

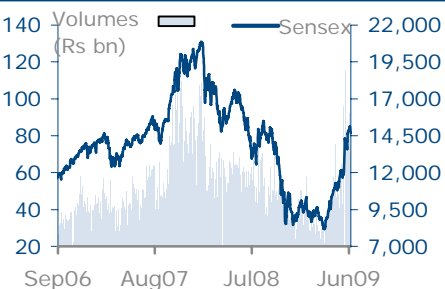
- **What's Inside: Everest Kanto Cylinders (BUY); Pantaloon Retail (REDUCE); Indiabulls Real Estate (REDUCE); Sadbhav Engineering (BUY); Events calendar**

Market Front Page

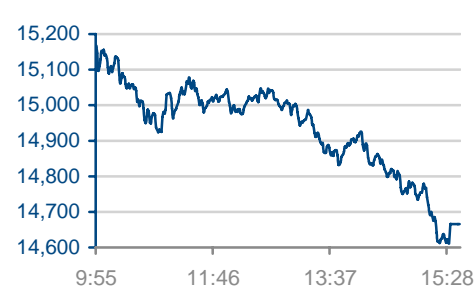
Index Movements	Closing	% Chg	% YTD	ADR/GDR (US\$)	Latest	% Chg	% Prem
Sensex	14,666	(2.9)	52.0	HDFC Bank	99.3	(3.1)	12.5
Nifty	4,430	(3.4)	49.7	Reliance	92.4	(2.6)	0.2
BSE Smallcap	6,084	(5.8)	65.2	Infosys	36.2	0.5	(1.1)
CNX Midcap	5,413	(4.8)	44.9	Satyam	2.7	0.4	6.6
Nasdaq	1,842	(0.4)	16.8	Wipro	12.2	(1.4)	43.5
DJIA	8,764	0.0	(0.1)	ICICI Bank	31.3	(4.0)	2.8
IBOV	53,630	0.5	42.8	SBI	71.0	(8.2)	(0.4)
FTSE	4,405	(0.8)	(0.7)	Sterlite	13.8	(3.0)	0.7
CAC	3,290	(1.5)	2.2	Tata Motors	10.5	(0.2)	36.4
Turnover	US\$m	% Chg	Commodities	Latest	%Chg	%YTD	
BSE	1,501	(18.5)	Gold (US\$/ounce)	950	(0.1)	7.8	
NSE	4,479	(20.4)	Crude (US\$/bl)	68	(0.5)	52.7	
Derivatives (NSE)	13,904	(0.7)	Aluminium (US\$/MT)	1,620	3.1	5.2	
FII F&O (US\$m)	Index	Stocks	Copper (US\$/MT)	4,980	0.0	62.2	
Net buying	(175)	(96)	Forex Rates	Closing	% Chg	%YTD	
Open interest	7,797	4,327	Rs/US\$	47.4	0.3	(2.2)	
Chg in open int.	(153)	(234)	Rs/EUR	66.1	(0.8)	(3.2)	
Equity Flows (US\$m)	Latest	MTD	YTD	Rs/GBP	75.2	(0.5)	7.4
FII (5/6)	301	552	4,826	Bond Markets	Closing	bps Chg	
DII (8/6)	(185)	(519)	1,387	10 yr bond	6.6	6.0	
MF (5/6)	(9)	(230)	66	Interbank call	3.3	(3.0)	

Charts Front Page

Sensex price volume



Sensex intraday



Corporate Front Page

- **Reliance Communications** is close to awarding a US\$500-600m operations and maintenance contract to French telecom infrastructure provider Alcatel-Lucent. (BS)
- **Pfizer** to buy RFCL's animal healthcare division – Vetnex – from ICICI Venture for ~US\$75m. (ET)
- Government may announce a seven year tax break to natural gas producers like **ONGC** and **Reliance Industries**. (ET)
- The Foreign Investment Promotion Board (FIPB) defers **United Breweries'** proposal to raise Rs7.08bn. (ET)
- **Telstra Corp.** has awarded expanded application development and maintenance contracts to EDS and Infosys and renewed an infrastructure management contract with IBM. The contracts with EDS and Infosys are worth ~A\$450 million over five years. (WSJ)
- **Areva T&D India** has won four orders worth ~Rs3.5bn from **Power Grid Corporation of India**. (BL)
- **NMDC** is likely to negotiate the current fiscal's long-term contract prices for iron ore with Japanese and South Korean steel mills by July. (ET)
- **SBI** plans to double branch network in Singapore in FY10. (ET)
- **PTC India** plans to set up a US\$1bn equity fund to finance power projects in India. (ET)
- The Rajasthan government is firm on levying a 4% VAT on crude oil to be produced from **Cairn India**-operated RJ-ON-90/1 Block in the state. (BS)
- The SC allowed **TVS Motor Co** to manufacture "Flame", the 125 cc bike that has been caught in a patent dispute with **Bajaj Auto** since last year, but stipulated that the finished two-wheelers could not leave the company's warehouse. (BS)
- Promoters of **Indage Vintners** plan to increase their stake in the company to 35% from existing 28%. (ET)
- **Pantaloon Retail India** plans to raise Rs10bn through issuance of securities to various investors. (ET)
- **Reliance Communications** has bagged Rs1.3bn Wide Area Network (WAN) contract from global consultancy major Mott MacDonald. (BS)
- **TRF**, a **Tata Steel** arm is targeting the merger and acquisition route in a bid to notch up a five-fold revenue growth. (ET)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Wipro Ltd	406	3.1	73.8	Dish TV India Ltd	45	-15.6	126.5
Tata Consultancy S	742	2.9	55.3	Unitech Ltd	84	-14.2	106.5
Infosys Technologię	1742	2.5	56.2	Patni Computer S	212	-13.4	63.9
Torrent Power Ltd	158	2.5	113.7	JSW Steel Ltd	510	-13.0	122.3
Shriram Transport	297	2.3	52.4	IRB Infrastructure	132	-12.2	2.2

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Dish TV India Ltd	45	905	141,418	33,208	326
Mangalore Refinery & Petr	92	3,415	59,832	17,200	248
Nestle India Ltd	1800	3,663	164	57	189
Petronet LNG Ltd	75	1,191	24,031	8,324	189
Castrol India Ltd	328	856	409	145	182
MMTC Ltd	33845	35,716	3	1	153
Torrent Power Ltd	158	1,580	3,440	1,415	143
Patni Computer Systems L	212	573	969	410	137
Divi's Laboratories Ltd	1189	1,627	441	229	93
Balrampur Chini Mills Ltd	98	527	15,566	8,529	83

