REDUCE on TCI with a revised price target of Rs.75**

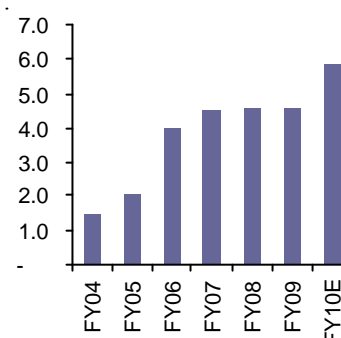
- At the current market price of Rs.84, the stock is trading at rich valuations of 1.8x book value, 14.3x earnings and 7.9x cash earnings based on FY10E.
- Due to 10% downside potential from the current levels we continue to recommend **REDUCE** on TCI with revised price target of Rs.75.

Consolidated Revenues (Rs. bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs.) FV Rs. 2



Source: Company, Kotak Securities - Private Client Research

## Bulk deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
14-Sep	C G Impex	Nilesh Doshi	S	41,171	7.25
14-Sep	Cerebra Int	Value Source IT Private Limited	S	375,000	10.21
14-Sep	Dhanustech	Sanjeev Burman Jhaveri	S	100,000	37.87
14-Sep	DMC Inter	J A Financial And Management Cons	B	27,837	13.98
14-Sep	DMC Inter	Centenary Software Pvt Ltd	B	22,888	14.15
14-Sep	Filat Fash	JMP Securities Pvt Ltd	B	36,000	57.69
14-Sep	Filat Fash	Himal Kanchanlal Parikh HUF	S	50,000	57.45
14-Sep	Filmcit Medi	Wellness Communication (P) Ltd	S	1,516,971	1.15
14-Sep	Greycells En	I G E India Ltd	B	83,000	115.00
14-Sep	Greycells En	Evergreen Resources Pvt Ltd	S	83,000	115.00
14-Sep	Jai Mata Gla	Hitesh Shashikant Jhaveri	S	20,061	8.33
14-Sep	Kir Oil Eng	Better Value Holdings Private Limited	B	14,200,000	113.00
14-Sep	Kir Oil Eng	Kirloskar Systems Limited	S	14,200,000	113.00
14-Sep	Kuvam Intl	Yogesh Shroff	B	100,000	28.10
14-Sep	Kuvam Intl	Kiran Shroff	B	40,000	28.10
14-Sep	Kuvam Intl	Rajni Nayyar	B	50,000	28.10
14-Sep	Kuvam Intl	Dinesh Chhaganlal Thakkar Huf	B	100,000	28.10
14-Sep	Kuvam Intl	Amita Mahendra Parmar	S	40,100	28.10
14-Sep	Kuvam Intl	Suresh Kumar Gupta	S	41,000	28.10
14-Sep	Kuvam Intl	Avinash Gupta	S	88,100	28.10
14-Sep	Kuvam Intl	Walbai Narayan Barot	S	20,000	28.10
14-Sep	Kuvam Intl	Premila Someshwar Joshi	S	18,000	28.10
14-Sep	Kuvam Intl	Shobha Gupta	S	20,000	28.10
14-Sep	Kuvam Intl	Gaurav Garg	S	22,000	28.10
14-Sep	Maars Softwr	Basmati Securities Pvt Ltd	S	746,790	3.30
14-Sep	Moving Pic-Pms	Kushal Kishor Laddhad	B	50,000	5.18
14-Sep	Repro India	Sunita Bansal	B	56,651	112.67
14-Sep	Secun Health	Bansi Chetan Shah	B	22,200	29.28
14-Sep	Secun Health	Sameer N Shah	B	47,298	29.31
14-Sep	Secun Health	Saurabhkumar Rasiklal Gandhi	S	24,115	29.49
14-Sep	Secun Health	Sameer N Shah	S	50,158	28.93
14-Sep	Sel Manuf	Arpit Share Brokers Private Limited	B	100,000	73.00
14-Sep	Tata Stl	Tata Sons Ltd	B	5,000,000	473.00
14-Sep	Tata Stl	Tata Motors Ltd.	S	5,000,000	473.00
14-Sep	Temp.Foods	Wallfort Financial Services Ltd	S	200,000	43.14
14-Sep	Trimurthi Dr	Vishu Enterprise	B	44,906	36.40
14-Sep	Trimurthi Dr	Dhirajlal V Sanghvi HUF	S	55,480	36.73
14-Sep	TTK Healthca	East Sail Mngd By Pari Washington Co	S	101,819	180.00
14-Sep	Tube Invest	Toyota Tsusho Corporation	B	2,700,000	70.77
14-Sep	Tube Invest	Elara Capital Plc (Dr)	S	2,648,913	70.80
14-Sep	Veer Energy	Aangi Shares & Services Pvt. Ltd.	B	280,672	24.66
14-Sep	Venus Vent	Kaushik Rajnikant Mehta	B	40,550	61.51
14-Sep	Vikram Therm	Kapila Ben B Patel	S	18,825	18.91
14-Sep	Vivid Ind	Abhilasha Money Operations Pvt Ltd	B	38,825	18.61

Source: BSE



## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
SBI	1956	1.9	3.4	2.0
Tata Steel	479	2.1	2.0	9.2
Hindustan Unilever	260	1.5	1.5	2.7
<b>Losers</b>				
L&T	1,605	(1.4)	(4.9)	0.8
ICICI Bank	825	(1.3)	(4.3)	3.9
Sterlite Ind	718	(3.8)	(3.3)	2.8

Source: Bloomberg

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