

### Major indices movements

Major indices	Clsg	1d (%)	3m (%)	6m (%)
BSE Sensex	13,102	(3.3)	(5.1)	(20.0)
Nifty	3,985	(3.0)	(3.7)	(19.4)
Dow	11,143	1.1	(1.8)	(8.8)
Nikkei	11,948	0.5	(11.8)	(6.8)
Hang Seng	18,301	(2.0)	(17.0)	(21.4)
Brasil Bovespa	50,783	(2.0)	(21.0)	(16.0)
Mexico Bolsa	25,594	(0.2)	(12.6)	(14.9)

### Turnover

Value Traded (Rs bn)	26 Sep 2008	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	48.5	(4.4)	118.7	32.6
Cash NSE	105.0	(31.4)	284.8	74.9
<b>Total</b>	<b>153.5</b>			
Del.(%)	41.9			
F&O	443.0	(46.4)	1105.6	143.8
<b>Total Trade</b>	<b>596.5</b>			

### Fund Activity

Net Inflows (Rs bn)	Purch	Sales	Net	YTD
<b>25 Sep 08</b>				
FII's	42.1	(49.2)	(7.0)	233.3
Domestic Funds	10.7	(6.9)	3.8	102.3
<b>26 Sep 08</b>				
Cash Provisional			(2.7)	
F&O - Index	14.6	(13.9)	0.6	(27.6)
F&O - Stock	7.0	(5.9)	1.1	(11.6)

### Advances/declines BSECash

26 Sep 2008	A	B1	B2	Total
Advance	16	270	81	367
Decline	187	1404	352	1943

### Commodity Prices

Commodity	29 Sep 2008	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	105.8	(1.0)	(24.5)	0.2
Copper(usd/t)	6,775	(2.2)	(19.8)	(17.2)
Aluminum H.G.(usd/t)	2,490	(0.8)	(19.7)	(15.4)
Zinc(usd/t)	1,770	(1.7)	(11.1)	(24.0)

### Debt/Forex Mkt

Debt/Forex Mkt	Clsg	1d (%)	3m (%)	6m (%)
Re/USD	46.54	(0.1)	(8.1)	(16.0)
10 yr Gsec Yield	8.44	(1.8)	(2.1)	8.0

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## News clippings

- **HCL Technologies** (HCL) has made a cash offer for Axon Group, a UK-based leading SAP consulting company. Under the terms of the offer, HCL will offer 650 pence for each share of Axon. At this rate the issued share capital of Axon is valued at 441.1 million pound.
- **Sterlite Technologies** has won contract from Power Grid Corporation of India (PGCIL) for Sterlite's ACSR Moose power conductors, are worth a total of Rs 2.54 billion. As per PGCIL's requirement, about 60% of the contract value would be executed within the current fiscal.
- Roche Scientific has filed two separate petitions against **Cipla** in the Bombay High Court alleging patent and trademark infringements over its anti-infection drug "Valcyte".
- Production at the Halewood plant of **Jaguar Land Rover** in the United Kingdom (UK) is expected to stop for a week next month due to falling demand for new vehicles.
- According to a study titled 'Indian Pharmaceutical offshoring industry' done by the management consulting firm Zinnov, the total Indian pharmaceutical outsourcing industry in the country is expected to cross 2.5 billion-dollar mark by 2012 driven by the cost advantage and a better availability of talent pool.
- **Honda Siel Cars India** has inaugurated the first phase of operations at its second plant at Tapukara Industrial Area, Rajasthan which includes the unveiling of a state of the art Press Facility and a modern and technologically advanced Power Train Unit for engine components.
- As per the weekly statistical supplement of the Reserve Bank of India (RBI) released on Sep. 26, 2008, foreign currency assets rose by \$ 2,509 million to \$282,811 million.

**Key Financials**

In Rs Million	Q1FY09	Q1FY08	YoY Gr(%)
Net Sales	1,205	1,109	8.7
Operating Profit	98	91	7.5
Operating Margins (%)	8.1	8.2	-10 bps
Adjusted PAT	45	44	2.3
EPS (Rs)	1.4	1.6	(11.9)

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**Research Views****McNally Bharat secures EPC contract worth Rs1.15 bn**

McNally Bharat (MBE) has secured a turnkey EPC contract worth Rs871 mn from BHEL. The order is for design and supply of Coal Handling Plant Mechanical Equipments at BHEL's 1x500 MW Ukai Project, Gujarat. The scope of the order includes design, engineering, supply, E&C and structural steel work of the Coal Handling Plant. The tenure of the order is 18 months.

With the above order, MBE's order book has increased to Rs27.3 bn, equivalent to 5.0x FY08 revenues. MBE has witnessed strong momentum in order inflow in H1FY09 and has secured orders totaling Rs5.5 bn, above our estimates. We continue to maintain a positive view on MBE considering its presence in all industry verticals with varied product and solutions offerings. Continued momentum in order inflows has strengthened our belief that MBE shall be a primary beneficiary of Rs1189 bn opportunity estimated for the MHE industry during 2007-14E period.

At CMP of Rs101, the stock is trading at 7.7X FY09E and 5.3X FY10E earnings of 13.1 and 18.9 per share respectively. We maintain our BUY rating with a target price of Rs191.

## Research Views

### HCL Tech: Challenger emerges

#### Event: HCL Tech joins the race for Axon

HCL Tech announced a formal bid to acquire Axon Group PLC post market hours on Friday, September 26'08 at £441.4 mn (~£ 6.50/share) which is at 8.3% premium to Infosys's offer for Axon. Post HCL Tech making its intention open, Infosys has 60 hours to revise it's bid price for Axon (expected to get over by Monday morning IST). HCL Tech intends to fund the acquisition through a higher component of debt (company has tied up debt funding of GBP 400 mn) along with internal cash use of ~GBP 41 mn. We estimate that although Axon could be a prized asset for Axon in many ways in the form of both expanding it's European/ Enterprise Apps footprint, it could be both margin/earnings dilutive over the next 2 years. Further HCL Tech could face a bigger challenge as compared with Infosys in retaining key employees. Our negative inclination could increase further if Infosys puts in a counter bid and raise the stakes for Axon buyout given growth/margin pressures for Axon. (please refer to section below)

#### Axon could be a more prized asset for HCL Tech

We had highlighted earlier as well that Axon could be a more prized asset for HCL Tech as compared to Infosys given that the company has lagged behind peers in the Enterprise Applications space (***HCL Tech's revenues from EAS space at ~US\$ 200 p.a as compared with ~US\$ 1bn for both Infosys and Satyam, revenues have grown at 26% CAGR over FY06-08 lower than company average of ~38% over the same period***) and thus could close out the gap with Axon in it's fold. We add that SAP, Oracle implementation continue to be strong growth areas (***similar sentiment echoed by recently released by Accenture's FY08 results as well***) despite street/investor concerns/worries on a slack in overall demand for the segment.

<b>Revenues from Package Implementation(US\$ mn)</b>	<b>March'07</b>	<b>June'07</b>	<b>Septmeber'07</b>	<b>December'07</b>	<b>March'08</b>	<b>June'08</b>
Infosys( in US\$ mn)	195.9	216.2	241.2	260.2	275.2	273.7
<i>Infosys QoQ growth, %</i>	<i>12.6%</i>	<i>10.4%</i>	<i>11.5%</i>	<i>7.9%</i>	<i>5.8%</i>	<i>-0.5%</i>
Satyam ( in US\$ mn)	159.0	184.9	210.6	233.6	255.3	257.9
<i>Satyam QoQ growth, %</i>	<i>9.7%</i>	<i>16.3%</i>	<i>13.9%</i>	<i>10.9%</i>	<i>9.3%</i>	<i>1.0%</i>
TCS ( in US\$ mn)	131	143	164	179	189	181
<i>TCS QoQ growth, %</i>	<i>10.5%</i>	<i>9.1%</i>	<i>14.5%</i>	<i>9.4%</i>	<i>5.3%</i>	<i>-4.1%</i>
HCL Tech ( in US\$ mn)	47.8	47.5	50.6	51.2	51.9	54.4
<i>HCL Tech QoQ growth, %</i>	<i>13.7%</i>	<i>-0.7%</i>	<i>6.6%</i>	<i>1.1%</i>	<i>1.4%</i>	<i>4.9%</i>

Source: Companies, Emkay Research

#### No of SAP Consultants: A snap shot

<b>Co Name</b>	<b>Pre acquisition</b>	<b>Post acquisition</b>
Satyam	~4,300	~4,300
TCS	~3,800	~3,800
Infosys	~2,100	~2,100
HCL Tech	n.a	2000+

Source: Companies, Emkay Research

## Research Views

Further the inorganic move could diversify HCL Tech's exposure to more defensive sectors like public sector and utilities besides expanding presence in Europe. We note that HCL Tech has been witnessing trouble in its Financial services vertical (HBOS's takeover by Lloyds TSB could have aided to woes further, given that it happens to be a key account and recent dissent in the UK against outsourcing) along with a loss of client in BPO business and thus inorganic push might be needed to compensate for slowing organic growth.

### Main challenges emanate from cultural integration, employee retention

Although the HCL Tech management underplayed the challenge citing its track record with acquisitions/take over of smaller captives from Deutsche Bank, British Telecom etc during the investor/analyst call we note that the smaller acquisitions put together added ~2,000 resources to HCL Tech over time while Axon could come with ~2,000 people at one go. Further we highlight that retention of key personnel could turn out to be a bigger challenge for HCL Tech as compared with Infosys given lower brand perception amongst the Indian IT vendors. We view the company management's description of the move as a 'merger' and not an 'acquisition' as a possible step to assuage employee confidence

### Axon's growth could be tapering off, margins appear under pressure

We note that Axon's growth could taper off (consensus estimates build in revenue growth of only ~15% over CY07-CY09 V/s ~43% revenue CAGR over CY03-07) substantiated further by Axon's H1CY08 results (*Axon's revenues from EMEA up by only ~12% YoY V/s company wide growth rate of ~28%, for a complete snapshot of Axon's financials please refer table below*). The Axon management had also acknowledged that growth could be slowing down in UK, its traditional foothold where it enjoys ~15%+ market share in the SAP implementation market

(All fig in GBP mn except %)	CY05	CY06	CY07	1H08
Revenues	91.8	139.8	204.5	123.9
Gross Profits	22.9	40	56.3	31.9
Margins, %	24.9	28.6	27.5	25.7
Operating profits	7.6	18.1	30.6	16.5
Margins, %	8.3	12.9	15.0	13.3
Profit After Tax	6.3	12.4	20.2	10.8
Margins, %	6.9	8.9	9.9	8.7

Source: Company, Emkay Research

### Axon acquisition could hit FY09 and FY10 earnings by ~2% and ~5%

On a first cut basis, we estimate that Axon acquisition could hit our earnings estimates for HCL Tech by ~2% and ~5% for FY09 and FY10 respectively. We have assumed that the acquisition gets consummated in Q1CY09, with debt costs at 7.5% p.a and GBP/USD at 1.85 for our calculations. Any counter bid by Infosys which raise the acquisition costs further could accentuate the negative impact further.

