

January 4, 2007

**FOR PRIVATE CIRCULATION**
**Equity**

	3 Jan 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	14,015	0.5	1.0	14.8
Nifty	4,024	0.4	0.6	14.5
Banking	7,143	0.3	(1.5)	19.9
IT	3,749	1.3	4.5	27.6
Healthcare	3,874	1.4	2.3	7.2
FMCG	1,927	(0.7)	(6.5)	(4.9)
PSU	6,097	0.4	(2.9)	6.1
CNX Midcap	5,217	0.8	1.4	11.8
<b>World indices</b>				
Nasdaq	2,423.2	0.3	(1.0)	5.8
Nikkei	17,226	0.0	6.3	7.6
Hangseng	20,413	0.5	8.8	15.4

**Value traded (Rs cr)**

	3 Jan 07	% Chg - 1 Day
Cash BSE	3,995	29.3
Cash NSE	8,154	37.3
Derivatives	25,223	26.4

**Net inflows (Rs cr)**

	2 Jan 07	% Chg	MTD	YTD
FII	331.9	131.6	(3,742)	36,127
Mutual Fund	(8.0)	(103.5)	1,527	15,911

**FII open interest (Rs cr)**

	2 Jan 07	% chg
FII Index Futures	10,800.7	1.7
FII Index Options	3,270.0	6.4
FII Stock Futures	13,327.7	3.3
FII Stock Options	16.5	273.8

**Advances/Declines (BSE)**

	3 Jan 07	A	B1	B2	Total	% Total
Advances	138	390	517	1045	61	
Declines	67	259	295	621	36	
Unchanged	2	7	29	38	2	

**Commodity**

	3 Jan 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	58.3	(4.5)	(8.1)	(0.6)
Gold (US\$/OZ)	627.5	(2.0)	(2.6)	11.0
Silver (US\$/OZ)	12.6	(4.6)	(9.0)	17.5

**Debt/forex market**

	3 Jan 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.54	7.54	7.39	7.59
Re/US\$	44.36	44.24	44.62	45.70

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- The Government may extend the tax holiday for units under the Software Technology Parks of India scheme for another 10 years. A Cabinet note has been finalized proposing extension of the tax holiday as per section 10A of the Income Tax Act. (ET)
- Central sales tax may be reduced to 3% from April 1, 2007, from the current 4%. The Centre may compensate for the resulting revenue loss by allowing states to tax 44 new services and an additional 33 services currently being taxed by the Centre. (ET)
- India may soon sign a \$12.5-bn deal with Australia to import 2.5 MT per annum of LNG for 25 years beginning mid-2010. (ET)
- The Government may exempt investments in asset reconstruction companies from income tax in the forthcoming Budget to boost the bad assets recovery business. (BS)
- The new pharma policy proposed by Chemicals Minister Ram Vilas Paswan is likely to call for a central mechanism to oversee R&D projects in the country. (BS)

**CORPORATE NEWS**

- **Air Deccan** is on the verge of breaking even. When the Air Deccan board meets on January 25 to consider the October-December financial results, chances are the airline may substantially cut its losses and perhaps even turn in a modest profit for the quarter. (ET)
- **ONGC Videsh, ONGC's** foreign investment arm, is set to finalize a deal with Mærsk Olie (Maersk Oil) of Denmark and Wintershall of Germany to buy a stake in exploration blocks in Turkmenistan. (ET)
- The uptrend in steel prices and demand in the new year could influence **Tata Steel's** decision to up the stakes in the bidding war with Brazilian steel giant CSN. Tata Steel may announce a revised bid by mid-January. (ET)
- **DLF** has filed a fresh draft to raise around Rs.135 bn. DLF's valuation has risen on account of a substantially larger land bank and a considerable increase in net profits. The issue size, which constituted 11.9% of the fully diluted post-issue capital in the previous filing, has now been reduced to 10.27%. (BS)
- **L&T** has bagged an order valued at Rs.4.18 bn from the Abu Dhabi Water & Electricity Authority to construct six major electrical substations in the Al Ain sector of Abu Dhabi. (BL)
- Speculation has mounted that the **Tatas** are talking to British retail major Tesco for a tie-up. After talks with **Bharti** failed, Tesco is believed to be looking for other Indian partners. (BS)
- **Essar** is learnt to be willing to buy Hutchison Group's 67% stake in **Hutchison Essar** for around \$14 bn. Sources said Essar was waiting for Vodafone and other contenders to submit their bids before making a formal offer. (ET)
- **NTPC** is set to venture out into Africa. In a swap deal, the power company is all set to tie up an agreement with the Nigerian government to set up a 700 MW gas-fired plant in lieu of 3 MT of liquefied natural gas per annum. (ET)
- The **Hinduja group** is set to throw its hat into the ring for Hutch. (BS)
- **Reliance Communications** has convened a board meeting on January 10 to consider raising resources from international markets. (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

