

Major indices movements

Major indices	Clsq	1d (%)	3m (%)	6m (%)
BSE Sensex	10,120	(4.8)	(32.9)	(41.7)
Nifty	2,995	(4.7)	(33.7)	(41.8)
Dow	9,139	(5.0)	(21.6)	(29.8)
Nikkei	8,980	(5.7)	(32.3)	(36.1)
Hang Seng	13,908	(6.3)	(36.6)	(47.0)
Brasil Bovespa	37,786	(6.1)	(34.3)	(46.2)
Mexico Bolsa	20,447	(5.1)	(25.2)	(34.5)

Turnover

Value Traded (Rs bn)	5 Nov 2008	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	49.8	12.5	118.7	6.8
Cash NSE	130.4	14.2	254.4	15.6
Total	180.2			
Del.(%)	33.4			
F&O	385.5	14.2	982.3	103.5
Total Trade	565.8			

Fund Activity

Net Inflows (Rs bn)	Purch	Sales	Net	YTD
4 Nov 2008				
FII's	19.7	(20.6)	(0.9)	246.5
Domestic Funds	5.8	(7.5)	(1.7)	102.3

5 Nov 2008

Cash Provisional			(2.7)	
F&O - Index	17.9	(12.1)	5.8	(27.6)
F&O - Stock	9.2	(5.9)	3.3	(11.6)

Advances/declines BSECash

5 Nov 2008	A	B1	B2	Total
Advance	59	633	165	857
Decline	145	999	256	1400

Commodity Prices

Commodity	6 Nov 2008	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	65.1	(0.3)	(45.1)	(46.6)
Copper(usd/t)	4,070	(5.4)	(46.6)	(51.6)
Aluminum H.G.(usd/t)	2,091	(0.9)	(27.9)	(28.4)
Zinc(usd/t)	1,180	(4.8)	(32.4)	(46.8)

Debt/Forex Mkt

Re/USD	47.46	0.0	(13.0)	(15.9)
10 yr Gsec Yield	7.71	1.4	(14.5)	(2.4)
Crude (USD/Bbl)	65.1	(0.3)	(45.1)	(46.6)

Contents

Research Views

Quick comments: CTSH results remain a immaterial catalyst for sector/peers

Research Update included

Himadri Chemicals Q2FY09 Result Update - Expansion is Delayed

Kalindee Rail Nirman Q2FY09 Result Update - Off the track

Tamilnadu Newsprint Q2FY09 Result Update - Results above expectations

Unitech Limited Q2FY09 Result Update - In-line with expectation

Aban Offshore Q2FY09 Result Update - Disappointing performance

Lakshmi Machine Works Q2FY09 Result Update - Valuations - too cheap to ignore

Dealer Comments

Technical Comments

Derivative Comments

News clippings

- Reliance Industries** has closed five of its seven polyester and petrochemical units at Patalganga near Mumbai soon after offering exit option to employees. The move, which comes in the backdrop of a global slowdown, aims to improve profit margin amid falling demand for polyester products worldwide.
- Bank of India** has cut its prime lending rate by 75 basis points to 13.25 per cent with effect from Thursday.
- Great Offshore Ltd** has on November 05, 2008 commenced a firm charter of 150 days with options for its accommodation and hook up barge and an anchor handling tug for an aggregate amount of around \$6 million.
- India will charge a fee of 1-2 per cent of mobile operators' revenue for using additional airwaves and will also levy a one-time charge for spectrum beyond 6.2 MHz.
- The Foreign Direct Investment (FDI) equity inflows witnessed a growth of 3.60 times to stand at \$ 2.56 billion in the month of September 2008 compared to \$713 million during the same period last year.

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Research views

Quick comments: CTSH results remain a immaterial catalyst for sector/peers

CTSH's Q3CY08 Results beat estimates, CY08 Guidance reaffirmed

Cognizant reported revenues of ~US\$ 735 mn (+7.2% QoQ), ahead of both street estimates as well as co guidance of 'atleast US\$ 723 mn'. Further CTSH's earnings at US\$ 0.38 , came in higher than consensus at US\$ 0.37 though really insignificant beat in our view. CTSH reaffirmed it's CY08 revenue outlook of 'atleast US\$ 2.81 bn' in revenues despite Q3CY08 revenue beat implying only ~2% sequential revenue growth for Q4CY08 to ~US\$ 747 mn for co to meet annual revenue guidance. The company management attributed ' no change in annual guidance'despite the Q3 beat' to ' prudence' on account of global uncertainty. We note that the company increased EPS guidance marginally from 'atleast US\$ 1.44' to'atleast US\$ 1.45' on account of Q3 beat. *Though Q4CY08 sequential revenue growth might appear a mere 2%, we wish to note that it includes an adverse impact of ~2% on account of US\$ appreciation V/s GBP, Euro and AUD in QTD alone and thus are not one wee bit disappointed by the asking rate. (we further highlight that other offshore peers like Infy, Satyam have guided for flat revenues for December'08 quarter).*

Financial Services grows higher than co, Pricing remains stable

Revenues from the troubled financial services space grew by ~7.9% sequentially, higher than co for 2nd quarter in a row while CTSH highlighted that pricing was stable with the offshore IT vendors displaying discipling on not taking any cuts on pricing for now. Further CTSH quantified it's exposure to already exposed troubled names in financial vertical at ~5% of revenues (we note Cognizant derives the highest proportion of revenues from the BFSI vertical amongst the Tier 1 offshore IT services vendors at ~46% of revenues). Co also highlighted that it could stand to gain from integration related work as it had significant relations with names involved in the recently announced M&A's in the BFSI space.

CY09 revenue outlook remains clouded

We never expected CTSH to throw any distinct color on FY09 revenue outlook as it seldom speaks anything on next year's guidance before the Q4 results. Further we believe that offshore co's ability to commit on any growth number for the next year could be limited as macro environment remains highly volatile and for IT spending decisions to gather pace,dust needs to settle on the ground first. *Though management comments that the ramp ups on deals clinched over the past few quarters was proceeding in line (remains critical to CY09 revenue growth) could assuage investor's worst fears, balancing it on the flip side was muted employee addition (CTSH reported a very modest increase in headcount by 165 to 59,500, albeit balanced by offshore utilisation improving by ~600 bps QoQ) as well as co's admittance that it was not witnessing the usual Q4 budget flush as seen in prior years. Further CTSG management indicated that client spending budgeting cycles could get delayed by atleast 1 quarter (IT spending budgets get decided by end December/early January usually) and expects to have better visibility on CY09 spending budgets only in February/March'09. We believe that debate and concerns on CY09 spending budgets would linger and could limit any upside on stock performance for offshore IT services stocks.*

No BUY rated stocks in large cap IT services universe for now, though depressed valuations could make the case compelling for accumulating them soon

We have had no BUY rated stocks in our large cap IT services universe since our sectoral downgrade in May'08, however we believe depressed valuations (Satyam closer to perpetual no growth value and Infosys at ~10-12x FCF) could make the case compelling for accumulating the stocks soon.

November 5, 2008

NOT RATED

Price	Target
Rs158	NR
Sensex	10,631

Price Performance

(%)	1M	3M	6M	12M
Absolute	(48)	(50)	(60)	(69)
Rel. to Sensex	(39)	(31)	(35)	(43)

Source: Capitaline

Stock Details

Sector	Chemicals
Reuters	HMCH.BO
Bloomberg	HCI@IN
Equity Capital (Rs mn)	319
Face Value(Rs)	10
No of shares o/s (mn)	32
52 Week H/L	800/107
Market Cap (Rs bn/USD mn)	5/104
Daily Avg Volume (No of sh)	7523
Daily Avg Turnover (US\$mn)	0.0

Shareholding Pattern (%)

	S'08	J'08	M'08
Promoters	51.9	51.9	52.2
FII/NRI	0.3	15.2	0.4
Institutions	1.0	1.0	1.2
Private Corp	33.9	18.4	32.2
Public	13.0	13.5	14.0

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Himadri Chemicals

Result Update

Expansion is Delayed

Himadri Chemicals & Industries' (Himadri) reported revenue growth of 38.6% yoy to Rs1.3 bn, operating profit growth of 25.4% yoy to Rs0.4 bn and net profit growth of 15.6% yoy to Rs0.2 bn - ahead of estimates. Strong performance is attributed to better realization of CTP Basket (CTP, Naphthalene and Oils) – especially Creosote Oil jumped from Rs19000/MT to Rs27000/MT. Himadri sold 61 MT of Mesophase Pitch in Q2FY09. Himadri has cancelled China expansion and delayed India expansion by 3 Month. Consequently, earnings are revised downwards by 14% (Rs24.4) and 29.8% (Rs60.7) for FY09E and FY10E respectively. Himadri is trading at undemanding valuations of PER 6.5X FY09E and 3.6X FY10E.

