

| Equity indices | % Chg | | | |
|--------------------------------|---------|-------|-------|-------|
| | 18-July | 1-day | 1-mth | 3-mth |
| India | | | | |
| Sensex | 15,301 | 0.1 | 7.0 | 12.3 |
| Nifty | 4,500 | 0.1 | 6.8 | 12.6 |
| Global/Regional markets | | | | |
| Dow Jones | 13,918 | (0.4) | 2.1 | 8.7 |
| Nasdaq | 2,699 | (0.5) | 2.8 | 7.7 |
| FTSE | 6,567 | (1.4) | (1.3) | 2.0 |
| Nikkei | 18,043 | 0.1 | (0.7) | 3.9 |
| Hang Seng | 22,936 | 0.4 | 6.3 | 13.0 |

| Value traded (Rs bn) | BSE | NSE |
|----------------------|------|-------|
| Cash | 57.5 | 113.1 |
| Derivatives | 8.6 | 450.5 |
| Total | 66.1 | 563.6 |

| Net inflows (Rs bn) | Recent trends (days) | | | |
|------------------------|----------------------|-------|-------|-------|
| | 17-July | -7d | -15d | -30d |
| FII | 9.5 | 76.1 | 184.2 | 200.0 |
| MF | (1.0) | (7.5) | (7.9) | (7.7) |

| Forex / Crude | % Chg | | | |
|---------------|---------|-------|------|------|
| | 18-July | 1day | 1mth | 3mth |
| Rs/US\$ | 40.3 | 0.0 | 1.0 | 4.3 |
| Euro/US\$ | 1.4 | (0.0) | 2.8 | 1.4 |
| Crude(\$/bbl) | 75.0 | (0.1) | 8.5 | 21.3 |

| Mkt movers (Rs) | Close | Pr. Cl. | % Chg |
|--------------------|---------|---------|--------|
| Top gainers | | | |
| JM Financial | 1,205.9 | 1,078.7 | 11.8 |
| Gitanjali Gems | 263.7 | 239.6 | 10.0 |
| BF Utilities | 2,142.2 | 1,948.0 | 10.0 |
| Top losers | | | |
| Hexaware Tech | 142.8 | 162.8 | (12.3) |
| Polaris Software | 140.3 | 149.3 | (6.0) |
| Geometric Soft | 111.1 | 117.8 | (5.7) |

In focus

Petronet LNG – Results Update

Spot cargo volumes continue to drive growth

CMP: Rs 61 Target: Rs 73 BUY

Garware Offshore Services – Results Update

Higher PSV contribution raises earnings

CMP: Rs 203 Target: Rs 272 BUY

Today's top picks

RIL, RCom, DLF, RNRL, Hindalco, Dena Bank

News track

- ❖ The coal ministry has allocated 27 blocks with a total reserve of more than 8,000mn tonnes with an annual production capacity of more than 72MT. Out of the 27 coal blocks, 10 blocks are for the power sector and the rest for commercial mining. (BL)
- ❖ The Bharti group has bought back 4.99% in Bharti Airtel from UK-based Vodafone for US\$ 1.4bn. With this stake purchase, the group's voting interest in Bharti Airtel has gone above 50% from a little over 45%. (ET)
- ❖ Tata Motors has invested in a 1.3billion baht (around US\$ 39mn) joint venture to manufacture and assemble one-tonne pick-up trucks in Thailand. (ET)
- ❖ HDFC Bank has raised US\$ 607mn through an ADS issue priced at US\$ 92.1 per ADS. The bank will further raise 15% of the issue via a greenshoe option. (ET)
- ❖ Bharti Airtel has awarded a record US\$ 2bn network outsourcing, maintenance and management contract to Swedish telecom infrastructure major Ericsson. This marks the largest ever network deal in India and is also amongst the biggest contracts globally in the telecom space. (ET)
- ❖ Nagarjuna Construction has been awarded two projects valued at Rs 2.4bn. The first project valued at Rs 2bn is for a reservoir at Nandyal in Kurnool district, while the second is for the construction of multi-storied apartments by Shriram Properties at Bangalore. (BL)
- ❖ Lupin has received approval from the DCGI to conduct a combined Phase-IIb/III clinical trials for its herbal anti-psoriasis compound LLL-3348 (Desoris). The total market for psoriasis drugs is estimated to be more than US\$ 2bn. (BS)

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

Volume shockers

| (No of shares) | 18-July | 2-mth avg | Chg (x) |
|-------------------|-----------|-----------|---------|
| Allcargo Global | 96,028 | 7,923 | 12.1 |
| EID Parry India | 486,047 | 40,123 | 12.1 |
| Noida Toll Bridge | 3,221,653 | 322,823 | 10.0 |

Delivery toppers

| | Del (%) | Total Vol | Cons Days Up |
|-------------------|---------|-----------|--------------|
| Allcargo Global | 95.6 | 183,278 | 3 |
| Thomas Cook India | 68.9 | 300,913 | 3 |
| Southern Iron | 54.9 | 3,370,834 | 3 |

Petronet LNG

CMP: Rs 61
Target: Rs 73
BUY

| | |
|--------------------------|---------------------------|
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| (91-22) 6612 4670 | (91-22) 6612 4713 |
| sudeep.anand@religare.in | bhawana.verma@religare.in |

| | |
|----------|----------|
| BSE code | 532522 |
| NSE code | PETRONET |

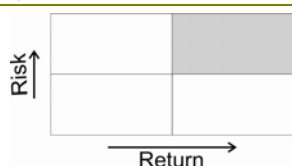
Company data

| Particulars | |
|--------------------------------|-----------|
| Market cap (Rs bn / US\$ bn) | 45.8/1.1 |
| Outstanding equity shares (mn) | 750.0 |
| 52-week high/low (Rs) | 65.0/41.2 |
| 3-month average daily volume | 1,797,837 |

Financial snapshot

| Particulars | FY07 | FY08E | FY09E |
|------------------------|------|-------|-------|
| Sales (Rs bn) | 55.1 | 70.0 | 85.9 |
| Growth (%) | 43.6 | 27.0 | 22.7 |
| Adj net profit (Rs bn) | 3.1 | 4.6 | 5.0 |
| Growth (%) | 60.7 | 47.2 | 7.9 |
| FDEPS (Rs) | 4.2 | 6.1 | 6.6 |
| Growth (%) | 60.7 | 47.2 | 7.9 |
| P/E (x) | 14.6 | 9.9 | 9.2 |
| RoE (%) | 26.7 | 32.4 | 28.8 |

