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Updates

HDFC: Operating performance may remain steady, business environment showing early signs of improvement

Titan Industries: Strong growth across existing segments, forays into new products, reiterate BUY

News Roundup

Corporate

- **Ranbaxy Fine Chemical's** (RFCL) plans to acquire the US-based speciality chemicals maker **Mallinckrodt Baker** is facing delays because of valuation problems. The deal, which was earlier in the region of US\$325-350 mn, is being revalued in the wake of the global slowdown and poor earnings of the foreign company in the year ended September 2008. (ET)
- **Cobra**, the beer company founded by Indian entrepreneur Lord Karan Bilimoriahe 18 years ago, is up for sale for an estimated 200 million pounds. (ET)
- **Cox and Kings India** (CKI) has acquired **Tempo Holidays**, a specialist leisure travel company based in Australia for approximately US\$25 million. (ET)
- **Air India** has decided to reduce airfares by 12%, which is likely to be implemented in mid-December.
- **Jaguar Land Rover** is in secret talks with the UK government over a 1 billion pound (\$1.48 billion) loan, just nine months after the Indian conglomerate **Tata Group** bought the luxury carmaker. (ET)

Economic and political

- The tariff regulator for India's 12 state-owned ports has asked the shipping ministry to review a 17-year policy of billing certain port charges in dollars but collecting in rupees. (Mint)
- A gruelling seven-hour meeting between the Jet Airways management and employees at the Ramada Hotel in Mumbai today ended in partial success with employees other than the airline's 750-odd Indian pilots agreeing to take graded salary cuts to help keep the troubled airline afloat. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change, %			
	21-Nov	1-day	1-mo	3-mo
Sensex	8,915	5.5	2.5	(38.1)
Nifty	2,693	5.5	4.2	(37.8)

Global/Regional indices				
Dow Jones	8,046	6.5	(4.0)	(30.8)
FTSE	3,781	(2.4)	(2.6)	(31.3)
Nikkie	7,911	2.7	3.4	(37.5)
Hang Seng	12,424	(1.9)	(1.5)	(39.1)
KOSPI	985	(1.9)	4.9	(34.2)

Value traded - India				
	Moving avg, Rs bn			
	21-Nov	1-mo	3-mo	
Cash (NSE+BSE)	130.3	133.6	153.0	
Derivatives (NSE)	477.0	498.5	520	
Deri. open interest	556.1	748	826	

Forex/money market

	Change, basis points			
	21-Nov	1-day	1-mo	3-mo
Rs/US\$	50.1	0	8	626
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.1	(9)	(46)	(199)

Commodity market

	Change, %			
	21-Nov	1-day	1-mo	3-mo
Gold (US\$/OZ)	794.6	(0.7)	8.1	(3.5)
Silver (US\$/OZ)	9.5	(1.3)	1.9	(28.6)
Crude (US\$/BBL)	48.2	1.7	(20.5)	(57.3)

Net investment (US\$m)

	20-Nov	MTD	CYTD
FIs	(163)	(411)	(13,168)
MFs	(20)	(283)	3,231

Top movers -3mo basis

Best performers	Change, %			
	21-Nov	1-day	1-mo	3-mo
Union Bank Of India	144	(1.2)	16.8	11.7
Bank Of Baroda	268	4.3	9.4	5.3
Punjab National Bar	451	5.3	7.3	1.3
Tata Communicatio	412	(1.0)	12.9	(1.9)
Bank Of India	250	3.3	9.9	(3.1)

Worst performers

Housing Developme	84	(4.1)	(38.9)	(72.8)
Unitech Limited	32	(8.6)	3.2	(79.9)
Bajaj Finserv Ltd	114	(3.4)	(10.2)	(78.2)
Suzlon Energy Limit	49	7.9	5.0	(78.2)
Welspun-Gujarat St	92	(2.0)	(0.6)	(73.2)

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Banking**HDFC.BO, Rs1396**

Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	2,100
52W High -Low (Rs)	3262 - 1200
Market Cap (Rs bn)	400.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	36.9	33.9	42.2
Net Profit (Rs bn)	24.4	21.7	27.2
EPS (Rs)	85.8	75.6	94.8
EPS gth	38.2	(11.8)	25.3
P/E (x)	16.3	18.5	14.7
P/B (x)	3.4	2.9	2.6
Div yield (%)	1.8	1.6	2.0

Shareholding, September 2008

	% of		Over/(under)
	Pattern	Portfolio	weight
Promoters	-	-	-
FIs	60.4	5.6	3.9
MFs	4.5	2.3	0.6
UTI	-	-	(1.7)
LIC	1.6	0.7	(1.0)

HDFC: Operating performance may remain steady, business environment showing early signs of improvement

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- **HDFC has guided for stable operating performance**
- **Management reiterates that there are no defaults in its builder-loan portfolio**
- **We tweak estimates and price target to Rs2,100, retain ADD**

In our recent conference call, HDFC's management has retained its guidance on stable operating performance in the near-term. A reduction in real estate prices and likely improvement in debt market conditions may be early signs of a better macro environment. We are tweaking down our estimates by 3% for FY2009E and FY2010E to factor marginally lower NIMs and growth (20% disbursement growth in 2HFY09E versus 25% assumed earlier). We are also reducing the valuation of its AMC business to reflect a likely difficult environment for the growth of mutual funds. We retain our ADD recommendation with a price target of Rs2,100 (Rs2,200 earlier). The stock is currently trading at 1.6X PBR (core) FY2009E.

Asset growth will likely remain above 20%. HDFC's management has reiterated its expectations of 20%+ growth in disbursements in 2HFY09E (within the long-term trend of 20-30%) despite the challenges on the liquidity front and in real estate markets. We understand from market sources that debt market placements have started picking up over last 1-2 weeks, which is clear positive for HDFC and other bulk borrowers. We believe that housing finance companies are currently well placed to give loans to large builders (having a strong financial profile) with favorable terms, even if the retail demand may be subdued. However, with the recent reduction of risk weights and provisioning requirements for banks lending to commercial real estate, competition, in this segment, may increase over time.

Reduction in real estate prices is a positive. HDFC's management has highlighted that builders have started dropping real estate prices in certain pockets by about 10-15%. While a 25-40% decline may be optimal for retail buyers, the reduction is a positive signal. The risk to banks and the financial system at large will likely be lower if the operating cash flows of builders improve over time.