Strong performance at operational level- attributed to better realizations

Himadri reported robust 38.6% yoy growth in revenues to Rs1.3 bn in Q2FY09 - ahead of estimates. We attribute this to higher realization of CTP Basket (CTP, Naphthalene and Oils) – especially Creosote Oil jumped from Rs19000/MT to Rs27000/MT. Himadri sold 61 MT of Mesophase Pitch in Q2FY09 –equivalent to Q1FY09 volumes. Consequently, operating profit grew by 25.4% yoy to Rs382 mn – ahead of estimates. The operating margins declined 300 bps yoy to 28.8% in Q2FY09- due to higher realizations on CTP basket. Net profit growth at 15.6% yoy to Rs230 mn was ahead of expectation.

Expansion plans reviewed- China scrapped and India delayed

Himadri has reviewed its expansion plans in China and India. Himadri will judiciously deploy financial resources to maximize return on investment and minimize risks. Himadri has stalled China expansion –both greenfield and brownfield. India expansion is delayed by 3 Months and revised date for commencement is March 2009 or April 2009. In FY10E, India will commercialize (1) 80000 MTPA - CTP Distillation Plant, (2) 50000 MTPA – Carbon Black Plant, (3) 12 MW – Power Plant and (4) 520 MT – Advanced Carbon Plant. Himadri has adequate funds to complete its India expansion.

Aluminum expansion and CTP expansion in tandem- silver lining

Currently, Indian aluminum industry is adding 0.9 Mn MTPA of new capacity. Graphite industry will add 30000 MTPA of new capacity in next two years. This translates into incremental demand of 100000 Tons of CTP or 200000 MTPA of distillation capacity. Himadri has plans to add 240000 MTPA of distillation capacity – in tandem with the Aluminum industry requirement.

Downward revision in FY09-10E estimates

With 3 Month delay in India expansion and cancellation of China expansion- we have revised our FY09E and FY10E estimates. We have removed the benefits of China expansion from our FY09E and FY10E estimates. Consequently, earnings are revised downwards by 14% and 29.8% for FY09E and FY10E respectively. The revised earnings estimates are Rs24.4 and Rs60.7 for FY09E and FY10E. Himadri is trading at undemanding valuations of PER 6.5X FY09E and 3.6X FY10E.

Key Financials: Rs Mn

YE-Mar	Gross Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E (x)
FY07	3,907	1,002	25.7	616	19.5	5.8	2.1	3.2	29.5	8.1
FY08	4,300	1,284	29.9	829	26.0	5.6	1.5	1.3	23.1	6.1
FY09E	4,639	1,417	30.5	846	24.4	5.8	1.0	1.3	17.9	6.5
FY10E	7,651	2,546	33.3	1,500	43.3	3.5	0.8	1.3	23.4	3.6

Financials

YE Mar (Rs Million)	Q2FY09	Q2FY08	YoY Gr(%)	Q1FY09	QoQ Gr(%)
Gross Sales	1329.3	958.8	38.6	1065.6	24.7
Expenditure	947.0	654.0	44.8	720.3	31.5
Material Cost	624.3	449.6	38.9	456.6	36.7
% of Sales	47.0	46.9	-	42.8	-
Employee Expenses	12.6	9.3	35.5	12.2	3.3
% of Sales	0.9	1.0	-	1.1	-
Other Expenses	310.1	195.1	58.9	251.5	23.3
% of Sales	23.3	20.3	-	23.6	-
Operating Profit	382.3	304.8	25.4	345.3	10.7
EBIDTA (%)	28.8	31.8	-300 bps	32.4	-360 bps
Other Income	5.2	9.6	-45.8	2.6	100.0
Interest	48.3	24.2	99.6	39.0	23.8
Depreciation	39.0	27.7	40.8	36.5	6.8
PBT	300.2	262.5	14.4	272.4	10.2
Tax	70.0	63.4	10.4	62.3	12.4
PAT	230.2	199.1	15.6	210.1	9.6
PAT (%)	17.3	20.8	-350 bps	19.7	-240 bps
EPS	7.2	6.3	14.4	6.6	9.6

Expansion plans

	FY09E	FY10E	FY11E	FY12E
CTP Pitch (India)				
Target Capacity (MT)	249000	319000	399000	399000
Addition (MT)	80000	70000	80000	0
Capex (Rs bn)	1.2	1.1	1.2	0
Advanced Carbon (India)				
Target Capacity (MT)	650	1250	2050	4000
Addition (MT)	520	600	800	1950
Capex (Rs bn)	0.5	0.6	0.8	2.0
Carbon Black & Power				
Target Capacity (MT)	50000	50000	50000	50000
Addition (MT)	50000	0	0	0
Capex (Rs bn)	2.2	0	0	0
CTP Pitch (China)				
Target Capacity (MT)	100000	250000	350000	450000
Addition (MT)	100000	150000	100000	100000
Capex (Rs bn)	1.5	2.2	1.5	1.5
Total Capex (Rs bn)	3.9	1.6	2.0	1.9

Off the track

5th November 2008

BUY

Price	Target Price
Rs 112	Rs 163

Sensex – 10,631

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(41)	(57)	(65)
Rel. to Sensex	13	(19)	(30)	(35)

Source: Bloomberg

Stock Details

Sector	Engineering
Reuters	KALI.BO
Bloomberg	KRNE@IN
Equity Capital (Rs mn)	107
Face Value (Rs)	10
No of shares o/s (mn)	11
52 Week H/L (Rs)	600/85
Market Cap (Rs bn /USD mn)	1/21
Daily Avg Vol (No of shares)	61581
Daily Avg Turnover (US\$ mn)	0.2

Shareholding Pattern (%)

	30/6/08	31/3/08	31/12/07
Promoters	24.7	24.7	23.4
FII/NRI	26.3	26.3	20.6
Institutions	7.7	5.5	2.8
Private Corp.	13.2	15.4	25.6
Public	28.2	28.2	27.7

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Kalindee Rail Nirman's (KRNL) reported revenue growth of 100% in Q2FY09 to Rs 878 mn, ahead of our estimates of Rs 731 mn. EBITDA margins declined by 390 bps to 8.7%, lower than our expectation of 11.5%. Margins drop is mainly on account of increased raw material cost. Despite of attractive topline growth, EBITDA increased by 38.4% YoY to Rs 77 mn. Impacted by 88.1% increase in interest charges to Rs 22 mn and higher tax rate of 38.9%, PAT increased by only 9.5% to Rs 32 mn, which was lower than our expectation of Rs 39 mn. EPS for the quarter stood at Rs 2.5 as against Rs 2.3 previous year. Company's order book as of now stands at approximately Rs 4.5 bn however company expects orders worth Rs 3-4 bn in next 6 months.

To factor current economic slow down, risk of delays in upcoming projects along with rising interest cost, we are downgrading our earnings estimates for the company by 24.2% and 33% for FY09E and FY10E, respectively. We are also cutting target multiple from 8x to 6x inline with shrinkage in PE multiple of other infrastructure companies. Resultantly we are downgrading our price target from Rs 324 to Rs 163 and maintain BUY recommendation on the stock considering 46% upside from current level.

Q2FY09 Results Highlights -

- **100% increase in net revenues** to Rs 878 mn was 20% higher than our expectation of Rs 731 mn. During the quarter, revenue break up for construction contracts and supply contracts was not available.
- **EBITDA margins declined by 390 bps to 8.7%** lower than our expectation of 11.5%. Raw material cost (including work cost) increased by 860 bps keeping margins under pressure. Margins are expected to improve in H2FY09 on account of rationalization of cost and revenue bookings from new projects.
- **Order book of Rs 4.5 bn** at present is expected to increase by Rs 3-4 bn by the end of FY09. Order inflow has been muted during the quarter since company has received new orders of approximately Rs 500 mn only during the quarter due to delays in few projects. Pending projects are likely to get awarded in next six months.

Earnings downgrade by 24.2% and 33% in FY09E and FY10E

Delays in orders from railway, we expect, may have adverse impact on company's revenues since company's growth is closely linked with capex plans of Indian railways. To factor lower growth, we are downgrading our revenues estimates for the company by 16.7% and 30.6% to Rs 3.4 bn and Rs 5 bn BY FY09E and FY10E, respectively. As a result, we are downgrading net profit estimates by 24.2% and 33% to Rs 199 mn and Rs 344 mn resulting in EPS of Rs 15.7 and Rs 27.1 for FY109E and FY10E, respectively.

Price target revised to Rs 163, maintain BUY

We are revising our price target for the company from Rs 324 to Rs 163 based on 6x FY10E earnings estimates. Revision in price target is to factor in 1) 33% downward revision in FY10E EPS estimates and 2) cutting down valuation multiple from 8x to 6x in line with recent correction in valuations of engineering, capital goods and infrastructure companies.