Risk-return profile



Shareholding pattern

| (%) | June-07 | Mar-07 |
|-------------|---------|--------|
| Promoters | 50.0 | 50.0 |
| FII's | 11.2 | 14.4 |
| Banks & FIs | 1.2 | 0.5 |
| Public | 37.6 | 35.1 |

Stock performance

| Returns (%) | CMP | 1-mth | 3-mth | 6-mth |
|---------------|--------|-------|-------|-------|
| Petronet LNG | 61 | 11.9 | 32.0 | 11.4 |
| Sensex | 15,290 | 8.6 | 11.8 | 7.5 |
| BSE Oil & Gas | 7,985 | 7.4 | 16.3 | 21.8 |

Website: www.petronetlng.com

Higher spot cargo volumes continue to drive growth

Petronet LNG (PLL) clocked strong results for Q1FY08 led by higher spot cargo volume sales. Price realisations also improved, but at a slower-than-expected pace, translating into revenues of Rs 15.5bn as against our estimate of Rs 16.8bn. However, higher other income and a reduction in interest expenses brought net profit in line with our estimates at Rs 1.1bn. PLL's 5% escalation clause in re-gasification charges expanded the EBITDA margin by 67bps YoY to 14%. We expect the company to double its spot cargo imports from 12 to 24 in FY08. Another growth driver will be the commencement of operations at its Dahej terminal in Q4FY08. We maintain our Buy rating with a target price of Rs 73.

Actual vs estimated performance

| (Rs mn) | Actual | Estimated | % Variance |
|-----------|----------|-----------|------------|
| Net sales | 15,510.2 | 16,752.1 | (7.4) |
| EBIDTA | 2,164.9 | 2,356.2 | (8.1) |
| PAT | 1,080.3 | 1,102.8 | (2.0) |
| EPS (Rs) | 1.4 | 1.5 | (2.0) |

Source: Company, Religare Research

Quarterly results

| (Rs mn) | Q1FY08 | Q1FY07 | % Chg YoY | Q4FY07 | % Chg QoQ |
|-------------------|----------|----------|-----------|----------|-----------|
| Net sales | 15,510.2 | 10,190.8 | 52.2 | 15,536.7 | (0.2) |
| Other income | 115.9 | 52.9 | 119.0 | 148.4 | (22.0) |
| Total expenditure | 13,461.1 | 8,882.2 | 51.6 | 13,397.0 | 0.5 |
| EBITDA | 2,164.9 | 1,361.5 | 59.0 | 2,139.7 | 1.2 |
| EBITDA margin (%) | 14.0 | 13.4 | - | 13.8 | - |
| Depreciation | 254.0 | 254.1 | (0.0) | 251.8 | 0.9 |
| Interest expenses | 256.7 | 266.2 | (3.6) | 258.9 | (0.9) |
| Tax expenses | 574.0 | 280.4 | 104.7 | 568.7 | 0.9 |
| PAT | 1,080.3 | 560.8 | 92.6 | 1,060.3 | 1.9 |
| EPS (Rs) | 1.4 | 0.7 | 92.6 | 1.4 | 2.2 |

Source: Company, Religare Research

Result highlights

Higher spot cargo volumes support 52% YoY topline growth

PLL's net sales increased 52% YoY to Rs 15.5bn in Q1FY08 led by higher spot cargo volumes and improved price realisations. De-bottlenecking initiatives and efficient equipment utilisation have enabled the company to raise production capacity at its Dahej terminal from 5mmtpa to 6.5mmtpa. During the quarter, PLL sold 78.6tbu of LNG, up 18.5% YoY from 66.4tbu in Q1FY07, achieving 130% capacity utilisation. The company processed 4.5 spot cargo loads during the quarter. We expect the procurement of spot cargo to double to 24 in FY08 compared to 12 in FY07, which will continue propelling PLL's growth.

Average realisation rose 30% YoY to Rs 197.3/mmbtu in Q1FY08

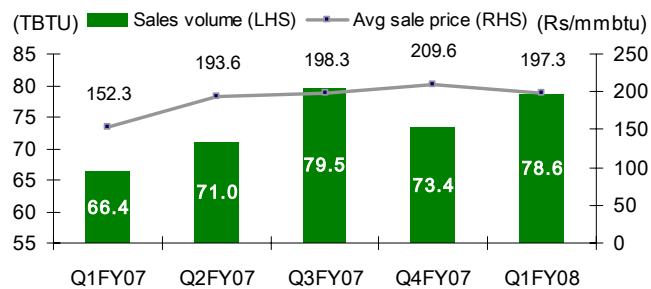
Improvement in EBITDA margins...

The company recorded a 59% YoY rise in operating profit to Rs 2.2bn in Q1FY08 supported by a 67bps expansion in EBITDA margin to 14% during the quarter. The margin growth was primarily because of higher spot volumes which attract better rates than contracted cargo. PLL's average selling price rose to Rs 197.3/mmbtu (US\$ 4.97) in Q1FY08 compared to Rs 152.3/mmbtu in Q1FY07.

...aided by 5% escalation clause

PLL sells LNG at a price which includes the LNG purchase price, shipping costs, exchange rate fluctuations and re-gasification charges. Re-gasification charges are based on an index of Rs 23.7/mmbtu in January 2004 with a clause for 5% escalation every year. PLL's regasification charges stood at Rs 27.4/mmbtu in Q1FY08 compared to Rs 26.1/mmbtu in the year-ago quarter. Going forward, we expect the escalation clause to sustain margin expansion.

LNG volume sales and realisation trend



Source: Company, Religare Research

PAT up 93% YoY to Rs 1.1bn on higher other income and lower interest expenses

Near doubling of net profit in Q1FY08

The company's net profit increased a healthy 92.6% YoY to Rs 1.1bn on the back of the strong operating performance as well as higher other income and lower interest expenses. Other income rose 119% YoY to Rs 115.9mn in Q1FY08 compared to Rs 52.9mn in Q1FY07, due to higher return from investments. PLL's interest cost declined 3.6% YoY to Rs 256.7mn in Q1FY08, giving a boost to the bottomline. Consequently, EPS increased to Rs 1.4 in Q1FY08 compared to Rs 0.8 in Q1FY07.