No NPLs in commercial real estate. HDFC's management has highlighted that there are no NPLs in its non-retail book. While loans to builders, corporates and leases comprise about 33% of its overall book, exposure to builders for construction of properties (builder-loans) is about 12% (Rs90 bn). None of the builders, including Unitech (Rs6.5 bn of exposure) and Kalpataru are currently delinquent. We fear that some of the builders may face liquidity issues and may find it challenging to honor their loan commitments since mutual funds and banks are likely scaling down their funding to the sector. Nevertheless, this risk is incrementally lower as builders are reducing real estate prices to improve sales (as discussed above).

Liquidity scenario improving, non-retail loans support spreads. The overall liquidity scenario in the debt markets seems to have improved over the last few days. HDFC has recently raised large (Rs10 bn) of long term loans (10 years maturity).

The company has maintained home loan rates at about 11.50-11.75%. It has raised lending rates on all other categories by about 1%—commercial real estate loans (now at 17-18%), top-up loans and loans against property. Thus, despite high incremental borrowings cost (over 11%), the company expects to maintain spreads of about 2% on the overall book.

HDFC : Sum of the parts-based valuation

	HDFC's holding (%)	Value of companies (Rs mn)	Value per share (Rs)	Comments
HDFC			1,229	Based on residual growth model
Value of subsidiaries and associates			849	
HDFC Bank	23.2	607,500	447	Based on HDFC Bank's fair value estimate (FY2010E), 10% holding company discount
HDFC Standard Life MF				
MF business	60.0	15,300	32	4% of Rs390 bn (15 % decline over AUMs in October 2008)
PMS business	60.0	11,550	24	10% of AUMs
Life insurance	72.0	129,918	290	NBAP analysis, giving value for 72% stake, 10% holding company discount
General insurance	74.0	8,600	20	Based on deal with ERGO
Gruh Finance	62.0	3,759	7	Based on market price
IDFC	1.9	67,971	4	Based on market price
HDFC Venture capital				
HDFC Property Fund	80.5	1,500	4	Rs10bn of fund assuming value of 15%
HDFC IT Corridor Fund	80.5	697	2	Rs4.64bn of fund assuming value of 15%
Real estate fund	100.0	5,040	18	US\$800 mn assuming value of 15%
Equity investments			41	
BVPS of non-strategic investments			32	
Unrealised gains on above			9	50% haircut on unrealised gains as on September 2008
Total value per share			2,119	

Source: Kotak Institutional Equities estimates.

HDFC- Comparison of old and new estimates

March fiscal year-ends, 2009-2010E (Rs mn)

	2009E	2010E	New estimates		% change		% growth	
			2009E	2010E	2009E	2010E	2009E	2010E
NIM (post provisions - %)	3.6	3.5	3.5	3.6				
Loan book	931,786	1,178,250	912,061	1,139,786	(2)	(3)	25	25
Operating income	106,469	136,310	105,310	132,789	(1)	(3)	20	26
Interest income	97,629	127,657	96,470	124,137	(1)	(3)	34	29
Capital gains	1,500	2,000	1,500	2,000	0	0	(81)	33
Interest expense	72,149	93,806	71,929	91,190	(0)	(3)	40	27
Net operating income	34,320	42,504	33,381	41,599	(3)	(2)	(7)	25
Net operating inc. excl. gains	32,820	40,504	31,881	39,599	(3)	(2)	12	24
Loan loss provisions	368	423	368	423	0	0	15	15
Fee income	379	473	361	451	(5)	(5)	(43)	25
Operating expenses	3,265	3,876	3,265	3,876	0	0	22	19
Employee expenses	1,470	1,758	1,470	1,758	0	0	25	20
PBT	31,102	38,710	30,145	37,783	(3)	(2)	(11)	25
Net profit	22,393	27,871	21,705	27,203	(3)	(2)	(11)	25
PBT bef cap gains	29,602	36,710	28,645	35,783	(3)	(3)	10	25

Source: Kotak Institutional Equities estimates.

Retail**TITN.BO, Rs883**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,280
52W High -Low (Rs)	1734 - 692
Market Cap (Rs bn)	39.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	30.0	39.3	50.2
Net Profit (Rs bn)	1.6	2.2	2.4
EPS (Rs)	35.1	48.5	54.7
EPS gth	56.8	39.6	13.2
P/E (x)	25.2	18.2	16.1
EV/EBITDA (x)	17.1	11.6	9.8
Div yield (%)	0.9	1.1	1.2

Shareholding, September 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	53.1	-
FIs	11.9	0.1
MFs	4.1	0.2
UTI	-	(0.1)
LIC	-	(0.1)

Titan Industries: Robust growth across existing segments, forays into new products; reiterate BUY

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- **Jewelry and watch segments growing well, eye-wear expanding rapidly**
- **Plans to foray into other fashion accessory products under the 'Fastrack' brand**
- **Lower gold price and investment safety push up jewelry demand versus other asset classes**
- **Strong cash flows, low leverage and high RoE support valuations**

We believe Titan's strong growth in its extant jewelry and watch businesses and its plan to foray into other fashion products places it well to become a leading fashion accessory player. We recently met with Titan's management to get an update on its growth plans amidst the current economic slowdown. We believe the current macro-economic situation provides an opportunity for Titan to benefit from increasing interest in gold jewelry as a safe investment haven versus other asset classes. The recent correction in gold price has significantly boosted jewelry demand in India as people look for safer investment opportunities. Total jewelry demand increased by 29% to 179 tons in 2QFY09 from 139 tons in 2QFY08. We expect the watch segment to continue to show stable volume growth led by new product launches. The eye-wear business is expanding rapidly with the company targeting to open 70 stores by end-FY2009E versus 42 currently. We moderately reduce our EPS estimates for FY2009E and FY2010E to Rs48.5 and Rs54.7 from Rs49.8 and Rs56.6 to account for higher cost for the new stores in the eye-wear business. Titan aims to become a diversified fashion accessory retailer by adding other products like apparels, bags, perfumes, leather products etc. to its product portfolio. We find current valuations attractive supported by high RoEs, strong free cash flow generation and low leverage.

