

April 16, 2007

FOR PRIVATE CIRCULATION
Equity

	13 Apr 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,384	2.1	7.7	(5.2)
Nifty	3,917	2.3	8.6	(4.0)
Banking	6,640	2.6	8.7	(10.5)
IT	3,638	3.2	6.0	(2.1)
Healthcare	3,687	0.7	6.6	(5.5)
FMCG	1,774	(0.8)	9.1	(8.0)
PSU	6,099	1.3	12.0	(1.7)
CNX Midcap	5,024	1.6	9.2	(4.8)
World indices				
Nasdaq	2,491.9	0.5	5.0	(0.2)
Nikkei	17,364	(1.0)	5.4	2.6
Hangseng	20,341	(0.2)	8.3	2.5

Value traded (Rs cr)

	13 Apr 07	% Chg - 1 Day
Cash BSE	4,602	42.7
Cash NSE	9,735	37.5
Derivatives	33,223	67.1

Net inflows (Rs cr)

	12 Apr 07	% Chg	MTD	YTD
FII	55	(46)	1,051	8,210
Mutual Fund	(21)	(107)	(202)	(3,460)

FII open interest (Rs cr)

	12 Apr 07	% chg
FII Index Futures	14,328	5.9
FII Index Options	6,159	(1.3)
FII Stock Futures	16,471	5.0
FII Stock Options	68	(7.7)

Advances/Declines (BSE)

13 Apr 07	A	B1	B2	Total	% Total
Advances	162	448	482	1,092	61
Declines	49	247	341	637	36
Unchanged	2	21	35	58	3

Commodity

	13 Apr 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	63.7	0.1	11.5	24.4
Gold (US\$/OZ)	685.5	1.4	5.0	9.8
Silver (US\$/OZ)	14.1	1.2	7.1	12.3

Debt/forex market

	13 Apr 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.14	8.06	8.05	7.76
Re/US\$	42.5	42.9	44.3	44.3

Sensex


Source: Bloomberg

ECONOMY NEWS

- The Government and RBI are planning to review the liberal norms on external commercial borrowings. The review will focus on possible measures to discourage the high level of ECB inflows that partially defeat the purpose of monetary policy. (ET)
- The Finance Ministry is veering round to the view that entry and exit loads charged from investors by mutual funds should not attract service tax. The Government is likely to stick to the line taken by the Central Excise and Service Tax Tribunal on the issue. (ET)
- The Finance Minister has said the immediate goal of the Government is to 'moderate' inflation at about 5% 'or so' and asserted it was taking every step in this regard. The minister said the steep hike in bank interest rates was been done to moderate inflation. (BS)
- During 2006-07, banks lent out an additional Rs.4102.85 bn, which is an all-time record. Further, their outstanding fiscal-end credit as a proportion of deposits (C-D ratio) touched 74.13%, the highest since the 74.99% level of 1976-77. (BL)
- The UPA government plans to bring in a Bill in Parliament that will make it binding on companies to rehabilitate the farmers before they are displaced for setting up industries. (BS)

CORPORATE NEWS

- Ruia's owned **Essar Steel** has announced that they have agreed to acquire Canadian Algoma Steel for an aggregate value of \$1.58 bn to be paid in cash. Algoma Steel is an integrated steel producer based in Sault Ste. Marie, Ontario with steel shipments of 2.4 MT in 2006. It has revenues of C\$1.9 bn. (ET)
- **Jet Airways** is planning to run Air Sahara as a separate debt-free company without integrating the two balance sheets. The Lucknow-based Air Sahara will, however, be rebranded and operated most likely as a low-cost airline within a few months. (ET)
- **ONGC** will tap the capital market with a public issue later this fiscal to part-finance its Rs.180-bn refinery-cum-petrochemical project. The 15-MT refinery complex will be built to cater to the demand for high-grade fuel in the European and other Western markets. (ET)
- **Reliance Industries** has allotted 28.7mn options to 18,000 employees in its employee stock option scheme, depending on their experience and tenure. At the ruling market price of Rs.1,400 a share, the scheme's notional value is estimated at Rs.40 bn. Reliance has a workforce of nearly 35,000. (BS)
- **Tata Consultancy Services** is believed to have clinched a \$100-mn deal spread over five years from Bank of China to provide technology solutions. (BS)
- US-based investment bank Morgan Stanley has acquired 3 mn shares or 0.5% of **Tata Steel** at Rs.509.8 per share worth Rs.1.54 bn.
- While **Lupin Ltd** received marketing approval from the US FDA to market its Cefixime oral suspension drug in the US, **Ranbaxy Laboratories** has received approval to market two strengths of Cefprozil tablets and Cefprozil powder for oral suspension in Canada. (BS)
- **Future Group** plans to launch 'Big Bazaar Supercentres' that will provide postal services, health and beauty zones and entertainment sections to the existing services. The group would launch six such centers in the next two months at an investment of Rs.960 mn. (BS)