Business update

Expansion of Dahej terminal on schedule

The company is expanding its Dahej terminal re-gasification capacity to 12.5mmtpa from 5mmtpa at a capex of Rs 16bn. The fresh capacity is scheduled to come online from Q4FY09. The company has stated that the expansion plan is progressing as scheduled.

New Kochi terminal underway

PLL is also setting up a 5mmtpa LNG re-gasification terminal at Kochi at a total investment of Rs 26bn, of which 70% will be met through debt and 30% through equity. However, the need for deeper pile work because of unstable soil and the rising price of nickel to be used for the storage tanks may push the project cost up by Rs 4bn. The company expects production to start from Q4FY11. PLL has tied up debt of US\$ 250mn during the quarter for funding this terminal and expects to obtain US\$ 150mn from Asian Development Bank (ADB) shortly.

25-year agreement with RasGas to secure LNG supply for new Kochi terminal

Long-term contract to assure uninterrupted supply

PLL is likely to enter into a 25-year sales purchase agreement (SPA) with Gorgon Project, Australia, in Q2FY08 to secure the supply of 2.5mtpa of LNG for its Kochi terminal. In addition, the company has signed a term contract with RasGas of Qatar for the supply of approximately 1.25mn tonnes of LNG (for sale to the Dabhol power plant), apart from its regular 5mtpa of LNG supply from RasGas.

Realisations to strengthen

PLL expects to deliver LNG at US\$ 5.75/mmbtu to all its consumers in the country. The company has arrived at this price after factoring in the possibility of gas finds by Reliance Industries from the Krishna Godavari basin.

Valuation

Maintain Buy with target of Rs 73

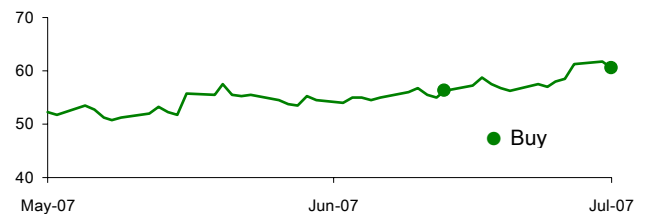
At the current price the company is trading at P/E multiples of 9.9x on FY08E and 9.2x on FY09E. The stock has historically traded at a P/E of 12x one-year forward earnings. We expect the company to continue to post strong results going forward, on the back of higher re-gasification charges and increased spot volumes. We maintain our Buy rating with the target price of Rs 73.

Recommendation history

| Date | Event | Target (Rs) | Reco |
|-----------|---------------------|-------------|------|
| 29-Jun-07 | Initiating Coverage | 73 | Buy |
| 18-Jul-07 | Results Update | 73 | Buy |

Source: Religare Research

Recommendation performance



Source: Religare Research

Financials

Profit and Loss statement

| (Rs bn) | FY06 | FY07 | FY08E | FY09E |
|-------------------------|-------|-------|-------|-------|
| Revenues | 38.4 | 55.1 | 70.0 | 85.9 |
| Growth (%) | 97.3 | 43.6 | 27.0 | 22.7 |
| EBITDA | 4.9 | 6.5 | 9.8 | 12.0 |
| Growth (%) | 224.4 | 32.8 | 51.2 | 22.6 |
| Depreciation | (1.0) | (1.0) | (1.3) | (2.2) |
| EBIT | 4.1 | 5.8 | 8.5 | 9.8 |
| Growth (%) | 507.5 | 43.3 | 45.3 | 16.3 |
| Interest | (1.1) | (1.1) | (1.5) | (2.3) |
| Other income | 0.2 | 0.4 | 0.0 | 0.0 |
| EBT | 3.0 | 4.8 | 7.0 | 7.5 |
| Growth (%) | 595.1 | 61.2 | 46.6 | 7.9 |
| Tax | (1.0) | (1.6) | (2.4) | (2.6) |
| Effective tax rate | 33.9 | 34.1 | 33.9 | 33.9 |
| Adj net income | 1.9 | 3.1 | 4.6 | 5.0 |
| Growth (%) | 585.3 | 60.7 | 47.2 | 7.9 |
| Shares outstanding (mn) | 0.8 | 0.8 | 0.8 | 0.8 |
| FDEPS (Rs) | 2.6 | 4.2 | 6.1 | 6.6 |
| DPS (Rs) | 0.0 | 1.2 | 1.8 | 2.0 |
| CEPS (Rs) | 4.9 | 7.7 | 7.9 | 9.5 |

Source: Company, Religare Research

Cash flow statement

| (Rs bn) | FY06 | FY07 | FY08E | FY09E |
|---------------------------|-------|-------|-------|--------|
| Net income | 1.9 | 3.1 | 4.6 | 5.0 |
| Depreciation | (1.0) | (1.0) | (1.3) | (2.2) |
| Other adjustments | 0.7 | 1.6 | 0.0 | 0.0 |
| Changes in WC | (2.3) | (0.1) | 3.6 | 0.1 |
| Operating cash flow | (0.6) | 3.6 | 6.9 | 2.9 |
| Capital expenditure | 1.3 | (1.6) | (7.2) | (15.9) |
| Investments | (1.4) | (1.2) | 0.0 | 0.0 |
| Other investing inc/(exp) | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing cash flow | (0.1) | (2.8) | (7.2) | (15.9) |
| Free cash flow | (0.7) | 0.8 | (0.3) | (13.0) |
| Issue of equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Issue/repay debt | 0.0 | 1.2 | 4.1 | 13.6 |
| Dividends paid | 0.0 | (1.1) | (1.6) | (1.7) |
| Others | 0.3 | 0.0 | (2.6) | 0.0 |
| Financing cash flow | 0.3 | 0.1 | (0.1) | 11.8 |
| Beg. cash & cash eq | 3.0 | 2.5 | 3.4 | 3.0 |
| Chg in cash & cash eq | (0.5) | 0.9 | (0.4) | (1.1) |
| Closing cash & cash eq | 2.5 | 3.4 | 3.0 | 1.9 |