Jewelry—lower gold price and investment safety push up demand

We believe lower gold prices and assurance of investment safety will drive jewelry demand in times of worsening economic conditions. Gold jewelry demand in 2QFY09 increased by 29% in volume terms and 78% in value terms over 2QFY08 (see Exhibit 2). The increase in volumes was mainly in August when gold prices had corrected by almost 20% leading to strong demand for gold jewelry as customers tried to benefit from low gold price. Titan's 2QFY09 revenues had also increased 74% yoy, in line with the industry. We expect positive volume growth to continue in 3QFY09 as well, supported by strong sales during the Diwali season. Key take-aways from our recent management meeting:

- **Lower gold prices pushed up volumes.** August-October jewelry volumes showed strong growth due to sharp reduction in gold prices. Further, customers relied more on gold as a safe investment option when other asset classes faced a sharp correction in value.
- **Market shifting from un-organised to organised players.** Fluctuating gold prices and higher inventory carrying cost has made operations for many of the smaller standalone jewelry stores difficult. Also, customers are increasingly moving to branded stores which offer a larger variety of designs as well as guaranteed return policies. We highlight that Titan's market share has been increasing over the past few years, largely led by a strong brand effect and shift in the market towards organized players (see Exhibit 3)
- **Exchange rate impacting local price.** The local gold price has not reduced in line with the international price due to sharp depreciation in rupee exchange rate (see Exhibit 4). Any appreciation in the exchange rate can provide a fillip to gold demand.

- **Economic uncertainty may keep gold demand strong.** Jewelry demand may continue to remain strong as a safe investment option amidst current economic uncertainty. With low investor confidence in other asset classes like property and equity, gold becomes an obvious choice for safe investment, further supported by lower gold prices. We highlight that investment safety has traditionally been a strong driver for gold jewelry demand in India.
- **Increase in gold leasing rate a concern.** The recent increase in gold leasing rates from banks may impact margins in the near term (see Exhibit 5). Titan sources its gold from banks on lease with price to be settled in 180 days. Management indicated almost 300-400 bps increase in the gold leasing cost. It indicated a possible increase in making charges if the trend continues for a longer period.

Watches—strong despite price increases effected to counter rupee depreciation

Titan's watch segment has been growing steadily with new store roll-outs and the launch of new collections. EBIT margins increased by 400 bps yoy to 16.2% in 1HFY09 led by new product launches and price increase. The company is considering a further 3-5% price increase in the watch segment to counter the increase in material costs due to rupee depreciation. Most of the watch components are imported and have seen a sharp increase in costs due to the exchange rate impact. We expect the watch segment revenues to grow 17.9% to Rs10.4 bn in FY2009E. It reported revenues of Rs4.8 bn in 1HFY09. However, the key risk to our estimates pertains from a slower volume growth due to deteriorating macro-economic conditions.

Eye-wear—expanding rapidly

Titan's eye-wear business has been expanding rapidly with new store roll outs across the country. It has already launched 42 Titan Eye+ stores and plans to extend it to 70 by end-FY2009. We expect new store launches to drive revenues; however, margins may be under pressure due to initial store roll out costs. Key take-aways from the management meeting were:

- **200 stores by FY2011E.** The company plans to launch 60 stores per year over FY2009-11E to reach to around 200 stores by FY2011E. Titan aims to garner a larger market share with its first mover advantage before other players come in. The eye-wear market is largely unorganized with only 15% of the market catered to by organized store chains. We expect new entrants like Reliance, and other international players to increase competition and put pressure on margins. We assume a slower store roll out and model only 135 stores by FY2011E as competition and availability of franchisees will be the key constraints.
- **Store roll-outs to keep margins negative for next two years.** New store roll outs will keep EBIT margins negative for next two years due to initial costs and high advertisements. We expect Titan to focus more on extending reach rather than profitability in the initial years, similar to the way in which it scaled up its jewelry business. We estimate stable state margins of around 12% from the eye-wear business.
- **High rentals and working capital funding may constraint store roll-out.** We believe high rentals and liquidity issues for working capital funding may be a key deterrent for franchisees. Most of the Titan Eye+ stores are franchisee owned with average investment of around Rs7-12 mn. Further, a long gestation period of three years makes it a high investment business for the franchisee.
- **Change in estimates.** We increase our end-FY2009 store estimate to 65 from 50 earlier. Titan has already launched 42 Titan Eye+ stores and targets to extend it to 70 by end-FY2009. We reduce our FY2009E and FY2010E EBITDA margin estimates to -2.9% and -1.8% to account for higher administrative costs from new store roll-outs.

Extending strong brands to new fashion accessory products

We expect Titan to use its strong brands to become a leading fashion accessory player with a diverse range of product offerings. The company is looking to enter into diverse product offerings including apparels, bags, belts, caps, helmets, headwear, wallets, fragrances, perfumes, writing instruments, mobile phones and other accessories. It plans to use the 'Fastrack' brand to launch fashion accessory stores and outlets targeting the youth segment. Titan will replicate the eye-wear model by outsourcing the production and will focus on design and marketing. We do not yet estimate any revenues from this business as it is still at a preliminary planning stage.

Strong fundamentals support valuation

We find Titan attractively valued at 16X FY2010E EPS, supported by its (1) strong earnings growth, (2) low leverage, (3) high RoEs in excess of 30% and (4) strong free cash flow generation (see Exhibit 6). We estimate Titan's EPS to grow at 26.7% CAGR over FY2008-11E and debt-equity ratio of 0.3X at end-FY2009E. We model the company to generate free cash flows of Rs4.6 bn over FY2009-11E led by strong operating cash flows. We maintain our BUY rating and target price of Rs1,280.

