



## Economy News

- ▶ The WPI - based YoY inflation dropped to 10.68% for the week ended October 18 from 11.07% for the week before that. (ET)
- ▶ The Government is exploring a proposal to cut the customs duty on ATF to 2.5% from the existing rate of 5% (ET)
- ▶ The Bank of Japan (BOJ) is considering additional credit easing measures, including a possible interest rate cut, in an attempt to prop up the country's flagging economy amid the fallout from the global financial turmoil. (BS)
- ▶ Government is not considering reduction in prices of petrol, diesel and domestic LPG despite crude falling to its lowest-level in 15 months as prices have to stabilise at this level to wipe out the current revenue losses on fuel sales. (BS)
- ▶ Trade body Associated Chambers of Commerce and Industry of India (ASSOCHAM) said Indian firms across the steel, cement, construction, real estate, aviation, IT-enabled services and financial services sectors are likely to lay off a quarter of their employees in the next 10 days. (ET)

## Corporate News

- ▶ Real estate major **Unitech** on Thursday announced selling of 60% stake in its telecom venture for Rs 61.2bn (about \$1.23 billion) to Norway-based Telenor, which has mobile operations in 12 countries with 160 million subscribers. (BL)
- ▶ **Mahindra and Mahindra (M&M)** posted a drop of 4.9% in its consolidated net profit at Rs.3.73bn for the second quarter ended September 30, 2008 as compared Rs 3.92bn posted in the same quarter a year ago. (BS)
- ▶ Russia's antitrust watchdog said on Wednesday it had received **ONGC's** bid to buy Imperial Energy but believes the deal could limit competition and wants more time to review the application. (ET)
- ▶ **Gujarat Alkalies and Chemicals Limited (GACL)** in collaboration with Gujarat State Petroleum Corporation (GSPC) will set up a 100 MW gas-based power plant at Dahej. (ET)
- ▶ **Fortis Healthcare Ltd** reported a net profit of Rs 100mn for the second quarter ended September, compared with a loss of Rs 152mn in the corresponding quarter last year. Total income stood at Rs 1.67bn, against Rs 1.29bn in the same quarter last year. (ET)
- ▶ **Indian Oil, Bharat Petroleum and Hindustan Petroleum** are likely to get oil bonds worth Rs 659bn this week to make up for half of their revenue loss on fuel sale during the first nine months of 2008. (BS)

### Equity

|                                  | 29 Oct 08 | % Chg |        |        |
|----------------------------------|-----------|-------|--------|--------|
|                                  |           | 1 Day | 1 Mth  | 3 Mths |
| <b>Indian Indices</b>            |           |       |        |        |
| BSE Sensex                       | 9045      | 0.4   | (29.7) | (36.7) |
| Nifty                            | 2,697     | 0.5   | (31.2) | (37.5) |
| BSE Banking                      | 4,674     | (0.6) | (27.9) | (28.3) |
| BSE IT                           | 2,706     | 0.4   | (12.6) | (27.3) |
| BSE Capital Goods                | 6,684     | (1.5) | (36.8) | (42.5) |
| BSE Oil & Gas                    | 5,678     | 2.8   | (37.2) | (40.9) |
| NSE Midcap                       | 3,386     | (1.2) | (30.8) | (39.2) |
| BSE Small-cap                    | 3,675     | (1.0) | (34.1) | (47.0) |
| <b>World Indices (30 Oct 08)</b> |           |       |        |        |
| Dow Jones                        | 9,181     | 2.1   | (15.4) | (19.3) |
| Nasdaq                           | 1,699     | 2.5   | (18.8) | (27.0) |
| FTSE                             | 4,292     | 1.2   | (12.5) | (20.7) |
| Nikkei                           | 9,030     | 10.0  | (22.0) | (34.3) |
| Hangseng                         | 14,330    | 12.8  | (23.4) | (39.3) |

### Value traded (Rs cr)

|             | 29 Oct 08 | % Chg - Day |
|-------------|-----------|-------------|
| Cash BSE    | 3,039     | (8.6)       |
| Cash NSE    | 11,701    | 21.3        |
| Derivatives | 54,223    | 17.9        |

### Net inflows (Rs cr)

|                      | 27 Oct 08 | % Chg | MTD      | YTD      |
|----------------------|-----------|-------|----------|----------|
| FII                  | (1,011)   | (14)  | (14,357) | (51,863) |
| Mutual Fund (28 Oct) | 15        | (105) | 1092     | 13,576   |

### FII open interest (Rs cr)

|                   | 27 Oct 08 | % Chg  |
|-------------------|-----------|--------|
| FII Index Futures | 7,840     | (34.1) |
| FII Index Options | 10,005    | (41.3) |
| FII Stock Futures | 8,985     | (21.5) |
| FII Stock Options | 12        | (97.6) |

### Advances / Declines (BSE)

| 29 Oct 08 | A   | B   | S   | Total | % total |
|-----------|-----|-----|-----|-------|---------|
| Advances  | 86  | 740 | 187 | 1,013 | 45      |
| Declines  | 120 | 830 | 213 | 1,163 | 52      |
| Unchanged | 1   | 43  | 15  | 59    | 3       |

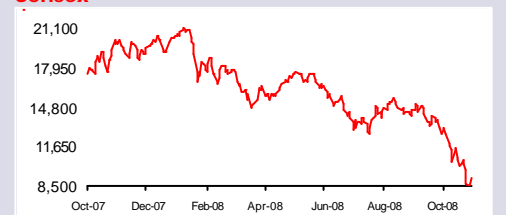
### Commodity

|                          | 30 Oct 08 | 1 Day | 1 Mth  | 3 Mths |
|--------------------------|-----------|-------|--------|--------|
| Crude (NYMEX) (US\$/BBL) | 64.6      | (2.1) | (35.8) | (48.0) |
| Gold (US\$/OZ)           | 738.1     | (2.2) | (15.7) | (19.7) |
| Silver (US\$/OZ)         | 9.8       | (0.9) | (21.9) | (47.0) |

### Debt / forex market

|                     | 29 Oct 08 | 1 Day | 1 Mth | 3 Mths |
|---------------------|-----------|-------|-------|--------|
| 10 yr G-Sec yield % | 7.78      | 7.78  | N.A   | 9.41   |
| Re/US\$             | 49.68     | 49.87 | 46.96 | 42.64  |