## Research Views

	FY08	FY09E	FY10E
HCL Tech Organic revenues(in US\$ mn)	1879	2278	2605
YoY growth, %		21.3%	14.4%
Axon Revenues(GBP)	204.5	241	269
(in US\$ mn)	378.3	445.9	497.7
To HCL Tech		148.6	497.7
Combined revenues(US\$ mn)	1879	2427	3103
YoY growth, %		29.2%	27.9%
Axon Group's PAT(GBP mn)	20.2	21.6	22.4
Axon Group's PAT contribution to HCL Tech(US\$ mn)		13.3	41.4
Interest on Debt (HCLT borrows's 400 mn GBP @LIBOR+400 bps)		18.5	55.5
Potential post tax other income loss on 76 mn\$@ 7%		1.8	5.3
Net Impact(in US\$ mn)		-6.9	-19.4
Net impact on Estimated Earnings		-2.0%	-5.1%

Source: Emkay Research

26<sup>th</sup> Sep 2008**BUY**

Price	Target Price
<b>Rs477</b>	<b>637</b>

Sensex – 13,547

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(22)	(33)	(34)	(33)
Rel. to Sensex	(17)	(29)	(22)	(17)

Source: Bloomberg

**Stock Details**

Sector	Metals & Mining
Reuters	STRL.BO
Bloomberg	STLT@IN
Equity Capital (Rs mn)	1417
Face Value (Rs )	2
Number of shares o/s (mn)	708
52 Week H/L (Rs )	1,140/405
Market Cap (Rs bn/USDmn)	338/7,322
Daily Avg Vol (No of shares)	2806523
Daily Avg Turnover (US\$ mn)	34.7

**Shareholding Pattern (%)**

	30/6/08	31/03/08	31/12/07
Promoters	62.5	62.5	62.5
FII/NRI	24.6	23.5	24.2
Institutions	5.7	6.4	6.0
Private Corp.	1.6	1.9	1.7
Public	5.6	5.7	5.6

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**Restructuring called off**

Vedanta Resources has called off the Sterlite restructuring exercise in the wake of criticism from global investors. With the restructuring called off, we are now back to the same holding structure for the time being till a new scheme is announced. We understand, the management is likely to announce a new restructuring scheme which will merge all aluminum assets in one roof. With this, Sterlite minority shareholders will enjoy the proportionate benefit of the entire expansion under VAL as earlier. We are now rolling our valuation for Sterlite from FY09 to FY10 and factoring in the downturn in the base metals cycle. We maintain BUY on Sterlite due to the strong volume growth in zinc and lead business and likely closure of ASARCO deal by Dec as the matter is up for hearing on Nov 17 by the bankruptcy court of Texas. We have reduced our target price from Rs953 to 637 as global base metal valuation multiples have declined significantly over the last few months. At our target price, Sterlite will trade at EV/EBITDA of 3.2x FY10E, a discount of around 15% to the global base metals stocks.

**Zinc cycle likely to bottom out ....**

Over the last 3 months, zinc prices have dropped by 4%. Prices have slumped by 23% from the beginning of the fiscal year. Due to the depressed prices and expectation of zinc metal to continue in surplus in FY09 through FY10, many zinc miners have already announced closure of operations.

OZ Minerals Ltd., world's second largest zinc miner has announced a production cut of almost 50,000t of zinc metals due to falling prices. During the beginning of the year, International Lead and Zinc Supply (ILZSG) Group had forecasted a surplus of 215,000t for Zinc for CY08. Brook Hunt had similarly identified zinc metal to be in surplus to the tune of 251,000t. However, for the first seven months of the year from Jan to July, ILZSG has computed zinc metal to be in surplus of 77,000t. On an annualized basis, the surplus could be much lower than originally estimated by ILZSG. We believe at this rate, the surplus in the zinc market might wipe out faster than previously thought. However, the metal at LME might remain in the range of USD 1800 – 2000/t in order to discourage restarting of closed mines and/or smelters and keep the surplus in check.

**But Aluminum likely to go down further.....**

Aluminum at shanghai have hit 4yr low due to declining demand in China and rising stockpiles. Stockpile in Chinese warehouses have doubled since Jan '08 and demand continues to deteriorate. It is expected that there is a possibility of a large amount of production cut in China if aluminum prices are maintained at the current level. Aluminum prices in China are currently at 15,200yuan/t whereas a large number of custom smelters have production costs in excess of 17,000yuan/t. With the onset of winter season, energy costs are likely to shoot further and availability of cheap hydro electricity in the Sichuan province (which has a production capacity of 400,000t in its province) will also dry up further driving costs for the mini-smelters, triggering a wave of shut down, which will likely revive aluminum prices. Till then, we expect aluminum prices to continue to slide in the Chinese markets and consequently at LME also. For the period Jan to Aug 2008, China has produced 8.9mt of aluminum (yoy up 13%). One of the smelters in China, Aostar, has already announced shutdown of one-third of its smelting capacity of 125,000t. Aostar is one of the highest cost producers of aluminum in China.

We have factored average aluminum price of USD2,200/t for FY10 in our assumptions

**ASARCO still not factored in our valuation**

Sterlite will pay USD2.6bn in cash to buy out ASARCO. We have not factored the benefits arising out of this acquisition, as the matter is pending before bankruptcy court of Texas. The matter is due for hearing on 17<sup>th</sup> Nov '08.

## Key changes in our assumptions are as under:

	Unit	Original Estimates		Revised Estimates		% change		Remarks
		FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	
<b>Price Assumptions</b>								
Copper	USD/t	6,500	6,000	6,500	5,500	0.0%	-8.3%	negative outlook on copper prices
Zinc	USD/t	2,800	2,300	1,800	1,900	-35.7%	-17.4%	zinc cycle already in downturn
Aluminum	USD/t	2,400	2,300	2,500	2,200	4.2%	-4.3%	high inventory build up could lead to depressed prices
<b>Volume Assumptions</b>								
Copper	'000t	380	392	380	392	0.0%	0.0%	No change
Zinc	'000t	577.2	635.6	577.2	637.5	0.0%	0.3%	earlier than expected ramp up can lead to better utilization
Aluminum	'000t	333	343	333	343	0.0%	0.0%	No change
Net sales	Rs mn	219,789	205,406	215,736	201,203	-1.8%	-2.0%	
EBITDA	Rs mn	61,226	52,978	52,808	50,480	-13.7%	-4.7%	
Attributable PAT	Rs mn	38,833	35,130	37,554	36,486	-3.3%	3.9%	

Source: Emkay Research estimates

## Key changes in valuations

Valuation Multiple	Valuation Parameter	Original Estimates		Revised Estimates		Remarks
		FY09E	FY10E	FY09E	FY10E	
Sterlite Standalone	EV/EBITDA	5.5x	5.5x	4.0x	4.0x	Based on the global peerset EV/EBITDA multiple
Hindustan Zinc	EV/EBITDA	7.0x	7.0x	3.5x	3.5x	EV/EBITDA multiple has fallen for zinc companies globally
BALCO	EV/EBITDA	6.5x	6.5x	4.0x	4.0x	Similar situation persists in Aluminum business also

Source: Emkay Research estimates

## SoTP valuation

	Original estimates	Revised estimates	Remarks
	based on FY09E numbers	based on FY10E numbers	
Sterlite Standalone	177	149	Declining global valuation multiples
Hindustan Zinc	548	293	Declining global valuation multiples
BALCO	93	63	Declining global valuation multiples
Copper mines of Tasmania	13	14	DCF
Vedanta Alumina	19	15	Investment value per share
Sterlite Energy	103	103	DCF
<b>Target Price</b>	<b>953</b>	<b>637</b>	

Source: Emkay Research estimates

### Valuation

Currently Sterlite is trading at EV/EBITDA of 2.4x our FY10 estimates, which includes assumptions of buyout of HZL and BALCO stake. We have not factored in Asarco buyout in our assumptions so far. The bankruptcy court will put forward the restructuring plan of ASARCO submitted by the management of ASARCO (along with Sterlite Ind) and Grupo Mexico (the erstwhile parent company of ASARCO) separately for voting by the creditors. The creditors will have the choice to either accept either of the two or reject both the plans. The court will start hearing from Nov 17, 2008 on the case.

At our target price, Sterlite will trade at EV/EBITDA of 3.2x FY10 estimates, a discount of almost 15% to the global base metal companies. We maintain BUY on the stock with revised target price of Rs637 with an upside of 34% from the current level.