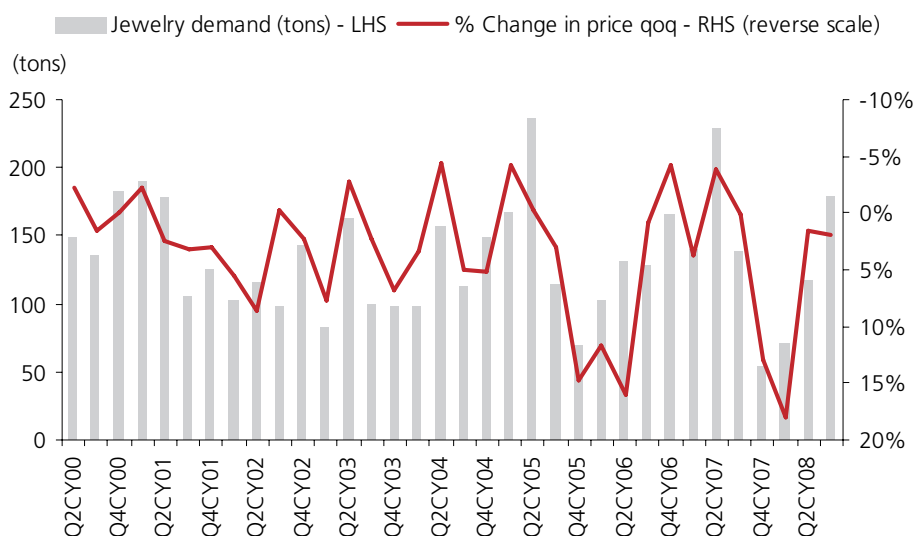
Exhibit 1: Forecasts and valuation (consolidated)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	14,398	1,529	812	18.6	42.2	47.3	26.0
2007	20,906	2,013	1,001	22.6	34.8	38.9	20.2
2008	29,969	2,388	1,556	35.1	37.7	25.0	17.0
2009E	39,280	3,454	2,153	48.5	38.5	18.1	11.5
2010E	50,204	4,004	2,430	54.7	32.6	16.0	9.8

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Price movements close to or below zero are associated with high demand

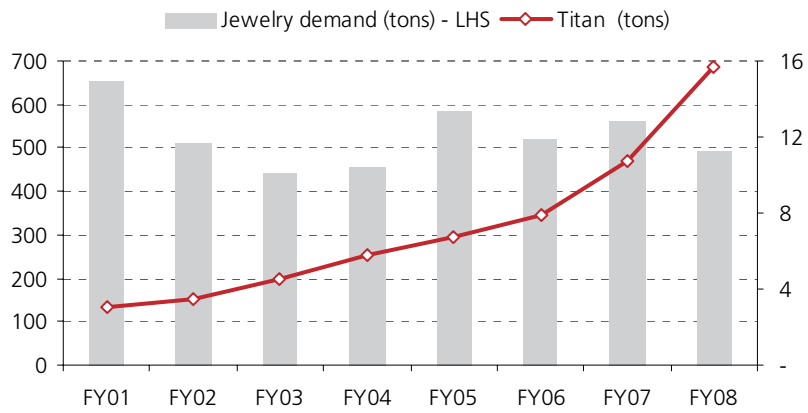
Quarterly movement in gold price and jewellery demand



Source: World Gold Council, Bloomberg, Kotak Institutional Equities.

Exhibit 3: Titan's market share increasing over the years

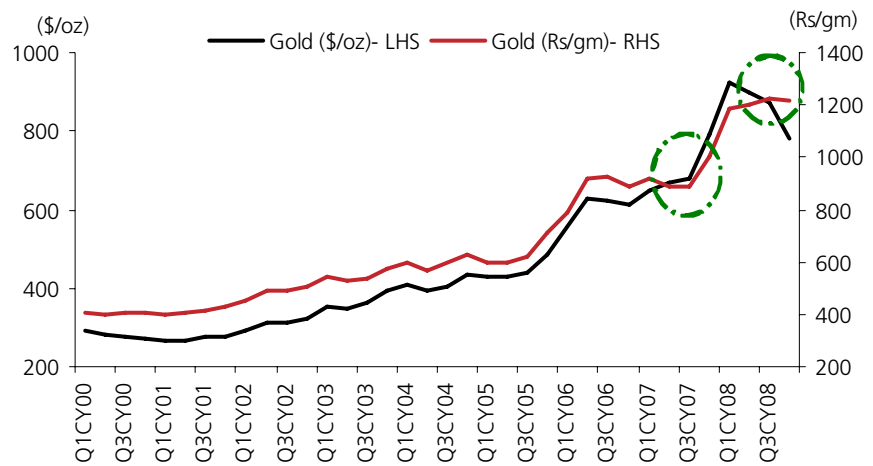
Total jewellery demand and Titan's volumes, March fiscal year-ends, 2001-2008 (tons)



Source: Company, World Gold Council

Exhibit 4: Exchange rate fluctuations impact short term domestic gold prices

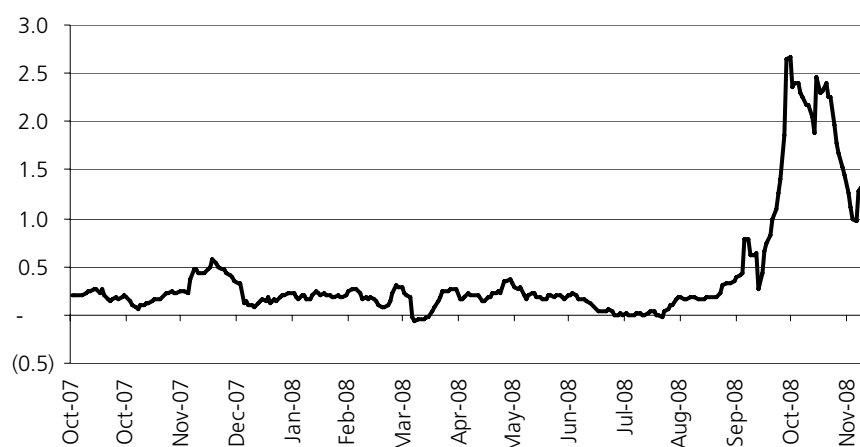
International and domestic gold price trends



Source: World Gold Council, Bloomberg, Kotak Institutional Equities.

Exhibit 5: Sharp increase in gold leasing cost can impact jewelry margins

One month gold leasing rate (%)



Source: Bloomberg.