FII - FII trades

Scrip	05/06/09			08/06/09		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Grasim	29	2,530	0.8	16	2,555	2.5
Pnb	295	684	3.2	175	642	3.8
Pantaloon	100	338	7.5	30	321	5.0
Karur vysya banl	200	314	-	-	-	-

Corporate Front Page

- **Hindustan Unilever** has postponed its plans to sell 49% stake in its BPO unit to Capgemini SA from March 2009 to March 2010. (ET)
- FIPB has cleared the Hyatt group's proposal to set up hotels in India with its realty firm **Emaar MGF** at an investment of Rs1.5bn. (FE)
- **Jet Airways** plans to cut domestic flights by 10%. (ET)
- **Jindal Stainless'** proposal to set up a 1000MW (2x500Mw) power plant will require fresh approval of the State Level Single Window Clearance Authority (SLSWCA) following change of site of the project. (BS)
- **Central Bank of India** has put non-performing assets (NPAs) with a total outstanding amount of Rs1.02bn on sale to clean up its balance sheet. (BS)
- **PTC India** plans to buy mines in Australia and Indonesia. (FE)
- **Tata Communications** and Qatar Telecom have signed deal for infrastructure sharing. (ET)
- **DCB** has slashed deposit rates by up to 0.5% across different tenures with immediate effect. (ET)
- **Omaxe Ltd** plans to raise Rs18bn. (FE)
- **Dish TV** promoters have sold 5.8% stake in the company to raise ~Rs2.7bn. (ET)
- **Lanxess India** to acquire assets of **Gwalior Chem** for Rs5.4bn. (BL)
- **Vodafone Essar's** plan to hive off towers has hit a hurdle with a government agency flagging the vexed issue of using a tax haven for such deals. (ET)
- **Aegis Ltd** sets up a subsidiary Aegis Tech Ltd to offer end-to-end software solutions. (FE)
- Chinese telecom vendor Huawei may be one of the interested bidders for picking up stake in the factories owned by State-run **Indian Telephone Industries Ltd.** (BL)
- US-based consumer credit reporting agency TransUnion to buy additional 27.51% stake in Credit Information Bureau India (CIBIL). (ET)
- **ITC** plans to increase Classic cigarette prices (Mint)

Economy Front Page

- RBI may standardize the way banks calculate their prime lending rates (PLR) and bar them from lending below their respective PLRs. (ET)
- Government is examining a demand to abolish the Securities Transaction Tax (STT) on equity transactions in the Budget. (ET)
- Government has imposed a special duty on imports of compact discs-recordable (CD-Rs) from Iran, Thailand and Korea. (ET)
- Nabard proposes to provide refinance of over Rs50bn to regional rural banks in 2009-10 at 4.5% p.a. (FE)
- Public sector banks might look at further reduction in interest rates in order to boost credit demand. (BL)
- International Air Transport Association (IATA) projects US\$9bn loss in 2009 for global aviation sector. (FE)

Results Front Page

Rs m	Revenues	%YoY	PAT	%YoY
eClerx Services	543	45.9	154	1.7
IndiaBulls Fin. Services (Cons.)	20,030	18.8	994	(82.7)
Rei Agro	8,537	35.9	130	(42.0)
Sadbhav Engineering	3,986	10.5	290	31.9

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Cambridge Tech	Y Ramesh Reddy	04/06/2009	Buy	100,000	77.0	8	0.1	0.6
Educomp Solution	Shonu Chandra	04/06/2009	Buy	5,662	3,084.0	17	0.0	0.1
Indage Vintners Ltd	Sonata Investments Ltd	28/05/2009	Sell	820,000	86.4	71	5.4	-
IRB Infra	Dattatraya P Mhaiskar	08/06/2009	Sell	554,000	132.0	73	0.2	9.0
Marksans Pharma Ltd	Mark Saldanha	03/06/2009 - 04/06/2009	Sell	1,250,000	7.4	9	0.3	48.5
Matrix Laboratories Ltd	MP Laboratories (M) Ltd	03/06/2009	Buy	27,053,416	209.0	5,654	17.5	88.7
Nagarjuna Fertilizers & Chemicals Ltd	Nagarjuna Management Services Pvt Ltd	05/06/2009	Buy	36,588,804	44.0	1,610	8.5	20.3
Nagarjuna Fertilizers & Chemicals Ltd	KS Raju & Associates Holdings Pvt Ltd	05/06/2009	Sell	12,912,054	44.0	568	3.0	-
Nagarjuna Fertilizers & Chemicals Ltd	Saveri Chemicals Pvt Ltd	05/06/2009	Sell	11,401,000	44.0	502	2.7	-
Nagarjuna Fertilizers & Chemicals Ltd	KRR Holdings Pvt Ltd	05/06/2009	Sell	8,241,650	44.0	363	1.9	-
Nagarjuna Fertilizers & Chemicals Ltd	Chinnar Securities Pvt Ltd	05/06/2009	Sell	4,034,100	44.0	178	0.9	-
OCL Iron and Steel Ltd	R H Dalmia	29/05/2009	Sell	13,414,316	22.5	302	10.0	36.5
Rollainers Ltd	W L D Investments Pvt Ltd	01/06/2009	Sell	500,000	99.0	50	5.0	89.1
Sintex Industries Ltd	BVM Finance Pvt Ltd	26/05/2009	Buy	50,000	204.0	10	0.0	23.4
Supertex Industries Ltd	Super Inficon Pvt Ltd	--	Buy	219,226	52.4	11	2.2	24.5

Deal size worth more than Rs5m considered. The exchange does not report transaction prices, so we have assumed them to be closing prices for the respective days. Hence, actual deal sizes may vary from the figures above.

BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Aban Offshore Ltd.	Citigroup Global Mkts Mauritius Pvt Ltd- Sell Code	8/6/2009	Sell	200,000	1,235.4	247
Dish Tv India Ltd	Deutsche Securities Mauritius Ltd	8/6/2009	Buy	3,974,240	49.0	195
Dish Tv India Ltd	Delgrada Ltd	8/6/2009	Sell	9,730,293	49.3	480
Dish Tv India Ltd	Lazarus Investments Ltd	8/6/2009	Sell	6,612,500	49.1	324
Dish Tv India Ltd	Pan India Paryatan Ltd	8/6/2009	Sell	3,680,000	49.0	180
Nitco Ltd	Albula Investment Fund Ltd Deutsche Bank	8/6/2009	Buy	173,791	73.1	13
Sel Manufacturing Company	Mavi Investment Fund	8/6/2009	Sell	100,000	87.4	9

Everest Kanto Cylinders - BUY



EKCL IN

Rs203

Auto

9 June 2009

Company Update

Gas boost

Our recent meeting with EKC's management has reinforced our positive long-term view on the stock, notwithstanding near-term challenges in both domestic and international markets. The domestic market has shown signs of recovery in the current quarter and we expect it to grow materially as availability of gas improves. The company has also had some positive results in developing new markets like Thailand and Colombia to partially mitigate the loss of business in key export markets like Iran and Pakistan. Availability of Reliance gas, coupled with the government's focussed approach on developing gas distribution infrastructure, underpins our positive view on EKC's long-term prospects. The stock is currently trading at an attractive PE of 9.7x on FY11ii; we upgrade it to BUY.