Key financials

(Rs mn)

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	ROCE (%)	EV/EBITDA	P/BV	Div Yld (%)	P/E
FY07	1881	209	11.1	95	9.0	27.6	7.9	1.7	0.9	12.4
FY08	2347	256	10.9	141	11.1	22.8	6.8	1.2	0.9	10.1
FY09E	3386	419	12.4	199	15.7	25.8	4.6	1.1	1.3	7.1
FY10E	5079	688	13.5	344	27.1	28.1	3.4	0.9	1.8	4.1

Quarterly Results analysis

Rs mn

Y/E Mar	Q2FY08	Q1FY09	Q2FY09	% YoY	% QoQ	FY08	FY09E	FY10E
Net Sales	439	595	878	100.1	47.5	2,347	3,386	5,079
Raw Material	105	(15)	483	358.5	(3217.8)	1,205	1,405	2,057
Other Work Cost	227	475	257	13.3	(46.0)	619	159	239
Staff Cost	13	16	13	4.7	(13.8)	65	77	108
Other Exp	38	40	48	24.5	19.9	202	1,325	1,988
Total Exp	383	515	801	109.0	55.4	2,091	2,967	4,392
EBITDA	55	79	77	38.4	(3.6)	256	419	688
Depreciation	1	2	3	170.0	17.4	6	10	13
EBIT	54	77	74	36.0	(4.2)	250	409	674
Interest	12	18	22	88.1	19.2	45	103	145
Other Income	-	-	-	-	-	-	-	-
PBT	43	59	52	21.9	(11.5)	205	306	529
Tax	14	18	20	48.1	13.2	64	107	185
ETR (%)	32.0%	30.4%	38.9%	21.5	27.9	31.0%	35.0%	35.0%
APAT	29	41	32	9.5	(22.3)	141	199	344
AEPS	2.3	3.2	2.5	9.5	(22.3)	11.1	15.7	27.1

% of NS			(chng bps)	(chng bps)				
Raw Material	24.0	(2.6)	55.0	3102	5764	51.3	41.5	40.5
Other Work Cost	51.7	79.9	29.3	(2244)	(5066)	26.4	4.7	4.7
Staff Cost	2.9	2.6	1.5	(140)	(109)	2.8	2.3	2.1
Other Exp	8.7	6.7	5.4	(330)	(125)	8.6	39.1	39.1
EBITDA	12.6	13.4	8.7	(389)	(463)	10.9	12.4	13.5
EBIT	12.4	13.0	8.4	(397)	(455)	10.7	12.1	13.3
APAT	6.6	6.9	3.6	(300)	(326)	6.0	5.9	6.8

Source: Emkay Research

Revision in target price

	Previous		Revised		% Change		Comment
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	
Net sales	4063	7314	3386	5079	-16.7%	-30.6%	Moderate revenue growth to factor order delays
EBITDA	559	1074	419	688	-25.0%	-36.0%	
EBITDA %	13.8%	14.7%	12.4%	13.5%	(138)	(115)	Change in EBITDA margins due to cost pressure
PBT	404	790	306	529	-24.2%	-33.0%	
PAT	263	514	199	344	-24.2%	-33.0%	
EPS	20.7	40.4	15.7	27.1	-24.2%	-33.0%	
Target P/E multiple (x)		8		6		-25.0%	Cutting down valuation multiple in line with other construction and capital goods industry and infrastructure companies
Target price		324		163		-49.7%	

Source: Emkay Research

Results above expectations

5th November 2008

BUY

Price	Target Price
Rs 70	Rs 106

Sensex – 10,631

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(25)	(31)	(32)
Rel. to Sensex	8	3	13	26

Source: Bloomberg

Stock Details

Sector	Paper
Reuters	TNNP.BO
Bloomberg	TNNP@IN
Equity Capital (Rs mn)	692
Face Value (Rs)	10
No of shares o/s (mn)	69
52 Week H/L (Rs)	147/55
Market Cap (Rs bn /USD mn)	5/104
Daily Avg Vol (No of shares)	25326
Daily Avg Turnover (US\$ mn)	0.0

Shareholding Pattern (%)

	30/9/08	30/6//08	31/3/08
Promoters	35.3	35.3	35.3
FII/NRI	12.4	12.4	13.5
Institutions	29.2	29.1	28.4
Private Corp.	6.1	6.1	6.2
Public	17.1	17.1	16.6

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Tamilnadu Newsprint and Papers (TNPL) reported strong Q2FY09 results which were ahead of our estimates on account of higher than expected EBITDA margins. Revenues increased by 23.7% YoY to Rs 3 bn (we expected Rs 2.6 bn) driven by 11% volume growth and 12.7% increase in realisations. Increase in EBITDA margins by 130 bps to 29.1% positively surprised us since we expected margins of 26.9%. EBITDA increased by 29.9% YoY to Rs 862 mn and APAT increased by 23% YoY to Rs 409 mn which is above our expectation of Rs 325 mn. AEPS for the quarter stood at Rs 5.9 as against Rs 4.8 in Q2FY08. We are downgrading our price target from Rs 151 to Rs 106, which is 1x of our FY09 estimated book value (based on previous five year average) of Rs 106.

Q2FY09 Results Highlights -

- Revenues increased by 23.7% YoY to Rs 3.0 bn (above our estimates of Rs 2.6 bn). Paper sales volume increased by 11% (68,728 mt) while realisations increased by 12.7% (41,000 / mt). Paper segment revenues increased by 25.1% to Rs 2.8 bn whereas revenues from energy (wind power) increased by 16.1% YoY to Rs 493 mn. Capacity utilisation for the quarter stood at 111%.
- EBIT margins in paper segment declined by 90 bps to 21.3% YoY and energy segment margins declined to 8% from 14.1% in Q2FY08. EBITDA margins for the quarter improved by 130 bps to 29.1% as against our expectation of 26.9%.
- On account of 93% fall in other income to Rs 4 mn, 28% increase in depreciation to Rs 242 mn and 159% increase in interest to Rs 116 mn, PBT increased by only 3% to Rs 508 mn (we expected Rs 453 mn). However lower tax rate of 19.4% due to MAT credit of Rs 87 mn for previous year, helped TNPL to report PAT growth of 23% to Rs 409 mn above our expectation of Rs 325 mn.
- For the quarter, company reported extraordinary loss of Rs 6.3 mn, resulting in net profit of Rs 403 mn. Adjusted EPS for the quarter works out Rs 5.9 as against Rs 4.8 in Q2FY08.
- Company has entered into forward contracts to hedge its future payables and reported unrealised MTM loss of Rs 268 mn. However there are likely actual losses of Rs 51 mn in H1FY09 due to exchange loss on forward contracts. The matter is pending for the approval and on clearance PAT is likely to come down by Rs 51 mn.

Downgrading price target to Rs 106

We are downgrading our price target from Rs 151 to Rs 106, based on 1x FY09 estimated book value of Rs 106. Our target P/BV multiple is based on historical five years average for the company. We expect TNPL to report EPS of Rs 18.5 for FY09E and Rs 19.1 for FY10E. We **maintain our BUY recommendation** on the stock given 52% upside from current level. At our target price, stock trades at 3.7x FY10E estimated earnings and EV / EBITDA of 2.6x.

Key financials

	(Rs mn)									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	ROCE (%)	EV/ EBITDA	P/BV	Div Yld (%)	P/E
YE-Mar										
FY07	8548	1890	22.1	891	12.8	15.0	5.9	0.8	4.8	5.5
FY08	9385	2319	24.7	1085	15.6	16.1	5.3	0.8	4.5	4.5
FY09E	10580	2705	25.6	1287	18.5	17.1	3.3	0.7	5.7	3.8
FY10E	11009	2764	25.1	1329	19.1	16.3	2.6	0.6	5.7	3.7

Quarterly Results analysis

Rs mn

Y/E Mar	Q2FY08	Q1FY08	Q2FY09	% YoY	% QoQ	FY08	FY09E	FY10E
Net Sales	2,392	2,484	2,957	23.7	19.0	9,385	10,580	11,009
Raw Material	682	507	768	12.6	51.4	2,809	3,934	4,139
P&F	461	779	684	48.6	(12.2)	1,945	1,276	1,326
Staff Cost	157	182	194	23.4	6.3	681	703	738
Selling & Other Exp	429	425	450	5.0	5.9	1,632	1,962	2,043
Total Exp	1,728	1,894	2,096	21.3	0.0	7,067	7,875	8,246
EBITDA	664	591	862	29.9	45.9	2,319	2,705	2,764
Dep & Amm	190	223	242	27.6	8.8	755	885	885
EBIT	474	368	620	30.8	68.3	1,563	1,820	1,879
Interest	45	90	116	158.9	28.5	243	279	279
Other Income	64	66	4	(93.4)	(93.6)	267	297	298
PBT	493	344	508	3.1	47.8	1,588	1,838	1,898
Tax	160	97	99	(38.4)	1.6	503	551	569
ETR (%)	32.5%	28.2%	19.4%	0.0	0.0	31.7%	30.0%	30.0%
APAT	333	247	409	23.0	66.0	1,085	1,287	1,329
EO income/ (Loss)	-	-	(6)	#DIV/0!		43	-	-
Net Profit	333	247	403	21.1	66	1,128	1,287	1,329
AEPS	4.8	3.6	5.9	23.0	66.0	15.6	18.5	19.1

% of NS			(chng bps)	(chng bps)				
Raw Material	28.5	20.4	26.0	(255)	555	29.9	37.2	37.6
P&F	19.3	31.4	23.1	388	(824)	20.7	12.1	12.0
Staff Cost	6.6	7.3	6.5	(1)	(78)	7.3	6.6	6.7
Selling & Other Exp	17.9	17.1	15.2	(271)	(189)	17.4	18.5	18.6
EBITDA	27.8	23.8	29.1	139	536	24.7	25.6	25.1
EBIT	19.8	14.8	20.9	114	613	16.7	17.2	17.1
APAT	13.9	9.9	13.8	(7)	391	11.6	12.2	12.1