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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**We maintain BUY on Infosys
with a price target of
Rs.2345**

INFOSYS TECHNOLOGIES LTD

PRICE Rs: 2,076

TARGET PRICE : Rs: 2,345

RECO : BUY

FY08E PE(x) : 24.8

Highlights

- Q4FY07 net profit largely in line with expectations, revenue growth lags estimates
- Management re-iterates bullishness on volume growth and billing rates, no major impact of US slowdown seen, yet.
- A 25% net profit growth guidance in rupee terms (22% EPS growth guidance due to equity dilution) is encouraging, though the margin scenario needs to be closely followed.
- Re-iterate Infosys as a preferred pick in IT and maintain **BUY** with a price target of Rs.2345, implying a P/E of 28x on our FY08E earnings estimates.
- An accelerated slowdown/recession in major user economies and a sharper-than-expected appreciation in rupee v/s major currencies are key risks to our call.

Q4FY07 results

While revenues for Q4FY07 were below our estimates, profits were almost in line (after removing the impact of one-time tax write back).

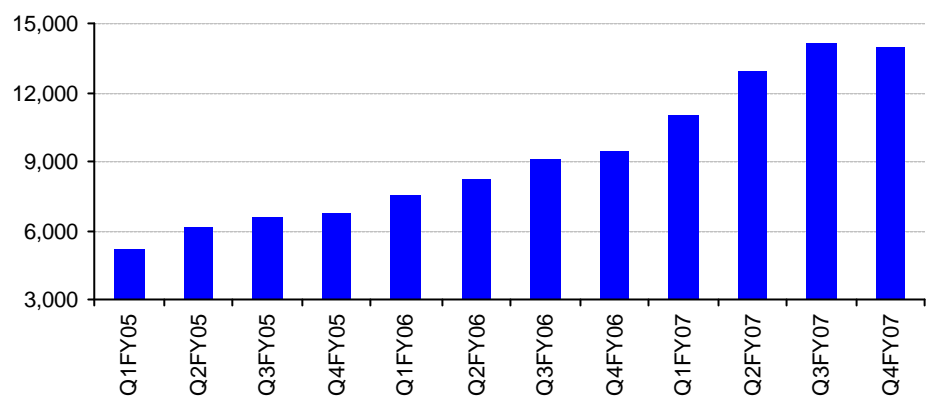
Quarterly performance

(Rs mn)	Q4FY07	Q3FY07	% Chg	4QFY06	% Chg
Turnover	37,720	36,550	3.2	26,240	43.7
Expenditure	25,750	24,590		17,910	
EBIDTA	11,970	11,960	0.1	8,330	43.7
Depreciation	1,450	1,410		1,440	
EBIT	10,520	10,550	-0.3	6,890	52.7
Other Income	1,200	590		720	
PBT	11,720	11,140	5.2	7,610	54.0
Tax	1,510	1,300		810	
Minority interest	10	0		70	
PAT	10,200	9,840	3.7	6,730	51.6
E. O items	-1,240	0		0	
PAT after EO items	11,440	9,840		6,730	
EPS (Rs) *	17.9	17.2		11.8	
EBIDTA (%)	31.7	32.7		31.7	
EBIT (%)	27.9	28.9		26.3	
Net Profit (%)	27.0	26.9		25.6	