Source: Company, Religare Research

Balance sheet

| (Rs bn) | FY06 | FY07 | FY08E | FY09E |
|-----------------------|------|------|-------|-------|
| Cash and cash eq | 2.5 | 3.4 | 3.0 | 1.9 |
| Accounts receivable | 1.3 | 3.3 | 3.5 | 4.3 |
| Inventories | 1.0 | 2.1 | 2.1 | 2.6 |
| Others current assets | 0.9 | 2.1 | 1.4 | 1.7 |
| Current assets | 5.7 | 10.9 | 10.0 | 10.5 |
| LT investments | 1.6 | 2.8 | 2.8 | 2.8 |
| Net fixed assets | 17.4 | 16.4 | 29.8 | 47.9 |
| CWIP | 1.2 | 4.8 | 0.0 | 0.0 |
| Total assets | 25.9 | 34.9 | 42.6 | 61.2 |
| Payables | 1.4 | 3.1 | 4.0 | 5.0 |
| Others | 0.4 | 2.8 | 5.1 | 5.8 |
| Current liabilities | 1.7 | 5.9 | 9.0 | 10.8 |
| LT debt | 12.6 | 13.8 | 17.9 | 31.5 |
| Other liabilities | 0.9 | 2.5 | 0.0 | 0.0 |
| Equity capital | 7.5 | 7.5 | 7.5 | 7.5 |
| Reserves | 3.2 | 5.3 | 8.2 | 11.4 |
| Net Worth | 10.7 | 12.8 | 15.7 | 18.9 |
| Total liabilities | 25.9 | 34.9 | 42.6 | 61.2 |
| BVPS (Rs) | 14.3 | 17.0 | 20.9 | 25.2 |

Source: Company, Religare Research

Financial ratios

| | FY06 | FY07 | FY08E | FY09E |
|-----------------------|-------|------|-------|-------|
| EBITDA margin (%) | 12.7 | 11.8 | 14.0 | 14.0 |
| EBIT margin (%) | 10.6 | 10.6 | 12.1 | 11.5 |
| Net profit margin (%) | 5.1 | 5.7 | 6.6 | 5.8 |
| FDEPS growth (%) | 585.3 | 60.7 | 47.2 | 7.9 |
| Receivables (days) | 12.2 | 22.0 | 18.1 | 18.1 |
| Inventory (days) | 9.9 | 13.9 | 11.2 | 11.2 |
| Payables (days) | 13.0 | 20.7 | 20.7 | 21.1 |
| Current ratio (x) | 3.3 | 1.9 | 1.1 | 1.0 |
| Interest coverage (x) | 3.6 | 5.4 | 5.7 | 4.2 |
| Debt/equity ratio (x) | 1.2 | 1.1 | 1.1 | 1.7 |
| ROE (%) | 19.7 | 26.7 | 32.4 | 28.8 |
| ROCE (%) | 11.9 | 15.4 | 18.6 | 15.5 |
| ROAE (%) | 7.6 | 10.3 | 11.9 | 9.6 |
| EV/Sales (x) | 0.7 | 0.5 | 0.4 | 0.3 |
| EV/EBITDA (x) | 5.3 | 4.0 | 2.7 | 2.2 |
| P/E (x) | 23.5 | 14.6 | 9.9 | 9.2 |
| P/BV (x) | 4.3 | 3.6 | 2.9 | 2.4 |
| P/CEPS (x) | 12.4 | 7.9 | 7.7 | 6.4 |

Source: Company, Religare Research

Garware Offshore Services

CMP: Rs 203
Target: Rs 272
BUY
Piyush Parag

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piyush.parag@religare.in

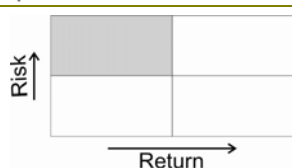
| | |
|----------|----------|
| BSE code | 501848 |
| NSE code | GARWOFFS |

Company data

| Particulars | |
|--------------------------------|----------|
| Market cap (Rs mn / US\$ mn) | 3,937/96 |
| Outstanding equity shares (mn) | 19.3 |
| 52-week high/low (Rs) | 300/81 |
| 6-month average daily volume | 57,180 |

Financial snapshot

| Particulars | CY06 | CY07E | CY08E |
|------------------------|-------|-------|---------|
| Sales (Rs mn) | 523.8 | 893.1 | 1,322.6 |
| Growth (%) | 69.7 | 70.5 | 48.1 |
| Adj net profit (Rs mn) | 156.7 | 236.1 | 395.9 |
| Growth (%) | 48.1 | 50.6 | 67.7 |
| FDEPS (Rs) | 7.1 | 9.9 | 16.6 |
| Growth (%) | 5.8 | 39.8 | 67.7 |
| P/E (x) | 28.8 | 20.6 | 12.3 |
| RoE (%) | 17.0 | 16.8 | 21.1 |

Risk-return profile

Shareholding pattern

| (%) | Dec-06 | Oct-06 |
|-----------------|--------|--------|
| Promoters | 32.3 | 32.9 |
| FII's | 15.4 | 14.9 |
| Banks & FI's | 2.0 | 1.1 |
| Public & Others | 50.3 | 51.1 |

Stock performance

| Returns (%) | CMP | 1-mth | 3-mth | 6-mth |
|-------------|--------|-------|--------|--------|
| Garware Off | 203 | (3.5) | (11.2) | (23.8) |
| Sensex | 15,290 | 8.6 | 11.8 | 8.2 |

Website: www.garwareoffshore.com
Higher PSV contribution raises earnings

Garware Offshore's (GOSL) Q2CY07 results are slightly below expectations on the revenue front. However, the company has reported decent 26% YoY growth in net profit to Rs 51.9mn. We remain positive on GOSL's growth prospects and maintain our Buy recommendation on the stock.

Actual vs estimated performance

| (Rs mn) | Actual | Estimated | % Variance |
|-----------|--------|-----------|------------|
| Net sales | 194.1 | 203.0 | (4.4) |
| EBITDA | 115.3 | 119.8 | (3.8) |
| PAT | 51.9 | 55.9 | (7.2) |
| EPS (Rs) | 2.7 | 2.9 | (7.2) |

Source: Company, Religare Research
Quarterly results

| (Rs mn) | Q2CY07 | Q2CY06 | % Chg YoY | Q1CY07 | % Chg QoQ |
|-------------------|--------|--------|-----------|--------|-----------|
| Net sales | 194.1 | 130.5 | 48.7 | 193.4 | 0.4 |
| EBITDA | 115.3 | 72.8 | 58.3 | 115.0 | 0.2 |
| EBITDA margin (%) | 59.4 | 55.8 | - | 59.5 | - |
| PAT | 51.9 | 41.3 | 25.6 | 53.5 | (3.0) |
| PAT margin (%) | 26.7 | 31.6 | - | 27.7 | - |
| EPS (Rs) | 2.7 | 2.3 | 18.1 | 2.8 | (4.6) |
| Cash EPS (Rs) | 4.2 | 3.1 | 36.0 | 4.3 | (2.2) |
| Core EPS (Rs) | 2.6 | 2.2 | 14.5 | 2.7 | (5.4) |