Segmental Results

Rs mn

Y/E Mar	Q21FY08	Q1FY09	Q2FY09	% YoY	% QoQ
Revenues					
Paper	2252	2415	2817	25.1	16.7
Energy	424	471	493	16.1	4.5
Total	2676	2886	3310	23.7	14.7
Inter segment	0	402	422	-!	4.9
Total net sales	2676	2484	2888	7.9	16.3
Segment Results					
Paper	492	428	600	22.0	40.2
Energy	58	27	40	(31.5)	44.5
Total	549	455	639	16.4	40.5
- int	45	90	116	159.5	28.5
- Other unallocable exp	12	21	16	28.9	(26.4)
Total PBT	493	344	501	1.8	45.9
EBIT %				(chng bps)	(chng bps)
Paper	21.8	17.7	21.3	(55)	358
Energy	13.6	5.8	8.0	(558)	222
Total	20.5	15.8	19.3	(122)	355

Source: Emkay Research

In-line with expectation

5th November 2008

BUY

Price	Target Price
Rs 56	Rs 79

Sensex – 10,338

Price Performance

(%)	1M	3M	6M	12M
Absolute	(56)	(71)	(85)	(87)
Rel. to Sensex	(47)	(59)	(75)	(75)

Source: Bloomberg

Stock Details

Sector	Real Estate
Reuters	UNTE.BO
Bloomberg	UT@IN
Equity Capital (Rs mn)	3242
Face Value (Rs)	2
No of shares o/s (mn)	1621
52 Week H/L (Rs)	547/27
Market Cap (Rs bn /USD mn)	79/1,623
Daily Avg Vol (No of shares)	13641237
Daily Avg Turnover (US\$ mn)	28.0

Shareholding Pattern (%)

	30/9/08	31/6/08	31/3/08
Promoters	74.6	74.6	74.6
FII/NRI	5.5	5.6	6.7
Institutions	1.8	2.0	2.0
Private Corp.	9.3	9.1	8.6
Public	8.8	8.8	8.1

Source: Capitaline

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Unitech reported its Q2FY09 which were lower than our expectation. Revenue for the quarter declined by 3.0% to Rs.9.8bn. EBITDA increased by 20.2% to Rs.6.09bn, with EBITDA margins improving by 1200bps to 62%. Interest cost increased from Rs.790mn in Q2FY08 to Rs.1.34bn in Q2FY09. Net profit for the quarter declined by 12.3% to Rs.3.6bn due to higher tax rate. Net Debt during the quarter was at Rs.83.5bn as compared to Rs.72.5bn in Q1FY09. The company has entered into an agreement with Telenor, a Norwegian based Telecom Company, to divest 60% stake in its telecom venture for Rs.61bn. Telenor shall invest US\$250mn in form of equity as soon as the company receive all the relevant approvals. The balance amount will be invested in two phases by December 2009. From the initial funding of Telenor, Rs.3bn will be paid back to Unitech Limited. Further, with Unitech having 40% stake in the telecom venture, its corresponding share of debt (which is Rs.12bn) in the telecom venture will also come down.

We are revising our NAV estimate for Unitech due to a) increase in the cost of capital b) delays in certain projects c) higher than expected debt. We estimate Unitech's NAV at Rs.175 (as compared to our earlier estimate of Rs.296). We are maintaining our **BUY** rating with revised target price of Rs.79, at 55% discount to NAV.

Key highlights

- The company has ~55mnsqft under development of which 30mnsqft is in the residential segment. During the quarter the company launched few residential projects in Gurgaon and Mohali in the range of Rs.4-5mn. Unitech is now aggressively looking at launching residential apartment in the mid-housing segment, which we believe is a good strategy.
- The company has entered into an agreement with Telenor, a Norwegian based Telecom Company, to divest 60% stake for Rs.61bn. Telenor shall invest US\$250mn in form of equity as soon as the company receive all the regulatory approvals. The balance amount will be invested in two phases by December 2009. From the initial funding of Telenor, Rs.3bn will be paid back to Unitech, which is directly as a loan to the telecom entity. The telecom company has debt of Rs.12bn which gets consolidated with Unitech as it is currently a 100% subsidiary. Post stake sale, Unitech will have 40% stake in the telecom venture and its corresponding share of debt (which is Rs.12bn) will also come down.
- Net debt for Unitech increased from Rs.72.5bn in Q1FY09 to Rs.83.5bn in Q2FY09. Debt equity stands at 1.9x, almost at similar level to Q1FY09. Unitech's high leverage has been a significant cause of concern in this tight liquidity scenario. Though the company has entered into an agreement with Telenor, fast approvals for the telecom license will become very important as far as high leverage for Unitech is concerned.
- During the quarter, the company made significant progress towards construction in progress. WIP increased from Rs.14.2bn in Q1FY09 to Rs.14.6bn in Q2FY09, suggesting ramp up in the existing projects.
- The management has guided for Rs.30bn of construction cost in FY08 as compared to Rs.18bn in FY07. Our numbers factor in construction cost of Rs.36bn for FY08. For FY08, the company expects Rs.8.1bn of interest cost, including interest that will be capitalized on account of commercial properties.
- Unitech's unpaid land bank stands at Rs.40bn to be over next few years. Large portion of the land bank payment (which is required to be paid to the government) will be paid on revenue accruing basis as well. The company does not intend to add to further land bank, expect for few lucrative deals that may come across in future.

Revising our target price to Rs.79

- We expect the company to report revenue of Rs.69.4bn in FY09 and Rs.116.8bn in FY10. Net profit for FY09 and FY10 is expected to be Rs.20bn and Rs.31.9bn respectively. The stock trades at 4.0x FY09 and Rs.2.5x FY10 earnings. We are revising our NAV estimate for Unitech due to a) increase in the cost of capital b) delays in certain projects c) higher than expected debt. We estimate Unitech's NAV at Rs.175 (as compared to our earlier estimate of Rs.296). We are maintaining our BUY rating with revised target price of Rs.79, 55% discount to NAV.

Consolidated Result

Income Statement (Rs Mn.)	Q2 FY09	Q2 FY08	YoY%
Revenue	9830.9	10134.8	-3.0%
Expenditure	3738.5	5064.3	-26.2%
EBITDA	6092.4	5070.5	20.2%
<i>EBITDA Margin</i>	<i>62.0</i>	<i>50.0</i>	<i>1194 bps</i>
Interest	1341.4	789.8	69.8%
Depreciation	38.4	29.9	28.4%
Other Income	183.6	507.7	-63.8%
Profit before Tax	4896.2	4758.5	2.9%
Tax	1299.6	659.8	97.0%
<i>Effective Tax Rate (%)</i>	<i>26.5</i>	<i>13.9</i>	<i>1268 bps</i>
PAT	3596.6	4098.7	-12.3%
Minority interest	5.7	6.9	-17.4%
Share of Profit & Loss of Asso	-1.7	9.4	-81.9%
Adjusted PAT	3589.2	4101.2	-12.4%
EPS	2.2	2.5	-12.3%

Disappointing performance

5th November 2008

BUY

Price	Target Price
Rs999	Rs1,365

Sensex – 10,120

Price Performance

(%)	1M	3M	6M	12M
Absolute	(31)	(61)	(72)	(81)
Rel. to Sensex	(20)	(43)	(53)	(63)

Source: Bloomberg

Stock Details

Sector	Offshore Oil Field Services		
Reuters	ABAN.BO		
Bloomberg	ABAN@IN		
Equity Capital (Rs mn)	75		
Face Value (Rs)	2		
No of shares o/s (mn)	38		
52 Week H/L (Rs)	5,555/610		
Market Cap (Rs bn/USD mn)	38/801		
Daily Avg Vol (No of shares)	561745		
Daily Avg Turnover (US\$ mn)	18.9		

Shareholding Pattern (%)

	30/09/08	30/06/08	31/03/08
Promoters	60.9	60.9	60.9
FII/NRI	16.9	17.3	17.8
Institutions	4.6	4.9	4.7
Private Corp	2.3	2.6	2.4
Public	15.3	14.2	14.1

Source: Capitaline

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Aban Offshore's Q2FY2009 & H1FY2009 consolidated net profit is below expectations primarily because of lower than expected EBIDTA margins and lower profitability of its 50% JV Venture Drilling. Revenues for the quarter stood at Rs8.24 bn (higher than expectation) registering a yoy growth of 73%, driven by re-pricing of rigs in the standalone entity, higher operating fleet days for Sinvest rigs an addition of Aban VIII in Aban Singapore. EBIDTA for the quarter stood at Rs4.6 bn registering a growth of 83.5% yoy. Excluding the extraordinary forex gain of approximately Rs1.5 bn on account appreciation of USD against Norwegian kroner, Pre-exceptional net profit for the quarter grew by 1210% and stood at Rs1.178 bn as compared to Rs90 million, in Q2FY2008. On account of lower EBIDTA margins and lower profitability for its 50% JV Venture Drilling we are downgrading our earnings estimates for Aban by 7.2% for FY2009 and 7.5% for FY2010. Following concerns on global recession Crude oil prices have corrected sharply from its highs of USD147. This has put questions on sustainability of growth in global E&P capex which in turn has impacted valuations of oil Services Company globally. Even though Aban boasts of high earnings visibility of 90% for FY2009 and 73% for FY2010, its valuation has decline in line with its international peers. Hence to account for sharp decline in valuation of international drilling companies we are downgrading our price target for Aban to Rs1365. We have valued Aban at 20% discount to valuations commanded by its international peers. We have used average of three valuation measures PER, P/B and EV/EBIDTA. Maintain BUY.