### Sensex



**RESULT UPDATE**

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**AREVA T&D**

**PRICE: Rs.168**  
**TARGET PRICE: Rs.190**

**RECOMMENDATION: REDUCE**  
**CY08E P/E: 15.3x**

- ❑ Numbers are below expectations. Strong revenue growth but margin declined as a result of manpower and other expenditure related to the company's capacity expansions.
- ❑ Steep rise in interest cost and decline in other income negates healthy operating profit growth.
- ❑ Order backlog remains healthy at Rs 42.5 bn, equivalent to 17 months of CY08E gross revenues.
- ❑ Capacity expansion likely to be delayed into the first quarter if CY09.
- ❑ We have made minor reduction in our earnings forecast for CY08 and CY09.
- ❑ At the current price, the stock is trading 15.3x and 13.8x CY08 and CY09 earnings respectively. We maintain Reduce with a DCF based price target of Rs 190 (Rs.345 earlier)

**Summary table**

| (Rs mn)           | CY07   | CY08E  | CY09E  |
|-------------------|--------|--------|--------|
| Sales             | 20,063 | 26,071 | 32,555 |
| Growth (%)        | 24.9   | 29.9   | 24.9   |
| EBITDA            | 3,575  | 4,566  | 5,271  |
| EBITDA margin (%) | 17.8   | 17.5   | 16.2   |
| Net profit (Adj)  | 2,199  | 2,632  | 2,916  |
| EPS (Rs)          | 9.2    | 11.0   | 12.2   |
| Growth (%)        | 69.3   | 19.7   | 10.8   |
| CEPS              | 10.0   | 12.6   | 14.2   |
| ROE (%)           | 47.2   | 40.3   | 33.6   |
| ROCE (%)          | 64.5   | 42.9   | 33.2   |
| EV/Sales (x)      | 2.0    | 1.7    | 1.4    |
| EV/EBITDA (x)     | 11.5   | 9.9    | 8.6    |
| P/E (x)           | 18.3   | 15.3   | 13.8   |
| P/Cash Earnings   | 16.8   | 13.4   | 11.8   |
| P/BV (x)          | 8.0    | 5.7    | 4.3    |

Source: Company, Kotak Securities - Private Client Research

**Quarterly performance**

| (Rs mn)                        | Q3CY08       | Q3CY07       | YoY (%)   | 9MCY08        | 9M CY07       | YoY (%)   |
|--------------------------------|--------------|--------------|-----------|---------------|---------------|-----------|
| <b>Net Sales</b>               | <b>5,865</b> | <b>4,326</b> | <b>36</b> | <b>17,111</b> | <b>12,323</b> | <b>39</b> |
| Other Income                   | 2            | 47           | -97       | 53            | 92            | -42       |
| <b>Total Income</b>            | <b>5,866</b> | <b>4,373</b> | <b>34</b> | <b>17,164</b> | <b>12,416</b> | <b>38</b> |
| RM costs                       | 3,619        | 2,739        | 32        | 10,455        | 7,976         | 31        |
| Staff costs                    | 546          | 393          | 39        | 1,542         | 1,001         | 54        |
| Other exp                      | 747          | 407          | 84        | 2,268         | 1,323         | 71        |
| Total Expenditure              | 4,912        | 3,539        | 39        | 14,265        | 10,300        | 38        |
| <b>PBIDT</b>                   | <b>953</b>   | <b>787</b>   | <b>21</b> | <b>2,846</b>  | <b>2,023</b>  | <b>41</b> |
| Interest                       | 93           | 11           | 743       | 162           | 36            | 347       |
| <b>PBDT</b>                    | <b>862</b>   | <b>823</b>   | <b>5</b>  | <b>2,738</b>  | <b>2,080</b>  | <b>32</b> |
| Depreciation                   | 107          | 63           | 70        | 262           | 147           | 78        |
| <b>PBT</b>                     | <b>755</b>   | <b>760</b>   | <b>-1</b> | <b>2,476</b>  | <b>1,933</b>  | <b>28</b> |
| Tax                            | 251          | 274          | -9        | 879           | 677           | 30        |
| <b>Adj Profit After Tax</b>    | <b>504</b>   | <b>486</b>   | <b>4</b>  | <b>1,597</b>  | <b>1,256</b>  | <b>27</b> |
| Extra-ordinary Items           | 19           | -            |           | 114           | 0             |           |
| <b>Reported PAT</b>            | <b>523</b>   | <b>486</b>   | <b>8</b>  | <b>1,711</b>  | <b>1,243</b>  | <b>38</b> |
| <b>Ratios (%)</b>              |              |              |           |               |               |           |
| OPM (%)                        | 16.3         | 18.2         |           | 16.6          | 16.4          |           |
| Raw material cost to sales (%) | 61.7         | 63.3         |           | 61.1          | 64.7          |           |
| Staff cost to sales (%)        | 9.3          | 9.1          |           | 9.0           | 8.1           |           |
| Other expenditure to sales (%) | 12.7         | 9.4          |           | 13.3          | 10.7          |           |
| Tax rate (%)                   | 33.2         | 36.1         |           | 35.5          | 35.0          |           |
| EPS (Rs)                       | 10.9         | 10.2         |           | 35.8          | 26.0          |           |

Source: Company

**Revenue growth in line with expectations**

Revenues for the quarter has grown 36% yoy in Q3 CY08 driven by robust demand from the power T&D sector (60% of the orders) as well as the industrial sector.

### **Margins declined due to capex related expenses**

During the quarter, EBITDA margins declined 190 bps to 16.3%. While raw material to sales ratio declined during the quarter, other expenditure increased .84% yoy and was the main reason for margin decline. The company is at the fag end of a major capacity expansion plan across India. We believe that the disproportional rise in staff and other expenditure may also include certain manpower and expenditure related to these capacity expansions.

### **Increase in interest costs slows down profit growth**

Areva is in the midst of implementing an capacity addition programme across three sites which entails an investment of around Rs 7.0 bn to be completed by December 2008. We estimate the company to end the year with an borrowing of Rs 5.5 bn. Thus we see interest costs rising in the current as well as next fiscal.

### **Order inflows declined sequentially**

Order inflows declined sequentially from Rs 14.4 bn to Rs 9.0 bn in Q3 CY08. Order backlog remains healthy at Rs 42.5 bn and provides a visibility of 17 months based on CY08E revenues.