Source: Company, Religare Research
Fleet additions aid 49% YoY revenue growth

GOSL has delivered revenue growth of 49% YoY to Rs 194mn in Q2CY07 due to the contribution of two newly inducted platform supply vessels (PSVs). The company has recently taken delivery of another new-build PSV, M.V. Kameth, at a total cost of US\$ 22.8mn. We expect revenues to grow sequentially from Q3CY07 as this vessel has already been deployed from June 25 on a five-year contract with ONGC. The contract will fetch a day rate of US\$ 15,500, translating into an annual operating income of Rs 240mn. With this acquisition, GOSL's fleet size has increased to seven vessels.

Fleet profile

| Vessels | Operator | Contract term | Day rates (US\$) | Remarks |
|-----------------|-------------|---------------|------------------|---------------------------|
| 4 AHTS* vessels | ONGC | Upto May 2007 | 4,500 | Contract renewed |
| PSV I | British Gas | Upto Jan 2008 | 14,250 | - |
| PSV II | Transocean | Upto Jan 2010 | 15,400 | - |
| PSV III | ONGC | Upto Jun 2012 | 15,500 | Deployed on June 25, 2007 |

*Source: Company * AHTS = Anchor Handling Tug Supply*

Margin improvement led by higher PSV operations, which offer better day rates

EBITDA margin improved 360 bps

GOSL's EBITDA margin improved 360bps YoY to 59.4% due to higher contribution from PSVs, which offer much better day rates and operating margins. Consequently, operating profit appreciated 58% to Rs 115mn in Q2CY07.

PAT up 26% YoY

Higher depreciation and interest costs due to 80% debt financing of new deployed assets led to a slower pace of net profit growth at 26% YoY to Rs 52mn. Cash earnings appreciated by 36% YoY.

Future outlook

Plans to add seven vessels including two construction barges

GOSL's order book consists of two PSVs, two 60T AHTS vessels, one 80T AHTS vessel and two construction barges. The total committed capital expenditure towards these purchases is about US\$ 114mn (including mobilisation costs) till CY09. The company's fleet expansion plans will further strengthen its ability to service the surging demand from E&P operators.

Delivery schedule for new vessels

| Vessel | Scheduled delivery | Cost of vessel * (US\$ mn) | Expected day rates (US\$) |
|------------------------------|--------------------|-------------------------------|------------------------------|
| PSV V | Dec-07 | 25.6 | 15,500 |
| AHTSV I-60T | Dec-07 | 14.6 | 8,500 |
| AHTSV II-60T | Jun-08 | 14.6 | 8,500 |
| AHTSV III-80T | Sep-08 | 14.6 | 8,500 |
| 2 construction barges | - | 45.0 | 16,500 |
| Total estimated capex | | 114.4 | |

Source: Company, Religare Research

PSVs to drive operating revenues at 59% CAGR over CY06-CY08

We expect GOSL's operating revenues to increase at a 59% CAGR to Rs 1.3bn by CY08, backed by a strong charter rate environment and higher capacity from new vessel additions. The company plans to deploy a total of five PSVs by CY09, which are likely to contribute approximately 67% of the total revenues.

Net profit CAGR of 58% till CY08

We expect net profit to grow at a CAGR of 58% over CY06-CY08 on the back of a 750bps improvement in EBITDA margin and a healthy growth in topline. Consequently, EPS is expected to grow from Rs 7 in CY06 to Rs 17 in CY08.

Valuation

Maintain Buy with target of Rs 272

At the current market price, the stock is trading at a P/E multiple of 12.3x on CY08E. We maintain our Buy recommendation with a target price of Rs 272, signifying an upside of 33% from the current levels.

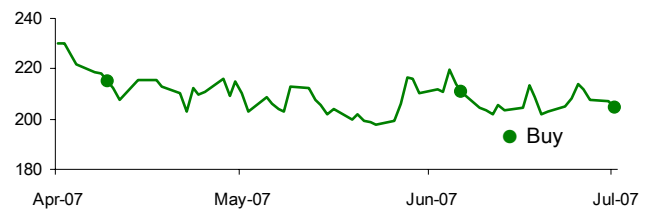
Target of Rs 272 signifies an upside of 33%; Buy

Recommendation history

| Date | Event | Target (Rs) | Reco |
|-----------|---------------------|-------------|------|
| 25-Apr-07 | Initiating Coverage | 272 | Buy |
| 22-Jun-07 | Company Update | 272 | Buy |
| 18-Jul-07 | Results Update | 272 | Buy |

Source: Religare Research

Recommendation performance



Source: Religare Research

Financials

Profit and Loss statement

| (Rs mn) | CY05 | CY06 | CY07E | CY08E |
|-------------------------|--------|-------|-------|---------|
| Revenues | 308.6 | 523.8 | 893.1 | 1,322.6 |
| Growth (%) | (3.2) | 69.7 | 70.5 | 48.1 |
| EBITDA | 136.6 | 294.6 | 536.1 | 843.3 |
| Growth (%) | (1.5) | 115.7 | 82.0 | 57.3 |
| Depreciation | 35.7 | 76.2 | 132.1 | 192.3 |
| EBIT | 100.8 | 218.3 | 403.9 | 651.0 |
| Growth (%) | (7.0) | 116.5 | 85.0 | 61.2 |
| Interest | 5.4 | 67.6 | 163.7 | 290.5 |
| Other income | 18.6 | 13.6 | 0.0 | 40.0 |
| EBT | 114.1 | 164.4 | 240.2 | 400.6 |
| Growth (%) | 8.6 | 44.1 | 46.2 | 66.7 |
| Tax | 8.2 | 7.6 | 4.2 | 4.7 |
| Effective tax rate | 7.2 | 4.6 | 1.7 | 1.2 |
| Adj net income | 105.8 | 156.7 | 236.1 | 395.9 |
| Growth (%) | (14.4) | 48.1 | 50.6 | 67.7 |
| Shares outstanding (mn) | 15.8 | 22.1 | 23.8 | 23.8 |
| FDEPS (Rs) | 6.7 | 7.1 | 9.9 | 16.6 |
| DPS (Rs) | 1.3 | 2.1 | 2.3 | 2.6 |
| CEPS (Rs) | 9.0 | 10.5 | 15.5 | 24.7 |