### MARKET STRATEGY

### RESEARCH TEAM

## STRATEGY - JANUARY 2007

The Benchmark indices (both, Nifty as well as the Sensex) remained moderately positive for December 2006. While a hike in cash reserve ratio (CRR) by the RBI and the weaker-than-expected IIP figures for October 2006 led to a correction, the markets were soon able to regain these losses. Expectations of continuing good corporate results and absence of negative global cues sustained the positive sentiment on the bourses. The markets were able to sustain the previous month's levels despite the fact that December 2006 witnessed net FII outflows for the first time after May 2006, on the back of mutual fund buying towards the end of December.

We had indicated in our previous strategy note that the markets are probably pricing in higher-than-consensus earnings in FY08 and that FY08 earnings upgrades will be needed for the market upside to continue. The strong economic growth (barring the IIP figures for October 2006) has boosted the confidence as far as sustainability of the corporate profit growth in FY08 is concerned. In case of continuing strong economic growth, consensus FY08 earnings estimates may be revised upwards and will probably provide some visibility for/confidence in FY09 earnings, barring unforeseen global factors.

We maintain our recommendation of buying and owning select value plays, with good growth potential.

### Markets continue to remain buoyant

Benchmark indices (both, the Nifty and the Sensex) consolidated their gains of the past two months during the month with the Sensex up 0.6% and the Nifty up 0.3%. Post May, August 2006 was the only other month, which had seen a marginal MoM dip.

The mood remained buoyant during the month due to expectations of strong corporate performance and probably due to the absence of any negative global cues. Globally, crude prices have remained benign and the US economy has not displayed signs of going into a recession, till date.

In India, earnings upgrades have already had a salutary impact on the markets. Buoyant economic data (barring October 2006 IIP figures) and the Government's initial targets for the 12th Five-year plan have increased the confidence levels for future earnings.

### Sectoral performance

On a sectoral basis, the auto, metal, healthcare and tech indices outperformed the benchmarks with gains of 3.7%, 1.8%, 1.9% and 2.6%, respectively.

IT stocks found favor due to optimism on good volume growth and realization increases (due to lack of negative news on the US economy front). Select mid and small cap IT stocks were also in demand because of their growth prospects and attractive valuations.

Tech Mahindra announced a mega US\$1-bn order, the largest for an Indian IT company. The gains came despite the 1.6% appreciation of the rupee during the month (till December 26 2006). The rupee, which is currently at a nine-month high) remains a concern for the IT sector.

The unexpected 50 bps hike in CRR by the RBI to 5.5% impacted banking stocks to a certain extent. However, they came back strongly due to the underlying strong credit growth and reduced risk of losses on investments.

The FMCG index remained relatively flat and again underperformed the benchmark. The lackluster performance of the FMCG sector was despite the near normal monsoons and price increases on certain products.

## Mid and small cap indices under performed

While the Sensex was flattish during the month, the mid cap and small cap indices grew by about 1.46% and 3.7% respectively during the month, indicating better interest in the small caps as compared to the rest of the market.

Within the mid and small caps, only those with strong fundamentals and available at appealing valuations have been witnessing increased interest with the rest being ignored by the markets.

## FII/MF money flows were negative/neutral

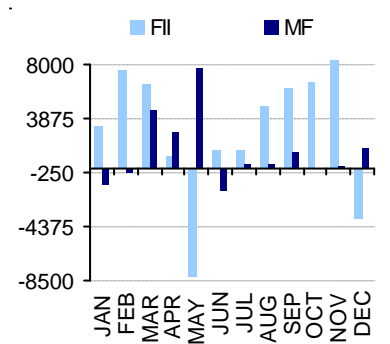
After six months of consistent inflows, December saw FIIs pull out Rs.37.4 bn from Indian markets. We believe the outflows were due to some profit booking by a few players. In our estimate, about Rs.27 bn flowed out due to the sponsored ADR issue of Infosys during the month.

However, we believe the strong economic growth and corporate performance should attract more overseas funds to the Indian markets. The Commerce Minister has adequately indicated the rising interest in Indian markets by saying that Japanese funds to the tune of about \$10 bn may flow into India in 2007.