### **Capacity addition likely to be delayed into Q1 CY09**

Areva has embarked on an aggressive capacity expansion programme which will see its transformer capacity increasing from 15000 MVA to 50000 MVA. The company is setting up three plants. The Vadodora (Baroda) factory will make Power transformers up to 765 kV and later upto 1,200 KV range. The company has a large site at Vadodara which will take care of further expansion needs. This will be Areva's second plant for transformers in india. Total capex envisaged is Rs 5 bn for the site. The unit will cater to both domestic and international market.

At Hosur, the company will manufacture Instrument transformers up to 765 kV with ability to expand to 1200 kV range. Total capex planned is Rs 1 bn for the site.

The third site is at Padapparai which will manufacture Switchgear upto 765 KV. This site will also make the Gas-Insulated switchgear (probably the first company to make GIS switchgear in India), which find use in metro location because of its limited space requirements. This plant will result in doubling of switchgear capacity.

These three plants were slated to be completed by December 2008 but now are likely to be delayed into first quarter of CY09.

### **Product-portfolio well geared to meet the emerging HV and Ultra HV demand scenario**

In the HV transmission segment, Areva T&D has been a formidable player. It was the first to build the 765 KV Substation in India for NTPC Sipat. It has already increased localization of HC products in India and would be the first company to manufacture GIS (Gas Insulated Switchgear) products in India.

Even in instrument transformer segment, the company's upcoming facility at Hosur would make products upto 800 KVm which could be upgraded to make 1200 KV transformers. With the recent acquisition of RITZ High Voltage instrument transformers activities and Passoni & Villa, it is a worldwide leader in this segment.

Growth in 765 kV transmission lines during 11th Plan period is expected to be from 1704 ckm at the end of 10th Plan to about 7132 ckm by end of 11th Plan. 765 kV substation transformation capacity would increase from 2000 MVA at the end of 10th Plan to 53000 MVA by end of 11th Plan.

Highest growth in investments is expected in the HV segments like 765 KV and HVDC

**CKM**

|            | 10th plan | 11th plan | % change |
|------------|-----------|-----------|----------|
| 765 KV     | 1,704     | 7,132     | 319      |
| HVDC       | 6,034     | 11,240    | 86       |
| 400 KV     | 75,722    | 125,000   | 65       |
| 230/220 KV | 114,629   | 150,000   | 31       |

Source: CEA

**Substations MVA**

|            | 10th plan | 11th plan | % change |
|------------|-----------|-----------|----------|
| 765 KV     | 2,000     | 53,000    | 2,550    |
| HVDC       | 8,200     | 14,200    | 73       |
| 400 KV     | 92,942    | 145,000   | 56       |
| 230/220 KV | 156,497   | 230,000   | 47       |

Source: CEA

**Maintain Reduce**

**We maintain REDUCE on Areva T&D with a price target of Rs.190**

Valuations have corrected but remain at a premium to broad market

Areva is trading at 15.3x and 13.8x CY08 and CY09 earnings respectively. We maintain **REDUCE** with a price target of Rs 190 (Rs 345 earlier).

**RESULT UPDATE**

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**BLUE STAR LTD**

**PRICE: Rs.172**  
**TARGET PRICE: Rs.220**

**RECOMMENDATION: ACCUMULATE**  
**FY09E P/E: 8.4x**

- ❑ Revenue growth has come below expectations
- ❑ Operating margins down 170 bps but up sequentially.
- ❑ Order backlog at Rs 15.5 bn is up 50% yoy but order inflows remained flat sequentially as well as on a yoy basis.
- ❑ Downgrade to Accumulate with target price of Rs 220 (earlier Rs 560). Our downgrade is based on the view that in line with the real estate sector the order inflows for Central Air conditioning projects company would start slowing down from Q4 FY09 ie with a lag of 9-12 months. The company's professional electronics business may get hit due to the depreciation in rupee as it deals with distribution of niche imported industrial products.
- ❑ Valuations are attractive at 8.4x and 7.2x FY09E and FY10E earnings respectively. Blue Star has traditionally been a high dividend payout company and we see the company maintaining its dividend payout in the coming years as well. This would make dividend yield attractive if interest rates have to decline over the coming quarters.

**Summary table**

|                   | FY08   | FY09E   | FY10E   |
|-------------------|--------|---------|---------|
| Sales             | 22,216 | 27,965  | 32,404  |
| Growth (%)        | 39.3   | 25.9    | 15.9    |
| EBITDA            | 2,270  | 2,888   | 3,446   |
| EBITDA margin (%) | 10.2   | 10.3    | 10.6    |
| Net profit (adj)  | 1,439  | 1,840   | 2,137   |
| Net cash (debt)   | (339)  | (1,556) | (2,022) |
| EPS (Rs)          | 16.0   | 20.5    | 23.8    |
| Growth (%)        | 145.6  | 27.9    | 16.1    |
| CEPS              | 18.4   | 22.9    | 26.7    |
| DPS (Rs)          | 3.0    | 7.0     | 8.2     |
| ROE (%)           | 0.6    | 0.6     | 0.5     |
| ROCE (%)          | 72.0   | 66.0    | 54.0    |
| EV/Sales (x)      | 0.7    | 0.6     | 0.5     |
| EV/EBITDA (x)     | 7.0    | 5.9     | 5.1     |
| P/E (x)           | 10.7   | 8.4     | 7.2     |
| P/Cash Earnings   | 9.3    | 7.5     | 6.4     |
| P/BV (x)          | 5.9    | 4.3     | 3.3     |