Source: Company, Religare Research

Cash flow statement

| (Rs mn) | CY05 | CY06 | CY07E | CY08E |
|---------------------------|---------|-----------|-----------|-----------|
| Net income | 105.8 | 156.7 | 236.1 | 395.9 |
| Depreciation | 35.7 | 76.2 | 132.1 | 192.3 |
| Other adjustments | (45.9) | 141.7 | - | - |
| Changes in WC | 5.3 | (62.5) | (239.3) | 266.1 |
| Operating cash flow | 101.0 | 312.1 | 128.9 | 854.3 |
| Capital expenditure | (809.5) | (1,673.4) | (1,455.3) | (1,376.6) |
| Investments | (0.3) | (1.0) | - | - |
| Other investing inc/(exp) | (136.0) | (258.0) | (25.6) | (1,166.9) |
| Investing cash flow | (945.8) | (1,932.5) | (1,480.9) | (2,543.5) |
| Free cash flow | (844.8) | (1,620.4) | (1,352.0) | (1,689.2) |
| Issue of equity | 86.0 | 276.9 | 415.3 | - |
| Issue/repay debt | 779.6 | 1,036.4 | 912.8 | 1,599.8 |
| Dividends paid | (19.8) | 45.5 | 54.5 | 61.3 |
| Others | 9.2 | 338.5 | 6.6 | (33.4) |
| Financing cash flow | 855.0 | 1,697.2 | 1,389.2 | 1,627.7 |
| Beg. cash & cash eq | 19.0 | 29.2 | 106.1 | 143.3 |
| Chg in cash & cash eq | 10.2 | 76.9 | 37.2 | (61.5) |
| Closing cash & cash eq | 29.2 | 106.1 | 143.3 | 81.8 |

Source: Company, Religare Research

Balance sheet

| (Rs mn) | CY05 | CY06 | CY07E | CY08E |
|-----------------------|---------|---------|---------|---------|
| Cash and cash eq | 29.2 | 106.1 | 143.3 | 81.8 |
| Accounts receivable | 146.0 | 112.1 | 153.8 | 189.6 |
| Inventories | 31.1 | 60.1 | 60.0 | 60.0 |
| Others current assets | 130.0 | 124.8 | 302.7 | 212.0 |
| Current assets | 336.3 | 403.0 | 659.7 | 543.3 |
| LT investments | 4.6 | 5.6 | 5.6 | 5.6 |
| Net fixed assets | 1,223.8 | 2,315.9 | 3,911.0 | 5,970.0 |
| CWIP | 59.8 | 350.7 | - | - |
| Total assets | 1,624.5 | 3,075.2 | 4,576.4 | 6,519.0 |
| Payables | 31.3 | 19.3 | 19.3 | 19.3 |
| Others | 36.6 | 74.7 | 91.2 | 99.5 |
| Current liabilities | 67.9 | 94.0 | 110.5 | 118.7 |
| LT debt | 810.8 | 1,847.2 | 2,760.0 | 4,359.8 |
| Other liabilities | - | 32.7 | - | - |
| Equity capital | 157.9 | 188.3 | 238.1 | 238.1 |
| Reserves | 587.9 | 913.0 | 1,467.8 | 1,802.3 |
| Net Worth | 745.8 | 1,101.3 | 1,705.9 | 2,040.4 |
| Total liabilities | 1,624.5 | 3,075.2 | 4,576.4 | 6,519.0 |
| BVPS (Rs) | 102.9 | 49.8 | 71.6 | 85.7 |

Source: Company, Religare Research

Financial ratios

| | CY05 | CY06 | CY07E | CY08E |
|-----------------------|--------|-------|-------|-------|
| EBITDA margin (%) | 44.3 | 56.2 | 60.0 | 63.8 |
| EBIT margin (%) | 32.7 | 41.7 | 45.2 | 49.2 |
| Net profit margin (%) | 34.3 | 29.9 | 26.4 | 29.9 |
| FDEPS growth (%) | (22.1) | 5.8 | 39.8 | 67.7 |
| Receivables (days) | 169.2 | 88.7 | 91.7 | 94.7 |
| Inventory (days) | 93.9 | 154.7 | 156.7 | 158.7 |
| Payables (days) | 123.7 | 39.7 | 37.7 | 35.7 |
| Current ratio (x) | 5.0 | 4.3 | 6.0 | 4.6 |
| Interest coverage (x) | 18.8 | 3.2 | 2.5 | 2.2 |
| Debt/equity ratio (x) | 1.1 | 1.7 | 1.6 | 2.1 |
| ROE (%) | 16.0 | 17.0 | 16.8 | 21.1 |
| ROCE (%) | 8.8 | 9.6 | 10.8 | 12.0 |
| ROAE (%) | 9.6 | 9.3 | 10.6 | 11.7 |
| EV/Sales (x) | 13.0 | 11.9 | 8.4 | 6.9 |
| EV/EBITDA (x) | 29.3 | 21.2 | 13.9 | 10.8 |
| P/E (x) | 30.4 | 28.8 | 20.6 | 12.3 |
| P/BV (x) | 2.0 | 4.1 | 2.8 | 2.4 |
| P/CEPS (x) | 22.7 | 19.4 | 13.2 | 8.3 |