Indian market likely to open up in a big way in the next 6-9 months: Reliance gas from KG basin has started and 5mmcmd out of the initial 40mmcmd has been allocated for city gas distribution. The policy framework for awarding city gas distribution (CGD) licences is in place, and in Phase I, licences have been issued for six cities. Bids for the second round, wherein licenses are to be issued to seven more cities, are due on 25 June. Once licences are, gas distribution infrastructure will likely be set up in six months. The company expects orders to start coming in, first for CNG cascades and jumbo cylinders and then for CNG cylinders. Orders for ~14,000 buses are expected to be issued under the JNNURM scheme as well; assuming eight cylinders per bus, this could result in demand for more than 100,000 cylinders.

Problems with key export markets likely to continue for 1-2 more quarters: In the last couple of quarters, EKC's business in its key export markets of Iran and Pakistan has declined by ~30%. Iran had a specific policy requiring conversion of its vehicles to CNG by 31 March 2009. However, the policy has not been extended; although orders have not stopped completely, they have declined by 30%. Given the peculiar situation in Iran, with high gas reserves and low refining capacity, we believe orders from Iran will eventually resume but that is not factored in our numbers. Demand from Pakistan has been adversely affected by the ~25% depreciation of that country's currency in the last few quarters. The company has been able to get orders from new markets like Thailand and Colombia, and this has partly offset the revenue loss from these countries.

PNGRB has started issuing licenses for City gas distribution (CGD)

Cities where licenses for CGD are being issued	
Phase 1	Kota, Kakinada, Dewas, Kota, Meerut, Sonapat, Mathura
Phase 2	Allahabad, Ghaziabad, Jhansi, Rajahmundry, Shahdol, Yanam, Chandigarh

Source: IIFL Research

Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	4,250	5,287	8,566	10,221	13,652
EBITDA Margins (%)	26.9	28.9	31.1	28.2	28.3
Pre-Exceptional PAT (Rs m)	717	1,078	1,564	1,497	2,143
Reported PAT (Rs m)	717	1,030	1,375	1,497	2,143
EPS (Rs)	7.3	10.2	13.2	14.4	20.6
Growth (%)	93.5	38.5	29.9	8.9	43.1
PER (x)	27.6	19.9	15.4	14.1	9.9
ROE (%)	23.7	21.5	22.7	20.2	23.0
Debt/Equity (x)	0.2	0.5	1.0	0.8	0.7
EV/EBITDA (x)	17.4	14.5	10.1	8.1	5.7
Price/Book (x)	6.6	4.3	3.5	2.8	2.3

Price as at close of business on 8 June 2009

12-mth Target price (Rs) 250 (21%)

Market cap (US\$ m)	438
52Wk High/Low (Rs)	327/84
Diluted o/s shares (m)	101
Daily volume (US\$ m)	2.6
Dividend yield FY09ii (%)	0.5
Free float (%)	40.3

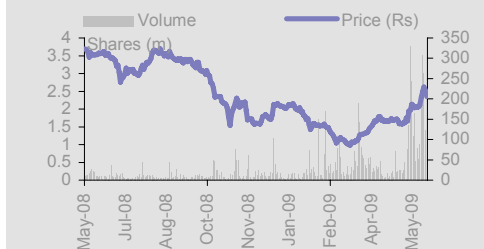
Shareholding pattern (%)

Promoters	59.8
FII's	13.9
Domestic MFs/Insurance cos	3.7
Others	22.7

Price performance (%)

	1M	3M	1Y
Everest Kanto	40.8	131.5	-33.6
Rel. to Sensex	17.3	55.4	-27.8
Nitin Fire	46.5	151.2	-23.0

Stock movement



Jatin Chawla

jatin.chawla@iiflcap.com
(91 22) 4646 4654

Domestic market improving; likely to grow materially in FY11

Domestic demand from OEMs showing signs of improvement: Domestic demand, particularly from OEMs has started to improve in the current quarter. We believe this improvement would be driven largely by orders under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). Orders for 14,240 buses in 54 cities are expected from the fleet enhancement scheme announced under JNNURM as part of the fiscal stimulus programme. Most of these buses would run on CNG, and as each bus needs around eight CNG cylinders, there could be an additional demand for ~100,000 cylinders from this scheme alone.

Policy framework for gas distribution infrastructure is in place: About a year ago, the Petroleum and Natural Gas Regulatory Board (PNGRB) had notified regulations for city gas distribution (CGD). Thus, the policy framework for implementation is already in place. Given that Reliance gas from KG basin has already started and 5mmscmd out of the initial 40mmscmd has been allocated for city gas distribution, we expect domestic demand to receive a significant boost in the next 2-3 quarters. In Phase I, licences have already been issued for six cities—Kota, Kakinada, Dewas, Kota, Meerut, Sonipat and Mathura. Bids for the second round are due on 25 June, whereby PNGRB has invited bids for seven more cities—Allahabad, Ghaziabad, Jhansi, Rajahmundry, Shahdol, Yanam and Chandigarh.

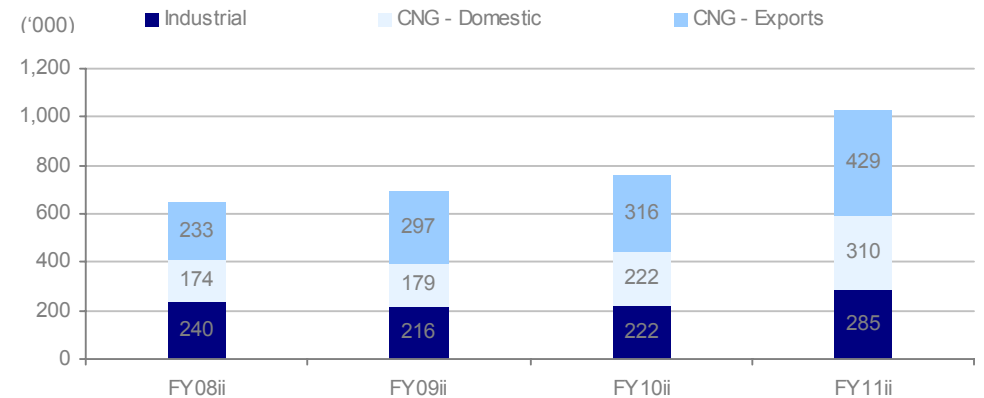
Once the licences are issued in the next 2-3 months, the company expects orders to start materialising first for CNG cascades and jumbo cylinders and then for CNG cylinders, once the gas distribution infrastructure is in place. With the second round of bidding, the total number of cities with CGD would increase from 19 cities to 32 cities. The government wants to have CGD infrastructure ready in at least 70 cities in the next five years.