Exhibit 6: Strong fundamental ratios support Titan's valuations

Titan, Key ratios, March fiscal year-ends, 2004-2011E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E
Sales	9,001	10,793	14,398	20,906	29,969	39,280	50,204	61,297
growth (%)		19.9	33.4	45.2	43.3	31.1	27.8	22.1
PAT	589	519	812	1,001	1,556	2,153	2,430	3,165
Operating cash flow	253	1,343	991	1,356	837	1,671	1,513	2,576
Free cash flow	714	1,115	577	159	165	1,255	1,097	2,210
Key ratios								
PAT margin (%)	6.5	4.8	5.6	4.8	5.2	5.5	4.8	5.2
RoAE (%)	36.6	32.0	42.2	34.8	37.7	38.5	32.6	32.8
RoACE (%)	17.0	14.4	19.7	20.6	26.8	30.7	27.8	29.5
D/E (X)	2.8	2.2	1.4	0.7	0.4	0.3	0.2	0.1
Operating cash /PAT (%)	43.0	258.6	122.1	135.5	53.8	77.6	62.3	81.4
Dividend payout (%)	7.6	17.2	17.0	22.1	22.8	19.6	20.1	19.6

Source: Company, Kotak Institutional Equities estimates.

Exhibit 7: Profit model, balance sheet, cash model (consolidated) for Titan Industries, 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model						
Total income	14,398	20,906	29,969	39,280	50,204	61,297
EBITDA	1,529	2,013	2,388	3,454	4,004	5,089
Interest (expense)/income	(248)	(212)	(208)	(242)	(210)	(170)
Depreciation	(200)	(260)	(333)	(326)	(349)	(372)
Other income	42	(47)	45	34	34	34
Pretax profits	1,123	1,494	1,892	2,920	3,478	4,581
Tax	(182)	(404)	(373)	(650)	(979)	(1,371)
Deferred taxation	56	27	(73)	(117)	(70)	(46)
Profit after tax	997	1,117	1,446	2,153	2,430	3,165
Associate income / (loss)	(185)	(116)	110	—	—	—
Adjusted net profit	812	1,001	1,556	2,153	2,430	3,165
Diluted earnings per share (Rs)	18.6	22.6	35.1	48.5	54.7	71.3
Balance sheet						
Total equity	1,966	3,371	4,458	6,118	7,976	10,414
Deferred taxation liability	243	181	252	369	439	484
Total borrowings	3,094	2,478	2,103	1,927	1,727	1,227
Current liabilities	3,632	5,958	9,123	9,604	11,385	13,101
Total liabilities and equity	8,934	11,988	15,936	18,017	21,527	25,226
Cash	386	510	554	1,218	1,621	2,759
Other current assets	6,042	8,402	12,481	13,775	16,781	19,313
Total fixed assets	2,007	2,717	2,877	3,001	3,102	3,130
Miscl. exp. not written off	219	42	—	—	—	—
Investments	280	316	23	23	23	23
Total assets	8,934	11,988	15,936	18,017	21,527	25,226
Free cash flow						
Operating cash flow, excl. working capital	1,186	1,544	1,742	2,562	2,815	3,548
Working capital changes	(195)	(188)	(905)	(890)	(1,302)	(973)
Capital expenditure	(431)	(983)	(509)	(450)	(450)	(400)
Investments	(79)	(265)	(213)	—	—	—
Other income	96	50	50	34	34	34
Free cash flow	577	159	165	1,255	1,097	2,210
Ratios (%)						
Debt/equity	140.1	69.8	44.6	29.7	20.5	11.3
Net debt/equity	122.6	55.4	32.9	10.9	1.3	(14.1)
RoAE	42.2	34.8	37.7	38.5	32.6	32.8
RoACE	19.7	20.6	26.8	30.7	27.8	29.5

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 8: Titan, Financial assumptions, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Jewelry						
Revenues (Rs mn)	7,896	12,903	20,252	27,196	35,062	43,103
EBITDA (Rs mn)	491	913	1,152	1,910	2,245	2,793
EBITDA margin (%)	6.2	7.1	5.7	7.0	6.4	6.5
Volumes ('000 pcs)						
Jewelry	570	720	1,139	1,367	1,640	1,968
Coins	1,427	1,925	1,017	1,169	1,345	1,546
Average realisation (Rs/pc)						
Jewelry	11,530	14,325	15,032	18,372	19,842	20,430
Coins	926	1,343	3,080	1,785	1,874	1,873
Average gold price						
US\$/oz	504	675	835	868	912	930
Rs/gm	723	969	1,081	1,256	1,319	1,318
Diamond share						
Share of diamond jewelry (%)	25	33	33	37	37	37
Watches						
Revenues (Rs mn)	6,198	7,408	8,828	10,409	12,080	13,835
EBITDA (Rs mn)	1,138	1,191	1,418	1,926	2,114	2,352
EBITDA margin (%)	18.4	16.1	16.1	18.5	17.5	17.0
Volumes ('000 pcs)						
Watches	8,336	8,964	10,286	11,653	13,028	14,496
Table clocks	272	149	125	143	158	170
Average realisation (Rs/pc)						
Watches (produced)	716	796	814	847	880	907
Table clocks	413	448	1,053	1,074	1,095	1,106
Eyewear						
Revenues (Rs mn)	129	253	406	1,137	2,417	3,645
EBITDA (Rs mn)	40	99	50	(33)	(44)	268
EBITDA margin (%)	30.7	39.2	12.2	(2.9)	(1.8)	7.4
Sunglasses						
Volume ('000 pcs)	232	380	437	525	630	755
Average realisation (Rs/pc)	558	665	711	782	861	930
Titan Eye+						
No. of stores	—	1	10	65	105	135
Annual revenue per store (Rs mn)	—	—	19	20	23	25