Results Highlights

- Aban Offshore's Q2FY2009 & H1FY2009 consolidated net profit is below expectations primarily because of lower than expected EBIDTA margins and lower profitability of its 50% JV Venture Drilling.
- Revenues for the quarter stood at Rs8.24 bn (higher than expectation) registering a yoy growth of 73%, driven by re-pricing of rigs in the standalone entity, higher operating fleet days for Sinvest rigs an addition of Aban VIII in Aban Singapore. For H12009 revenue jumped close to 100% and stood at Rs15.73 bn.
- EBIDTA for the quarter stood at Rs4.6 bn registering a growth of 83.5% yoy as EBIDTA margins expanded by 320 bps to 55.9%. However the same was below expectation primarily because of higher than expected other expenditure.
- Other income for the quarter registered a 3 fold jump as the company recorded forex gain of approximately Rs1.5 bn on account appreciation of USD against Norwegian kroner. WE have treated this as extraordinary item and accounted for it below the line.
- Though on a qoq basis 3 month LIBOR rates have jumped by close to 125-150 bps, on a yoy basis the same are still lower. Hence Aban's interest charges declined by 11.2% yoy to Rs2.02 bn.
- Depreciation jumped 161% yoy on account of addition of Aban VIII, DD 7 and higher operating fleet days for Sinvest rigs.
- Pre-exceptional net profit for the quarter after adding the share of profits in JV grew by 1210% and stood at Rs1.178 bn as compared to Rs90 million, in Q2FY2008. Reported profit which includes forex gain stood at Rs2.68 bn recording a 29X jump yoy.

Results Table

	Q22009	Q22008	YoY(%)	H12009	H12008	YoY(%)
Net sales	8242.6	4761.3	73.1%	15737.0	7897.4	99.3%
Total Expenditure	3637.6	2251.9	61.5%	7116.6	3966.8	79.4%
Consumption of Stores	525.66	293.9	78.9%	961.57	549.0	75.2%
As % of Sales	6.4%	6.2%		6.1%	7.0%	
Staff cost	838.32	422.2	98.5%	1595.77	777.8	105.2%
As % of Sales	10.2%	8.9%		10.1%	9.8%	
Rental charges to machinery	462.1	130.3	254.7%	614.8	219.1	180.6%
As % of Sales	5.6%	2.7%		3.9%	2.8%	
Repairs to machinery	50.4	45.8	10.1%	185.3	70.8	161.8%
As % of Sales	0.6%	1.0%		1.2%	0.9%	
Insurance	169.46	149.1	13.6%	303.49	284.6	6.6%
As % of Sales	2.1%	3.1%		1.9%	3.6%	
other expenditure	1591.73	1210.7	31.5%	3455.8	2065.6	67.3%
As % of Sales	19.3%	25.4%		22.0%	26.2%	
Total Expenditure	3637.6	2251.9	61.5%	7116.6	3966.8	79.4%
As % of Sales	44.1%	47.3%		45.2%	50.2%	
Operating profit	4605.0	2509.3	83.5%	8620.4	3930.6	119.3%
Other Income	98.57	398.3	-75.3%	1806.27	868.1	108.1%
PBIDT	4703.6	2907.6	61.8%	10426.7	4798.7	117.3%
Interest	2027.39	2283.0	-11.2%	3617.5	3465.6	4.4%
PBDT	2676.2	624.6	328.4%	6809.2	1333.1	410.8%
Depreciation	1132.8	434.2	160.9%	2064.9	914.8	125.7%
PBT before amortisation	1543.4	190.5	710.4%	4744.3	418.3	1034.3%
Goodwill amortised		15.7			31.5	
PBT	1543.4	174.7	783.3%	4744.3	386.8	1126.5%
Tax	670.5	318.6	110.5%	1278.4	610.2	109.5%
PAT	872.9	-143.8	-706.9%	3465.9	-223.4	-1651.2%
Add: Share of JV	306.9	233.8		451.3	339.3	
Less: Minority	1.5	0.0		2.0	0.0	
Pre-exceptional Net Profit	1178.2	90.0	1209.7%	3915.2	115.9	
Extra-ordinary Items expenses						
Extra-ordinary Items income	1500					
Reported Net profit	2678.2	90.0	2877.1%			
EPS	23.7	-3.9		94.1	-6.1	
OPMs	55.9%	52.7%	3.2%	54.8%	49.8%	5.0%
PBT(%)	18.7%	4.0%		30.1%	5.3%	
PAT	10.6%	-3.0%		22.0%	-2.8%	
Tax rate	43.4%	167.3%		26.9%	145.9%	

Downgrade earnings and price target

On account of lower EBIDTA margins and lower profitability for its 50% JV Venture Drilling we are downgrading our earnings estimates for Aban by 7.2% for FY2009 and 7.5% for FY2010. Following concerns on global recession Crude oil prices have corrected sharply from its highs of USD147. This has put questions on sustainability of growth in global E&P capex which in turn has impacted valuations of oil services company globally. Even though Aban boast of high earnings visibility of 90% for FY2009 and 73% for FY2010, its valuation has decline in line with its international peers. Hence to account for sharp decline in valuation of international drilling companies we are downgrading our price target for Aban to Rs1365. We have valued Aban at 20% discount to valuations commanded by its international peers. We have used average of three valuation measures PER, P/B and EV/EBIDTA. Maintain BUY.

Comparative Valuation

Year ending Dec	PER			EV/EBIDTA			Earnings 2 yr CAGR
	2008	2009	2010	2008	2009	2010	
Atwood Oceanics	8.7	5.4	4.7	7.0	4.5	3.7	36.2
Diamond Offshore	9.0	7.3	6.4	6.1	5.2	4.4	18.9
Ensco International	4.7	4.4	4.0	3.8	3.7	3.3	8.1
Noble corp	5.7	4.6	4.1	4.4	3.8	3.3	17.2
Pride International	5.4	4.7	4.4	4.5	4.2	3.8	9.8
Rowan Companies	5.3	4.2	4.1	4.1	3.6	3.1	13.1
Transocean	5.7	5.0	4.3	5.8	5.4	4.6	14.8
Average	6.3	5.1	4.6	5.1	4.5	3.8	16.9
Aban Offshore*	4.1	2.5	2.6	5.8	3.7	3.3	115.0

*Note: Aban's year ending is March

Price Target	Multiple	Value per share	Comment
PER	4	1694	20% discount to average valuations of global peers
P/B	1.6	1389	With sustainable RoE of 25% and D:E 1X
EV/EBIDTA	3.6	1012	20% discount to average valuations of global peers
Average		1365	

Financials

Income Statement

Y/E, Dec (Rs. m)	FY07	FY08	FY09E	FY10E
Net Sales	7186.8	20210.6	39100.7	54131.1
Growth (%)	46.6	181.2	93.5	38.4
Total Expenditure	3712.6	9674.8	12883.6	18565.8
Manpower Costs	564.5	2003.1	2403.7	2884.4
Consumption of stores	683.9	1199.9	1658	2042
Rental charges to machinery	230.6	637.9	868	1036
Repairs to machinery	258.9	444.4	682	812
Other Exps	1974.7	5389.6	7271.9	11791.4
EBIDTA	3474.1	10535.8	26217.1	35565.4
Growth (%)	23.9	203.3	148.8	35.7
EBIDTA %	48.3	52.1	67.1	65.7
Other income	880.9	1069.9	1160.7	1160.7
Interest	2686.4	6658.5	10504.8	10298
Depreciation	1265.6	3140.4	4878	6453
EBT	403.1	1806.8	11995	19975.1
Tax	746.6	1430.1	3148.6	4167.6
EAT	-343.6	376.7	8846.5	15807.5
Growth (%)	-141.8	-209.6	2248.5	78.7
EAT (%)	-4.8	1.9	22.6	29.2
Share of profit in associates/JV	203.6	853.1	1457.6	1847
Reported Net Profit Before minority Interest	-140	1229.8	10304.1	17654.5
Extraordinary/One time item	0	2534.7	0	0
Foreign exchange diff	0	1943.8	0	0
Impairment	0	590.9	0	0
Adjusted Net Profit Before minority Interest	-140	3764.5	10304.1	17654.5
Minority Interest	0	0.1	129.4	1351.5
Net profit after min Interest	-140	3764.4	10174.7	16303
Preference Dividend	135.7	260.4	260.4	260.4
Tax on Preference Dividend	23.1	44.3	44.3	44.3
Net profit after Preference Dividend	-298.8	3459.7	9870.1	15998.3