## Global base metals valuation

CY08/FY09														
Name of the company	CMP in		Net Sales	EBITDA	EBITDA Margin	Net Profit	Net Margin	Net Debt	total equity	EV	EV/EBITDA	Est. Forward		RoE
	local	currency										P/E	Price/Book	
Alcoa	26	29,694	4,740	16.0%	1,984	6.7%	7,615	16,581	28,455	6.0x	10.3x	1.3x	12%	
Antofagasta	491	2,445	1,707	69.8%	776	31.7%	-1,641	2,778	3,014	1.8x	6.2x	1.7x	27%	
BHP Billiton	38	79,976	49,742	62.2%	29,124	36.4%	-10,748	67,567	199,925	4.0x	7.1x	3.1x	44%	
CHALCO	5	90,264	15,018	16.6%	6,325	7.0%	30,738	17,397	49,085	3.3x	11.6x	1.1x	9%	
Grupo Mexico	14	73,879	42,195	57.1%	19,238	26.0%	-11,780	58,417	90,854	2.2x	5.3x	1.8x	33%	
Hindalco	110	738,123	72,016	9.8%	25,805	3.5%	191,643	239,272	382,460	5.3x	7.5x	0.8x	11%	
Kagara	3	486	214	44.0%	115	23.7%	-20	414	666	3.1x	6.4x	1.7x	26%	
Korea Zinc	111,000	2,405	619	25.7%	382	15.9%	-322	1,946	1,773	2.9x	5.4x	1.1x	20%	
NALCO	416	61,021	30,134	49.4%	20,925	34.3%	-31,541	103,930	238,650	7.9x	13.0x	2.6x	20%	
Rio Tinto	4,023	31,005	14,279	46.1%	7,353	23.7%	19,297	23,286	77,376	5.4x	7.6x	2.5x	33%	
Southern Copper	23	5,960	3,516	59.0%	2,173	36.5%	-113	4,205	19,737	5.6x	9.1x	4.7x	52%	
Sumitomo	1,216	980	151	15.4%	92	9.4%	75	668	782	5.2x	7.7x	1.1x	14%	
Teck Cominco	36	7,891	4,015	50.9%	2,255	28.6%	76	9,360	15,757	3.9x	7.0x	1.7x	24%	
Vedanta	1,527	5,358	1,833	34.2%	585	10.9%	-922	263,232	438,854	2.4x	7.7x	1.7x	0%	
Xstrata	2,235	18,112	7,044	38.9%	3,625	20.0%	6,431	16,457	27,129	3.9x	5.7x	1.3x	22%	
<b>Average including Indian Cos</b>				<b>23.4%</b>		<b>13.0%</b>				<b>4.4x</b>	<b>8.0x</b>	<b>1.8x</b>		
<b>Average Ex-Indian Companies</b>				<b>41.7%</b>		<b>21.3%</b>				<b>4.0x</b>	<b>7.7x</b>	<b>1.8x</b>		
Sterlite	477	215,736	52,808	24.5%	37,554	17.4%	-24,677	254,958	372,220	5.7x	9.0x	1.1x	13%	
HZN	483	61,555	32,366	52.6%	27,138	44.1%	-27,958	142,730	175,977	5.4x	7.5x	1.4x	21%	
CY09/FY10														
Name of the company	CMP in		Net Sales	EBITDA	EBITDA Margin	Net Profit	Net Margin	Net Debt	total equity	EV	EV/EBITDA	Est. Forward		RoE
	local	currency										P/E	Price/Book	
Alcoa	26	30,913	5,897	19.1%	2,631	8.5%	6,398	19,130	27,237	4.6x	8.0x	1.1x	14%	
Antofagasta	491	2,117	1,346	63.6%	643	30.4%	-1,723	3,091	2,933	2.2x	7.2x	1.5x	21%	
BHP Billiton	38	73,872	39,774	53.8%	26,329	35.6%	-22,930	0	187,744	4.7x	7.4x	0.0x	0%	
CHALCO	5	92,987	18,473	19.9%	7,336	7.9%	28,712	18,830	47,059	2.5x	9.9x	1.0x	10%	
Grupo Mexico	14	83,647	48,065	57.5%	23,656	28.3%	-18,635	66,474	83,999	1.7x	4.4x	1.5x	35%	
Hindalco	110	763,033	79,103	10.4%	28,662	3.8%	171,978	248,776	362,795	4.6x	6.9x	0.8x	11%	
Kagara	3	460	218	47.4%	128	27.8%	-154	514	532	2.4x	5.4x	1.3x	25%	
Korea Zinc	111,000	2,274	617	27.1%	413	18.2%	-571	2,313	1,524	2.5x	5.0x	0.9x	18%	
NALCO	416	72,102	36,711	50.9%	23,909	33.2%	-49,445	125,189	220,746	6.0x	11.6x	2.2x	19%	
Rio Tinto	4,023	33,345	16,802	50.4%	8,713	26.1%	12,474	32,141	70,553	4.2x	6.1x	1.8x	30%	
Southern Copper	23	6,954	4,034	58.0%	2,455	35.3%	-217	5,018	19,633	4.9x	7.6x	4.0x	52%	
Sumitomo	1,216	994	147	14.8%	94	9.5%	63	739	771	5.2x	7.1x	1.0x	14%	
Teck Cominco	36	8,333	5,345	64.1%	3,174	38.1%	-1,120	11,747	14,561	2.7x	5.1x	1.3x	26%	
Vedanta	1,527	6,571	2,135	32.5%	841	12.8%	-66	348,480	439,710	2.1x	5.1x	1.3x	24%	
Xstrata	2,235	19,253	8,871	46.1%	4,952	25.7%	2,853	21,048	23,550	2.7x	4.2x	1.0x	23%	
<b>Average</b>				<b>24.1%</b>		<b>13.6%</b>				<b>3.9x</b>	<b>7.2x</b>	<b>1.3x</b>		
<b>Average Ex-Indian Companies</b>				<b>21.6%</b>		<b>10.8%</b>				<b>3.8x</b>	<b>7.4x</b>	<b>1.3x</b>		
Sterlite	477	201,203	50,480	25.1%	36,486	18.1%	58,581	284,813	348,855	5.4x	9.3x	1.0x	11%	
HZN	483	65,411	33,623	51.4%	28,702	43.9%	-47,585	167,971	156,350	4.7x	7.1x	1.2x	18%	

**Average prices over the last 9 quarters at LME (usd/t)**

	Zinc	Copper	Aluminum	Lead
1QFY07	3,275	7,228	2,655	1,100
2QFY07	3,344	7,665	2,487	1,189
3QFY07	4,185	7,056	2,729	1,618
4QFY07	3,462	5,970	2,798	1,781
1QFY08	3,685	7,635	2,769	2,176
2QFY08	3,235	7,715	2,402	3,143
3QFY08	2,649	7,235	2,447	3,242
4QFY08	2,434	7,786	2,739	2,888
1QFY09	2,123	8,465	2,951	2,307
2QFY09 till date	1,788	7,755	2,814	1,912

Source: Bloomberg

**Average inventory over the last 9 quarters at LME (t)**

	Zinc	Copper	Aluminum	Lead
1QFY07	249,571	109,980	761,869	103,620
2QFY07	180,902	110,527	716,692	88,325
3QFY07	102,431	146,513	683,176	45,224
4QFY07	97,666	201,428	759,753	35,956
1QFY08	87,067	144,508	826,047	42,838
2QFY08	66,935	118,527	896,498	31,773
3QFY08	74,361	171,635	927,171	38,310
4QFY08	113,545	157,113	963,810	47,346
1QFY09	134,611	118,778	1,052,791	66,280
2QFY09 till date	157,879	158,316	1,154,523	87,379

Source: Bloomberg

While zinc inventory show signs of improvement, aluminum inventory continues to sell.

**Base Metals –price performance at LME**

	Current price (USD/t)	Fiscal ytd change		Calendar ytd change	
		Abs change	% change	Abs change	% change
Zinc	1,762	-535	-23%	-592	-25%
Copper	6,927	-1,547	-18%	286	4%
Aluminum	2,450	-460	-16%	92	4%
Lead	1,981	-781	-28%	-565	-22%

Source: Bloomberg

**Base Metals – inventory levels at LME**

	Current inventory (t)	Fiscal ytd change		Calendar ytd change	
		(Since 1 <sup>st</sup> Apr '08)		(Since 1 <sup>st</sup> Jan '08)	
		Abs change	% change	Abs change	% change
Zinc	156,625	32,650	26%	67,475	76%
Copper	201,050	89,700	81%	3,600	2%
Aluminum	1,363,225	331,175	32%	433,200	47%
Lead	67,575	18,250	37%	22,100	49%

Source: Bloomberg

**Base Metals – inventory levels at Shanghai**

	Current inventory (t)	Fiscal ytd change		Calendar ytd change	
		(Since 1 <sup>st</sup> Apr '08)		(Since 1 <sup>st</sup> Jan '08)	
		Abs change	% change	Abs change	% change
Zinc	71,214	145	0.2%	15,656	28%
Copper	17,072	-38,535	-69%	-8,525	-33%
Aluminum	194,765	17,318	10%	91,787	89%

Source: Bloomberg

## Consolidated Financials

Income Statement	Rs Mn				Balance Sheet	Rs Mn			
	FY07	FY08E	FY09E	FY10E		FY07	FY08E	FY09E	FY10E
Gross Sales	261,930	268,723	230,995	215,566	Equity Capital	1,117	1,417	1,417	1,417
Less: Excise	18,062	21,669	15,259	14,363	Res & Surplus	134,959	277,842	312,380	344,658
Net Sales	243,868	247,054	215,736	201,203	Networth	136,076	279,259	313,797	346,075
Other Income	6,817	15,661	12,611	13,762	Total Debts	46,103	50,745	96,098	109,508
Total Income	250,685	262,715	228,348	214,966	Net deferred lib	12,729	20,415	21,147	22,152
Raw Material Cons	137,152	153,545	150,105	137,361	Capital Employed	194,909	350,420	431,042	477,735
% of Sales	56.2%	62.2%	69.6%	68.3%	Gross Block	126,414	145,637	151,239	161,739
Staff Cost	5,495	6,592	6,909	7,255	Less Depreciation	-43,235	-45,883	-55,151	-65,165
Other Expenses	6,632	8,234	5,914	6,107	CWIP	13,997	24,613	672	663
Total Exp	149,280	168,371	162,928	150,724	Net Fixed Assets	97,176	124,367	96,760	97,237
EBIDTA	101,406	94,343	65,420	64,242	Inv & Associates	2,967	18,925	197,570	207,170
EBIDTA margin	41.6%	38.2%	30.3%	31.9%	Inventory	28,092	33,341	27,787	26,614
Depreciation	8,039	5,950	9,267	10,014	Debtors	16,521	15,623	14,534	14,357
EBIT	93,367	88,393	56,152	54,228	Cash	11,134	24,536	11,728	50,927
Interest	3,791	3,186	3,169	2,606	Marketable Sec.	49,252	144,016	109,047	109,047
Extra ordinary exp.	1,572	528	0	0	Loans & Advances	34,846	33,135	20,279	18,308
PBT	88,004	84,679	52,983	51,622	Total Cur. Assets	139,846	250,650	183,374	219,253
Tax	24,733	21,027	12,824	12,713	Current Liabilities	21,399	19,941	23,080	22,344
ETR (%)	28.1%	24.8%	24.2%	24.6%	Provisions	23,681	23,581	23,581	23,581
Minority Interest	19,042	19,500	2,606	2,423	Total Cur. Lia. & Prov.	45,081	43,522	46,661	45,925
Pref Div	1	0	0	0	Net Current Assets	94,766	207,128	136,712	173,328
Adj. PAT	44,229	44,152	37,554	36,486	Total Assets	194,909	350,420	431,042	477,735
Cash Flow Statement	Rs Mn				Ratios				
	FY07	FY08E	FY09E	FY09E		FY07	FY08E	FY09E	FY10E
Pre-tax profit	88,004	84,679	52,983	51,622	EBIDTA margin %	41.6	38.2	30.3	31.9
Depreciation	8,039	5,950	9,267	10,014	EBIT margin %	38.3	35.8	26.0	27.0
Net Chg in WC	-38,142	-20,854	10,727	-9,125	NPM %	18.1	17.9	17.4	18.1
Others	101	542	0	0	Adj ROCE (%)	38.9	24.1	10.8	8.9
CFO	58,002	70,317	72,978	52,511	Adj ROE (%)	42.9	21.5	12.7	11.1
Capex	-19,718	-33,141	18,340	-10,492	ROIC (%)	66.2	59.7	22.2	14.5
Net Inv made	0	0	-178,645	-9,600	Adj EPS	79.2	62.3	53.0	51.5
Others Inv Activities	-27,268	-110,721	34,969	0	Cash EPS	96.4	71.5	66.1	65.6
CFI	-46,985	-143,863	-125,336	-20,092	Book Value	243.6	394.2	442.9	488.5
Change in Sh cap	-1,441	80,620	0	0	DPS	5.8	4.0	7.0	8.0
Change in Debts	-5,499	5,117	45,353	13,410	Payout Ratio (%)	7.3	6.4	13.2	15.5
Div. & Div Tax	-4,451	-387	-5,802	-6,631	Debt Equity (x)	0.3	0.1	0.3	0.2
Others	356	1,597	0	0	PE (x)	5.8	7.6	9.0	9.3
CFF	-11,035	86,947	39,551	6,779	P/BV (x)	2.0	1.2	1.1	1.0
Net Change in Cash	-18	13,401	-12,807	39,199	EV/Sales (x)	1.2	1.2	1.7	1.7
Cash Op Bal	11,153	11,134	24,536	11,728	Div Yield (%)	1.2	0.8	1.5	1.7
Cash Cl Bal	11,135	24,535	11,728	50,927					