Source: Company * - On diluted equity post ESOPs

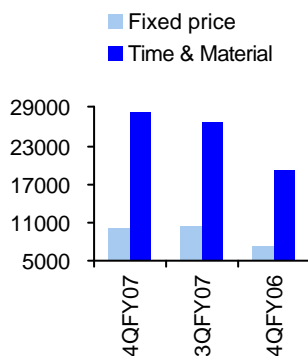
Revenue growth lower-than-expected

- The 3% revenue growth came on the back of a 4% rise in volumes and a 1.8% appreciation in the rupee against the US dollar.
- Revenue growth was lower, as compared to our estimate of a 7% rise. This can be attributed to some slackness in the BFSI vertical, which saw revenues de-grow 1% QoQ and also to milestone related issues in some fixed priced projects, in our view.

BFSI revenues (Rs mn)

Source: Company

- The lower-than-expected revenue growth led to a reduction in the employee utilization rate (without trainees) from about 76% to 73% QoQ.
- The highlight of the revenue growth was the 11% sequential rise in revenues from the Top 10 clients. This is the third quarter in FY07, wherein the Top 10 clients have grown at more than 10% QoQ.

Revenue by project type (Rs mn)

Source: Company

Growth in revenues of top clients

(Rs mn)	4QFY07	4QFY06	YoY (%)	3QFY07	QoQ (%)
Top client	3,206	1,233	160.0	2,522	27.1
Top 5 clients	8,034	4,881	64.6	6,908	16.3
Top 10 clients	12,598	8,135	54.9	11,330	11.2

Source : Company

Geographic growth

Rs mns	4QFY07	4QFY06	YoY (%)	3QFY07	QoQ (%)
North America	23,613	17,056	38.4	23,099	2.2
Europe	10,034	6,691	49.9	9,795	2.4
India	566	472	19.8	658	-14.0
Rest of World	3,508	2,021	73.6	2,997	17.0

Source : Company

- Billing rates were marginally changed, in our view, and continue to have an upward bias. New clients continue to come in at 3-4% higher rates and existing clients are also giving 2-3% increases, according to the company.

Margins impacted

- Infosys' EBIDTA margins were lower by about 99 bps QoQ. This came about mainly due to the appreciation in the rupee by an average of about 1.8% over Q3FY07. A 1% appreciation in the rupee impacts EBIDTA margins in the range of 30-50bps.
- We believe the lower employee utilization rate also impacted margins during the quarter.

Other income and tax impact

- Infosys earned a higher other income during the quarter because of higher surplus, fiscal end dividends and lower forex losses (Rs.30 mn v/s Rs.190 mn QoQ).
- The company had a one-time income of Rs.1.24 bn in the form of a tax credit relating to past years. Excluding this, the tax rate during the quarter stood at about 13%.

Subsidiaries - levers for margin improvement

- Infosys BPO and Infosys Australia reported a sustained performance during the fiscal. However, Infosys Consulting Inc and the Chinese subsidiary continued to be in the investment phase with a consolidated net loss of Rs.1.4 bn during FY07.
- While the consulting subsidiary has turned in losses, the downstream business has started to flow in and revenues from this are significantly higher than the revenues of the consulting business. The margins in the downstream business are also higher v/s the Infosys average. In all, the company has about 2000 consultants spread across the solutions businesses of each vertical.
- The management intends to significantly reduce losses in these two subsidiaries. We believe this will be an important lever for overall margin sustenance for Infosys in FY08.

Subsidiary Performance in FY07

Rs.Mn	Revenues	Profits
Infosys BPO	6,620	1,510
Infosys Australia	4,450	710
Infosys Consulting	2,130	-1,100
Infosys China	600	-300

Source: Company

Macro trends intact... as of now

- The management indicated that it has not witnessed any slowdown in demand from its clients due to the macroeconomic changes in user economies. However, we believe a sharp deceleration or a recession in major economies can impact revenue growth for Indian vendors.
- The company won a follow-on contract from ABN Amro during Q4FY07. It is pursuing about 10-12 large contracts, each in the range of \$50 mn-\$250 mn (over a five-year period).
- The package implementation and consulting business grew 11% QoQ and formed about 23% of Q4FY07 revenues, indicating there has been no impact, yet, on the discretionary spending by clients.
- As a corollary to this, the company is able to bargain for higher billing rates, as mentioned above.