Balance Sheet

Y/E, Dec (Rs. m)	FY07	FY08	FY09E	FY10E
Equity share capital	73.8	75.6	76.9	76.9
Preference Capital	3060	3060	3060	3060
Reserves & surplus	2174.4	4983.5	16876.6	32715.7
FCCB	4284.9	2183.6	0	0
Networth	9593.2	10302.6	20013.5	35852.6
Secured Loans	97264.6	115274.8	0	0
Unsecured Loans	6975.8	12975.6	0	0
Loan Funds	104240.4	128250.4	131159.6	112034.6
Minority Share	0	4.2	133.6	1485.1
Total Liabilities	113833.5	138557.3	151306.7	149372.3
Gross Block	80994.3	92348.5	143272.4	143272.4
Less: Depreciation	5790.9	8819.8	13697.8	20150.8
Net block	75203.4	83528.7	129574.6	123121.6
CWIP (incl cap adv)	22444.1	42718.2	0	0
Investment	4682.5	6390.9	7518.6	7518.6
Current Assets	19190.1	14089.7	24054.9	31835.6
Inventories	1022.3	1646.8	2909.7	3961.8
Sundry debtors	2033.1	4712.1	8900.8	12227.5
Cash & bank balance	13264	6453.1	10966.8	14368.6
Loans & advances	2870.8	1277.7	1277.7	1277.7
Current Liab & Prov	6949.1	7516.6	9187.8	12449.8
Current liabilities	6624.5	6568	8239.3	11501.3
Provisions	324.7	948.6	948.6	948.6
Net current assets	12241	6573.1	14867.1	19385.7
Net deferred tax	-737.5	-653.6	-653.6	-653.6
Total Assets	113833.5	138557.3	151306.7	149372.3

Cash Flow	FY07	FY08	FY09E	FY10E
Net Profit after Tax	-343.6	376.7	10304.1	17654.5
Add : Depreciation	1202.6	3077.5	4878	6453
Add : Misc exp w/off				
changes in debtors	-1334.1	-2679	-4188.7	-3326.7
changes in inventories	-533.4	-624.5	-1262.9	-1052.1
changes in L & A	2689.4	1593.1	0	0
changes in creditors	5844.1	567.5	1671.2	3262
Net changes in WC	6666	-1143	-3780.3	-1116.8
Operational Cash Flows	7525.1	2311.1	11401.8	22990.7
Capital expenditure	-83649.5	-31137	-8207.1	0
Investments	-4490.4	-1708.3	-1127.8	0
Investing Cash Flows	-88139.9	-32845.4	-9334.9	0
Borrowings	93142.3	24010	2909.2	-19125
dividend paid	0	-288.4	-463.9	-463.9
Issue of shares	601.1	1.7	1.3	0
Financing Cash Flows	93743.4	23723.3	2446.7	-19588.9
changes in cash	13128.5	-6810.9	4513.6	3401.9
Opening balance	135.4	13264	6453.1	10966.8
Closing balance	13263.9	6453.1	10966.7	14368.6

Key ratios	FY07	FY08	FY09E	FY10E
EPS (Rs)	-8.1	91.6	261.2	423.4
CEPS (Rs)	26.2	174.7	390.3	594.2
Book Value Per Share (Rs)	177	191.7	448.7	867.9
Dividend Per Share (Rs)	3	3.6	3.6	3.6
Valuations Ratios (x)				
PER	-124.8	11	3.9	2.4
P/CEPS	38.6	5.8	2.6	1.7
P/BV	5.7	5.3	2.3	1.2
EV/EBIDTA	35.6	14.6	5.8	3.6
EV/Sales	17.2	7.6	3.9	2.4
M-Cap/EBIDTA	10.7	3.6	1.5	1.1
M-Cap/sales	5.2	1.9	1	0.7
Financial ratios				
RoCE (%)	4.8	6.7	15.5	20.1
RoNW (%)	-4.6	47.8	58.2	48.8
Net debt/ Equity	13.7	16.4	6.8	2.8
Total Debt/Equity	10.9	12.4	6.6	3.1
Dividend yield (%)	0.3	0.4	0.4	0.4

5th November 2008

Lakshmi Machine Works

Result update

Valuations - too cheap to ignore

ACCUMULATE

Price	Target Price
Rs696	Rs810
Sensex	10,120

Price Performance

(%)	1M	3M	6M	12M
Absolute	(18)	(38)	(59)	(81)
Rel. to Sensex	(4)	(9)	(29)	(64)

Source: Bloomberg

Stock Details

Sector	Textile
Reuters	LKMC.BO
Bloomberg	LMW@IN
Equity Capital (Rs mn)	124
Face Value (Rs)	10
52 Week H/L (Rs)	4,000/507
Market Cap (Rs bn)	9
Daily Avg Volume (No of sh)	15262
Daily Avg Turnover (US\$)	0.3

Shareholding Pattern (%)

(31 st Sep. '08)	
Promoters	25.3
FII/NRI	15.0
Institutions	22.0
Private Corp.	15.3
Public	22.4

Source: Capitaline

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Q2FY09 Result Highlights

LMW reported disappointing set of numbers driven precarious industry state and order deferrals from the customers. Net sales declined by 24% YoY to Rs4462mn while operating profits declined by 30.2% YoY to Rs844mn (margins declined by 165bps YoY to 19.1% due to increase in raw material costs and lack of fixed cost leverage). A 25% YoY increase in depreciation charges coupled with lower other income resulted in profits declining by 49% to Rs379mn. LMW continues to have a strong but declining order book at Rs36bn (**Order book has been declining continuously from the peak of Rs53.5bn at end FY07**)

Textile industry not out of the woods yet....

Although the rupee appreciation does not remain a concern for the textile industry anymore as in FY08, the overall slowdown in global markets has continued to keep the industry prospects under pressure. Further lack of funding availability has resulted in prolonged delays in industry expansions. In absence of any signs of revival, LMW's customers (textile spinners) continue to postpone order deliveries, adversely impacting the revenue growth of the company.

3-10% price hike affected from September 2008

The rise in commodity prices in Q109 had led to an increase in raw material prices and hence put pressure on margins. LMW has implemented a price hike ranging between 3-10% across various product lines, from 1st September 2008 to combat these cost pressures. (LMW enjoys the benefit of the 'Price ruling at delivery' clause in its client contract terms). Further there is minimal risk to order cancellations as LMW receives 10% advance payment from the customers prior to order booking. **Despite the recently implemented price increments, we believe that anemic revenue growth could continue to exert downward pressure on margins for the company.**

Earnings cut by 22% each for FY09 and FY10

Post disappointing results owing to continuing order deferrals, we are reducing our FY09 and FY10 revenue and earnings estimates by ~18% and 22% each. We believe LMW's quarterly performance could continue to be patchy on account of order deferrals. We now estimate LMW to report earnings of Rs153 and Rs160 for FY09 and FY10 respectively.

CMP of Rs696 values LMW at 0.5x FY09 EV/EBIDTA; ACCUMULATE

In absence of profit growth and predictability the stock has corrected by ~80% to CMP of Rs696 per share. We believe that the stock would not command healthy earnings multiple in times of subdued user industry prospects. We value LMW at stress case value of 1x FY09E EV/EBIDTA at Rs810 per share. Currently LMW commands a market cap of Rs8.6bn, and trades at ~ 0.5x FY09E EV/EBIDTA. Further LMW offers attractive dividend yield of 5.6% and its expected FY09 cash per share is Rs479 (69% of Mcap). We revise our target price to Rs810 (from Rs1863 earlier) based on 1x FY09E EV/EBIDTA. We maintain ACCUMULATE rating on the stock.

YE-Mar	Net Sales	EBITDA (Core)	(%) APAT	RoE (%)	EV/EBITDA	P/BV	Div Yld (%)	AEPS (Rs)	P/E	
FY07	18,992	3,403	17.9	2,028	39.5	0.5	1.5	5.7	164	4.2
FY08	22,446	4,460	19.9	2,377	35.2	0.5	1.1	6.5	192	3.6
FY09E	19,508	3,648	18.7	1,882	22.9	0.5	1.0	5.6	152	4.6
FY10E	19,924	3,736	18.8	1,949	20.4	0.1	0.8	5.7	158	4.4

Estimates revised downwards

	FY09				FY10		
	FY08A	Old	New	Change	Old	New	Change
Net sales	22,446	23,785	19,508	-18.0%	24,428	19,924	-18.4%
EBIDTA	4,460	4,448	3,648	-18.0%	4,580	3,736	-18.4%
EBIDTA %	19.9%	18.7%	18.7%	-	18.8%	18.8%	-
PAT	2,440	2,460	1,912	-22.3%	2,570	1,991	-22.5%
EPS	192	198	153	-22.4%	207	160	-22.6%