## Unchanged at 12.14%

September 26, 2008

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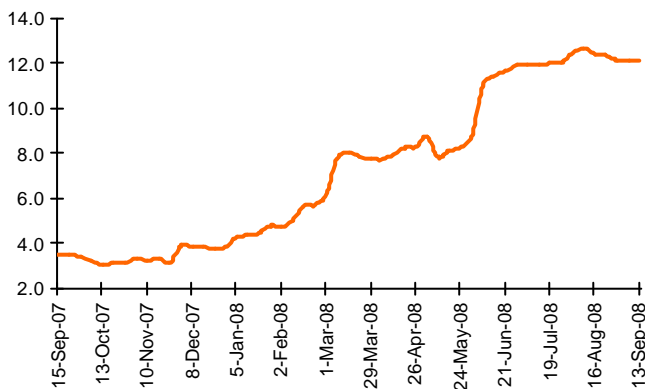
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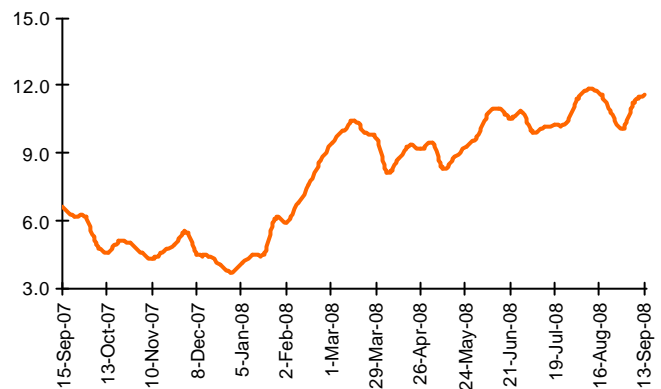
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- Inflation for the week ended September 13, 2008 remain unchanged at 12.14%.
- The prices of primary articles increased to 11.56% for week ended September 13, 2008 as compared to 11.27% for the preceding week.
- The prices of fuel items also remain unchanged at 16.66% for the week.
- The inflation for manufactured products continued to decline for third consecutive week to 10.61% during the week, as compare to 10.78% for the preceding week.
- The manufacturing inflation fell by 10bps week on week, maximum since, December 2008.
- Amongst the manufactured articles, the prices of metal products, food products, Beverages tobacco & tobacco products and woods products rose the most, by 21.44% yoy, 13.92% yoy, 10.79% yoy and 9.77% yoy respectively.
- However, on week on week basis, prices of most of the manufacturing articles remained stable or declined.

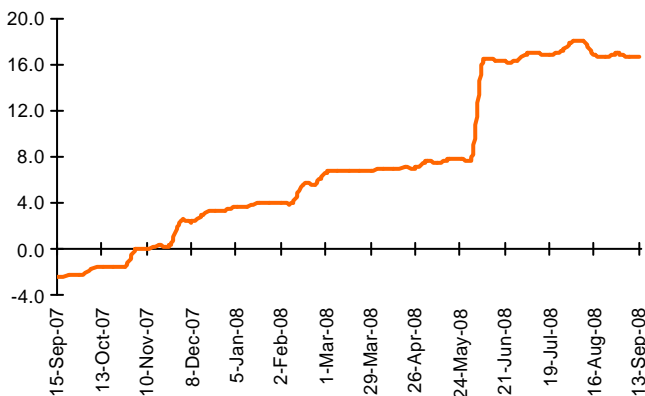
**WPI – all (wt 100%)**



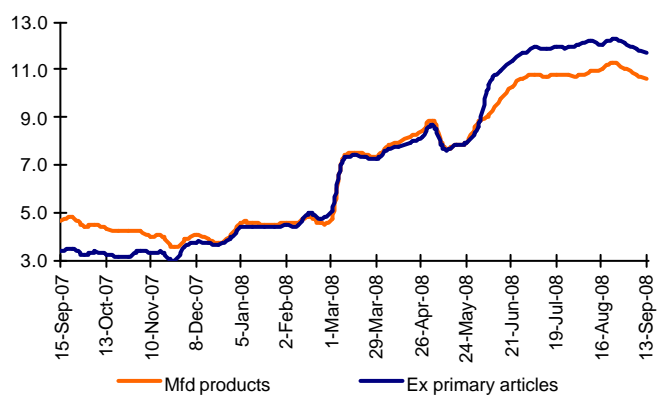
**WPI – primary articles (wt 22.03%)**



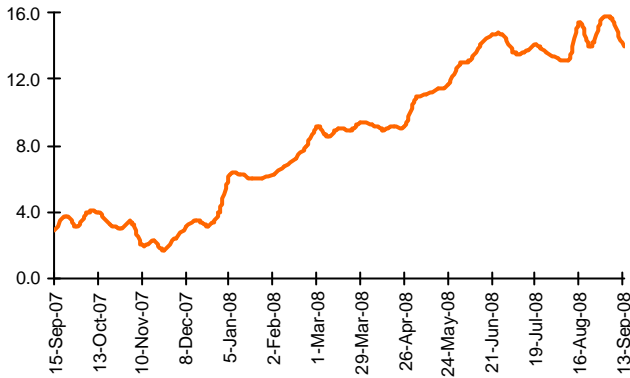
**WPI – Fuel, power, light and lubricants (wt 14.23%)**



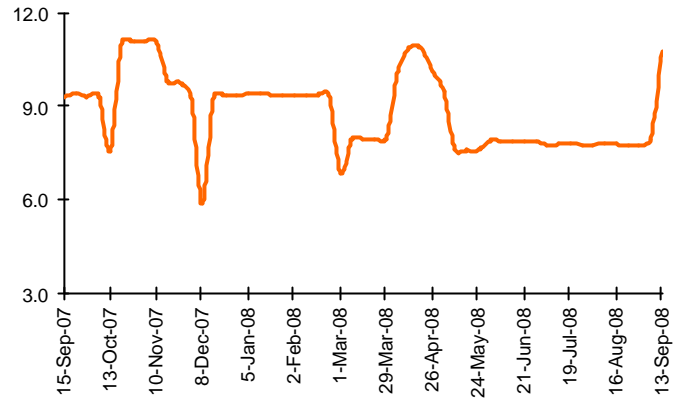
**WPI – manufacturing products and ex primary products (wt 63.75%)**



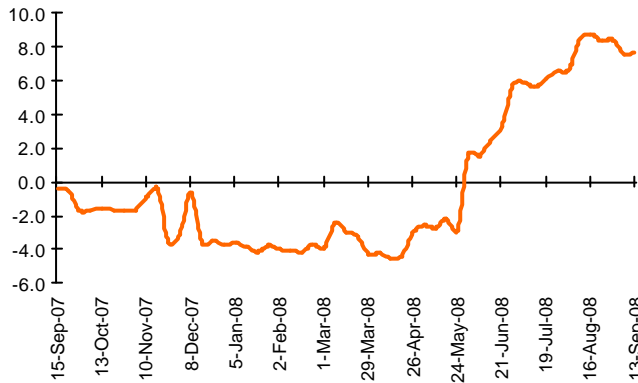
**WPI – food products (wt 11.54%)**



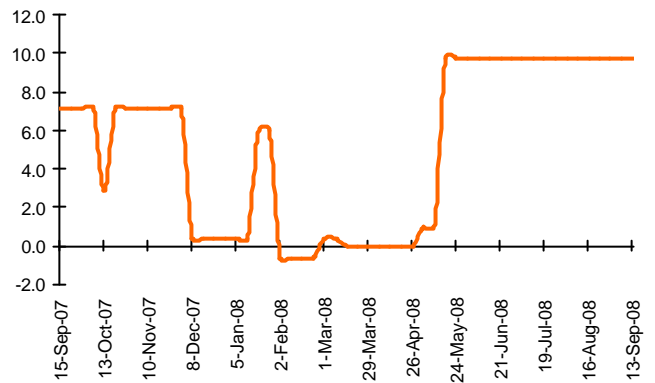
**WPI – beverage, tobacco and tobacco products (wt 1.34%)**