Source: Company, Kotak Securities - Private Client Research

**Quarterly performance**

| (Rs mn)                        | Q2FY09      | Q2FY08      | YoY (%)   | H1FY09       | H1FY08       |
|--------------------------------|-------------|-------------|-----------|--------------|--------------|
| <b>Net Sales</b>               | <b>6466</b> | <b>5478</b> | <b>18</b> | <b>12775</b> | <b>10100</b> |
| Other income                   | 11          | 8           | 37        | 28           | 9            |
| Raw material costs             | 4781        | 4036        | 18        | 9411         | 7527         |
| Staff costs                    | 422         | 370         | 14        | 901          | 704          |
| Traded items                   | 200         | 114         | 76        | 351          | 210          |
| Other expenditure              | 373         | 273         | 37        | 852          | 594          |
| Total Expenditure              | 5776        | 4794        | 20        | 11514        | 9037         |
| <b>PBDIT</b>                   | <b>690</b>  | <b>684</b>  | <b>1</b>  | <b>1260</b>  | <b>1063</b>  |
| Interest                       | 44          | 16          | 178       | 64           | 38           |
| Depreciation                   | 61          | 52          | 17        | 118          | 102          |
| <b>PBT</b>                     | <b>596</b>  | <b>624</b>  | <b>-4</b> | <b>1107</b>  | <b>931</b>   |
| Tax                            | 147         | 164         | -11       | 293          | 249          |
| <b>PAT</b>                     | <b>449</b>  | <b>460</b>  | <b>-2</b> | <b>813</b>   | <b>683</b>   |
| PBDIT (%)                      | 10.7        | 12.5        |           | 9.9          | 10.5         |
| Tax rate (%)                   | 29.0        | 26.3        |           | 29.0         | 26.7         |
| Raw material cost to sales (%) | 78.0        | 73.7        |           | 78.0         | 74.5         |
| Other expenditure to sales (%) | 5.8         | 5.0         |           | 6.7          | 5.9          |
| Staff costs to sales (%)       | 6.5         | 6.8         |           | 7.1          | 7.0          |
| <b>EPS (Rs)</b>                | <b>5.0</b>  | <b>5.1</b>  |           | <b>9.0</b>   | <b>7.6</b>   |

Source: Company

### Revenue growth came below expectations

The largest revenue segment ie the Central Airconditioning grew 19%, which was below our expectations. We understand that the ongoing decline in real estate prices and credit crunch faced by developers is resulting delay in project execution and decision making. As a result, there is possibility of delayed translation of orders into revenues.

Cooling Products growth is driven by increased sales of split airconditioners, as well as enhanced demand for refrigeration products and cold chain systems. The room AC segment was reeling under high inventory at the dealer's end on account of early commencement of monsoons in Northern part of India. As a result, the consumer durables segment of the company's competitor (Voltas) had a very lackluster performance in Q2 FY09. However, Blue Star appears to have weathered the slow-down well.

The professional electronics segment grew posted a degrowth of 4%. This segment is basically import distribution of industrial products. Rupee depreciation during the quarter could have been a negative for this segment.

#### Segment Revenue Growth

| Segment Revenue Growth   | Q2FY09 | Q2FY08 | % change |
|--------------------------|--------|--------|----------|
| Central AC (CAC)         | 4,754  | 4,011  | 19       |
| Cooling products         | 1,296  | 1,034  | 25       |
| Professional electronics | 416    | 432    | -4       |

Source: company

EBIDTA margin during Q2FY09 declined 180 bps on yoy basis to 10.7%. We note that in the corresponding quarter of the previous year there was unusually high level of profit booking in the projects segment. Notwithstanding this, segment margins in other product lines have been positive. The cooling products division reported margin expansion despite material cost pressure and depreciation in rupee.

Margin improvement in professional electronics business is surprising since this segment deals in distribution of imported niche industrial products.

#### Segment margins

| (%)                      | Q2 FY09 | Q2 FY08 | Q1 FY09 |
|--------------------------|---------|---------|---------|
| Central AC               | 11.5    | 14.2    | 11.3    |
| Cooling products         | 11.1    | 10.4    | 12.8    |
| Professional electronics | 24.5    | 18.8    | 15.2    |

Source: Company

- Order backlog is up 51% yoy to Rs 15.5 bn. On a sequential basis, order backlog is up 10%. Order inflows during the quarter were flat yoy as well as sequentially at Rs 6.2 bn.
- We expect to see slowdown in order inflows in the coming quarters as investment in commercial and residential real estate sector has slowed down in the past few months.
- Meanwhile order enquiries have already slowed down.

### Earnings Projections revised downwards

Given the slowdown in order enquiries for the CAC business, we are now building flat growth in order inflows in FY10 (18% growth earlier).

Thus, we forecast the CAC project business to grow 13% in FY10 as compared to 25% earlier.

Blue Star is a net importer as it imports some components for its consumer products and professional electronics division. As a result, we expect to see rise in cost of inputs.

### Earnings estimates

| (Rs mn)  | Earlier |       | Revised |        |
|----------|---------|-------|---------|--------|
|          | FY09E   | FY10E | FY09E   | FY10E  |
| Revenue  | 28775   | 34149 | 27,965  | 32,404 |
| EBITDA   | 3021    | 3732  | 2,888   | 3,446  |
| EPS (Rs) | 22.1    | 27.3  | 20.5    | 23.8   |
| % change |         |       | -7      | -13    |

Source: Kotak Securities - Private Client Research

### Valuation

**We recommend  
ACCUMULATE on Blue Star  
with a price target of Rs.220**

The stock is currently trading at 8.4x and 7.2x FY09 and FY10 earnings. We downgrade the stock to Accumulate from **BUY** earlier. Our revised price target works out to Rs 220 (earlier Rs 560).

**RESULT UPDATE**

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**NUMERIC POWER SYSTEMS LTD. (NPSL)**

PRICE: Rs.300  
TARGET PRICE: Rs.500

RECOMMENDATION: BUY  
CONS. FY09E P/E: 3.5x

- ❑ Numeric reported disappointing set of Q2FY09 results which is below our estimates on the profitability front
- ❑ Revise FY09 EPS downwards by 14%.
- ❑ We remain positive and recommend BUY with revised price target of Rs.500 (Rs.950 earlier).