Encouraging guidance, but margin sustenance crucial

- The company has guided for a 23-25% revenue growth in rupee terms in FY08. In US dollar terms, the growth is expected to be 26-28%. With an assumed stable pricing, the volume growth is also forecast at 26%-28%, which is encouraging considering the high base.
- Profit growth is expected to match the revenue growth with the equity dilution expected to lead to a relatively lower EPS growth in FY08.
- The guidance is at an exchange rate of Rs.43.10 per US dollar and any depreciation from those levels could impact the revenues positively.
- The guidance implies relatively stable EBIDTA margins. This is despite a potential impact of about 300 bps due to salary hikes (about 5-6% on-site hikes and 12-15% offshore increases) and about 150 bps due to the rupee appreciation. This is expected on the back of improvement in employee utilization, leverage on SG&A costs, cost controls and improvement in the performance of subsidiaries.
- While the levers for improvement do exist, we will closely watch the implementation of these initiatives as achieving cost improvement is crucial especially in the backdrop of rupee appreciation and salary pressures.

- EPS growth is expected to be lower due to the equity dilution.
- The equity capital has got diluted to the extent of about 3% as about 13 mn stock options have been exercised towards the end of March 2007, taking the total number of shares to about 571.2 mn.

Future prospects

- We have made changes to our FY08E estimates in view of the lower than expected Q4FY07 numbers and the appreciation in the rupee.
- The rupee has appreciated to beyond Rs.43 per US dollar and we have made changes accordingly, as compared to our earlier assumption of the rupee appreciating to Rs.43 per US dollar by the end of FY08.
- Based on a diluted equity (post ESOPs conversion in March 2007), we arrive at an EPS of Rs.83.7 for FY08.

Financials					
(Rs mn)	FY06	FY07	% Chg	FY08E	% Chg
Turnover	95,215	138,925	45.9	180,927	30.2
Expenditure	64,298	95,015		124,199	
EBIDTA	30,917	43,909	42.0	56,728	29.2
Depreciation	4,371	5,140		6,050	
EBIT	26,546	38,769	46.0	50,678	30.7
Other Income	1,386	3,730		4,600	
PBT	27,932	42,499	52.2	55,278	30.1
Tax	3,132	5,100		7,463	
Minority interest	200	100		0	
PAT	24,600	37,300	51.6	47,815	28.2
Provisions	1	-1,270		0	
PAT after provisions	24,600	38,570		47,815	
EPS (Rs) *	44.6	65.3		83.7	
EBIDTA (%)	32.5	31.6		31.4	
EBIT (%)	27.9	27.9		28.0	
Net Profit (%)	25.8	26.8		26.4	

Source: Company, Kotak Securities - Private Client Research; * - On diluted equity post ESOPs

Valuations

- We value Infosys based on the PE method. We have accorded a valuation of 28x FY08E earnings and believe this is fair, based on the revenue and earnings visibility and the 28% PAT growth expected in FY08 on a larger base.
- At 28x FY08E earnings, the price target works out to Rs.2345, implying an upside of 13% from the current levels. We maintain BUY on Infosys.

Concerns

- An accelerated slowdown/recession in major user economies may impact our projections.
- The rupee has appreciated to Rs.42.54 v/s the US dollar. This is higher than our assumed levels of about Rs.43 per US dollar in FY08. While we expect the rupee to stabilize at about Rs.43 per US dollar for FY08, a sharp acceleration from the current levels may impact our earnings estimates for the company.

RESULTS PREVIEW

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Q4FY07 RESULTS PREVIEW - BANKING SECTOR

Outlook: Neutral

Credit growth remains robust...

Credit offtake continues to be robust, growing at 29.5% (as of March16, 2007), while deposit growth has also picked up in Q4FY07 to 24% from 18-20% a year ago. However, we believe credit growth (specially retail credit) is likely to slow down to the range of 22-24% in FY08E due to recent tightening by RBI.

Strong earnings growth...

Earnings growth for banks under our coverage is likely to be more than 20% despite higher reserve requirements, recent hike in weightages and additional standard asset provisioning requirements on certain sensitive sectors lending. The strong growth in the non-interest income of private sector banks will partly help them offset this.