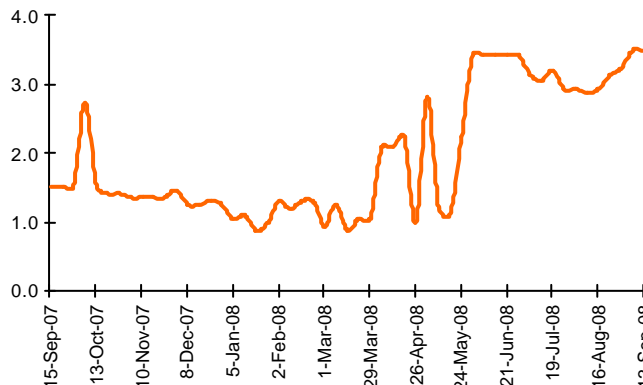
**WPI – textiles (wt 9.8%)**



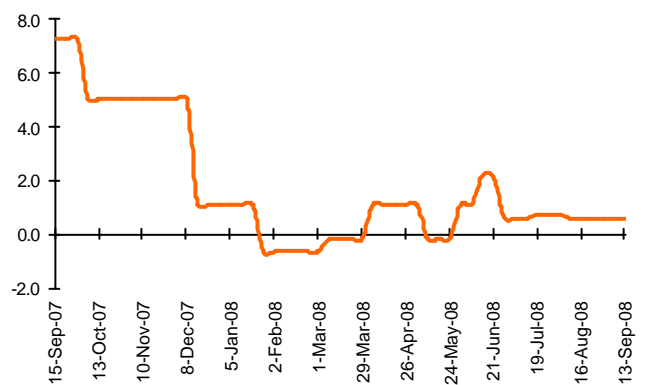
**WPI – wood and wood products (wt 0.17%)**



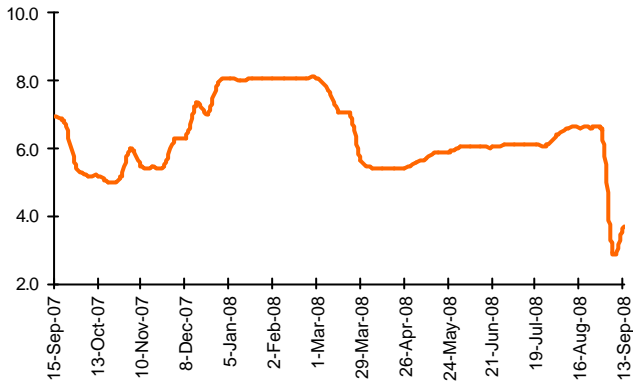
**WPI – paper and paper products (wt 2.04%)**



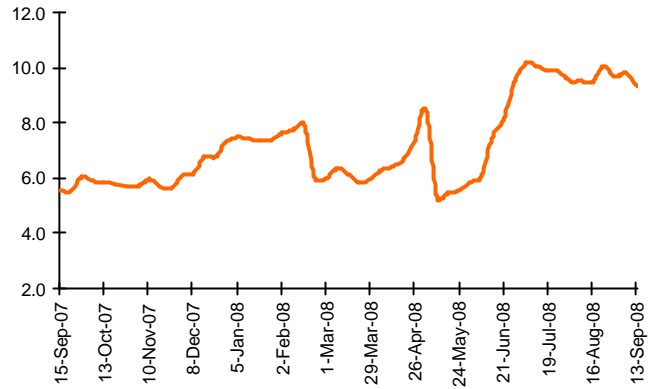
**WPI – leather and leather products (wt 1.02%)**



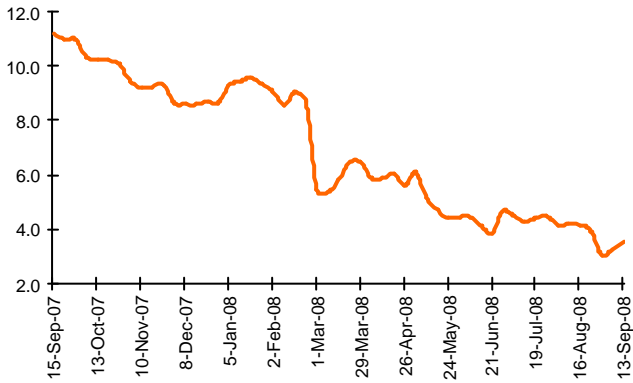
**WPI – rubber and plastic products (wt 2.39%)**



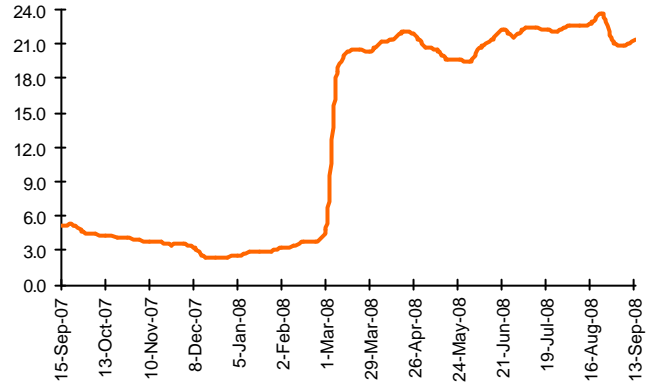
**WPI – chemicals and chemicals products (wt 11.93%)**



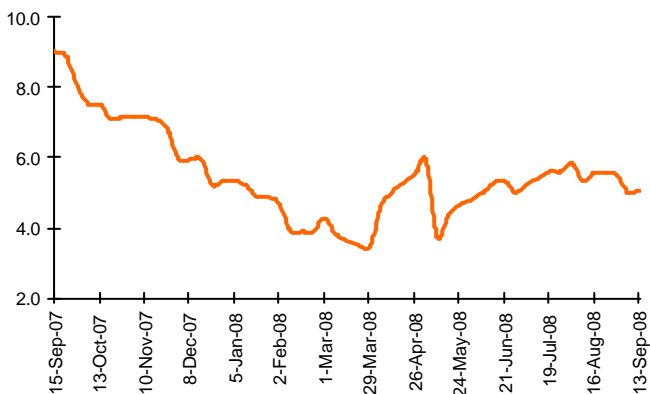
**WPI – non-metallic mineral products (wt 2.52%)**



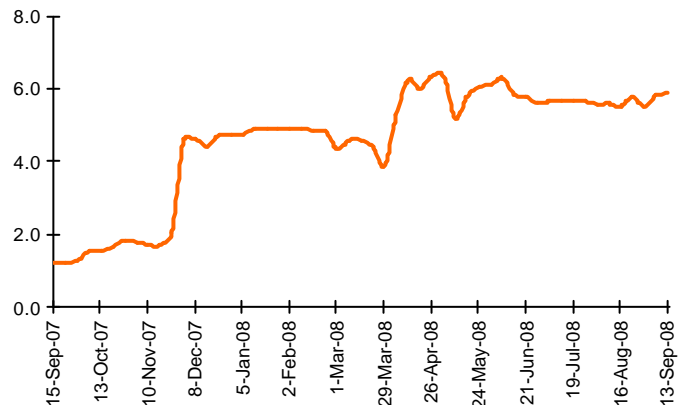
**WPI – basis metals, alloys and metal products (wt 8.34%)**



**WPI – machinery and machine tools (wt 8.36%)**



**WPI – transportation equipments (wt 4.29%)**



## Probable near normal end

September 26, 2008

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The advancement of the Southwest monsoon continued in stable manner as it is approaching its end. During the week ended September 24, 2008 the weighted average rainfall was 2.5% above normal. Moreover the number of divisions with deficient/scanty rainfall remained steady at just 2 for the week. The key takeaways of our analysis upto 24<sup>th</sup> September are as under:

- The weighted average rainfall across the country was at 2.5% above normal for week ended September 24, 2008 from 0.5% above normal in the preceding week.
- In the rain dependent areas the weighted average rainfall was at 1.1% above normal compared with 0.1% below normal
- The total rainfall till date is now 99.2% of the normal (see *table IV*) rainfall for the full season compared with 103.1% for the corresponding period last year.
- **Number of divisions with deficient or scanty rainfall remained stable at 2 for the week ended September 24, 2008.**
- The sowing is going at normal pace except for crops like coarse cereals, sugarcane and cotton (see *table V*)

TABLE – I: Advancement of southwest monsoon

% deviation to normal	06-Aug-08	13-Aug-08	20-Aug-08	27-Aug-08	03-Sept-08	10-Sept-08	17-Sept-08	24-Sept-08
Well Irrigated areas	38.3	31.5	35.5	28.9	20.9	17.5	11.6	18.2
Adequately Rain-fed areas	-17.0	-12.9	-12.3	-13.6	-21.4	-8.8	-8.9	-8.5
Rain Dependent Areas	-0.7	4.9	2.7	-1.4	-3.7	-3.1	-0.1	1.1
India	2.4	5.9	5.5	1.7	-3.0	-0.5	0.5	2.5

TABLE – II: Distribution of rainfall

No of divisions	06-Aug-08	13-Aug-08	20-Aug-08	27-Aug-08	03-Sept-08	10-Sept-08	17-Sept-08	24-Sept-08
Excess	9	8	9	6	3	4	2	2
Normal	20	24	23	26	26	27	32	32
Deficient/Scanty	7	4	4	4	7	5	2	2

Source: Indian Meteorological Department, Emkay Research

TABLE – III: Distribution of rainfall during southwest monsoon till September 24, 2008