Both GSPC and GAIL, the two largest CGD players in the country today, have stated ambitions to reach out to more than 200 cities in the next 10 years. Reliance too has been aggressive on this front and has

already given the regulator (PNGRB) a list of 63 cities on which it is keen. All taken, PNGRB has received EOIs for more than 77 cities. PNGRB is targeting CGD bidding in 200 cities by 2012.

The Indian market can more than double in the next two years: As of end-2008, India had 650,000 natural gas vehicles (NGV) and 463 refueling stations; contrast this to Pakistan, the world’s largest country in NGVs, which has 2,000,000 vehicles with more than 2,600 stations. This could easily change in the next 2-3 years once the gas is made available. Pune, for instance, has ~100,000 three-wheelers but only three CNG stations, because of unavailability of gas. Once gas is available, all these vehicles could easily convert to CNG.

Figure 1: Domestic market will drive growth in the next two-three years



Source: IIFL Research

Problems with key export markets likely to continue for 1-2 more quarters: In the last couple of quarters, EKC’s business in its key export markets of Iran and China has declined by ~30%. Iran had a specific policy requiring conversion of its vehicles to CNG by 31 March 2009. However, the policy has not been extended; although orders have not stopped completely, they have declined by 30%. Given the peculiar situation with Iran on high gas reserves and low refining capacity, we believe that orders from Iran will eventually resume. Demand from Pakistan has been adversely affected by the ~25% depreciation of that

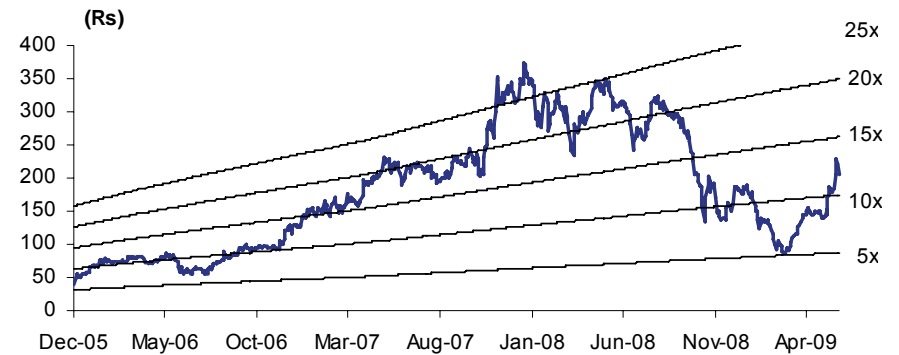
country's currency in the last few quarters. The company has been able to get orders from new markets like Thailand and Colombia to partly offset the revenue loss from these countries. Management mentioned that the company had received a Rs300m order for Jumbo cylinders from Thailand and going forward expects large orders for CNG cylinders.

High raw-material inventory situation likely to be corrected by September: EKC's raw-material inventory dropped from nine months as at end-March 2008 to about seven months as at end-March 2009 (it has since dropped further, to about six months). In the last quarter, with the slowdown in CNG volumes, demand for industrial cylinders outstripped demand for auto cylinders. Hence, the company had to purchase raw-material for industrial cylinders and could not bring down inventory. Management expects to bring down the inventory to ~4 months (which is the minimum inventory required, given different cylinder sizes) by September.

Minor delays in expansion plans: The jumbo cylinder plant in Gandhidham, which was expected to be commissioned in March 2009, was commissioned in May 2009. The company expects to commission the billet-piercing plant for manufacturing industrial cylinders in Gandhidham in August 2009, a five-month delay from the earlier planned commissioning in March 2009. The steel-plate plant at Kandla, predominantly for exports to Europe, is now expected to be commissioned by March 2010, a seven-month delay from the earlier planned August 2009. The company incurred a capex of Rs6bn in FY09, including the Rs4bn spent on the CPI acquisition. In FY10, the company needs to spend only Rs650m on the steel plate plant in Kandla. The consolidated debt currently stands at ~Rs6bn, a debt:equity of 1:1.

We upgrade stock to BUY; trading at below historic multiples: EKC has enjoyed premium valuations over other mid-cap companies, thanks to its higher growth trajectory. The stock has traded between 5x-25x, with an average multiple of 16x. It is currently trading at 12x one-year forward earnings. We upgrade the stock to BUY and revise our target price to Rs250, based on 12x FY11ii EPS.

Figure 2: The stock is currently trading significantly below its peak multiples



Source: IIFL Research

Figure 3: India's Gas distribution infrastructure



Source: Outlook India
Green – existing trunk pipelines, Red – Planned trunk pipelines

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue	4,250	5,287	8,566	10,221	13,652
EBITDA	1,145	1,527	2,661	2,885	3,866
EBIT	967	1,312	1,969	1,987	2,805
Interest income	8	0	0	0	0
Interest expense	53	71	272	268	303
Exceptional items	0	-49	-189	0	0
Others items	31	80	89	85	80
Profit before tax	953	1,272	1,597	1,804	2,582
Tax expense	236	243	156	307	439
Minorities and others	0	0	66	0	0
Net profit	717	1,030	1,375	1,497	2,143

Cashflow summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Profit before tax	953	1,272	1,597	1,804	2,582
Depreciation & Amortization	178	215	693	898	1,061
Tax paid	-245	-243	-156	-307	-439
Working capital Δ	-949	-1,484	-1,642	2,428	-816
Other operating items	-129	-686	998	-137	-185
Operating Cash-flow	-192	-926	1,491	4,686	2,203
Capital expenditure	-718	-1,400	-5,343	-1,117	-600
Free cash flow	-909	-2,326	-3,852	3,570	1,603
Equity raised	919	887	0	0	0
Investments	-1	12	0	0	0
Debt financing/disposal	307	1,684	3,699	-70	391
Dividends paid	-114	-141	-181	-145	-241
Other items	-88	29	-66	0	0
Net change in Cash & cash equivalents	114	145	-400	3,355	1,753