Source: Company, Kotak Institutional Equities estimates.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	21-Nov-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	O/S shares (mm)	EPS (Rs)		EPS growth (%)		PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend Yield (%)		RoE (%)		Target price (Rs)	Upside (%)	ADVF-3mo (US\$ mn)					
					2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E				2010E				
Energy																										
Bharat Petroleum	328	REDUCE	107,378	2,148	328	41.3	30.4	(21.2)	(26.4)	310	3.8	4.4	3.3	0.8	0.7	1.3	0.9	1.3	11.8	7.9	10.1	370	130	6.8		
Cairn India	136	BUY	254,786	5,096	1,868	(0.1)	3.9	16.7	(105)	(3,332)	434	31.9	17.4	5.6	0.9	0.8	0.7	—	(0.1)	2.3	9.1	240	760	17.5		
Castrol India (a)	301	ADD	37,222	744	124	20.1	23.1	25.2	64.6	15.1	8.8	15.0	13.0	12.0	8.6	7.4	6.8	9.0	8.6	59.5	67.8	70.7	380	262	0.4	
GAIL (India)	190	REDUCE	240,566	4,811	1,268	40.4	27.5	27.9	21.0	35.1	1.4	9.3	6.9	6.8	4.6	4.0	5.2	1.7	1.4	1.2	3.5	4.2	18.1	21.4	18.5	
GSPL	30	BUY	16,715	334	563	18.8	2.7	3.7	10.1	47.6	37.7	16.5	11.2	8.1	6.0	5.8	4.2	1.3	1.2	1.1	1.7	2.5	3.4	8.8	11.5	14.2
Hindustan Petroleum	229	REDUCE	77,565	1,551	339	33.5	26.0	33.6	(16.4)	(22.3)	29.0	6.8	8.8	6.8	6.7	6.0	5.8	1.3	1.0	1.3	9.6	6.8	8.0	270	180	5.8
Indian Oil Corporation	380	REDUCE	448,260	8,965	1,179	61.3	32.4	53.8	31.0	(47.2)	66.0	6.2	11.7	7.1	3.9	8.0	6.2	1.0	0.9	0.8	1.4	1.7	4.1	12.1	450	
Oil & Natural Gas Corporation	688	BUY	1,470,806	29,416	2,139	92.7	129.8	141.7	91	(50)	92.7	2.6	2.0	1.6	1.5	1.2	1.1	4.7	5.8	6.5	19.6	24.0	22.3	1,125	636	47.6
Petronet LNG	33	ADD	24,450	489	750	6.3	6.0	7.1	—	(4.7)	18.7	5.2	5.5	4.9	3.6	5.0	3.9	1.3	1.1	0.9	4.6	4.6	26.7	20.6	20.3	
Reliance Industries	1,124	REDUCE	1,543,733	30,875	1,375	101.7	99.7	150.6	23.0	(2.0)	51.0	11.1	11.3	7.5	7.3	6.2	3.4	1.7	1.5	1.2	1.1	1.2	1.8	18.5	14.7	
Reliance Petroleum	74	REDUCE	32,775	6,656	4,500	(1.1)	2.4	17.0	n/a	n/a	596.6	n/a	30.3	4.3	n/a	17.8	4.2	2.5	2.3	1.6	—	2.7	(3.9)	7.8	42.9	
Energy																										
Neutral																										
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Industrials																										
ABB	433	REDUCE	91,725	1,834	212	23.2	25.5	29.8	44.5	10.0	16.6	18.7	17.0	14.5	10.6	9.5	7.8	5.6	4.4	3.5	0.5	0.7	0.8	34.8	29.2	
BGR Energy Systems	137	ADD	9,857	197	72	12.1	17.6	23.2	(67.4)	45.3	31.9	11.3	7.8	5.9	7.6	5.4	5.0	2.1	1.7	1.4	1.5	2.1	2.8	31.4	24.2	
Bharat Electronics	590	ADD	47,232	945	80	102.0	105.5	111.8	11.2	3.4	6.0	5.8	5.6	5.3	1.8	1.2	1.0	1.4	1.2	1.0	3.5	4.2	4.2	27.7	23.1	
Bharat Heavy Electricals	1,279	BUY	626,243	12,525	490	58.4	72.2	98.0	22.9	23.7	35.6	21.9	17.7	13.1	11.4	8.9	6.7	5.8	4.7	3.7	1.2	1.2	1.6	29.2	29.2	
Larsen & Toubro	757	ADD	448,792	8,976	593	37.9	52.4	63.4	20.8	38.1	21.1	20.0	14.5	11.9	13.5	9.5	8.0	3.8	2.8	2.3	1.1	2.6	2.7	22.7	22.4	
Maharashtra Seamless	147	BUY	10,343	207	71	29.4	37.4	37.9	(23.5)	27.6	1.2	5.0	3.9	3.9	3.0	2.4	2.3	0.9	0.8	0.6	3.4	3.8	3.9	19.7	21.1	
Siemens	276	REDUCE	92,998	1,859	337	18.2	18.8	23.4	60.4	3.1	24.5	15.1	14.7	11.8	8.4	7.9	6.0	5.1	3.9	3.1	0.9	1.0	1.0	38.9	30.2	
Suzlon Energy	49	BUY	77,486	1,550	1,567	6.6	7.1	10.2	9.5	8.4	42.9	7.5	6.9	4.9	4.8	7.1	5.6	0.8	0.8	0.7	1.9	2.0	2.0	16.3	11.8	
Industrials																										
Neutral																										
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Infrastructure																										
IRB Infrastructure	70	BUY	23,265	465	332	3.4	5.8	12.5	150.9	68.9	116.3	20.4	12.1	5.6	8.8	8.9	4.3	1.4	1.2	1.0	—	—	—	10.7	10.9	
Media																										
DISHTV	14	REDUCE	8,953	179	644	(9.6)	(7.8)	(4.2)	n/a	(19.1)	(45.7)	(1.4)	(1.8)	(3.3)	(6.1)	(3.1)	(13.2)	(2.0)	4.8	(4.1)	—	—	—	167.9	375.0	