Also, with the growth in the US economy slowing down and expected to remain soft in the foreseeable future, monies are finding their way into high growth emerging markets.

Mutual funds flows were positive for the month with net inflows of Rs.15.3bn. New fund offerings from several fund houses collected significant amounts in December 2006 and the un-invested portions from these NFOs may find their way into the markets in the future.

**FII/MF flows (Rs Cr)**



Source: Bloomberg

## Bids for two ultra-mega power projects announced

With a view to hastening the pace of power generation in India, the Government had announced in the last Budget that it plans to set-up four ultra-mega power projects of 4000 MW size each. During the month, Lanco Infratech and Tata Power emerged as winners for the Sasan and Mundra ultra-mega power project. The NTPC-BHEL combine's bid for the Sasan project was significantly higher than that of Lanco and this has raised concerns regarding BHEL's ability to compete in the super-critical power project market. Reflecting this concern, the stock prices of BHEL as well as NTPC have fallen by 7% since the beginning of December 2006.

Notwithstanding the disappointment on BHEL, the ultra-mega projects present a significant opportunity to Indian capital goods equipment makers. Companies like Siemens, ABB, Crompton Greaves and Voltamp should be beneficiaries.

## Strong growth in Index of Industrial Production (IIP)

One of the factors, which negatively impacted the markets in December 2006, was the IIP growth reported for October 2006. The General Index of Industrial Production for October stood at 237.7, a 6.2% growth over the corresponding previous month. This was far lower than the consensus estimates and acted as a trigger for a near 1000-point fall in the Sensex. The cumulative growth for April-October 2006 was 10.3% over the corresponding period of the previous year.

Manufacturing, which has about 80% weight in IIP, witnessed a 6.0% growth during the month. The index for mining witnessed a growth of 4.0% while the electricity sector recorded a growth of 9.7%.

This relatively lower growth rate in manufacturing for October 2006 was mainly due to the consumer durables and non-durables sectors, where production grew by 2.4% and a negative 0.4%, respectively.

While the capital goods segment recorded only about 8.2% growth in October 2006, it was due to a growth of about 24.3% in October 2005, leading to a high base.

While the performance of consumer durables and non-durables has been lower-than-expected, we believe this was a temporary phenomenon, brought about by a shift in the festival season. This period sees lower industrial activity due to higher number of non-working days and also a drop in demand. While we can see the lingering impact of this in the November 2006 IIP data, the same is expected to even out in future months.

Evidence of this can be seen in RBI's move to hike CRR, with a view to curb credit growth, which, it expects, may continue to rise in the future.

## Increase in CRR

The Reserve Bank of India raised the cash reserve ratio (CRR) by 50 basis points to 5.5% in two phases, 25 basis points with effect from December 23, 2006 and another 25 basis points with effect from January 6, 2007. The hike in CRR is expected to suck out approximately Rs.135 bn from the banking system. This move came in the backdrop of higher inflation and robust growth in GDP. It was in line with RBI's earlier effort to slow down the overall credit growth and channelize it to more productive sectors of the economy.

## Crude prices

Crude prices declined during the month by 3% on the back of a slowing US economy and also rise in inventory levels in the US. Prices have remained benign despite the fact that Opec members have agreed to cut production by a further 0.5 mn barrels a day from February 2007, which is about 1.6% of Opec's output.

Reduced crude prices had a positive impact on oil marketing companies, which had reportedly started making money on sale of petrol. However, the cut in retail prices of petrol and diesel in November end has come as a setback to the OMCs.

In case crude prices remain soft, it may lead to benign inflation and, hence, the pressure to increase interest rates may ease.

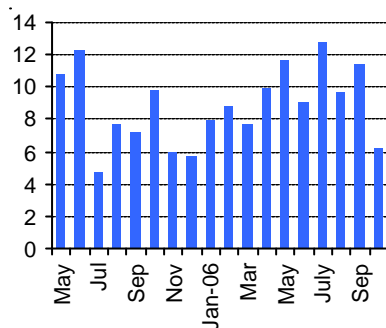
## Inflation

During the month, inflation (wholesale price index-WPI) remained within the Government's target range of 5-5.5%. This is the fifteenth straight week where inflation has remained above 5%. This is of concern, more so as it comes in the wake of softer crude prices. While crude prices are higher on a YoY basis, they have significantly come down from their highs of \$78 a barrel.

While WPI is in the target range of 5-5.5%, the Consumer Price Index (CPI) stands higher at about 6.8%. This is due to the consistent high prices of primary and food articles.