With bulk of the CAPEX already done and inventory correction, the company will turn free cash flow positive in FY10

Source: Company data, IIFL Research

We expect inventory levels to correct from seven months in FY09 to four months in FY10

Balance sheet summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Cash & cash equivalents	471	644	244	3,599	5,351
Sundry debtors	575	908	981	1,475	1,959
Trade Inventories	1,144	2,846	4,885	2,122	2,669
Other current assets	917	1,815	908	1,083	1,447
Fixed assets	1,478	2,657	7,307	7,526	7,064
Other assets	143	122	122	122	122
Total assets	4,727	8,991	14,446	15,926	18,612
Short-term debt	68	295	989	924	1,115
Sundry creditors	378	929	1,399	1,558	1,774
Other current liabilities	623	836	926	965	1,143
Long-term debt/Convertibles	534	1,972	4,906	4,900	5,100
Other long-term liabilities	101	164	164	164	164
Networth	3,024	4,796	6,062	7,415	9,316
Total liabilities & equity	4,727	8,991	14,446	15,926	18,612

Ratio analysis

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Sales growth (%)	80.5	24.4	62.0	19.3	33.6
Core EBITDA growth (%)	94.7	33.4	74.3	8.4	34.0
Core EBIT growth (%)	97.2	35.7	50.0	1.0	41.1
Core EBITDA margin (%)	26.9	28.9	31.1	28.2	28.3
Core EBIT margin (%)	22.7	24.8	23.0	19.4	20.5
Net profit margin (%)	16.9	20.4	18.3	14.7	15.7
Dividend payout ratio (%)	35.3	35.6	42.1	33.8	0.0
Tax rate (%)	24.7	19.1	9.8	17.0	17.0
Net Debt/Equity (%)	4.3	33.8	93.2	30.0	9.3
Return on Equity (%)	23.7	21.5	22.7	20.2	23.0
Return on Assets (%)	15.2	12.0	10.8	9.4	11.5

Source: Company data, IIFL Research

Pantaloon Retail – REDUCE

Retail

9 June 2009

Funds rush?

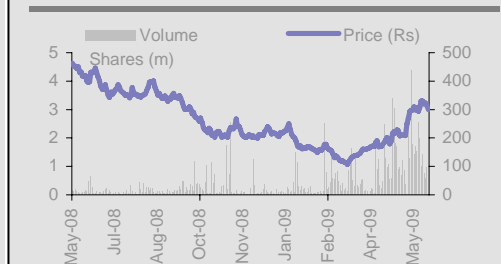
- Pantaloon board has authorised raising of Rs10bn through proposed public/private offerings, preferential allotment or QIP
- Board has also mandated management to consider merger of subsidiary, Home Solutions Retail (HSRIL), with itself. HSRIL owns home improvement formats Home Town, E-Zone, Electronic Bazaar, etc.
- Management has maintained its space expansion plan of 2.5m sq ft each over the next two years. We estimate roughly Rs3bn-4bn of the proposed fund-raising would be used for retiring part of the debt on books.
- Our view: Funds if raised would be positive; it would ease funding constraints for PRIL over the next two years.
- **Equity dilution of 19% at CMP:** This round of fund raising, if it goes through, will lead to equity dilution of 19% at the current market price. However, with additional funds, expansion plans will gather steam; debt is likely to be paid down (as against an increase in debt in case of no fund infusion), leading to significantly lower interest costs for the company. As such, despite the equity dilution, the fund infusion could be earnings-accretive, the extent of which would depend on the amount of debt the company pays down using the proposed funds.
- **Funds to be used to repay part of debt and fund existing expansion plans:** Management has indicated that the cRs10bn funds, if raised, would be used to fund expansion plans and repay part of the debt. Management has maintained its space expansion plan of adding 2.5m sq ft each in the next two years. We estimate PRIL's total funding requirement at Rs13bn-14bn for funding this space expansion over the next two years, with internal accruals contributing Rs6bn-7bn and the remaining Rs6bn-7bn coming from the planned fund-raising. With the remaining Rs3bn-4bn from the proposed Rs10bn fund-raising, the company is likely to pay down part of the debt on books, bringing down its debt/equity to c0.6x in FY10 (from the current 1.2x).

CMP	Rs299
12-mth Target price (Rs)	165 (-45%)
Market cap (US\$ m)	1,096
Bloomberg	PF IN
<hr/>	
52Wk High/Low (Rs)	476/105
Diluted o/s shares (m)	174
Daily volume (US\$ m)	5.3
Dividend yield FY09ii (%)	0.0
Free float (%)	51.2
Shareholding pattern (%)	
Promoters	48.8
FII's	21.8
Domestic MFs/Insurance cos	10.6
Others	18.8

Price performance (%)

	1M	3M	1Y
Pantaloon Retail	33.3	179.8	-25.2
Rel. to Sensex	9.8	103.6	-19.4
Shoppers Stop	69.5	113.1	-50.9
Vishal Retail	84.7	241.9	-85.4
Trent	30.8	67.5	5.4

Stock movement



- **Proposed HSRIL merger to improve disclosures, but doesn't tie in with restructuring plan:** Management has stated that HSRIL's merger would improve synergies and efficiency in the retail business. HSRIL, which runs home improvement stores, is loss-making (FY08 reported loss of Rs597m), implying higher losses for PRIL. On the other hand, we expect improved disclosures on HSRIL post-merger with quarterly results also including HSRIL. However, the merger doesn't tie in with the proposed restructuring, which is aimed at transferring HSRIL to a downstream subsidiary of PRIL.
- **No clarity on proposed restructuring?** Management clearly stated its intent of going ahead with the recently approved business restructuring. The proposed re-alignment would carve out two holding companies owning the retail assets, while the listed entity would be reduced to a holding entity. This move is clearly aimed at taking advantage of the recently announced changes in the norms for FDI calculation. However, with the new commerce minister clearly ruling retail out of the purview of the FDI changes as of now, the new business structure would have little meaning.

IBREL – REDUCE

Real Estate

9 June 2009

Disappointing 4Q, retail business written-off

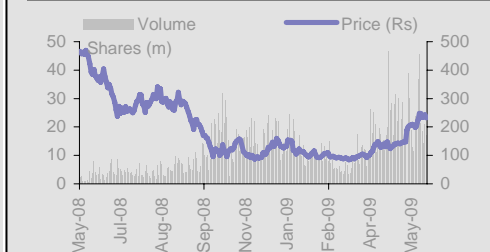
IBREL declared losses at EBITDA as well as PAT level in 4QFY09 as interest income on cash fell 32% QoQ. It has also decided not to pay any dividends for the year. IBREL has almost doubled its land bank YoY in FY09 and has decided to write-off its investments in the retailing business. The positive trigger on the stock in the short-term is a likely spin-off in the power business. We downgrade to REDUCE.