Source: Company, Religare Research

Recommendation tracker

| Date | Company | Report type | Stock price (Rs) | Target (Rs) | Reco |
|-----------|-----------------------------------|---------------------|------------------|-------------|-----------|
| 6-Jun-07 | Information Technology | Sector Update | NA | NA | NA |
| 7-Jun-07 | Cinemax India | Company Update | 162 | 189 | BUY |
| 7-Jun-07 | DLF Universal | IPO Note | NA | NA | SUBSCRIBE |
| 11-Jun-07 | Biocon | Company Update | 438 | 542 | BUY |
| 13-Jun-07 | Federal Bank | Initiating Coverage | 272 | 362 | BUY |
| 13-Jun-07 | Sangam India | Initiating Coverage | 67 | 95 | BUY |
| 13-Jun-07 | KPIT Cummins Infosystems | Initiating Coverage | 144 | 173 | BUY |
| 13-Jun-07 | PVR Cinemas | Results Update | 216 | 240 | HOLD |
| 14-Jun-07 | Ashok Leyland | Company Update | 36 | 48 | BUY |
| 15-Jun-07 | Greenply Industries | Results Update | 139 | 180 | BUY |
| 15-Jun-07 | Riddhi Siddhi Gluco Biols | Results Update | 276 | 365 | BUY |
| 18-Jun-07 | Sasken Communication Technologies | Company Update | 505 | 647 | BUY |
| 18-Jun-07 | Bihar Tubes | Initiating Coverage | 94 | 172 | BUY |
| 19-Jun-07 | Aventis Pharma | Company Update | 1,360 | 1,670 | BUY |
| 19-Jun-07 | ICICI Bank | FPO Note | 918 | 1,080 | SUBSCRIBE |
| 21-Jun-07 | Cinemax India | Results Update | 150 | 189 | BUY |
| 22-Jun-07 | Garware Offshore | Company Update | 214 | 272 | BUY |
| 25-Jun-07 | Sangam India | Company Update | 64 | 95 | BUY |
| 25-Jun-07 | Spice Communications | IPO Note | 41-46 | NA | SUBSCRIBE |
| 26-Jun-07 | Opto Circuits (India) | Initiating Coverage | 376 | 456 | BUY |
| 26-Jun-07 | Nava Bharat Ventures | Initiating Coverage | 164 | 268 | BUY |
| 27-Jun-07 | Mahindra & Mahindra | Visit Note | 720 | 888 | BUY |
| 28-Jun-07 | Inox Leisure | Results Update | 134 | 120 | SELL |
| 29-Jun-07 | HDIL | IPO Note | 430-500 | NA | SUBSCRIBE |
| 29-Jun-07 | Petronet LNG | Initiating Coverage | 55 | 73 | BUY |
| 2-Jul-07 | Allied Digital Services | IPO Note | 170-190 | NA | NA |
| 3-Jul-07 | Indoco Remedies | Visit Note | 286 | 383 | BUY |
| 5-Jul-07 | Ashok Leyland | Company Update | 38 | 48 | BUY |
| 5-Jul-07 | Venus Remedies | Initiating Coverage | 474 | 708 | BUY |
| 6-Jul-07 | Nava Bharat Ventures | Company Update | 170 | 268 | BUY |
| 9-Jul-07 | IT Services | Sector Update | NA | NA | NA |
| 10-Jul-07 | Opto Circuits (India) | Results Update | 386 | 456 | BUY |
| 10-Jul-07 | Apollo Tyres | Company Update | 347 | 468 | BUY |
| 11-Jul-07 | Dishman Pharma | Company Update | 339 | 357 | HOLD |
| 11-Jul-07 | HDFC Bank | Results Update | 1,148 | 1,287 | HOLD |
| 12-Jul-07 | Infosys Technologies | Results Update | 1,930 | 2,466 | BUY |
| 12-Jul-07 | South Indian Bank | Initiating Coverage | 140 | 175 | BUY |
| 13-Jul-07 | Nava Bharat Ventures | Company Update | 196 | 268 | BUY |
| 16-Jul-07 | Bajaj Auto | Results Update | 2,175 | 2,324 | HOLD |
| 16-Jul-07 | UTI Bank | Results Update | 641 | 689 | HOLD |
| 17-Jul-07 | Bihar Tubes | Results Update | 151 | 172 | HOLD |
| 17-Jul-07 | TCS | Results Update | 1,128 | 1,415 | BUY |
| 18-Jul-07 | Venus Remedies | Company Update | 527 | 708 | BUY |
| 18-Jul-07 | Petronet LNG | Results Update | 61 | 73 | BUY |
| 18-Jul-07 | Garware Offshore | Results Update | 203 | 272 | BUY |

Market trends

BSE sectoral indices

| | % Chg | | | | Constituent performance |
|-------------------|---------|-------|-------|-------|-------------------------|
| | 18-July | 1-day | 1-mth | 3-mth | |
| Automobiles | 5,052 | 0.7 | 7.5 | 5.0 | |
| Banks | 8,372 | 0.2 | 9.0 | 22.2 | |
| Capital Goods | 12,675 | (1.0) | 11.6 | 31.3 | |
| Comm. & Tech. | 3,825 | 0.6 | 3.8 | 5.0 | |
| Consumer Durables | 4,274 | 0.8 | 8.4 | 12.9 | |
| FMCG | 1,836 | (0.6) | 1.8 | 1.4 | |
| Healthcare | 3,826 | 0.0 | 1.2 | 1.4 | |
| IT | 4,885 | 0.1 | 0.0 | (1.8) | |
| Metal | 11,948 | 0.7 | 12.6 | 27.5 | |
| Oil & Gas | 7,937 | (0.6) | 3.8 | 15.6 | |
| Mid-caps | 6,776 | (0.2) | 8.5 | 19.9 | |
| Small-caps | 8,184 | (0.3) | 11.2 | 18.5 | |

Number of companies: down 5% down 2-5% down 0-2% up 0-2% up 2-5% up 5%

Emerging markets

| Country | % Chg | | | | |
|-------------|---------|-------|-------|-------|-------|
| | 18-July | 1-day | 1-mth | 3-mth | 6-mth |
| Brazil | 57,556 | (0.2) | 5.3 | 18.0 | 32.5 |
| Shanghai | 3,912 | (0.5) | (8.4) | 13.4 | 38.1 |
| Hong Kong | 22,936 | 0.4 | 6.3 | 13.0 | 12.8 |
| India | 15,301 | 0.1 | 7.0 | 12.3 | 7.9 |
| South Korea | 1,931 | (0.0) | 6.8 | 27.6 | 41.9 |
| Taiwan | 9,515 | 0.3 | 11.0 | 20.6 | 21.4 |

FII statistics

| (US\$ mn) | 1-day | WTD | MTD | YTD |
|-------------|---------|-----------|-----------|----------|
| India | 232.1 | 639.2 | 2,609.7 | 8,314.8 |
| South Korea | (618.3) | (1,323.7) | (1,252.6) | (944.0) |
| Taiwan | (106.5) | (309.4) | 2,675.0 | 10,859.6 |
| Thailand | (185.5) | 22.4 | 942.4 | 4,121.0 |