Division	From June 1 to					
	September 24, 2008			September 26, 2007		
	Actual (MM)	Normal (MM)	Deviation (%)	Actual (MM)	Normal (MM)	Deviation (%)
<b>Well Irrigated areas</b>	<b>831</b>	<b>703</b>	<b>18.2</b>	<b>504</b>	<b>713</b>	<b>-29.3</b>
East Uttar Pradesh	1,059	889	19.1	704	899	-21.7
West Uttar Pradesh	858	756	13.5	455	764	-40.4
Haryana, Chandigarh and Delhi	538	456	18.0	311	464	-33.0
Punjab	603	480	25.6	355	494	-28.1
<b>Adequately Rain-fed areas</b>	<b>1,741</b>	<b>1,904</b>	<b>-8.5</b>	<b>2,110</b>	<b>1,922</b>	<b>9.8</b>
Konkan and Goa region	2,980	2,737	8.9	3,217	2,760	16.6
coastal Karnataka	2,662	3,112	-14.5	3,504	3,133	11.8
Kerala	1,683	2,080	-19.1	2,767	2,101	31.7
sub-Himalayan West Bengal and Sikkim	2,067	1,889	9.4	2,050	1,909	7.4
Assam & Meghalaya	1,553	1,833	-15.3	1,681	1,849	-9.1
Nagaland, Manipur, Mizoram and Tripura	929	1,199	-22.5	1,267	1,212	4.5
Arunachal Pradesh	1,482	1,777	-16.6	1,455	1,798	-19.1
Uttaranchal	1,193	1,199	-0.5	1,402	1,211	15.8
Andaman & Nicobar Islands	1,705	1,656	3.0	1,595	1,688	-5.5
Lakshadweep	932	952	-2.1	1,461	964	51.6
<b>Rain Dependent Areas</b>	<b>751</b>	<b>742</b>	<b>1.1</b>	<b>851</b>	<b>751</b>	<b>13.3</b>
Gangetic West Bengal	1,205	1,075	12.1	1,620	1,097	47.7
Orissa	1,404	1,127	24.6	1,404	1,140	23.2
Jharkhand	1,057	1,054	0.3	1,172	1,066	9.9
Bihar	1,054	1,004	5.0	1,278	1,014	26.0
Himachal Pradesh	737	749	-1.6	491	764	-35.7
Jammu & Kashmir	524	497	5.4	495	507	-2.4
west Rajasthan	288	259	11.2	231	261	-11.5
east Rajasthan	605	614	-1.5	522	619	-15.7
West Madhya Pradesh	709	887	-20.1	844	894	-5.6
East Madhya Pradesh	942	1,081	-12.9	736	1,087	-32.3
Gujarat region	918	912	0.7	1,150	920	25.0
Saurashtra and Kutch	559	476	17.4	888	479	85.4
madhya Maharashtra	754	665	13.4	894	677	32.1
Marathwada	587	668	-12.1	649	682	-4.8
Vidarbha	783	953	-17.8	1,060	962	10.2
Chattisgarh	1,061	1,179	-10.0	1,082	1,190	-9.1
coastal Andhra Pradesh	591	538	9.9	714	550	29.8
Telangana region	793	735	7.9	763	745	2.4
Rayalaseema	375	353	6.2	726	361	101.1
north interior Karnataka	421	456	-7.7	658	466	41.2
south interior Karnataka	718	628	14.3	909	637	42.7
Tamil Nadu and Pondicherry	317	289	9.7	327	298	9.7
<b>India</b>	<b>839</b>	<b>819</b>	<b>2.5</b>	<b>872</b>	<b>829</b>	<b>5.2</b>
<b>Excess/Normal/Deficient/Scanty</b>	<b>No of divisions</b>			<b>No of divisions</b>		
Excess	2			12		
Normal	32			18		
Deficient/Scanty	2			6		

Source: Indian Meteorological Department, Emkay Research



TABLE – IV: Rainfall till date as % of full season

Division	From June 1 to					
	September 24, 2008			September 26, 2007		
	Sept 03, 2008	Full season	% of FS	Sept 05, 2007	Full season	% of FS
<b>Well Irrigated areas</b>	<b>831</b>	<b>723</b>	<b>114.9</b>	<b>504</b>	<b>723</b>	<b>69.7</b>
East Uttar Pradesh	1,059	914	115.9	704	914	77.0
West Uttar Pradesh	858	773	111.0	455	773	58.9
Haryana, Chandigarh and Delhi	538	470	114.5	311	470	66.2
Punjab	603	502	120.1	355	502	70.7
<b>Adequately Rain-fed areas</b>	<b>1,741</b>	<b>1,959</b>	<b>88.9</b>	<b>2,110</b>	<b>1,959</b>	<b>107.7</b>
Konkan and Goa region	2,980	2,802	106.4	3,217	2,802	114.8
coastal Karnataka	2,662	3,174	83.9	3,504	3,174	110.4
Kerala	1,683	2,143	78.5	2,767	2,143	129.1
sub-Himalayan West Bengal and Sikkim	2,067	1,955	105.7	2,050	1,955	104.9
Assam & Meghalaya	1,553	1,885	82.4	1,681	1,885	89.2
Nagaland, Manipur, Mizoram and Tripura	929	1,241	74.9	1,267	1,241	102.1
Arunachal Pradesh	1,482	1,835	80.8	1,455	1,835	79.3
Uttaranchal	1,193	1,223	97.5	1,402	1,223	114.6
Andaman & Nicobar Islands	1,705	1,755	97.2	1,595	1,755	90.9
Lakshadweep	932	985	94.6	1,461	985	148.3
<b>Rain Dependent Areas</b>	<b>751</b>	<b>768</b>	<b>97.7</b>	<b>851</b>	<b>768</b>	<b>110.8</b>
Gangetic West Bengal	1,205	1,136	106.1	1,620	1,136	142.6
Orissa	1,404	1,165	120.5	1,404	1,165	120.5
Jharkhand	1,057	1,093	96.7	1,172	1,093	107.2
Bihar	1,054	1,039	101.4	1,278	1,039	123.0
Himachal Pradesh	737	774	95.2	491	774	63.4
Jammu & Kashmir	524	514	101.9	495	514	96.3
west Rajasthan	288	263	109.5	231	263	87.8
east Rajasthan	605	624	97.0	522	624	83.7
West Madhya Pradesh	709	904	78.4	844	904	93.4
East Madhya Pradesh	942	1,097	85.9	736	1,097	67.1
Gujarat region	918	934	98.3	1,150	934	123.1
Saurashtra and Kutch	559	486	115.0	888	486	182.7
madhya Maharashtra	754	700	107.7	894	700	127.7
Marathwada	587	704	83.4	649	704	92.2
Vidarbha	783	976	80.2	1,060	976	108.6
Chattisgarh	1,061	1,206	88.0	1,082	1,206	89.7
coastal Andhra Pradesh	591	575	102.8	714	575	124.2
Telangana region	793	767	103.4	763	767	99.5
Rayalaseema	375	381	98.4	726	381	190.6
north interior Karnataka	421	491	85.7	658	491	134.0
south interior Karnataka	718	659	109.0	909	659	137.9
Tamil Nadu and Pondicherry	317	316	100.3	327	316	103.5
<b>India</b>	<b>839</b>	<b>846</b>	<b>99.2</b>	<b>872</b>	<b>846</b>	<b>103.1</b>

Source: Indian Meteorological Department, Emkay Research

# Full season is normal rainfall from June 1 to September 30

TABLE – V: Area under cultivation (million hectares)

Crop	Monsoon 2008-09	Monsoon 2007-08	% yoy change	Normal for full season	Current as % of normal
Rice	36.9	35.0	5.3	39.1	94.3
Coarse cereals	19.5	21.0	-7.1	22.7	86.2
Pulses	10.2	12.0	-15.3	10.9	93.7
Oilseeds	17.7	17.3	2.0	15.9	111.0
Groundnut	5.1	5.3	-3.6	5.4	95.0
Soybean	9.6	8.7	9.5	7.3	131.9
Cash crops					
Cotton	9.1	9.1	-0.4	8.4	108.1
Sugarcane	4.4	5.3	-16.8	4.2	106.3
Jute	0.7	0.8	-11.0	0.8	89.0

Source: Ministry of agriculture, newspaper articles, Emkay Research

Normal is average of full season between 2001-06

Updated upto September 17, 2008

## Synopsis

The credit rating business in India is in a sweet spot as it is on the cusp of robust growth potential, driven by three triggers a) strong CapEx cycle in Indian economy b) lower penetration of corporate bond market and c) regulatory push, due to implementation of Basel II norms.

The outstanding project investments in India have grown at a CAGR of 40% over FY03-08 to USD1.5tn (Source: CMIE) driven by increased outlay on a) industrial CapEx by corporates and b) increased expenditure on infrastructure. For such large investments, debt financing would be very critical. Besides that, the total amount of *private non-financial* instruments rated by the Indian credit rating agencies in FY08 was just USD8bn. That speaks volumes about the abysmally low levels of penetration in the industry.

However, the introduction of Basel II norms is likely to give a big boost to the rating business in India. The number of entities to be rated is likely to expand to 6,500 over the next 2-3 years from the current 1,400 (source: CRISIL). We expect a big volume boost from implementation of the Basel II norms for credit rating agencies, albeit with the pricing on a tricky wicket.

Based on the above factors, we believe CRISIL and ICRA, which are the only listed rating companies in India, are likely to grow at a CAGR of ~40%, in terms of revenue as well as earnings over the next two years. We believe that a confluence of strong fundamentals, high earnings visibility and favourable regulations ensure superior stock performance of these companies. We initiate coverage on CRISIL and ICRA with a BUY rating and a target price of Rs4,150 and Rs750 respectively.

### Strong capex cycle in Indian economy to increase debt activity

Credit rating agencies in India are likely to benefit significantly from the strong investment environment in the Indian economy. The outstanding project investments in India, at the end of March 2008, were pegged at USD1.5tn, driven by an upturn in the CapEx cycle for industrial and infrastructure CapEx. The outstanding industrial CapEx as on March 2008 has grown at CAGR of 31.7% over the last five years to USD856bn. Moreover, the Planning Commission has estimated that infrastructure investment ought to grow from the current levels of around 4.6% of GDP to 8%, for sustaining over 8% real GDP growth, as envisioned in the Eleventh Plan. Commensurately, the outstanding project investments in the infrastructure space have grown at a CAGR of 53.5% to USD700bn as at March 2008. We believe that the strong CapEx cycle has put the credit rating agencies in a sweet spot, with visible volume growth and pricing power.

### Under penetrated corporate bond market offers huge market potential

The corporate bond market in India is the least developed amongst the emerging economies in East Asia. India's corporate bond market remains under penetrated at just 3% of GDP, while in the other east Asian regions like Singapore, Malaysia, Hongkong, Korea, it is above 30%. In FY07, USD35bn worth of corporate bonds were issued, out of which, public sector entities accounted for 42%, private financial companies-largely banks represented 35%, while private, non-financial corporate issuers, represented only 23% of value or roughly USD8bn. Indian firms are still seeking bank finance for their funding requirements. Bank loan still forms a major source of finance for Indian corporates, accounting for roughly around 90% of their borrowings. In contrast to equity markets, corporate bond markets have been held back by the more restrictive regulatory framework. However, the rising investment needs of the corporates coupled with more reforms in the debt market, are likely to result in more corporate bond issuance going forward, thereby benefiting the credit rating industry.

## Basel II norms - opens a new set of opportunities

We believe that the biggest push for the volumes for credit rating will come from the regulatory side, in the form of Basel II norms. Basel II norms help banks to make efficient use of capital by assigning risk weights to loans, based on the credit rating of the borrower i.e higher rating will get a lower risk weight and vice versa. The BLR (Bank Loan Rating) market opens up huge business opportunities for the credit rating firms. As per CRISIL management, 6,500 entities need to be rated by FY2010 under Basel II. This number looks huge as all four credit rating agencies put together currently have 1,400 entities under rating.