Quarterly result highlights

	Q209	Q109	Q408	Q308	Q208	YoY %
Net sales	4,417.6	4,591.4	6,039.9	5,352.1	5,827.4	-24.2%
Other operating income	44.1	139.2	211.0	105.5	59.2	-25.4%
Operating Revenues	4,461.7	4,730.6	6,250.9	5,457.6	5,886.6	-24.2%
Raw material exp	2,633.1	2,606.3	3,609.2	3,149.8	3,445.7	-23.6%
Employee exp	313.8	370.1	375.0	346.1	381.9	-17.8%
Other exp	670.8	823.0	1,060.5	807.9	849.5	-21.0%
EBIDTA	844.1	931.2	1,206.3	1,153.7	1,209.5	-30.2%
Depreciation	333.0	316.4	356.4	327.6	264.6	25.8%
EBIT	511.2	614.8	849.9	826.1	944.9	-45.9%
Interest	-	-	-	-	-	-
PBT	511.2	614.8	849.9	826.1	944.9	-45.9%
Other income	75.1	112.4	82.3	66.8	176.6	-57.5%
Taxes	207.6	249.8	330.2	308.5	375.6	-44.7%
PAT	378.7	477.4	602.0	584.5	745.9	-49.2%
EPS	30.6	38.6	48.5	47.3	60.3	-49.2%

% of sales	Q209	Q109	Q408	Q308	Q208	change bps
Raw material cost	59.6	56.8	59.8	58.9	59.1	48
Employee cost	7.1	8.1	6.2	6.5	6.6	55
Other exp	15.2	17.9	17.6	15.1	14.6	61
EBIDTA	19.1	20.3	20.0	21.6	20.8	(165)
PAT	8.6	10.4	10.0	10.9	12.8	(423)
ETR	35.4	34.4	35.4	34.5	33.5	

Segmental

Revenues	Q209	Q109	Q408	Q308	Q208	YoY %
Textile machinery	4,011.5	4,303.3	5,689.2	5,038.8	5,310.1	-24.5%
Machine tools & foundry	470.4	442.3	576.6	434.6	600.8	-21.7%
Total	4,482.0	4,745.6	6,265.8	5,473.4	5,910.8	-24.2%

PBIT

Textile machinery	517.3	621.8	829.9	808.3	874.0	-40.8%
Machine tools & foundry	24.8	28.7	29.7	17.9	70.9	-65.1%
Total	542.0	650.5	859.6	826.1	944.9	-42.6%

PBIT %

Textile machinery	12.9	14.4	14.6	16.0	16.5	(356)
Machine tools & foundry	5.3	6.5	5.1	4.1	11.8	(654)
Total	12.1	13.7	13.7	15.1	16.0	(389)

Financials

Profit & Loss

	FY07	FY08	FY09E	FY10E
Net Sales	18,992	22,446	19,508	19,924
<i>Growth (%)</i>	<i>44.0%</i>	<i>18.2%</i>	<i>-13.1%</i>	<i>2.1%</i>
Raw Material	11,076	13,052	11,607	11,855
<i>% to sales</i>	<i>58.3%</i>	<i>58.1%</i>	<i>59.5%</i>	<i>59.5%</i>
Staff cost	1,286	1,461	1,248	1,295
<i>% to sales</i>	<i>6.8%</i>	<i>6.5%</i>	<i>6.4%</i>	<i>6.5%</i>
Other expenses	3,227	3,473	3,004	3,038
<i>% to sales</i>	<i>17.0%</i>	<i>15.5%</i>	<i>15.4%</i>	<i>15.3%</i>
EBIDTA (core)	3,403	4,460	3,648	3,736
<i>% of Sales</i>	<i>17.9%</i>	<i>19.9%</i>	<i>18.7%</i>	<i>18.8%</i>
Other Income	329	371	445	456
EBITDA	3,732	4,832	4,093	4,192
<i>% of Sales</i>	<i>19.7%</i>	<i>21.5%</i>	<i>21.0%</i>	<i>21.0%</i>
Interest	37	33	-	-
Depreciation	688	1,159	1,323	1,324
PBT	3,008	3,640	2,770	2,868
EO Items	51	69	0	0
Tax	997	1,270	873	903
<i>ETR</i>	<i>33.1%</i>	<i>34.9%</i>	<i>31.5%</i>	<i>31.5%</i>
PAT	2,062	2,440	1,897	1,964

Balance Sheet

	FY07	FY08	FY09E	FY10E
Equity Capital	124	124	124	124
Reserves	5,679	7,451	8,769	10,139
Net worth	5,803	7,575	8,893	10,263
Total Debt	-	-	-	-
Deferred Tax Liabilities	305	475	599	728
Total CE	6,108	8,050	9,492	10,992
Gross Block	9,595	12,306	13,306	13,606
Less Depreciation	5,741	6,736	8,059	9,383
Net Fixed Assets	3,854	5,570	5,248	4,223
CWIP	10	9	9	9
Investments	1,022	1,032	1,032	1,032
Inventory	1,631	1,360	1,199	1,223
Debtors	407	880	641	655
Cash and Bank	6,126	5,683	5,921	7,213
Loans & Advances	3,163	3,347	2,245	2,293
Total Curr. Assets	11,327	11,270	10,006	11,384
Current Liabilities	8,894	7,796	4,655	3,496
Provisions	1,211	2,378	2,146	2,161
Total Cur. Liab. & Prov.	10,104	10,174	6,802	5,656
Net Current Assets	1,223	1,096	3,204	5,728
Total Assets	6,108	7,707	9,492	10,992

Cash Flow Statement

	FY07	FY08E	FY09E	FY10E
PBT	3,086	3,710	2,770	2,868
Depreciation	688	1,159	1,323	1,324
Other Income	(337)	(403)	(445)	(456)
Interest	-	33	-	-
Others	(66)	(33)	-	-
Change in WCap	2,312	(1,069)	(1,295)	(1,246)
Tax Paid	(907)	(982)	(763)	(789)
CFO	4,775	2,415	1,590	1,701
(Inc)/Dec in FA	(2,017)	(2,840)	(1,000)	(300)
(Inc)/Dec in Inv	(6)	(10)	-	-
Other Income	226	392	445	456
CFI	(1,797)	(2,459)	(555)	156
Equity Issue	-	-	-	-
Net Borrowings	-	-	-	-
Dividend Paid	(764)	(369)	(796)	(565)
Interest	-	(31)	-	-
CFF	(764)	(400)	(796)	(565)
Inc/(Dec) in cash	2,214	(444)	239	1,292
Cash beginning	3,912	6,126	5,683	5,921
Cash ending	6,126	5,683	5,921	7,213

Ratios

	FY07	FY08E	FY09E	FY10E
EBITDA %	17.9%	19.9%	18.7%	18.8%
EBIT%	14.3%	14.7%	11.9%	12.1%
NPM %	10.9%	10.8%	9.6%	9.8%
ROCE %	57.1%	51.9%	31.6%	28.0%
ROE %	39.5%	35.2%	22.9%	20.4%
EPS	164	192	152	158
Cash EPS	234	303	269	275
Book Value	469	612	719	830
DPS	40	45	39	40
Payout %	27.4%	26.9%	30.0%	29.7%
Debtors days	10	7	12	12
Creditors days	67	34	45	45
Total Debt: Equity	-	-	-	-
Asset Turnover	4.4	3.7	2.5	2.2
PE (x)	4.2	3.6	4.6	4.4
Cash PE (x)	3.0	2.3	2.6	2.5
P/BV (x)	1.5	1.1	1.0	0.8
EV/Sales (x)	0.1	0.1	0.1	0.0
EV/EBITDA (x)	0.5	0.5	0.5	0.1
Dividend Yield %	5.7%	6.5%	5.6%	5.7%

Company	No. Of Shares (In lacs)	% Change In price
GAIL	32.33	-15.3
Sun Pharma	5.90	10.2
Unitech	97.97	-11.4
Tata Steel	21.18	-10.5
SAIL	31.75	-12.76

Nifty movers

Top Gainers	Price	Index Points
Sun Pharma	1165.85	3.7
Wipro	271.50	2.0
Suzlon	58.65	0.8
PNB	494.85	0.5
Hero Honda	745.50	0.4

Losers

Reliance Ind	1269.05	-46.4
Bharti Airtel	685.35	-9.7
Rcom	225.95	-8.2
SAIL	86.05	-8.1
HDFC	1749.80	-7.8

Index- volatility

Indices	Sensex	Nifty
High	10945	3240
Low	10051	2971
Close	10120	2994
Volatility (in %)	894 8.17	269 8.30

Dealer Comments

Market Summary: The markets opened the session on a positive note with 300 odd points upward gap reflecting strong cues from the global markets and in line with other firm Asian markets amid backdrop of the outcome of US presidential elections. The markets could not hold the gains for much time and soon profit booking and sell off at higher levels bogged the markets down around noon trades and thereafter remained in the red till closing bell. The day's downfall was mainly led heavy selling in index heavy weights while broader markets saw some buying action as is evident from the fact that market breadth was marginally negative and was at – 1.5x. The fall's main culprit was huge sell off in Reliance Ind stocks which dragged the indices heavily down as the stock was down by almost 13% and selling was by FII's and Hedge funds after news of company shutting its five polyester plant, fall in diesel and gasoline demand from US and Europe will impact its Jamnagar refinery plant and downgrading by ABN Amro. Even incremental flows were negative at the FII desk and domestic funds and private insurance companies appeared to be looking to book profits also led to markets closing well in the red. Stocks from Oil & Gas, Metal, Capital Goods, Telecom and Banking were hugely beaten down. Further weakness in European markets and lower trading of US index futures aided in pulling the markets sharply at fag end of the session. Finally indices snapped its five winning streak with Sensex closing 511 points or 4.81% lower to settle at 10120 levels while Nifty lost 147 points or 4.68% lower to settle at 2995 levels. Among the sectoral all of them ended in the red with Oil & Gas, Metal, Realty, Capital Goods, PSU, Power, Auto and FMCG under performing the most. Among the index heavy weights, which gained the most were Sun Pharma, Wipro, Suzlon, PNB and Hero Honda while Reliance Ind, Bharti Airtel, Rel Comm, SAIL and HDFC were weak and ended as losers. Among the midcap space some of the stocks which saw good buying action despite extremely volatile markets were All Cargo, Elecon Engg, Ratnamani Metals, United Phosp, Everonn Systems, Hind Const, Patel Engg, Panacea Bio, I-Bulls Real Estate, Tech Mahindra, Educomp, Federal Bank and Financial Tech and were up in the range of 5 – 10% respectively.