- The additional provisioning requirement is likely to hit the private sector banks more than public sector banks. We estimate that private sector banks would take a knock of 4-5% from their operating profits whereas it would be in the range of 1-3% for public sector banks.
- ICICI Bank could see slower growth in net income (approximately 22%) owing to higher general provisions of Rs.3.0 bn.

Margin stable to declining...

The private sector banks are likely to maintain their margins in this quarter as their two lending rate hikes (ICICI bank hiked thrice) coupled with the RBI's decision to provide interest income on CRR with retrospective effect will help banks counter the rise in deposit costs. The poor pass-through of PLR hikes by state-owned banks may result in a negative surprise on their NIMs.

However, going forward, banks may see some margin pressures due to a mismatch in the rise in funding cost and lending rates as they are competing with each other to raise their deposit base. In such a scenario, banks with high CASA ratios are likely to fare better.

Higher provisions on investment book...

Some banks like SBI, PNB, Canara Bank and OBC are likely to have higher mark-to-market (M-T-M) losses with 10-year government bond yields up 52 bps (from 7.42% to 7.94%) during this quarter. However, this will not have any large impact on the reported YoY growth of a majority of banks (specially private sector) as they have already transferred a large part of their investment book from AFS/HFT to HTM portfolio. This is apart from the fact that they had seen a similar 30 bps rise in yields during same quarter last year.

Close watch on asset quality...

Lending rates in the last one year have gone up 300-500 bps, which would lead to higher NPLs and, therefore, higher provisioning requirement. We will keep a close watch on asset quality trends in the coming quarters as with rising interest rates, the asset quality cycle may also reverse.

Valuations

(Rs mn)	Net Interest Income			Pre-Provisioning Profit			Net Income		
	Q4FY07	Q4FY06	YoY (%)	Q4FY07	Q4FY06	YoY (%)	Q4FY07	Q4FY06	YoY (%)
HDFC Bank	9,612.3	7,394.1	30.0	7,428.7	5,612.4	32.4	3,463.5	2,632.1	31.6
ICICI Bank	17,220.3	12,155.8	41.7	20,257.3	14,813.4	36.7	9,640.1	7,899.3	22.0
J&K Bank	2,270.0	1,886.4	20.3	1,448.2	1,426.1	1.5	747.1	227.8	228.0
UTI Bank	3,590.5	3,128.6	14.8	3,544.5	2,980.5	18.9	1,893.6	1,517.3	24.8

Source: Company, Kotak Securities - Private Client Research

Restrictive monetary bias of RBI...

RBI recently stated that the "stance of monetary policy has progressively shifted from an equal emphasis on price stability along with growth to one of reinforcing price stability with immediate monetary measures and to take recourse to all measures promptly to evolving circumstances'. This implies the central bank is making a trade-off between growth and price stability and is prepared to sacrifice near-term growth to address price stability issues.

However, we believe inflation is more because of supply side factors than the demand side. Going forward, it is also likely to moderate due to base effect and we expect it to come within the comfort zone of the RBI by the end of Q1FY08. The other factors, which can lead RBI to surprise the markets, are forex inflows and money-supply growth, if they increases beyond RBI's tolerance levels.

Quality rather than quantity would matter...

Top Picks: ICICI Bank, J&K Bank, UTI Bank

In the short run, we are neutral but maintain our long-term positive stand. We believe current valuations more than discount the near-term earning pressures. With credit growth expected to moderate and the cost of funds rising, banks that focus more on quality than quantity of assets and have a strong resource base are expected to outperform their peers.