**Summary table - Cons**

|                   | FY07  | FY08  | FY09E |
|-------------------|-------|-------|-------|
| Sales             | 2,904 | 4,260 | 4,993 |
| Growth (%)        | 20.4  | 46.7  | 17.2  |
| EBITDA            | 286   | 533   | 559   |
| EBITDA margin (%) | 9.8   | 12.5  | 11.2  |
| Net profit        | 205   | 424   | 430   |
| Net debt (cash)   | 41    | (20)  | 214   |
| EPS (Rs)          | 40.9  | 83.9  | 85.0  |
| Growth (%)        | 3.8   | 107.0 | 1.4   |
| DPS (Rs)          | 4.5   | 5.0   | 5.0   |
| ROE (%)           | 19.2  | 28.8  | 25.7  |
| ROCE (%)          | 22.7  | 33.0  | 30.4  |
| EV/Sales (x)      | 0.5   | 0.4   | 0.3   |
| EV/EBITDA (x)     | 5.4   | 2.8   | 3.1   |
| P/E (x)           | 7.3   | 3.6   | 3.5   |
| P/BV (x)          | 1.4   | 1.0   | 0.8   |

Source: Company, Kotak Securities - Private Client Research

**Standalone results - Numeric Power - Q2FY09**

| (Rs mn)                         | Q2FY09       | Q2FY08       | YoY (%)       | Q1FY09      | QoQ (%)       | H1FY08       |
|---------------------------------|--------------|--------------|---------------|-------------|---------------|--------------|
| <b>Net Sales</b>                | <b>1,029</b> | <b>1,017</b> | <b>1.2</b>    | <b>894</b>  | <b>15.2</b>   | <b>1,923</b> |
| Inc/dec in stock                | (60)         | (8)          | 642.6         | 16          | (473.6)       | (44)         |
| Raw materials                   | 438          | 460          | (4.8)         | 331         | 32.6          | 769          |
| Pur. Of traded goods            | 336          | 225          | 49.7          | 227         | 48.0          | 564          |
| Staff cost                      | 83           | 66           | 25.2          | 75          | 10.4          | 157          |
| Other exp.                      | 151          | 138          | 10.0          | 134         | 12.8          | 286          |
| Total exp.                      | 948          | 881          | 7.7           | 783         | 21.1          | 1,731        |
| <b>EBIDTA</b>                   | <b>81</b>    | <b>136</b>   | <b>(40.7)</b> | <b>111</b>  | <b>(26.8)</b> | <b>191</b>   |
| Other income                    | 5            | 9            | (48.4)        | 3           | 42.9          | 8            |
| Depreciation                    | 9            | 6            | 43.3          | 9           | 1.2           | 17           |
| <b>EBIT</b>                     | <b>77</b>    | <b>140</b>   | <b>(44.8)</b> | <b>105</b>  | <b>(26.9)</b> | <b>183</b>   |
| Interest                        | 14           | 10           | 32.3          | 12          | 15.6          | 25           |
| <b>PBT</b>                      | <b>64</b>    | <b>129</b>   | <b>(50.9)</b> | <b>94</b>   | <b>(32.2)</b> | <b>157</b>   |
| Ext loss/ (gain)                | -            | -            | -             | (64)        | -             | (64)         |
| Tax & def tax                   | 15           | 23           | (35.9)        | 29          | (49.3)        | 44           |
| <b>PAT</b>                      | <b>49</b>    | <b>106</b>   | <b>(54.2)</b> | <b>129</b>  | <b>(62.2)</b> | <b>177</b>   |
| Equity shares o/s (mn)          | 5.1          | 5.0          |               | 5.1         |               | 5.1          |
| <b>Ratios</b>                   |              |              |               |             |               |              |
| EBIDTA (%)                      | 7.9          | 13.4         | -550 bps      | 12.4        | -450 bps      | 10.0         |
| R M / Sales (%)                 | 36.7         | 44.5         |               | 38.8        |               | 37.7         |
| Pur of traded goods / Sales (%) | 32.7         | 22.1         |               | 25.4        |               | 29.3         |
| Staff cost / Sales (%)          | 8.0          | 6.5          |               | 8.4         |               | 8.2          |
| Oth Exp. / Sales (%)            | 14.7         | 13.5         |               | 15.0        |               | 14.8         |
| Tax / PBT (%)                   | 23.4         | 17.9         |               | 31.3        |               | 28.1         |
| <b>EPS (Rs)</b>                 | <b>9.6</b>   | <b>21.2</b>  |               | <b>25.5</b> |               | <b>35.1</b>  |
| CEPS (Rs)                       | 11.3         | 22.4         |               | 27.2        |               | 38.5         |

Source: Company

- For Q2FY09 the company reported net sales of Rs.1.1 bn thereby registering growth of 1.2% YoY and 15.2% on sequential basis. This was primarily due to higher sales of Uninterrupted Power Supply Systems (UPS).
- The EBIDTA margin during Q2FY09 was down 550 bps on YoY basis to 7.9%. This is primarily due to higher sales of traded goods which typically have lower operating margins than manufactured goods. Also the other expenditure as a percentage of revenues has increased from 13.5% in Q2FY08 to 14.7% in Q2FY09. The staff cost has also increased by 25.2% on YoY basis.
- EBIDTA for Q2FY09 was down 40.7% on YoY basis to Rs.81 mn.
- The interest cost of the company went up sharply to Rs.14 mn due to higher interest rates and loans taken by the company to fund its increasing working capital requirements.
- PBT for Q2FY09 was down by 50.9% on YoY basis to Rs.64 mn.
- PAT for the Q2FY09 stood at Rs.49 mn, down 54.2% on YoY basis thereby translating into quarterly EPS of Rs.9.6 and CEPS of Rs.11.3.



**Change in Estimates - FY09E**

| (Rs mn)      | Old   | Revised |
|--------------|-------|---------|
| Revenues     | 4,993 | 4,993   |
| EBIDTA (%)   | 12.8  | 11.2    |
| Profit       | 496   | 430     |
| EPS (Rs.)    | 98.1  | 85.0    |
| CEPS (Rs.)   | 110.2 | 97.1    |
| Price Target | 950   | 500     |

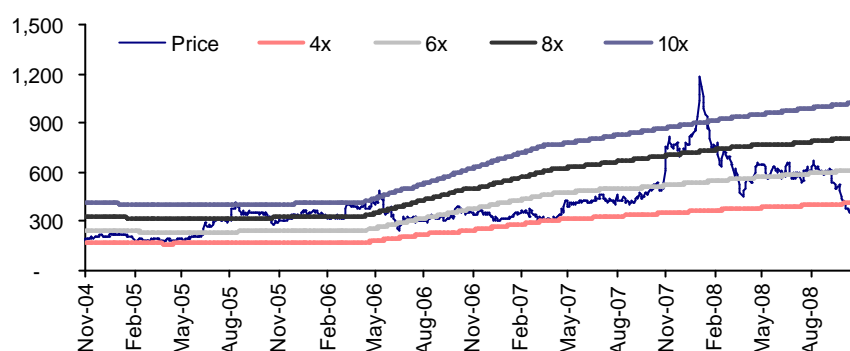
Source: Kotak Securities - Private Client Research

**Change in earning estimates - Consolidated**

- Accommodating for lower than expected profitability, expected slowdown in economy and high interest rates we have revised the earning estimates for Numeric.
- For FY09E, we now expect Numeric to report revenues of Rs.4.9 bn, EBIDTA margin of 11.2% (as against 12.8%) and PAT of Rs.430 mn (down 13.3%).
- Accordingly we expect Numeric to report lower consolidated EPS of Rs.85.0 in FY09E as against our earlier estimate of Rs.98.1.