- 4QFY09 results below estimates:** IBREL reported disappointing numbers for FY09 with losses at reported EBITDA and PAT level. Losses at PAT level were owing to lower interest income on cash balance and higher taxes. IBREL has now reported EBITDA losses in all 4 quarters of FY09. Interest income fell 32% QoQ in line with the company's guidance that cash balance fell from Rs27bn in 3QFY09 to Rs20bn in 4QFY09. The company has also indicated that it would not be paying any dividends for the year. This is contrary to its guidance in 3QFY09 analyst meet where it had indicated that it will distribute dividends in FY09 which would be at the same level as that it distributed in FY08 (Rs4.5bn).
- Almost entire cash from RE business spent to acquire land:** IBREL ended FY09 with only Rs4bn of cash in real estate business and balance Rs16bn in power. At the beginning of the year, it had Rs20bn in the real estate business. During the year, it invested almost the entire cash in real estate business to buy land. IBREL management indicated in the 3QFY09 analyst meet that it wanted to preserve cash in the real estate business. However, it invested c.Rs7bn in 4QFY09 to acquire land.
- Downgrade to REDUCE:** Though the stock could react positively from a likely spin off in the power business, we downgrade to REDUCE on concerns related to - 1) long gestation period on its power business – first unit of power to be generated by end-2012; and 2) near term pressure on operating performance given subdued response to its real estate launches.

CMP	Rs232
12-mth Target price (Rs)	191 (-18%)
Market cap (US\$ m)	1,262
Bloomberg	IBREL IN
52Wk High/Low (Rs)	434/81
Diluted o/s shares (m)	258
Daily volume (US\$ m)	59.6
Dividend yield FY10ii (%)	0.4
Free float (%)	72.1
Shareholding pattern (%)	
Promoters	26.1
FII	41.7
Domestic MF/Insurance	1.9
Others	30.3

Price performance (%)			
	1M	3M	1Y
IBREL	62.0	165.5	-45.1
Rel. to Sensex	34.9	84.1	-42.1
DLF	69.5	179.8	-21.3
Unitech	85.2	274.0	-52.0
HDIL	75.4	346.2	-37.8

Stock movement



Financial Summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	139	1,407	2,086	2,919	6,638
EBITDA Margins (%)	-3.1	-1.4	-27.3	21.2	28.1
Other income	316	6,240	2,313	1,483	1,038
Reported PAT (Rs m)*	119	3,959	295	470	759
EPS (Rs)	0.7	16.4	1.1	1.8	2.9
Growth (%)		na	-93.0	59.4	61.7
PER (x)	350.9	14.1	202.7	127.2	78.7
ROE (%)	1.0	9.6	0.8	0.7	1.2
Debt/Equity (x)	0.4	0.2	0.2	0.1	0.3
EV/EBITDA (x)	na	na	na	45.4	22.5
Price/Book (x)	3.6	1.4	1.5	0.9	0.9

* Does not include retailing business; Price as of 5 June 2009

Cash from the recent QIP will be used to acquire more land

- IBREL indicated that it could use a part of the QIP proceeds for the Dharavi redevelopment project (if it is awarded a sector by MMRDA) and to acquire 270 acres at a distant Mumbai suburb- Khargar.
- IBREL has 13,265 acres in its declared land bank and has till date launched projects on less than 200 acres of the same.
- Both Dharavi and Khargar have long development cycles and will not contribute to near term operating cash flows

Has launched 6 projects, that contributed very little to revenues during the quarter

- IBREL has re-launched Castle Woods in Delhi at Rs12,750p sq ft after its earlier launch at Rs15,750p sq ft did not find enough takers. It has also launched Greens in Chennai, Riverside in Ahmedabad, Centrum Park in Old-Gurgaon, Central Park in Indore and plotted development at Sonapat. Channel checks suggest lukewarm sales at Chennai and Sonapat.
- IBREL has not disclosed its policy of revenue recognition on real estate projects in its FY08 Annual Report. It is unclear whether the company follows a percentage completion method with a minimum threshold or with no threshold at all. However, reported revenues indicate that very little has been contributed by the projects during the quarter.

Wrote off the investments in the retail venture in 4QFY09

- IBREL assumed assets worth Rs2.35bn when it acquired Pyramid Retail in FY08. Now, that it has decided to write off the investments in the face of continuing operating losses in the business, its Book Value has to be written off to the extent of its investments.
- IBREL did not consolidate the operating losses from the retailing business in its reported operating results.

No new leases signed up at One Indiabulls Center, leasing should take off as business environment improves-

- The total area under leases currently is 700,000sq ft with IBREL's own group companies accounting for 150,000sq ft
- Given that no other building at Lower Parel is close to completion, IBREL should find no difficulties in leasing out the remaining space as business environment revives

Power IPO likely after achieving financial closure for Amravati

- The company has roped in SBI to tie up debt for Amravati Power plant, however it has yet to achieve financial closure for the project.
- IBREL has indicated that it plans to spin off the power business and list it separately after achieving financial closure for the Amravati project.

Figure 1: Nashik power plant has received environmental clearance, Amravati awaits financial closure

Project details	Capacity MW	Water & coal	Env. clearance	Land acquisition	PPA	Financial closure	Equipment ordering
Amravati thermal	1,320	Y	Y	Y	1000MW *	Not yet	Started
Nashik thermal	660	Y	Y	Y	N	N	N
Bhaiyathan thermal	1,320	Y	N	N	65% to SEB	N	N

* MoU with Power Trading companies; Source: Company, IIFL Research

Downgrade to REDUCE on lacklustre operating performance

- IBREL will not generate its first unit of power earlier than end-2012. Response to its real estate launches has been subdued indicating that near term operating performance will continue to remain under pressure. We downgrade to REDUCE as profits from core real-estate business could be some time away.