The overall traded volumes were slightly higher compared to earlier day by almost 14% and were at Rs 566 bn. Delivery-based volumes were at 33.4% the total turnover.

Among the institutional activities FII's were net sellers to the tune of Rs 0.93 bn while Domestic Funds were net sellers to the tune of Rs 1.69 bn respectively in the cash segment on 4th November 2008. While on 5th November 2008 FII's bought shares worth Rs. 2.16 bn in cash segment (provisional) and in the F&O segment bought Futures and Options worth Rs. 9.12 bn whereas Domestic Funds sold shares worth Rs. 1.69 bn (provisional).

Movement of indices

Indices	Previous close	Today's close	% chg
Sensex	10,631	10,120	-4.81
Nifty	3142	2994	-4.68
S&P CNX 500	2421	2329	-3.77
BSE 500	3,879	3,730	-3.84
BSE Mid-Cap	3,446	3,394	-1.50
BSE Small-Cap	4,035	3,964	-1.74
BSE Auto	2,791	2,727	-2.28
BSE Health	2,879	2,913	1.18
BSE FMCG	1,961	1,927	-1.72
BSE IT	2,749	2,734	-0.57
BSE PSU	5,078	4,935	-2.82
BSE Bankex	5,741	5,633	-1.87
BSE Oil & Gas	6,749	6,112	-9.44
BSE Metal	5,854	5,451	-6.88
BSE Cons Dur	2,125	2,108	-0.82
BSE Cap Good	7,942	7,591	-4.42
BSE Realty	2,402	2,267	-5.64
BSE Power	1,781	1,736	-2.50

Levels to watch

	Sensex	Nifty
Day's High	10,945	3240
Day's Low	10,051	2971
13 DMA	10072	3009
34 DMA	11256	3372

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Technical Comments



Market Perspective

Yesterday Nifty opened on a positive note and made a high of 3240, but thereafter on higher levels selling pressure was witnessed and Nifty started its southbound journey. It made a low of 2971 and finally closed below psychological level of 3000 with a loss of 4.68% at 2994. On the sectoral indices front, the BSE Oil & Gas index (-9.44%) followed by BSE Metals index (-6.88%) and BSE Realty index (-5.64%) were the top-loosers. While other indices also closed negative except BSE Health index (+1.18%) which closed positive. The Advance Decline ratio was almost 1:2.

Yesterday, Nifty opened on a positive note and made a high of 3240, which was very near to our mentioned immediate target of 3254. On higher levels Bulls were unable to hold their grip and Bears took the lead and terminated Bulls five day continuous rally. Profit booking was witnessed which lead Nifty to formed “**Lower Tops and Lower Bottoms**” and by the end of the day Nifty broke the support level of 2985 and further fell sharply and made a low of 2971 and finally closed below the psychological level of 3000. On the daily chart Nifty had formed “**Bearish Engulfing**” pattern, thus now if Nifty starts trading below 2963, then it can test 2863 which is 38.20% of the recent rally from 2252 to 3240. As the main trend is still bullish, therefore any correction will be a good buying opportunity. However we still maintain our short-term target of 3451.

Today's Strategy:

Hold Long position in Nifty Nov Futures with stop-loss of 2879.30 for the target of 3300. For Intra-day, Nifty is having resistance at 3035 and above that 3111 and it has support at 2963.

Sectoral Speak:

Yesterday the **BSE Oil & Gas** index opened on a positive note and tested our first mentioned target of 6866 and made a high of 6957, but thereafter some profit booking was witnessed and it could not sustain on higher levels and fell sharply and retraced 38.20% of the recent rally from 4569 to 6957 and made a low of 6031. Finally closed at 6112 with a loss of 9.44%. On the daily chart this index had formed “**Bearish Engulfing**” pattern. Now if this index starts trading below 6031 levels then it can test 5763 levels which is 50% retracement level of the above mentioned rally. As the main trend is still bullish thus any correction should be used as buying opportunity. However we maintain our short-term target of 7576.

After opening on a positive note, yesterday the **BSE Metal** index made a high of 6110, but thereafter it could not sustain on higher levels and fell sharply and made a low of 5382. Finally closed at 5451 with a loss of 6.88%. On the daily chart this index had formed “**Bearish Engulfing**” pattern. Now if this index starts trading below 5382 levels then it can test 5230 levels which is 38.20% retracement level of the recent rally from 3806 to 6110. As the main trend is still bullish thus any correction should be used as buying opportunity. However we maintain our short-term target of 7555 and above that 8713, which are 38.20% and 50% retracement level of the entire fall from 13620 to 3806.

Nifty

	04.11.08	05.11.08	Chg	% Chg
Spot	3151.0	2976.75	-174.25	-5.53
Nov Fut	3175.0	2971	-204	-6.43
Dec Fut	3175.0	2975	-200	-6.30

Nifty Cost of Carry

	04.11.08		05.11.08	
	Basis	COC %	Basis	COC %
Nov Fut	24.0	12.1	-5.8	-3.2

Nifty open interest

	No of Shares ('000)			
	04.11.08	05.11.08	Chg	%Chg
Nov Fut	30709	31138	429	1.40
Dec Fut	1128	1169	41	3.63
Total	31864	32337	473	1.48

Nifty put call ratio

	No of Shares ('000)			
	04.11.08	05.11.08	Chg	%Chg
Call OI	29519	31143	1624	5.50
Put OI	33508	34172	664	1.98
PCR	1.14	1.04	-0.10	

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Derivative Comments

Today Nifty opened Positive, but thereafter it took resistance at higher levels and corrected sharply to finally close at 2994.95 with a loss of 4.68 % .The major Gainers were Orchid Chem, Uniphos, HCC, Patel Engg and Matrix Labs. However, the major losers were Reliance, KFA, Sail, HDIL and Gail.

- Nifty Nov futures cost of carry is at 3.20 % Negative against 12.09 % Positive for the previous session.
- Nifty Nov futures traded at nearly 5 - 10 points discount at the end of trading sessions.
- Total Turnover for NSE F&O Segment was Rs.38550 Crores.

Open Interest Analysis:

Long OI Build up was seen in certain stocks like Educomp(16%). Hence we expect these stocks to rally further.

Profit Booking was witnessed in AdlabFilms, Chambal Fert, GVKPIL, HCC, IFCI, Nagarjuna Construction, Nagarjuna Fert, Praj Industries, Reliance Cap.

The Implied Volatility of Nifty again rose from 60 - 61 % to 66 - 67 %. We consider these levels of IV to be still very high and hence we expect the same magnitude of volatility in the coming days. Yesterday Nifty Futures added 4.72 lac shares (1.48%) in OI.

Put Call Ratio Analysis:

PCR (OI) of Nifty decreased from 1.14 to 1.10. Nifty Call options adding 16.24 lac shares (5.50%) and Put options added 6.63 lac shares (1.98%) in OI.

On the Calls Front 3200 strike calls incrementally added (7.08L) and 3100 strike calls added (2.09L).Maximum Call OI now stands at 3200(26.77L) hence nifty has immediate resistance at 3200 on an end of the day basis.

On the Puts Front significant OI addition was witnessed at 2600 strike which added (1.16L).

Cost of Carry (Nov):

Turned Positive: Bank of Baroda, Hindustan Unilever, ICICI Bank and LIC Hsg Fin.

Turned Negative: Bank of India, DLF, HCC, IDFC, NTPC, Reliance Capital, RNRL, Sail, TCS, Tech M and TVS Motors.

FII's Derivative Statistics for 04.11.08

	Buy		Sell		Open Interest as on 04.11.08		Open Interest as on 03.11.08		Change in FIIs Open Interest	
	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	77278	1184.37	37834	579.38	535195	8442.05	517135	7850.58	18060	591.47
Index Options	33252	526.60	32755	502.22	834838	13115.72	813587	12382.18	21251	733.54
Stock Futures	50052	623.80	48856	594.03	880009	10840.81	853162	10167.23	26847	673.58
Stock Options	2086	28.12	2347	22.77	14095	159.05	9688	107.64	4407	51.41
TOTAL	162668	2362.89	121792	1698.4	2264137	32557.64	2193572	30507.63	70565	2050.01

[Home](#)

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