## We initiate coverage on CRISIL and ICRA with a BUY rating

We believe the new set of opportunities coupled with strong economic environment is likely to boost the earning performance of the companies in the sector. We firmly believe that these companies have a strong growth potential, by virtue of India being in the midst of a structural investment super cycle. We expect CRISIL's and ICRA's earnings to grow at a CAGR of 36-41% over CY07/FY08-CY09E/FY10E<sup>1</sup>. Based on their strong earnings growth, we have valued both the companies on PE multiple basis. At CMP, the CRISIL stock is trading at 19.9x CY08E EPS of Rs167 and 14.4x CY09E EPS of Rs230. ICRA stock at CMP, is trading at 14.1x FY09E EPS of Rs39 and 10.4x FY10E EPS of Rs52.9. At these valuations, they are trading almost at par with their global counterpart Moody. CRISIL is currently trading near its 10 year average valuation, despite high growth and strong earnings visibility. Moreover, considering the fact that the Indian economy is growing at a much faster pace than the global economy, and with no visible risk to volume unlike their global counterparts, we believe that their current valuations are very attractive and offer great upside from the current levels. We initiate coverage on CRISIL with a 'BUY' rating and price target of Rs4,150 implying an upside of 25% from current levels. We also initiate coverage on ICRA with a 'BUY' rating and price target of Rs750 and an upside of 36% from current levels.

1. CRISIL has calendar year end

## BUY

Price **Rs551** Target **Rs750**

Sensex - 13,547

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(12)	(5)	(45)
Rel. to Sensex	(3)	(7)	13	(32)

Source: Bloomberg

### Stock Details

Sector	Financial Services
Reuters	ICRA.BO
Bloomberg	ICRA@IN
Equity Capital (Rs mn)	100
Face Value (Rs)	10
No of shares o/s (mn)	10
52 Week H/L (Rs)	1,075/525
Market Cap (Rs bn/USD mn)	6/130
Daily Avg Vol (No of shares)	8414
Daily Avg Turnover (US\$ mn)	0.1

### Shareholding Pattern (%)

	30/06/08	31/03/08	31/12/07
Promoters	28.5	28.5	28.5
FII/NRI	1.0	0.5	0.5
Institutions	46.8	47.2	46.5
Private Corp	6.4	6.6	6.9
Public	17.2	17.3	17.7

Source: Capitaline

# ICRA Ltd.

Initiating

## In sweet spot

We initiate coverage on ICRA with a BUY rating and a target price of Rs750. ICRA, being the second largest player after CRISIL in the industry, will benefit from the strong CapEx cycle in Indian economy b) lower penetration of corporate bond market and c) regulatory push due to implementation of Basel II norms. ICRA is likely to benefit from this favorable scenario with its strong parentage (Moody) and its domain expertise.

ICRA has, over past three years, used its strong cash flows and domain expertise to expand its services offering beyond main bread and butter ratings business. The IT and outsourcing services have given further boost to revenues. The boost to profitability will be more meaningful once it achieves commendable scale in these new businesses. A chest of ~Rs1bn of cash plus investments (16% of MCap), provides opportunities for brownfield expansion as well. At CMP, the stock trades at 14.1x FY09E and 10.4x FY10 EPS. We initiate coverage with a BUY and a target price of Rs750, an upside of 36%.

### Rating business- major growth driver

The company's rating segment is the major growth driver for the company. The segment has grown at a CAGR of 25% over the last five years. During FY08, it contributed 56% to the company's overall revenues. We believe that the growing thrust on infrastructure and implementation of Basel II norms are likely to benefit ICRA's rating business, going forward.

### Basel II rollout- opens a new business opportunity

ICRA's rating business will get a big boost with the implementation of Basel II norms. The Basel II rollout has opened up huge business opportunities for the credit rating firms as more than 6500 entities need to be rated by FY2010. Inline with this, ICRA has signed MOU's (non-exclusive) with around 15 banks to assist them in implementing RBI's New Capital Adequacy Framework under Basel-II.

### ... Diversification to reduce business risk

The company has over the years reduced its dependence on its core business of rating by investing its surplus cash in other business segments like consultancy, information technology service and outsourcing activities. The company's non-ratings business contribution to the total earnings has increased from 33% in FY05 to 44% in FY08. However, the company's non-rating businesses have been putting pressure on its margins because of high operating costs incurred for scaling its operations.. However, the non rating segment will add to profitability once the company achieves commendable scale in the new businesses, thereby reducing the business risk.

### Valuation

At CMP, the stock trades at 14.1x FY09E and 10.4x FY10 EPS. We expect its core RoE to improve to 27% in FY10 from 24% in FY08. We therefore assign a target P/ E multiple of 14.2x, over the company's FY10 EPS. Based on this multiple, we value ICRA stock at Rs750.

### Key Financials (Rs.mn)

Y/E	Net Revenues	Net profit	EPS (Rs)	BV (Rs)	Core RoE (%)	RoE (%)	PE (x)	P/BV (x)
March 31								
FY2007	706	200	20.0	147	21.9	16.6	27.6	3.7
FY2008	995	285	28.5	164	24.0	18.3	19.3	3.4
FY2009E	1,361	390	39.0	197	27.5	21.6	14.1	2.8
FY2010E	1,850	529	52.9	242	27.0	24.1	10.4	2.3

## BUY

Price **Rs3,316** Target **Rs4,150**

Sensex - 13,547

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(4)	6	(7)
Rel. to Sensex	(1)	0	26	17

Source: Capitaline

### Stock Details

Sector	Financial Services
Reuters	CRSL.BO
Bloomberg	CRISIL@IN
Equity Capital (Rs mn)	72
Face Value (Rs)	10
No of shares o/s (mn)	7
52 Week H/L (Rs)	3,885/2,651
Market Cap (Rs bn/USD mn)	24/520
Daily Avg Vol (No of shares)	3229
Daily Avg Turnover (US\$ mn)	0.3

### Shareholding Pattern (%)

	30/06/08	31/03/08	31/12/07
Promoters	51.5	51.5	51.5
FII/NRI	10.4	10.2	10.2
Institutions	15.6	15.0	14.1
Private Corp	1.7	2.0	2.2
Public	20.9	21.3	22.0

Source: Capitaline

# CRISIL

## Geared for growth

Initiating

We initiate coverage on CRISIL with a BUY rating and a target price of Rs4450. CRISIL, India's largest rating agency, will be the major beneficiary of the upcoming opportunities in the credit rating industry. Implementation of BASEL II norms coupled with rising activity in the debt market is likely to push the company into a strong growth trajectory. There are around 6500 entities, which will require rating by 2010, and being a leader in the industry, CRISIL is likely to garner a major chunk of this opportunity. CRISIL has been investing the strong cash flows from the rating business into diversified businesses like research and knowledge process outsourcing. This diversification has borne fruit with all segments contributing equally to CRISIL's revenues. We believe that the low CapEx requirement and sharp operating leverage of its businesses would help the company sustain strong ROEs in the future. At CMP, the stock trades at 14.4x CY09E EPS. CRISIL, despite being a high growth company and having high earnings visibility, is trading near its 10 year average valuation. We believe that at the current valuations, the stock looks attractive and offers significant upside.

### Leadership position across business segments

CRISIL has established itself as a market leader in all of its business segments viz. Rating, Research and Advisory. CRISIL provides rating to the 70% of the USD27bn (Rs.1.1tn) domestic debt market. CRISIL research division (CRIS INFAC and Irevna) is India's leading independent, integrated research house. CRISIL is also the preferred consultant to governments, multi-lateral lending agencies, and private sector clients.

### BLR rating - a big boost to the rating business

The rating business is likely to get a regulatory push with the implementation of Basel II norms. All the four players - CRISIL, ICRA, CARE and Fitch cumulatively have ratings on around 1,400 firms and this number is likely to increase exponentially with the implementation of Basel II norms. There are around 6500 entities, which will require rating by 2010, and being a leader in the industry, CRISIL is likely to garner a major chunk of this opportunity. Till date, CRISIL has done around 300 bank loan ratings.

### Strong outlook for non-rating segment

CRISIL derives ~70% of its revenue from Research and Advisory segments, which has grown at a CAGR of 40% and 125% respectively over CY04-07. We believe both these businesses will continue to report strong growth going forward. We expect the demand for research services to remain firm driven by growing domestic financial services industry coupled with rising outsourcing of research activities. Furthermore, rising investments in the infrastructure sector will provide a boost to the advisory segment.

### Valuation

At CMP, the stock trades at 14.4x CY09E EPS. With strong earnings growth of 41% over CY07-09E and core RoE of ~42%, we believe that CRISIL is an excellent investment opportunity. We have valued CRISIL at 18x CY09E EPS, giving a target price of Rs4,150.

### Key Financials (Rs.mn)

Y/E Dec (Rs mn)	Net Revenues	Net profit	EPS (Rs)	ABV (Rs)	Core RoE (%)	RoE (%)	PE (x)	P/ABV (x)
CY06	2,873	614	91	280	45.6	38.3	36.5	11.9
CY07	4,043	837	116	383	44.1	36.0	28.6	8.7
CY08E	5,858	1,203	167	524	45.5	36.7	19.9	6.3
CY09E	8,018	1,663	230	720	42.6	37.0	14.4	4.6

Company	No. Of Shares (In lacs)	% Change In price
I Bull Real	43.0	-6.6
Axis Bank	43.8	-2.2
ICICI Bank	48.4	-5.8
Aban	1.9	-9.6
Indus Ind Bank	31.1	1.2

### Nifty movers

Top Gainers	Price	Index Points
ITC	192.35	2.6
Tata Com	470.85	1.2
Hind Unilver	252.50	1.2
Cipla	229.50	0.2
Sun Pharma	1472.50	0.2

### Losers

Reliance Ind	1963.20	-14.8
ONGC	1035.40	-12.4
BHEL	1550.55	-6.7
ICICI Bank	560.40	-6.5
NTPC	174.35	-6.3

### Index- volatility

Indices	Sensex	Nifty
High	13486	4110
Low	13054	3970
Close	13102	3985
Volatility (in %)	432 3.20	140 3.41

## Dealer Comments

**Market Summary:** The markets opened the session on a slightly negative note with 60 odd points downward gap on the back of weak global cues and stable crude oil prices at \$105 levels. From thereon, indices continued with their southward journey as selling pressure intensified in the ensuing hours. The failure of US lawmakers to agree on a bailout package for financial sector, news of collapse of Washington Mutual one of the largest banks in US, delay in signing of Indo-US nuke deal and absence of any positive trigger led the wary investors to unload shares across the board. Even weak US economic data weighed heavily on market sentiments with sales of new home dropping 11.5%, jobless claims rising to their highest in seven years and sales of durables falling by 4.5% pointing to big slowdown in US. There was lack of buying interest despite sitting on pile of cash among larger fund houses and were waiting for the any positive trigger to start buying. The day's fall was mainly led by selling in Realty, Metal, Banking, Capital Goods, IT, Oil & Gas and Power stocks. The selling was mainly broad based as is evident from the overall market breadth which was extremely negative and was at - 4.9x. The markets witnessed extremely poor turnover and but delivery based volumes were quite good at almost 42%. On the F&O front Nifty Oct futures saw aggressive short build up on the first day itself and cost of carry of most of the Stock futures went down while IT, Banking and Real Estate stocks saw aggressive short build up. Finally the sensx closed a whopping 445 points or 3.28% lower to settle at 13102 levels while Nifty lost 137 points or 3.11% lower to settle at 3984 levels. Among the sectoral indices all of them ended in the red with Realty, Metal, Bankex, Capital Goods, Power, IT, Auto, Oil & Gas and Healthcare under performing the most. On a weekly basis Sensex plunged 6.7% and Nifty fell by 6.3% while Midcap and Smallcap indices lost almost 6%. On the sectoral indices IT lost 11.5%, Bankex lost 7.8% while Realty lost 5% on a weekly basis. Among the index heavy weights, which gained the most were ITC, Tata Comm, Hind Unilever, Cipla and Sun Pharma while Reliance Ind, ONGC, BHEL, ICICI Bank and NTPC were weak and ended as losers.