Figure 2: Operating performance remains weak

(Rs m)	4Q08	3Q09	4Q09	%YoY	%QoQ	FY08	FY09	% YoY
Revenues	682	389	422	(38.1)	8.4	1,407	2,086	48.3
Total expenditure	(539)	(561)	(632)	17.3	12.8	(1,426)	(2,656)	86.3
EBIDTA	143	(171)	(210)			(20)	(570)	
EBIDTA margin (%)	21.0	-43.9	-49.7			-1.4	-27.3	
Depreciation	(6)	(26)	(31)	424.8	21.0	(33)	(108)	226.5
Interest	(286)	(10)	(7)	(97.7)	(32.1)	(522)	(244)	(53.2)
Other income	845	563	460	(45.6)	(18.3)	6,240	2,313	(62.9)
PBT	697	356	212	(69.5)	(40.5)	5,665	1,390	(75.5)
Tax	(207)	(177)	(224)	8.4	26.9	(1,598)	(698)	(56.3)
Share of associates / Minority Int	(43)	(66)	(17)	(59.3)	(73.7)	(65)	(398)	515.0
Reported PAT	447	113	(30)			4,002	295	(92.6)
% margin	65.5	29.1	-7.0			284.6	14.1	(95.0)
Reported EPS (Rs) -quarterly	1.9	0.4	-0.1			16.6	1.1	

Source: IIFL Research

Sadbhav Engineering - BUY

Construction

09 June 2009

4Q in line with estimates; BOT assets hold key

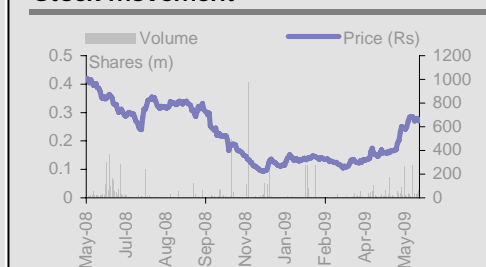
- 4QFY09 revenue growth of 10% YoY hit by slow progress on a road and irrigation project. Management expects irrigation projects to be back on track after the monsoon.
- 4Q EBITDA grew 3% YoY as margin contracted 67bps YoY.
- Profit growth helped by higher other income, driven by one-time items. Tax rate was also lower, as the company claimed section 80IA benefits for a World Bank-funded project.
- Potential stake sale in BOT assets holds key for unlocking value resident in BOT assets.
- 4QFY09 revenue grew 10.5% YoY to Rs4bn, below our expectations. Revenue booking was adversely affected by slow execution due to land acquisition issues on the Agra bypass projects and delay in receiving possession of an irrigation project.
- The contraction in 4Q EBITDA margins was lower than we had expected, by 67bps YoY to 9.0%. As a result, 4Q EBITDA grew 3% YoY, in line with our estimate. Full-year EBITDA margin, at 10.2%, contracted 80bps YoY.
- PBT growth of 15% YoY during the quarter was helped by a sharp increase in other income. Management indicated that other income during the quarter was helped by three factors:
 - During 4Q, company sold its 74% investment in three mines in Mozambique at cost price. The company has recognised interest on the outstanding amount from the buyer as other income during the quarter.
 - The company also received ~Rs19m against custom/excise claims
 - Additionally, the company has started recognising interest income on investments in mutual funds as other income vs the earlier practice of netting it off against interest expense. Interest expense during the quarter is higher, as a result.
- Net profit growth of 32% was helped by a lower tax rate of 14% during 4QFY09 vs 43% during 4QFY08. Management indicated that a large portion of the profit was from a World Bank funded project, which would be eligible for benefits under section 80IA. Hence, the tax rate for the quarter is lower.

CMP	Rs650
12-mth Target price (Rs)	730(12%)
Market cap (US\$ m)	171
Bloomberg	SADE IN
52Wk High/Low (Rs)	920/214
Diluted o/s shares (m)	13
Daily volume (US\$ m)	0.1
Dividend yield FY09ii (%)	0.6
Free float (%)	52.5
Shareholding pattern (%)	
Promoters	47.6
FII's	24.4
Domestic MFs/Insurance cos	14.5
Others	13.5

Price performance (%)

	1M	3M	1Y
Sadbhav Eng	63.4	159.7	-27.9
Rel. to Sensex	39.9	83.6	-22.1
Simplex	84.8	239.7	-25.3
HCC	72.3	254.1	-13.8
Gammon	77.6	224.7	-60.1

Stock movement



Financial summary

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	8,721	10,625	12,325	13,557	14,913
EBITDA Margins (%)	11.0	10.2	9.5	9.0	9.0
Recurring PAT (Rs m)	470	633	515	531	608
Reported PAT (Rs m)	524	633	515	531	608
Recurring EPS (Rs)	37.6	50.6	41.2	42.5	48.6
Growth (%)	78.3	34.6	-18.6	3.0	14.5
PER (x)	17.3	12.8	15.8	15.3	13.4
ROE (%)	21.7	20.1	14.1	12.9	13.2
Net debt/Equity (x)	0.4	0.3	0.4	0.3	0.3
EV/EBITDA (x)	9.9	8.8	8.6	8.0	7.3
Price/Book (x)	2.8	2.4	2.1	1.9	1.7

Source: Company, IIFL Research

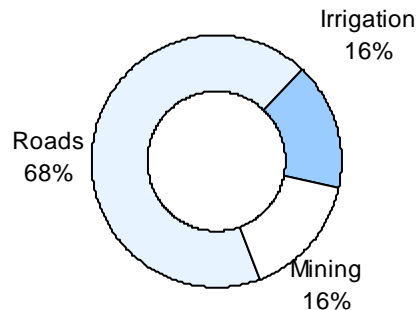
Figure 1: Standalone 4QFY09 result

Rs m	4QFY08	3QFY09	4QFY09	% YoY
Net Sales	3,607	2,767	3,986	10.5
Expenses	3,257	2,480	3,627	11.4
EBIDTA	349	287	359	2.8
EBITDA margin (%)	9.7	10.4	9.0	-67 bps
Depreciation	38	34	44	15.1
Interest	45	54	75	67.7
Other Income	27	13	97	265.0
PBT	293	211	338	15.2
Tax	127	67	47	(62.5)
<i>Tax rate (%)</i>	<i>43.2</i>	<i>31.8</i>	<i>14.1</i>	
Reported PAT	220	144	290	31.9
Recurring EPS (Rs)	13.3	11.5	23.2	74.2

Source: IIFL Research

Sadbhav Engineering's end-FY09 order book stands at ~Rs45bn, translating into a book-to-bill ratio of 4.2x. The company was the lowest bidder in irrigation and mining contracts worth Rs1.5bn.