HT Media	61	BUY	14,289	286	234	4.3	3.1	6.0	47.2	28.8	94.1	14.1	19.8	10.2	7.7	8.3	4.9	1.7	1.6	1.4	0.7	0.7	1.3	12.2	8.1	
Jagran Prakashan	48	BUY	14,336	287	301	3.3	3.2	4.6	33.5	(2.8)	45.2	14.6	15.0	10.4	7.9	8.3	5.8	2.7	2.5	2.3	4.2	4.0	4.8	17.2	17.2	
Sun TV Network	142	BUY	56,018	1,120	394	8.3	9.4	11.1	30.7	13.1	18.9	17.1	15.2	12.8	8.7	8.6	6.4	3.7	3.3	3.0	1.8	2.8	3.9	24.8	23.8	
Zee Entertainment Enterprises	115	BUY	50,034	1,001	434	8.9	9.7	12.0	62.6	9.1	24.0	13.0	11.9	9.6	9.6	7.9	6.4	1.7	1.5	1.4	1.7	2.1	2.7	14.2	13.8	
Media																										
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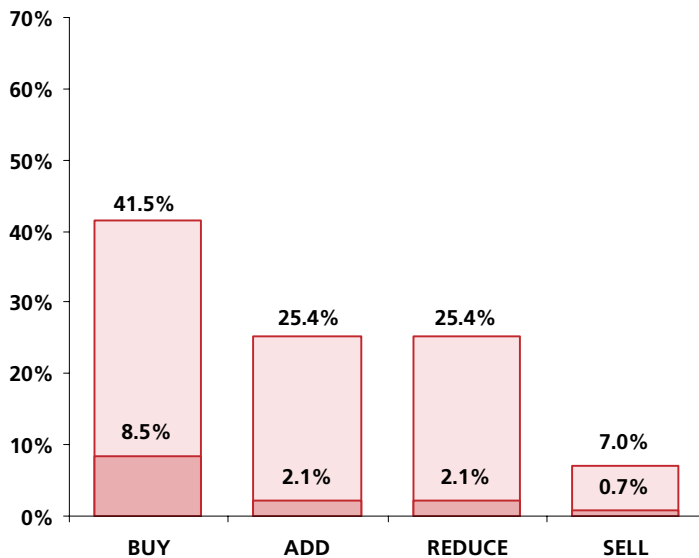
Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	21-Nov-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	O/S shares (mn)	EPS (Rs)		EPS growth (%)		PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend yield (%)		RoE (%)		Target price (Rs)	Upside (%)	ADV-3mo (US\$ mn)									
					2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E				2010E								
Property	Cautious	473,241	9,465				199.3	(7.7)	5.0	3.9	4.2	4.0	4.7	4.7	3.9	1.2	1.0	0.8	2.7	3.8	4.6	32.1	23.2	20.4						
Retail																														
Pantaloon Retail	207	BUY	35,594	712	172	80	12.1	18.4	93.1	50.4	52.2	25.8	17.1	11.3	10.2	6.9	5.7	2.1	1.3	1.2	0.3	0.4	0.5	8.5	9.1	10.8	370	78.7	1.5	
Titan Industries	883	BUY	39,191	784	44	35.1	48.5	54.7	55.2	38.4	12.8	25.2	16.1	17.1	11.6	9.8	8.3	6.0	4.7	0.9	1.1	1.2	37.7	38.5	32.6	1,280	45.0	2.7		
Vishal Retail	56	ADD	1,251	25	22	18.1	14.9	20.6	37.2	(17.6)	38.4	3.1	3.7	2.7	4.9	4.3	3.2	0.5	0.4	0.4	—	—	—	20.2	11.5	14.0	125	123.8	0.1	
Retail			76,036	1,521					318	418	32.6	23.6	16.7	12.6	11.4	7.9	6.4	3.1	2.1	1.8	0.6	0.7	0.9	13.2	12.6	14.6				
Technology																														
HCL Technologies	144	REDUCE	99,941	1,999	695	15.3	20.6	21.7	(19.0)	35.0	34.1	9.4	7.0	6.6	4.8	3.4	3.1	2.0	1.6	1.4	5.6	5.6	5.6	21.4	23.8	22.7	200	39.1	3.6	
Hexaware Technologies	20	SELL	2,821	56	142	7.7	2.9	3.8	(13.7)	62.4	32.1	2.6	6.9	5.2	(0.3)	0.8	0.5	0.4	0.4	0.4	4.6	8.1	8.1	15.1	5.8	7.4	25	25.9	0.1	
Infosys Technologies	1,185	BUY	679,989	13,600	574	79.1	100.8	108.8	18.0	27.5	7.9	15.0	11.8	10.9	11.4	8.5	7.5	4.9	3.8	3.0	2.8	2.1	2.2	36.1	36.4	30.9	1,600	35.1	68.6	
Mphasis BFL	156	REDUCE	32,472	649	208	12.2	22.3	23.4	67.6	18.7	5.0	12.7	7.0	6.7	7.6	4.4	3.6	2.8	0.4	1.7	2.2	2.6	2.9	23.6	34.6	28.4	190	22.0	1.5	
Mindtree	234	BUY	9,245	185	40	28.7	30.7	39.6	12.3	14.7	29.0	8.8	7.6	5.9	7.7	4.0	3.6	1.7	1.4	1.1	1.1	—	—	—	17.2	17.8	14.0	450	92.3	0.4
Patni Computer Systems	122	SELL	15,729	315	129	33.2	26.3	30.8	29.2	(20.8)	16.9	3.7	4.6	4.0	0.5	0.6	(0.4)	0.6	0.5	0.5	1.8	2.2	2.5	19.2	14.1	12.0	160	30.8	1.1	
Polaris Software Lab	38	SELL	3,716	74	98	7.4	12.8	11.6	(27.6)	71.6	(9.6)	5.1	3.0	3.3	1.6	0.8	0.5	0.6	0.5	0.4	4.6	4.6	4.6	11.7	17.8	14.1	70	85.2	1.5	
Satyam Computer Services	241	BUY	164,093	3,282	682	25.2	33.7	35.5	17.7	33.3	5.3	9.5	7.1	6.8	6.6	4.2	3.5	2.3	1.8	2.1	5.0	5.8	26.0	28.2	24.2	400	66.3	33.9		
TCS	506	REDUCE	495,617	9,912	979	51.3	56.4	63.0	21.5	10.0	11.6	9.9	9.0	8.0	7.8	6.4	5.8	4.0	3.2	1.6	4.0	3.9	5.0	47.0	39.3	35.6	650	28.3	24.8	
Tech Mahindra	246	BUY	30,688	614	125	59.1	76.4	85.0	25.7	29.4	11.2	4.2	3.2	2.9	3.6	1.8	1.0	2.4	1.4	0.9	2.2	2.4	2.5	70.7	58.0	40.9	700	184.2	2.8	
Wipro	230	ADD	333,138	6,663	1,450	22.2	26.0	28.7	12.6	17.0	10.4	10.3	8.8	8.0	8.1	5.9	5.0	2.6	2.1	1.8	2.8	3.3	3.8	27.9	26.3	24.3	360	56.7	12.0	
Technology			1,867,450	37,349					16.1	21.0	9.2	10.8	8.9	8.1	8.0	5.9	5.1	3.2	2.5	2.1	3.0	3.2	3.8	29.4	28.3	25.6				
Telecom																														
Bharti Airtel Ltd	619	BUY	1,174,515	23,490	1,898	35.3	45.3	55.1	65.0	28.3	21.7	17.5	13.7	11.2	10.7	8.1	6.2	5.2	3.8	2.8	—	0.6	1.0	39.1	31.9	28.5	800	29.3	90.9	