The overall traded volumes were extremely lower compared to earlier day by almost 42% and were at Rs 597 bn. Delivery-based volumes were at 41.9% the total turnover.

Among the institutional activities FII's were net sellers to the tune of Rs 7.04 bn while Domestic Funds were net buyers to the tune of Rs 3.79 bn respectively in the cash segment on 25<sup>th</sup> September 2008. While on 26<sup>th</sup> September 2008 FII's sold shares worth Rs. 6.43 bn in cash segment (provisional) and in the F&O segment bought Futures and Options worth Rs. 1.73 bn whereas Domestic Funds bought shares worth Rs. 5.44 bn (provisional).

**Movement of indices**

Indices	Previous close	This week	% chg
Sensex	14,042	13,102	-6.69
Nifty	4245	3985	-6.12
S&P CNX 500	3314	3123	-5.76
BSE 500	5,336	5,010	-6.11
BSE Mid-Cap	5,228	4,940	-5.51
BSE Small-Cap	6,215	5,861	-5.70
BSE Auto	3,958	3,734	-5.66
BSE Health	3,924	3,766	-4.03
BSE FMCG	2,175	2,189	0.64
BSE IT	3,666	3,234	-11.78
BSE PSU	6,637	6,329	-4.64
BSE Bankex	7,109	6,570	-7.58
BSE Oil & Gas	9,468	9,081	-4.09
BSE Metals	10,033	9,502	-5.29
BSE Cons Dur	3,311	3,045	-8.03
BSE Cap Good	11,740	10,795	-8.05
BSE Realty	4,102	3,596	-12.34
BSE Power	2,529	2,347	-7.20

**Levels to watch**

	Sensex	Nifty
Week High	14421	4303
Week Low	13054	3970
34 DMA	14171	4250
55 DMA	14366	4306
Swing High	14221	4303
Swing Low	13054	3970

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**Technical Comments**



**Outlook for next week**

Last week, Nifty opened on a positive note and made a high of 4303, but thereafter it could not sustain on higher level and started its southbound journey. On Friday it tested our mentioned target 4050 which was 50% retracement of the recent rally from 3799 to 4303 and made a low of 3970. Finally Nifty closed at 3985 with a loss of 6.12% on w-o-w, which is the lowest closing of the year 2008. In sectoral indices, BSE Realty index (-12.34%) followed by BSE IT index (-11.78%) were the top-losers on w-o-w basis, while other indices also closed negative on w-o-w basis, except BSE FMCG index (0.64%) closed positive on w-o-w basis. On the daily chart finally Nifty closed below the 61.80% retracement level of the recent rally from 3799 to 4303, thus in the coming days we will witness further weakness in the Nifty and it can test its recent low of 3799. However in the immediate term on higher level Nifty has strong resistance at 4207.

**Monday's Strategy:**

**Hold Short Nifty Oct Future** for the target of 3930.00 with a stop-loss 4090.60 For Monday Nifty spot has resistance in the range of 4000 to 4020 and it has support 3920 to 3900.

**Sectoral Speak**

Last week continuing its southbound journey, **BSE IT** index fell sharply and on Thursday it made a low of 3329, which was very near to our mentioned target of 3303. But thereafter also it continued its downside journey and on Friday it broke the mentioned support of 3303 and made a low of 3216. Finally this index closed at 3234 with a loss of 11.78% on w-o-w basis. This index is still looking weak and we maintain our downside target of 3093 and below that it can test 2883

As expected the **BSE Power** index continued its downside journey and on Thursday it tested our mentioned target of 2401, but thereafter it continued its downside journey and on Friday it broke the mentioned support range of 2360 and made a low of 2338. Finally this index closed at 2347 with a loss of 7.20%. This index is still looking weak and now it can test its recent low of 2238 levels.

Last week the **BSE Realty** index opened on a positive note and made a high of 4214 but was unable to break the level of 4289, and thereafter it fell sharply. On Friday this index broke its support of 3598 and made a low of 3570. Finally this index closed at 3596 with a loss of 12.34% on w-o-w basis. This index is still looking weak and now it can test 3290 levels.

Continuing its downside journey, the **BSE Cap Good** index on Tuesday tested our first mention target 11286 and made a low of 11198, but thereafter also it continued its downside journey and on Friday it broke the support of 11198 and tested our second mentioned target of 11048. Finally this index closed below the 61.80% retracement level of the recent rally from 10528 to 11889 at 10795 with a loss of 8.05% on w-o-w. This index is not showing any strength and in the coming days we can see further downside and it can test its recent bottom of 10528.

Last week the **BSE Bankex** index opened on a positive note and made a high of 7209 but thereafter it could not sustain on higher levels and fell sharply. On Friday it tested our mentioned target of 6571 and made a low of 6531. Finally this index closed below 61.80% retracement level of the recent rally from 6178 to 7209 at 6570 with a loss of 7.58% on w-o-w basis. This index is still looking weak and now it can test its recent bottom of 6178.

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**Nifty**

	19.09.08	26.09.08	Chg	% Chg
Spot	4251.6	3973.45	-278.15	-6.54
Oct Fut	4280.55	3995	-285.55	-6.67
Nov Fut	4277	3995.85	-281.15	-6.57

**Nifty Cost of Carry**

	19.09.08		26.09.08	
	Basis	COC %	Basis	COC %
Oct Fut	29.0	6.2	21.6	6.0

**Nifty open interest**

	No of Shares ('000)			
	19.09.08	26.09.08	Chg	%Chg
Oct Fut	6805	26713	19908	292.55
Nov Fut	107	1165	1058	988.79
Total	38654	27912	-10742	-27.79

**Nifty put call ratio**

	No of Shares ('000)			
	19.09.08	26.09.08	Chg	%Chg
Call OI	45411	27627	-17784	-39.16
Put OI	43384	27910	-15474	-35.67
PCR	0.96	1.01	0.05	

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**Derivative Comments****Market Activity**

This week Nifty opened Positive; but thereafter it took resistance at higher levels and corrected sharply to give a weekly close at 3985.25 with a loss of 260 points (6.12%) from its previous weeks close. Major Gainers for the week were Bajaj Holding, Colgate Pamolive, Sesa Goa, HCL Info and SunPharma. Losers were Sterlite Tech, LITL, Ranbaxy, ICSA and Aptech.

Fills remained net Buyers in Index futures to the tune of 49185 contracts and have shed 181783 contracts in OI. They remained net Buyers in Index options to the tune of 45045 contracts and the OI has decreased by 397269 contracts. In stock futures too they were net Buyers to the tune of 104259 contracts and have shed 329449 contracts in OI.

**Market Outlook:**

The Oct futures cost of carry for the Nifty stood at a Positive 6 % against a Positive 6.21 % for the last week. Nifty Sep Futures traded at a Premium of 15 - 20 Points. The IV of Nifty this week has decreased from 40 - 41 % to 37 - 38% and on a week on week basis Nifty shed 107.41 lac shares (27.8%) in Open Interest.

**Open Interest (OI) Analysis:**

On a week over week basis short OI was seen in Aptech (16%), Canara Bank (110%), GVK Power (31%), LITL (16%), NIIT Ltd(49%) and Suzlon(38%). Hence we would advise clients to avoid going long on these stocks.

**Put Call Ratio Analysis:**

The Put Call Ratio of Nifty WoW increased from 0.96 to 1.01. On w-o-w basis Nifty Call options shed 177.8 Lakh shares (39%) and Put options shed 154.74 Lakh shares (35.6%) in OI.

On Friday on the calls side incrementally maximum OI build up was witnessed at 4200 strike (10.7L) followed by 4100 strike(7.37L). On the total Call OI front maximum open interest now stands at 4300 strike (30.61L) followed by 4200 strike (28.46L). Thus Nifty has strong resistance at 4300 and it has immediate resistance at 4200.

On the Puts Front significant action was seen at 3800 Strike which added (8.41L) shares and also at 3900 Strike which added (4.36L). On Friday Nifty broke our mentioned support level of 4000 levels and has given a close below it, Nifty now looks weak below this level. Also now the highest open interest in Puts is at 3800 Strike stands at (34.6L). Hence on the downside now Nifty has strong support at 3800 levels.

**Cost of Carry (CoC):**

**Turned Positive:** Ranbaxy, Reliance Capital and Sail.

**Turned Negative:** Cipla, Dr Reddy, Hero Honda, IDEA, LT, Rpower and Unitech.

**FII's Weekly Derivative Statistics 25.09.08**

	Buy		Sell		Open Interest as on 25.09.08		Open Interest as on 18.09.08		Change in FIIs Open Interest (W-o-W)	
	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.
Index Futures	999136	20964.72	949951	19915.66	439169	9103.7	620952	12508.72	-181783	-3405.02
Index Options	218548	4524.83	173503	3658.66	789789	16200.73	1187058	23925.42	-397269	-7724.69
Stock Futures	1090757	17974.42	986498	16291.35	916067	14736.66	1245516	19951.79	-329449	-5215.13
Stock Options	19931	384.35	15059	295.28	42117	751.83	95391	1533.8	-53274	-781.97
<b>TOTAL</b>	<b>2328372</b>	<b>43848.32</b>	<b>2125011</b>	<b>40160.95</b>	<b>2187142</b>	<b>40792.92</b>	<b>3148917</b>	<b>57919.73</b>	<b>-961775</b>	<b>-17126.8</b>

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