Events calendar

Board meetings

| July 19 | 20 | 21 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Wipro, ACC, Kirloskar Oil Engines, DLF, SKF, Orchid Chem, Novartis, Lupin, ITI, Great Offshore, Dunlop, Ashok Leyland, Ranbaxy, L&T, Shree Cement, Tech Mah, Welspun Guj | Voltas, UltraTechCement, Neyveli Lignite, Cipla, Ambuja Cements, Satyam, Raymond, Finolex Cables, BASF, Ipca Labs, Sanken Comm, Karur Vysya, | Mangalam Cement, Sesa Goa, ICICI Bank, JK Lakshmi Cement, Havell's India, Indian Bank, Lyka Labs, Zandu Pharma, Aptech, State Bnk Mysore, |
| 22 | 23 | 24 |
| SUNDAY | Sun Pharma, Dabur India, M&M Financial, Centurion BoP, Dewan Housing, Rolta, JindalStainless, Union Bank, Century Enka, Greenply Ind, Siemens, Venus Remedies | Hind Zinc, Mysore Cement, Eicher Motors, Balrampur Chini, Idea Cellular, Gulf Oil Corp, Elder Pharma, Orient Paper, Hero Honda, Britannia, City Union Bank, MIC Electronics, Bharat Forge |
| 25 | 26 | 27 |
| Yes Bank, Thermax, Zuari Inds, Rel Capital, Marico, Bank of India, Wockhardt, HDFC, Canara Bank, Bombay Dyeing, IDFC, Triveni Engg, SAIL, IndusInd Bank, Alstom Projects, ONGC, Sterlite Ind | Guj Gas, Maruti Udyog, Federal Bank, Lanco Infratech, GlaxoSmithKline, ABB, Cummins, Indraprastha Gas, Dabur Pharma, Clariant, EIH, Balaji Telefilm, Taj GVK Hotels, Bharti Airtel, Ferro Alloys, ING Vysya Bank, GlaxoSmith Con | Colgate Palmolive India, Ramco Industries, Madras Cements |
| 28 | 29 | 30 |
| The Andhra Sugars, Shipping Corporation Of India | SUNDAY | NEPC India, Wyeth, Aditya Birla Nuvo |

Trade data

Institutional bulk deals

| Scrip | Client | Buy/Sell | Quantity | Avg Price (Rs) |
|----------------|----------------------------------------------|----------|-----------|----------------|
| Balasure All | HSBC Asset Mgmt PMS Ac Strategic Portfolio | B | 380,940 | 31.1 |
| Eid Parry | Goldman Sachs Investment (Mauritius) | B | 881,000 | 135.0 |
| Euro Ceramic | Macquarie Bank | B | 205,118 | 174.0 |
| Gei Ind Sys | Sundaram BNP Paribas India Smile Fund | B | 130,075 | 86.1 |
| Gitanjali Ge | Morgan Stanley And Co Intl Ac Morgan Stanley | B | 500,000 | 243.5 |
| Gitanjali Gems | Morgan Stanley Dean Witter Mauritius | B | 500,000 | 243.5 |
| Jrg Secur | HSBC Financial Services Middle East | B | 70,545 | 45.0 |
| Zee News | HDFC Trustee Co A/C Equity Fund | B | 1,580,000 | 57.5 |
| Zee News | HDFC Trustee Co | B | 1,920,000 | 57.3 |

Source: BSE

Insider trading

| Scrip | Acquirer/Seller | Buy /Sell | Shares transacted | | Post-transaction holding | |
|------------------------------------|-----------------------------------|-----------|-------------------|-----|--------------------------|------|
| | | | Qty | % | Qty | % |
| Ambuja Cements | A L Kapur | B | 7,875 | - | 855,230 | 0.1 |
| Ang Auto | Fmr Corp & Fidelity International | B | 198,019 | - | 1,082,750 | 9.1 |
| Financial Technologies (India) | T Rowe Associates Inc | B | 228,917 | 0.5 | 3,726,899 | 8.5 |
| Geodesic Information Systems | Kiran Kulkarni | S | 100,000 | - | 6,085,800 | 10.0 |
| Geodesic Information Systems | Kiran Kulkarni | S | 25,000 | - | 6,060,800 | 10.0 |
| Housing Development Finance CorpLt | Cmp Asia | B | 15,250,000 | 5.7 | 15,250,000 | 5.7 |
| India Infoline | Dsp Merrill Lynch Capital | B | 588,235 | 1.2 | - | - |
| India Infoline | Dsp Merrill Lynch Capital | S | 2,289,395 | 4.5 | 1,916,487 | 3.8 |
| Moschip Semiconductor Technology | Gary Kennedy | S | 100,989 | - | 820,000 | 1.9 |
| Samtel Colour | Cea Consultants | S | 225,000 | 0.5 | 727,840 | 1.6 |
| Samtel Colour | Samtel Display Systems | S | 225,000 | 0.5 | 3,156,967 | 6.8 |
| Sumeet Industries | Rajkumar Sitaram Somani | S | 315 | - | - | - |
| Sumeet Industries | Rajkumar Sitaram Somani | B | 315 | - | 258,660 | 1.4 |
| Sumeet Industries | Betex India | B | 1,765 | - | 244,065 | 1.3 |
| Uflex | Anshika Investments | B | 106,202 | - | 27,133,714 | - |
| Venky's (India) | Venkateshwara Hatcheries | B | 6,338 | 0.1 | 4,345,389 | 46.3 |
| Venky's (India) | Venkateshwara Hatcheries | B | 8,382 | 0.1 | 4,353,771 | 46.4 |
| Venky's (India) | Venkateshwara Hatcheries | B | 308 | - | 4,354,079 | 46.4 |
| Venky's (India) | Venkateshwara Hatcheries | B | 3,215 | 0.0 | 4,357,294 | 46.4 |

Source: BSE

RELIGARE RESEARCH

Fundamental Research

| | | | |
|-------------------------------|-----------------------------------|---------------------------------|-------------------|
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Technical Research

| | | |
|---------------------|---------------------------------|-------------------|
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|---------------------|---------------------------------|-------------------|

Derivatives Research

| | | |
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| | | |
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Administration

| | | |
|-------------------|-------------------------------|-------------------|
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|-------------------|-------------------------------|-------------------|

Recommendation parameters

| | | | Returns | Absolute |
|-------------|-------|-------|---------|----------|
| Large-caps* | > 10% | < -5% | | |
| | BUY | SELL | | |
| Mid-caps** | > 25% | < 10% | | |

*Market cap over US\$ 1bn **Market cap less than US\$ 1bn

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