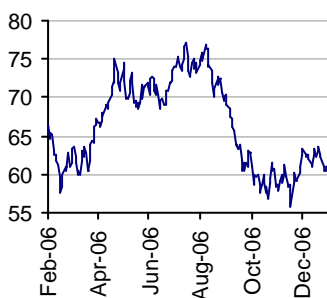
The Government is undertaking several efforts to reign in prices. It has already made attempts in the past to control prices of commodities like sugar, cement, etc. The Government has indicated that inflation for FY07 can be contained within 5-5.5%.

### IIP growth (%)



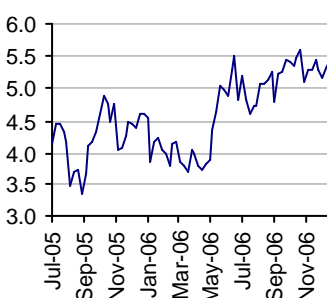
Source: Bloomberg

### Crude price (US\$/bbl)



Source: Bloomberg

### Inflation (%)



Source: Bloomberg

## Outlook

The markets have been flattish during the month and have moved 11.3% over the past three months.

On the fundamental side, low crude prices and expectations of continuing good results in Q3FY07 from Corporate India have created a positive feeling for equities.

We had indicated in our previous strategy note that the markets are probably pricing in higher-than-consensus earnings in FY08 and upgrades to the same will be needed for the market upside to continue. The strong economic growth (barring the IIP figures for October 2006) has boosted confidence as far as sustainability of the corporate profit growth in FY08 is concerned.

We remain bullish on the longer-term prospects of the markets and also the economy, which is expected to sustain an 8-8.5% growth in FY07/08. In case of continuing strong economic growth, consensus FY08 earnings estimates may be revised upwards and will probably provide some visibility for/confidence in FY09 earnings, barring unforeseen global factors.

We continue to advocate buying and owning value plays, which have good growth potential. From within our universe of covered stocks, there are several stocks, which have the potential to offer significant returns from the current levels over a 12-month horizon.

The following are our preferred picks from among our universe of stocks.

### Table showing top picks

Sector	Companies
Auto/Ancillaries	Maruti, Bajaj Auto, Tube Investments, Subros
Banks/FIs-	SBI, ICICI Bank, J&K Bank, Allahabad Bank, UTI bank
Capital Goods, Engg	Kirloskar Oil Engines and Easun Reyrolle
Cement	Shree Cements, India Cements, Ultra Tech, ACC, Birla Corp, Kesoram
Construction	IVRCL, NagarJuna Constructions, Patel Engg and Era Constructions
FMCG/Food Processing	REI Agro, Gujarat Ambuja Exports, Shree Riddhi Siddhi Gluco Biols
IT/ITES	Satyam, Infosys, HCL Tech, NIIT Tech, MegaSoft, Allsec, Zensar, R Systems
Logistics	Gateway Distriparks and Concor
Media	HT Media, ENIL
Oil/Gas	HPCL, BPCL, ONGC and GSPL
Pharmaceuticals	Panacea, Ranbaxy, IPCA and Alembic
Others	Murudeshwar Ceramics, JBF, Vardhman Polytex, Indraprasth Gas, GHCL and Everest Kanto