**Valuation and recommendation**

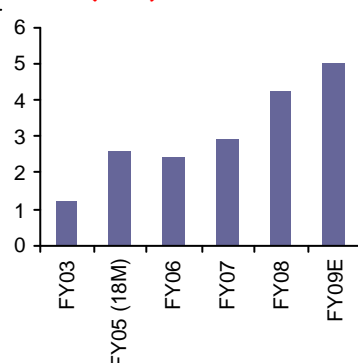
- The current market price of Rs.300 discounts FY09E earnings at 3.5x. We believe this is very attractive considering its market leadership position in the growing UPS Industry in India and successful foray into solar power area.
- We have also done a one-year forward rolling band analysis for Numeric, which revealed that currently the stock is trading below its traditional band of 4x- 10x one year forward earning estimates which makes it attractive at current levels.

**One year forward rolling PE band - Numeric**

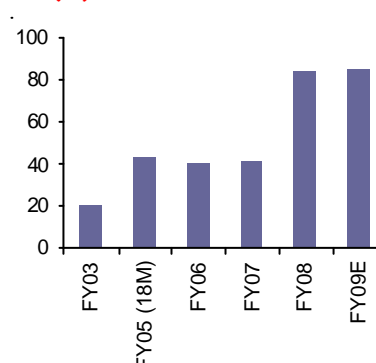
Source: Capitaline, Kotak Securities - Private Client Research

**We recommend BUY on Numeric Power Systems with a revised price target of Rs.500**

- However due to concerns of slowdown in the economy and higher interest rates we feel that the growth could taper off. Thus we have revised our growth assumption going forward post FY09 in our earnings model. This has impacted the valuation of Numeric with DCF method of valuation. (14.5% WACC, 3.0% terminal growth rate.) Thus the price target is revised to Rs.500 (Rs.950 earlier).
- We remain positive and recommend **BUY** on Numeric Power Systems Ltd. with revised target price of Rs.500.

**Net sales (Rs bn)**

Source: Company, Kotak Securities - Private Client Research

**EPS (Rs)**

Source: Company, Kotak Securities - Private Client Research

**RESULT UPDATE**

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**GUJARAT AMBUJA EXPORTS LTD (GAEL)****PRICE: Rs.26****RECOMMENDATION: ACCUMULATE****TARGET PRICE: Rs.35****FY09E P/E: 5.2x**

- ❑ **GAEL reported disappointing Q2FY09 results which are below our estimates both on revenues and profitability front**
- ❑ **Revise FY09 EPS downwards by 29.0%.**
- ❑ **Revise price target downwards to Rs.35 (Rs.70 earlier)**
- ❑ **However due to near term concerns of slowing economy and higher interest rates we revise the rating from BUY to ACCUMULATE**

**Summary table**

|                   | FY07   | FY08   | FY09E  |
|-------------------|--------|--------|--------|
| Sales             | 14,002 | 18,291 | 16,594 |
| Growth (%)        | 9.2    | 30.6   | (9.3)  |
| EBITDA            | 1,013  | 1,546  | 1,592  |
| EBITDA margin (%) | 7.2    | 8.5    | 9.6    |
| Net profit        | 468    | 713    | 688    |
| Net debt          | 1,694  | 3,736  | 2,757  |
| EPS (Rs)          | 3.4    | 5.1    | 5.0    |
| Growth (%)        | 54.2   | 52.4   | (3.4)  |
| DPS (Rs)          | 0.4    | 0.8    | 1.0    |
| ROE (%)           | 15.4   | 19.9   | 17.9   |
| ROCE (%)          | 16.0   | 14.3   | 14.7   |
| EV/Sales (x)      | 0.4    | 0.4    | 0.4    |
| EV/EBITDA (x)     | 5.2    | 4.7    | 4.0    |
| P/E (x)           | 7.7    | 5.0    | 5.2    |
| P/BV (x)          | 1.2    | 1.0    | 0.9    |

Source: Company, Kotak Securities - Private Client Research

**GAEL - Q2FY09 results**

| (Rs mn)                      | Q2FY09       | Q2FY08       | YoY (%)       | Q1FY09       | QoQ (%)       | H1FY009      |
|------------------------------|--------------|--------------|---------------|--------------|---------------|--------------|
| <b>Net Sales</b>             | <b>3,305</b> | <b>3,749</b> | <b>(11.8)</b> | <b>4,381</b> | <b>(24.6)</b> | <b>7,687</b> |
| Increase / decrease in stock | 505          | (115)        | (539.2)       | 100          | 403.8         | 605          |
| raw materials                | 1,971        | 3,041        | (35.2)        | 3,023        | (34.8)        | 4,994        |
| staff cost                   | 71           | 52           | 35.5          | 59           | 21.5          | 130          |
| other exp.                   | 419          | 389          | 7.8           | 766          | (45.3)        | 1,185        |
| total exp.                   | 2,966        | 3,367        | (11.9)        | 3,948        | (24.9)        | 6,914        |
| <b>EBIDTA</b>                | <b>340</b>   | <b>382</b>   | <b>(11.2)</b> | <b>434</b>   | <b>(21.7)</b> | <b>773</b>   |
| Other income                 | 7            | 6            | 0.2           | 0            | 1,513.4       | 7            |
| Depreciation                 | 92           | 80           | 14.3          | 89           | 2.8           | 181          |
| <b>EBIT</b>                  | <b>255</b>   | <b>309</b>   | <b>(17.6)</b> | <b>345</b>   | <b>(26.2)</b> | <b>599</b>   |
| Interest                     | 25           | 23           | 5.7           | 50           | (50.6)        | 75           |
| <b>PBT</b>                   | <b>230</b>   | <b>285</b>   | <b>(19.5)</b> | <b>295</b>   | <b>(22.0)</b> | <b>525</b>   |
| Extraordinary gain / (loss)  |              | (5)          | -             |              | -             | -            |
| Tax & deferred tax           | 100          | 95           | 4.8           | 101          | (1.3)         | 201          |
| <b>PAT</b>                   | <b>130</b>   | <b>186</b>   | <b>(29.9)</b> | <b>194</b>   | <b>(32.8)</b> | <b>324</b>   |
| Equity Rs. mn                | 276.7        | 278.3        |               | 276.7        |               | 276.7        |
| <b>Ratios</b>                |              |              |               |              |               |              |
| Operating margin (%)         | 10.3         | 10.2         | +10 bps       | 9.9          | +40 bps       | 10.1         |
| Raw Materials / Sales (%)    | 74.9         | 78.0         |               | 71.3         |               | 72.8         |
| Staff cost / Sales (%)       | 2.2          | 1.4          |               | 1.3          |               | 1.7          |
| Other Exp. / Sales (%)       | 12.7         | 10.4         |               | 17.5         |               | 15.4         |
| Tax / PBT (%)                | 43.3         | 33.3         |               | 34.2         |               | 38.2         |
| <b>EPS (Rs)</b>              | <b>0.9</b>   | <b>1.3</b>   |               | <b>1.4</b>   |               | <b>2.3</b>   |
| CEPS (Rs)                    | 1.6          | 1.9          |               | 2.0          |               | 3.6          |