Figure 2: Order book of Rs45bn dominated by road sector projects



Source: Company, IIFL Research

BOT road projects on track

During the analyst meet held in April 2009, the company said the four BOT road projects currently under execution are on track-

- Mumbai-Nashik expressway: 50km stretch on the Nashik side has been completed and tolling would start from 2QFY10. The balance 50km stretch would be completed by 4QFY10. Owing to land acquisition delays by NHAI, the developers have received a 374-day extension in the completion deadline from NHAI.
- Toll collection on the Ahmedabad ring project is running ahead of the company's expectation, with daily toll collections of Rs1.3m. Till April 2009, company had collected Rs380m as toll revenues, vs its expectation of Rs210m.
- Work on the Aurangabad-Jalna and the Nagpur-Sewni BOT road project is on track for completion by June 2009 and May 2010 respectively.
- Sadbhav Engineering has added two BOT road projects to its portfolio. The company would need to invest ~Rs5.5bn in the SPVs for these projects.
 - The MP/Maharashtra border-Dhule BOT road project covering 89km, with a project cost of Rs14.2bn. This was won in consortium with HCC and John Liang. Sadbhav Engineering has a 27% equity share.
 - The company also won the Rs15bn border check post project in Maharashtra, wherein the company would be eligible to collect tolls at all entry points in Maharashtra.
- The company has proposed a rights issue of Rs2.5bn, which would result in ~30% dilution at current prices. We have not built the dilution into our estimate, as we have not included the new BOT projects in our sum-of-parts valuation yet.

Figure 3: Sum-of parts valuation

	Rs m	Rs ps
FY11ii PAT	531	
PER (x)	10	
Equity Value	5307.9	425
Value of road BOT projects at end FY09	3,823	306
Total Equity value	9,130	730

Source: IIFL Research

Events calendar – June 2009

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3	4	5	6
Apr Exports ↓ 33% Apr Imports ↓ 37%	HPCL	NALCO	GMR Infra WPI for 23 May ↓ 0.48%	Indiabulls Real Estate	Divi's Lab, Indiabulls Fin Services
8	9	10	11	12	13
CESC (Consol)		Tata Tea	 WPI for 30 May	GAIL April IIP	
15	16	17	18	19	20
Power Fin.	Power Grid Corp., Nu-Tek	Trent	Opto Circuit WPI for 6 Jun	 May CPI AL & RL	
22	23	24	25	26	27
		Gateway Distripark	 WPI for 13 Jun		
29	30				
	May CPI – IW 4QFY09 BoP				

Black: Quarterly results, Blue: Economic data, Red: India Holiday

Events

	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10
Economics / Politics	<ul style="list-style-type: none"> RBI's Monetary policy meeting (end April) 	<ul style="list-style-type: none"> Revised Budget for 2009-10 (July) RBI's Monetary policy meeting (end July) 	<ul style="list-style-type: none"> RBI's Monetary policy meeting (end October) 		
Auto			<ul style="list-style-type: none"> Tata Motor's Nano plant at Sanand to start operations 	<ul style="list-style-type: none"> M&M's Chakan plant with a capacity of 320,000 vehicles to start operations. 	
Cement	<ul style="list-style-type: none"> JK Cement 3.5 mtpa Karnataka plant to start Orient Cement 1.6 mtpa Devapur, AP plant to start OCL's 2.0 mtpa Orissa plant to start Murli Industries 2.5mtpa Chandrapur plant to start JP Associates 1.2 mtpa Gujarat plant to start 	<ul style="list-style-type: none"> Lafarge's 1.3 mtpa Sonadih plant to start Dalmia Cements 2.3 mtpa Ariyalur plant to start Ambuja Cement's 1.5 mtpa Dadri plant to start ACC's 1.2 mtpa Bargarh plant to start Grasim's 4.4 mtpa Kotputli expansion to commence prod. Raghuram Cement AP 2 mtpa plant to start 	<ul style="list-style-type: none"> JP Associates 3.0 mtpa HP plant to start NCL Industries 1.5 mtpa AP plant to start Andhra Cement 1 mtpa AP plant to start Ambuja Cement 1.5 mtpa Panipat plant to start ACC 3 mtpa Wadi, Kar plant to start Zuari Cements 2.4 AP mtpa plant to start 		

Events

	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10
Infrastructure			<ul style="list-style-type: none"> • BHEL Capacity goes up from 10 GW to 15 GW 		
Metals	<ul style="list-style-type: none"> • Sterlite: Bauxite mining at Niyamgiri will start 		<ul style="list-style-type: none"> • Sterlite: First phase of 2,400MW power plant will commence operation 	<ul style="list-style-type: none"> • JSW Steel: Commissioning of 3.5mntpa hot strip mill 	
Pharma	<ul style="list-style-type: none"> • Glenmark: Data from phase II study of melogliptin in diabetes mellitus • Glaxo Pharma: Launch of an in-licensed anti-fungal product in the domestic market • Sun Pharma: FDA clearance of Caraco facility in Detroit; Potential deal on Taro acquisition 		<ul style="list-style-type: none"> • Max Healthcare: Opening of 270 bed Max Balaji tertiary care centre, Pratapganj, New Delhi • Ranbaxy: Launch of generic Valaciclovir under exclusivity in US • Dr Reddy's: Approval of generic OTC Omeprazole by USFDA 	<ul style="list-style-type: none"> • Dr Reddy's: Potential USFDA approval for fondaparinux 	
Real Estate	<ul style="list-style-type: none"> • DLF –To acquire stake in DAL. • DLF to sell wind energy business • Unitech- To raise funds via stake sale in hotel & office projects. • Puravankara Projects – Capital raising by its subsidiary Provident Housing & Infrastructure Ltd to fund its mass housing project • Sobha – Right issue upto Rs3.5bn • HDIL: Will seek board approval for QIP 				

Events

	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10
Telecom	<ul style="list-style-type: none"> • Idea Spice merger expected to receive court approval, and get completed • RCOM expected to explain retention plans for subscribers gained in 4QFY09 • RCOM may raise capital through QIP placement • TRAI may come out with revised recommendations on enhancement of transparency in VAS offerings 	<ul style="list-style-type: none"> • Indus Towers expected to receive towers from Bharti, Vodafone and Idea and thus merger of tower subsidiaries into Indus completed • Bharti MTN Deal expected to be concluded. • 3G auctions announcement expected, followed by clarifications • MNP in metros expected to be implemented as per DoT order 	<ul style="list-style-type: none"> • 3G auctions expected to be held • Idea cellular expected to become pan-India operator 		
Utilities	<ul style="list-style-type: none"> • NTPC's Kahalgaon-II Ph II Unit 7 (500MW) to commission 	<ul style="list-style-type: none"> • CESC Budge Budge (250MW) unit operational • Suzlon to start production from new facilities 	<ul style="list-style-type: none"> • NTPC's Sipat-I Unit 1 (660MW) to commission 		
Others	<ul style="list-style-type: none"> • Arshiya International – Capital raising to fund its FTWZ & Rail business 		<ul style="list-style-type: none"> • EKC's Kandla SEZ plant to manufacture 300,000 steel plate cylinders for exports to Europe to start operations. 		



Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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