Source: 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)
3-Jan	Allianz Secu	Krishnakumar Badridas Tao	B	200,000	52.90
3-Jan	Arvind Chem	Gujrat NRE Coke Ltd	S	15,000	72.75
3-Jan	EIH Asociati	Reliance capital asset manag	B	450,000	178.00
3-Jan	Elnet Techno	Shailesh A. Jhaveri HUF	S	25,000	111.57
3-Jan	Goldston Tec	Sajjankumar Nanval	B	60,000	66.50
3-Jan	Goldston Tec	Dwarkesh Restaurant Pvt	B	117,225	70.88
3-Jan	Goldston Tec	Sumati Sharma	S	60,000	73.40
3-Jan	Gulsha Sug C	Kapil Goel	S	85,000	35.59
3-Jan	GuptaSynthe	Gupta Silk Mills Pvt.Ltd.	S	20,919	319.85
3-Jan	H.S.India	CRS Traders and Exports P	B	78,000	19.04
3-Jan	IOL Broadban	Lehman Brothers Asia Ltd.	B	245,724	274.31
3-Jan	Kew Industr	Athena Investment	S	115,000	39.24
3-Jan	Koff Br Pict	Maru Securities Pvt. Ltd.	S	54,000	16.10
3-Jan	Mefcom Agr I	Master Finlease Ltd	B	18,678	170.20
3-Jan	Mefcom Agr I	Cosmo Corporate Services	S	56,278	170.20
3-Jan	Mefcom Agr I	ISF Securities Limited	S	69,892	170.20
3-Jan	Modison Meta	Indrani Dasgupta	S	64,000	356.90
3-Jan	Modison Meta	ModisonPvt.Ltd.	S	51,120	356.90
3-Jan	Mohit Indust	Mohit Inds. Ltd Eq	B	25,000	64.10
3-Jan	Mount Eve Mi	Bakliwal Fincom Pvt. Ltd.	S	250,000	77.88
3-Jan	N K Industr	Kotak Mahindra Bank Ltd	S	36,000	12.24
3-Jan	Pace Elec(P)	Shree Thirumalai Marketing	S	213,050	41.30
3-Jan	Pioner Embro	Admix Vinimay Pvt Ltd	S	54,139	279.53
3-Jan	R S Softw I	SMIFS Capital Markets Ltd	S	61,000	77.78
3-Jan	Raj Rayon Li	Innovate Securities Pvt.Ltd.	B	100,000	49.29
3-Jan	Rasi Electro	Miteshkumar M Mehta	B	20,000	22.75
3-Jan	Rasi Electro	S Yogarathnam	S	30,000	22.75
3-Jan	Richa Knits	Aureole Software Pvt Ltd	S	171,537	21.68
3-Jan	Rock Hard Pe	Purshottam Bhatt	B	97,541	13.18
3-Jan	Rock Hard Pe	Mustakbhai Meman	B	92,532	12.95
3-Jan	Royale M H I	Amrabathi Investra Pvt Ltd	S	118,393	51.77
3-Jan	Sika Interp	Ketan Prabhashankar Joshi	B	10,000	82.52
3-Jan	Sky Industri	Vijay Jamnadas Vora	B	33,363	67.35
3-Jan	Sky Industri	Arunaben N Bhanushali	S	22,944	64.98
3-Jan	Speciality	Enca Finlease Ltd.	S	21,000	43.44
3-Jan	Sql Star Int	Nikhil Khandelwal	S	94,861	40.28
3-Jan	Sql Star Int	Findeal Investments Priva	S	97,603	40.28
3-Jan	Sujana Univ	Tejdeep Eng Entreprises P	S	600,000	22.04
3-Jan	Triven Glass	Chamatkar Net India Limit	B	70,000	38.88
3-Jan	Usher Agro	Kapish Packaging Private	B	148,619	13.46
3-Jan	Vardhman Ind	Toubro Holding Ltd	S	50,000	33.20
3-Jan	Vij.Shanti B	The Indiaman Fund Mauriti	B	80,000	129.80
3-Jan	Vij.Shanti B	Morgan Stanley Dean Witte	B	60,000	129.80
3-Jan	Vij.Shanti B	Everest Finance and Inv.	B	100,000	129.80
3-Jan	Vij.Shanti B	Ratan Bai	S	455,000	129.80
3-Jan	Visu Intl	M Sivakumar Reddy	B	200,000	17.10
3-Jan	Visu Intl	Innovision E Commerce	S	380,200	17.10
3-Jan	Yashraj Secr	U Kiran	B	15,000	131.75
3-Jan	Yashraj Secr	Arudhra Properties Ltd.	B	15,000	130.74

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Tata Consultancy	1,280	2.5	6.2	1.1
Infosys	2,311	1.7	4.3	1.4
Wipro	620	1.4	2.5	1.1
<b>Losers</b>				
Hindustan Lever	212	(2.0)	(2.0)	4.6
ONGC	873	(0.5)	(1.9)	1.2
ITC	175	(0.9)	(1.2)	2.5

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
4-Jan	Infrastructure Development to consider new business plans; General Motors holds press conference for new launch; Autoline Industries holds press conference for IPO; Nicholas Piramal holds conference for Wellspring's acquisition
5-Jan	Tanla Solutions listing on BSE & NSE; Hungama TV holds conference to share its agenda
10-Jan	iGate Global Solutions earnings expected; Reliance Communication to consider fund raising plans
11-Jan	Infosys Technologies, HDFC Bank, Mastek earnings expected
13-Jan	CMC earnings expected
15-Jan	HCL Technologies earnings expected
16-Jan	Bajaj Auto earnings expected
18-Jan	Ranbaxy Laboratories to announce earnings & dividend
19-Jan	Dabur India earnings expected
20-Jan	Godrej Consumer earnings expected

Source: Bloomberg

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