Source: Company

- Net sales for Q2FY09 were at Rs.3.3 bn down 11.8% on YoY basis. This was largely due to a 20.3% fall in the revenue of the solvent extraction and edible oil refining division of the company.
- EBIDTA margins during Q2FY09 were up 10 bps on YoY basis to 10.3%. This was primarily due to increase in the PBIT margins of solvent extraction and edible oil refining business of the company from 7.3% in Q2FY08 to 10.5% in Q2FY09.

- The cotton yarn business recorded losses at PBIT level of Rs.44 mn in Q2FY09 as against profit of Rs.22 mn in Q2FY08. This was primarily due to the fact that the cotton yarn prices have not increased while the input costs have gone up thus resulting into losses at PBIT levels.
- EBIDTA for Q2FY09 was at Rs.340 mn, down 11.2% on YoY basis.
- PBT for Q2FY09 was at Rs.230 mn, down 19.5% on YoY basis.
- PAT for Q2FY09 was down 29.9% on YoY basis to Rs.130 mn. This translated into a quarterly EPS of Rs.0.9 and quarterly CEPS of Rs.1.6.

#### Segmental table

|                                  | Q2FY09 | Q2FY08 | YoY (%) | Q1FY09 | QoQ (%) | H1FY09 |
|----------------------------------|--------|--------|---------|--------|---------|--------|
| <b>Segmental Revenue (Rs mn)</b> |        |        |         |        |         |        |
| Cotton Yarn                      | 443    | 391    | 13.2    | 415    | 6.6     | 858    |
| Maize Processing                 | 478    | 373    | 28.3    | 527    | (9.2)   | 1005   |
| Other Agro Processing            | 2,364  | 2,967  | (20.3)  | 3,422  | (30.9)  | 5786   |
| Wind mill                        | 20     | 19     | 8.2     | 18     | 14.7    | 38     |
| <b>PBIT (Rs. mn)</b>             |        |        |         |        |         |        |
| Cotton Yarn                      | (44)   | 22     | (301.9) | (22)   | 101.3   | (66)   |
| Maize Processing                 | 47     | 63     | (24.9)  | 39     | 22.4    | 86     |
| Other Agro Processing            | 249    | 216    | 15.2    | 331    | (24.6)  | 580    |
| Wind mill                        | 16     | 15     | 9.7     | 14     | 18.8    | 30     |
| <b>PBIT Margins (%)</b>          |        |        |         |        |         |        |
| Cotton Yarn                      | (10.0) | 5.6    | (278.3) | (5.3)  | 88.7    | (7.7)  |
| Maize Processing                 | 9.9    | 16.9   | (41.4)  | 7.3    | 34.9    | 8.5    |
| Other Agro Processing            | 10.5   | 7.3    | 44.6    | 9.7    | 9.2     | 10.0   |
| Wind mill                        | 78.4   | 77.3   | 1.4     | 75.6   | 3.6     | 77.1   |

Source: Company

#### Forex losses on derivative contracts

Due to extreme volatility in the foreign currency market the company has reversed the loss of Rs.172.5 mn provided in the Q1FY09. Also it has booked loss of Rs.19.9 mn which is the actual loss due to maturity of the derivative contract. The loss on account of mark to market provision on outstanding derivative contracts as of 30th September 2008 is Rs.458.1 mn.

#### Change in Estimates - FY09E

| (Rs mn)           | Old    | Revised |
|-------------------|--------|---------|
| Net sales         | 20,820 | 16,594  |
| EBIDTA (%)        | 9.1    | 9.6     |
| PAT               | 970    | 688     |
| Equity            | 276.7  | 276.7   |
| EPS (Rs)          | 7.0    | 5.0     |
| CEPS (Rs)         | 9.4    | 7.7     |
| Price Target (Rs) | 70     | 35      |

Source: Kotak Securities - Private Client Research

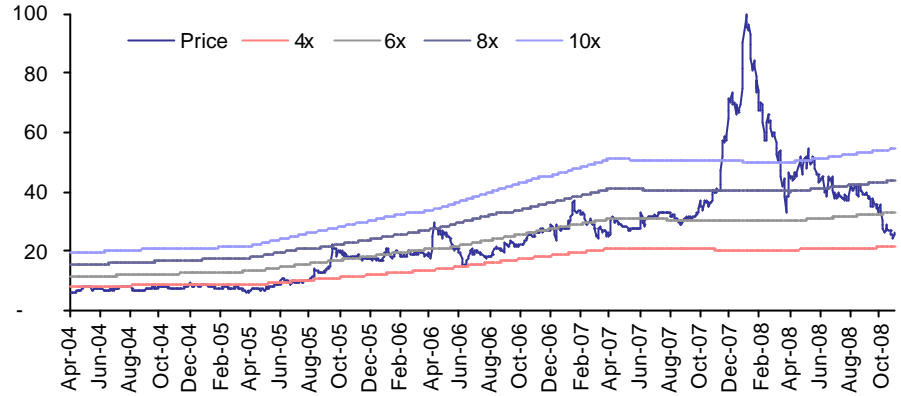
#### Change in earning estimates

- Accommodating for lower than expected results, expected slowdown in economy, commodity meltdown and high interest rates we have revised the earning estimates for GAEL.
- For FY09E, we now expect GAEL to report revenues of Rs.16.6 bn (down 21%, EBIDTA margin of 9.6% (as against 9.1%) and PAT of Rs.688 bn (down 29%).
- Accordingly we expect GAEL to report lower consolidated EPS of Rs.5.0 in FY09E as against our earlier estimate of Rs.7.0.