Top Picks: ICICI Bank, J&K Bank, UTI Bank

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
13-Apr	Addi Industr	Bikramjeet Ahluwalia	B	112,200	8.75
13-Apr	Addi Industr	PNR Capital Services Ltd	S	112,200	8.75
13-Apr	Bihar Spon I	Deutsche Securities Mauri	S	588,026	13.28
13-Apr	Bihar Tubes	Nirmal Kotecha	B	25,000	137.50
13-Apr	Bihar Tubes	Virendra Engineering and	S	25,847	137.52
13-Apr	Chandrik Tra	ABN India Equity Research	B	38,000	4.17
13-Apr	Chandrik Tra	Bhagya Shree Leasing and	S	69,399	4.17
13-Apr	Country Club	ABN Amro MF	B	50,000	248.00
13-Apr	Gremac Infra	Harsiddh Online	B	88,750	84.82
13-Apr	Gremac Infra	Real Gold Trading Company	S	129,973	84.50
13-Apr	Gremac Infra	Nischal Corporate Ser. Pvt.	S	87,808	84.50
13-Apr	Infomedia	Ohm Stock Broker Pvt. Ltd.	B	150,000	163.00
13-Apr	Infomedia	Hiren Gandhi	B	100,000	163.05
13-Apr	Infomedia	Rakesh Jhunjunwala	B	450,000	163.00
13-Apr	Infomedia	Fidelity Investment Mange	S	1,448,974	163.14
13-Apr	Intern Diamo	Ashok Jain	S	500,000	5.94
13-Apr	Jupiter Bios	Satish Kumar Vuppapalali	B	62,000	162.41
13-Apr	Man Indust I	BSMA Limited	B	139,332	216.10
13-Apr	Mefcom Agr I	Shilpi K Modi	S	137,362	28.29
13-Apr	Minax Textil	Prakashkumar Devshilal Sh	B	30,000	3.27
13-Apr	Minax Textil	SRK Projects Pvt. Ltd.	B	50,000	3.27
13-Apr	Minax Textil	Jolapara Vijay J	B	215,801	3.25
13-Apr	Minax Textil	Dharmrajbhai Bhabhubhai W	S	29,000	3.27
13-Apr	Minax Textil	Span Tradelink	S	628,950	3.26
13-Apr	Minax Textil	Bimal Kumar Bagla	S	50,000	3.25
13-Apr	Osian Lpg Bo	Sanjay Varajalal Kothari	B	140,000	10.00
13-Apr	PondyOxides	Sunita Investments	S	64,863	18.40
13-Apr	Riga Sugar C	Exim Scrips Dealers Pvt Ltd	S	30,000	34.50
13-Apr	Rock Hard Pe	Manav N Patel	B	56,008	5.80
13-Apr	Rock Hard Pe	Rajendra Dalpatbhai Achar	S	39,926	6.09
13-Apr	Shiva Cement	Master Finlease Ltd	B	362,660	8.63
13-Apr	Spanc Telesy	Santosh Industries Limite	S	125,000	234.33
13-Apr	Spectra Indu	Pinky Deepak Malhotra	B	40,000	25.45
13-Apr	Spectra Indu	Mukeshkumar K Varma	S	45,581	25.48
13-Apr	Sumeet Indus	Himshika	S	239,500	15.85
13-Apr	Tripex Over	Shreeji Sec	B	70,922	53.29
13-Apr	Usher Agro	Prakash Baliram Bandarkar	B	121,600	24.59

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
TCS	1,262	5.1	11.7	2.4
ONGC	872	2.5	9.0	0.8
Wipro	568	5.0	7.7	2.2
Losers				
ITC	153	(1.8)	(2.1)	5.3
HLL	207	(0.6)	(0.5)	1.7
GAIL India	282	(1.0)	(0.5)	0.5

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
16-20 Apr	Initial Public Offer of Fortis Healthcare opens
16-Apr	TCS, Petronet LNG, Indiabulls Financial Services earnings expected; Dhanalakshmi Bank to consider rights offer
17-Apr	UTI Bank to announce earnings and dividend; BEL holds press conference, HCL Technologies holds press conference
18-24 Apr	Initial Public offer of Hilton Metal Forging opens
18-25 Apr	Initial Public offer of Bhagwati Banquets and Hotels opens
18-Apr	Praj Industries to announce earnings & bonus; Aban Offshore earnings expected; ABL Bio Technologies to consider right offer
19-Apr	ACC, Biocon, Essel Propack, National Fertilizers, Sterling Biotech earnings expected
20-Apr	Exide Industries, Satyam Computers, Merck, Gujarat Ambuja Cements, Wipro, IDBI to announce earnings and dividend; Mahindra & Mahindra to consider funds raising plans
21-Apr	Titan Industries to announce earnings and dividend; Zee Entertainment earnings expected

Source: Bloomberg

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