IDEA	44	REDUCE	142,400	2,848	3,236	3.9	3.3	3.4	78.5	(17.6)	5.7	11.1	13.5	12.8	8.8	5.4	4.8	4.0	1.0	0.9	—	—	—	36.4	12.0	8.0	70	59.1	9.4	
MTNL	69	REDUCE	43,565	871	630	7.1	5.1	5.5	(11.0)	(28.4)	7.6	9.7	13.5	12.6	1.4	2.0	1.8	0.4	0.4	0.4	5.8	8.7	8.7	3.5	2.2	2.4	80	15.7	1.6	
Reliance Communications	206	SELL	425,291	8,506	2,064	26.1	26.3	33.1	84.3	0.5	25.8	7.9	7.8	6.2	6.9	6.8	5.5	1.5	1.2	1.0	0.4	—	—	16.8	18.3	18.7	265	28.6	56.4	
Tata Communications	412	REDUCE	117,548	2,351	285	10.9	13.6	14.0	(56.3)	24.0	3.2	3.7	30.4	29.4	15.7	13.0	11.8	1.8	1.7	1.7	1.1	1.2	1.6	4.4	5.4	5.2	400	(3.0)	4.1	
Telecom			1,903,319	38,066					65.7	16.3	21.0	13.2	11.3	9.4	9.0	7.4	5.9	2.6	1.9	1.6	1.1	1.2	1.6	4.4	5.4	5.2	400	(3.0)	4.1	
Transportation																														
Container Corporation	575	REDUCE	74,784	1,496	130	57.7	69.4	74.2	7.8	20.3	6.8	10.0	8.3	7.8	6.2	5.0	4.3	2.3	1.9	1.6	2.1	2.6	2.8	25.8	25.6	22.8	800	39.0	1.3	
Transportation			74,784	1,496					7.8	20.3	6.8	10.0	8.3	7.8	6.2	5.0	4.3	2.3	1.9	1.6	2.1	2.6	2.8	23.5	23.3	21.0				
Utilities																														
CESC	200	BUY	24,937	499	125	27.8	31.9	36.9	(23.3)	14.9	15.8	7.2	6.3	5.4	3.7	3.5	4.7	0.8	0.7	0.6	2.0	2.3	2.7	12.5	11.7	11.9	450	125.5	1.4	
Lanco Infratech	117	BUY	26,054	521	222	14.8	17.5	26.0	75.2	18.2	48.3	7.9	6.7	4.5	8.0	11.6	10.0	1.4	1.2	0.9	—	—	—	19.7	19.2	23.0	370	215.7	8.6	
NTPC	151	REDUCE	1,241,355	24,827	8,245	9.3	9.0	9.7	7.9	(3.2)	7.9	16.1	16.7	15.5	11.2	12.1	11.7	2.3	2.1	2.0	2.3	2.3	2.4	14.9	13.2	13.1	160	6.3	32.1	
Reliance Infrastructure	485	BUY	112,084	2,242	231	37.6	53.6	56.8	13.9	42.6	6.0	12.9	9.1	8.5	19.5	15.8	15.7	0.7	0.6	1.3	1.5	1.7	4.3	6.2	6.6	1,250	157.5	73.0		
Reliance Power	105	REDUCE	251,065	5,021	2,397	0.4	2.1	2.6	—	443.9	25.2	275.4	50.6	40.4	—	—	—	1.8	1.7	1.7	—	—	—	1.2	3.5	4.3	180	71.8	21.2	
Tata Power	630	BUY	146,874	2,937	233	29.7	38.1	39.9	11.6	28.5	4.6	21.2	16.5	15.8	16.5	15.0	16.0	2.0	1.5	1.3	1.4	1.5	1.5	10.0	10.3	9.0	1,230	95.1	17.7	
Utilities			1,802,368	36,047					12.1	8.4	9.9	18.0	16.6	15.1	12.6	15.2	15.1	1.9	1.6	1.5	1.8	1.8	1.9	10.4	10.3	10.4				
Others																														
Alan Offshore	728	BUY	28,139	563	39	72.3	211.1	456.6	(1,066)	192.1	116.3	10.1	3.4	1.6	12.0	6.4	3.7	3.2	1.4	0.8	0.5	1.4	2.1	51.7	49.3	53.1	1,700	133.6	18.5	
Educomp Solutions	1,779	BUY	33,840	677	19	35.2	63.9	108.1	114	81.7	69.2	50.6	27.9	16.5	27.0	11.4	7.2	11.0	4.6	3.7	0.1	0.3	0.5	33.5	23.3	24.3	2,550	43.3	35.4	
Havells India	143	BUY	8,654	173	61	26.6	19.7	34.5	40	(25.9)	75.1	5.4	7.3	4.1	5.5	5.5	3.8	1.3	1.1	0.8	1.7	2.2	2.9	33.7	16.5	22.2	365	155.2	0.4	
Jaiprakash Associates	58	BUY	68,902	1,378	1,188	4.9	7.3	11.0	7	49.5	50.9	11.8	7.9	5.3	9.9	7.8	7.5	1.4	1.2	1.0	0.0	0.0	0.0	15.4	16.1	20.5	205	253.4	42.2	
Jindal Saw	273	BUY	16,746	335	61	66.6	86.9	82.9	(43)	30.6	(4.7)	4.1	3.1	3.3	3.4	1.8	1.5	0.6	0.4	0.4	2.6	4.8	5.5	12.5	14.4	12.3	500	83.1	1.7	
PSL	91																													

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- Percentage of companies covered by Kotak Institutional Equities, within the specified category.
- Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 30/09/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities

As of September 30, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

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

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

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

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

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

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

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