**Valuation and recommendation**

- The current market price of Rs.26 discounts FY09E earnings at 5.2x.
- We have also done a one-year forward rolling band analysis for GAEL, which revealed that currently the stock is trading at the lower end of its traditional band of 4x- 10x one year forward earning estimates.

**One year forward rolling PE band - GAEL**

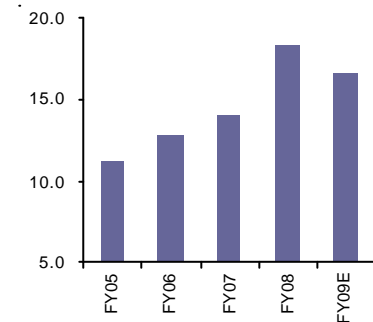


Source: Capitaline, Kotak Securities - Private Client Research

**We recommend ACCUMULATE on GAEL with a price target of Rs.35**

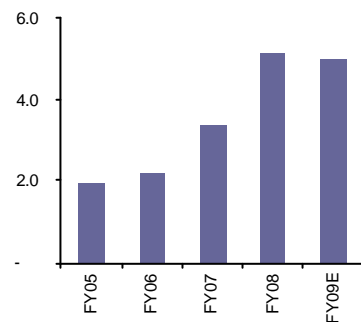
- We have revised the method of valuation from PE to DCF. We have used WACC of 13.2% and terminal growth rate of 3.0%. Thus the price target is revised to Rs.35 (Rs.70 earlier).
- We continue to remain positive on the medium to long term growth prospects of GAEL
- However due to near term concerns of expected slowdown in economy, commodity meltdown and high interest rates we recommend **ACCUMULATE** on GAEL.

**Net sales (Rs bn)**



Source: Company, Kotak Securities - Private Client Research

**EPS (Rs. FV Rs. 2)**



Source: Company, Kotak Securities - Private Client Research

## Bulk Deals

## Trade details of bulk deals

| Date   | Scrip name   | Name of client                          | Buy/<br>Sell | Quantity<br>of shares | Avg.<br>price<br>(Rs) |
|--------|--------------|---|--------------|-----------------------|-----------------------|
| 29-Oct | Anku Dr Ph   | Goldman Sachs Investmts Mauritius I Ltd | S            | 150,843               | 128.00                |
| 29-Oct | Bang         | Maruti Securities Ltd                   | B            | 75,175                | 234.93                |
| 29-Oct | Brushman Ind | Prachi Agencies Pvt Ltd                 | B            | 700,000               | 52.02                 |
| 29-Oct | Brushman Ind | Nendej Tieup Private Limited            | S            | 350,000               | 52.04                 |
| 29-Oct | Brushman Ind | Aristro Financial Services Ltd          | S            | 350,000               | 52.00                 |
| 29-Oct | Dujodwa Prod | Catch Penny Potfolio Ltd                | S            | 48,555                | 4.41                  |
| 29-Oct | Helios Mat I | Passionate Investment Management        | B            | 154,000               | 27.75                 |
| 29-Oct | Helios Mat I | Bseinternalshortage                     | S            | 154,000               | 27.75                 |
| 29-Oct | Natraj Fin   | Dash Pharmaceuticals Pvt Ltd            | B            | 26,531                | 29.68                 |
| 29-Oct | Natraj Fin   | Pari Stock Trading Pvt Ltd              | S            | 23,622                | 28.46                 |
| 29-Oct | Saboo Sod Ch | Chiragpuri Kailashpuri Goswami          | B            | 55,000                | 9.10                  |
| 29-Oct | Sadbhav Engg | ABN Amro Bank Nv London Branch          | B            | 192,070               | 465.00                |
| 29-Oct | Sadbhav Engg | BSMA Limited                            | S            | 190,000               | 465.00                |
| 29-Oct | Sahpetroleum | Globe Capital Market Limited            | B            | 340,468               | 30.58                 |
| 29-Oct | Sahpetroleum | LRS Portfolio And Advisory Serv. P Ltd  | B            | 900,000               | 30.58                 |
| 29-Oct | Sarla Per F  | Passionate Investment Management        | B            | 77,730                | 57.50                 |
| 29-Oct | Sarla Per F  | Bseinternalshortage                     | S            | 77,730                | 57.50                 |
| 29-Oct | Woolite Merc | Umesh Purushottam Chamdia               | B            | 691,334               | 7.34                  |
| 29-Oct | Woolite Merc | Sanjay Rasiklal Shah                    | S            | 80,550                | 7.60                  |
| 29-Oct | Woolite Merc | Sridhar Bhupatiraju                     | S            | 608,530               | 7.30                  |

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

|                    | Price (Rs) | % change | Index points | Volume (mn) |
|--------------------|------------|----------|--------------|-------------|
| <b>Gainers</b>     |            |          |              |             |
| Reliance Ind       | 1,202      | 4.2      | 12.4         | 7.8         |
| Wipro              | 257        | 7.5      | 4.2          | 4.3         |
| SAIL               | 85         | 5.7      | 3.1          | 10.9        |
| <b>Losers</b>      |            |          |              |             |
| Reliance Com       | 194        | (10.7)   | (7.7)        | 16.3        |
| DLF Ltd            | 203        | (7.0)    | (4.2)        | 9.2         |
| Hindustan Unilever | 207        | (5.0)    | (3.8)        | 13.0        |

Source: Bloomberg

## Forthcoming events

## Company/Market

| Date   | Event   |
|--------|---|
| 31-Oct | Bharti Airtel, India Cements, Siemens, PNB, MMTC, IVRCL Infra Projects, GVK Power, HPCL, Hindalco Industries, Kotak Mahindra Bank, Financial Technologies, Parsvnath Developers, Deccan Chronicle, Tata Motors, Unitech, Reliance Communication earnings expected |

Source: Bloomberg

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