

September 24, 2007
FOR PRIVATE CIRCULATION
Equity

	21 Sep 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	16,564	1.3	14.8	14.5
Nifty	4,838	1.9	15.5	13.8
Banking	8,740	0.6	19.5	11.5
IT	3,638	1.6	4.9	(1.6)
Healthcare	3,654	(0.5)	6.7	(4.4)
FMCG	2,153	(0.6)	14.6	18.4
PSU	7,781	1.3	17.4	15.8
CNX Midcap	6,623	0.6	17.8	13.7
World indices				
Nasdaq	2,671	0.6	3.7	3.2
Nikkei	16,414	0.2	0.4	(10.3)
Hangseng	25,844	0.6	14.6	19.4

Value traded (Rs cr)

	21 Sep 07	% Chg - 1 Day
Cash BSE	7,982.6	15.4
Cash NSE	16,687.1	13.0
Derivatives	75,928.8	30.2

Net inflows (Rs cr)

	20 Sep 07	% Chg	MTD	YTD
FII	1,630	(34)	8,259	43,638
Mutual Fund	(233)	(148)	(34)	3,045

FII open interest (Rs cr)

	20 Sep 07	% chg
FII Index Futures	17,983.4	(2.3)
FII Index Options	16,538.4	5.5
FII Stock Futures	31,584.8	2.6
FII Stock Options	252.1	19.8

Advances/Declines (BSE)

	21 Sep 07	A	B1	B2	Total	% Total
Advances	130	86	1	217	12	
Declines	267	443	12	722	41	
Unchanged	321	477	12	810	46	

Commodity

	21Sep 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	81.2	(0.5)	14.3	17.5
Gold (US\$/OZ)	731.5	(0.2)	10.0	12.3
Silver (US\$/OZ)	13.5	1.3	13.6	4.1

Debt/forex market

	21 Sep 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.87	7.84	7.92	8.17
Re/US\$	39.83	39.84	41.09	40.87

Sensex


Source: Bloomberg

ECONOMY NEWS

- The RBI would consider last week's Fed rate cut as a 'relevant input' in determining policy, RBI Governor YV Reddy has said. (BS)
- The commodity market regulator Forward Markets Commission has said the ban on futures trading in wheat, tur and urad may be lifted once commodity prices soften during winter months. (ET)
- A robust rupee has emerged as the most crucial stumbling block for 91% of the country's exporters and outlook for six months does not look bright, a Ficci survey has said. (ET)
- The Government's decision to import wheat has run into more controversy with the Central Vigilance Commission asking the Union Food Ministry to submit a detailed report on wheat imports made this year. (BS)
- Direct tax collection crossed the Rs.1 trillion milestone this fiscal, recording a growth of 41% up to September 15. The Finance Ministry is now looking at collections of Rs.3 trillion during 2007-08 compared to Rs.2674.9 bn last fiscal. (ET)
- According to the Government's weekly data, wholesale price index grew at 3.32% in the week ended September 8, noticeably down from 3.52% in the previous week. (ET)

CORPORATE NEWS

- Sources said the Mittal group could be a prospective partner in **HPCL's** exploration arm Prize Petroleum Company, which is planning a rights issue. **ICICI Bank** has expressed its unwillingness to subscribe to the issue and is willing to offload its stake in PPCL to a strategic third partner. (ET)
- The **Tata group** is in talks to buy UK-based specialty tea company Liberty Tea to expand its presence in the global beverages market and gain a larger share of the retail shelf space. (ET)
- **Reliance Industries** is likely to enter the telecom sector soon and is exploring various options in the sector. (BS)
- **Bharti Airtel** has said it has got the license to start DTH services in India and announced an investment of Rs.1.5 bn in the first phase to launch nationwide operations. (BS)
- **Hindustan Zinc's** second 1,70,000 TPA smelter at Chanderiya, Rajasthan is being constructed at full swing and may be commissioned ahead of schedule, according to KK Kaura, chairman and CEO, Vedanta Resources. (BS)
- **Alembic Ltd** has once again started the production of Penicillin-G and is expected to restart Penicillin production which is expected to help the company improve its revenue and net profit. (BS)
- Home loans are set to become cheaper, with **HDFC** planning a rate cut to pass on the benefits of lower borrowing costs to customers. (ET)
- **Unitech** has said it would apply to the Department of Telecom for a countrywide telecom license. (BS)
- **Dr Reddy's Laboratories and Ranbaxy Laboratories** are unlikely to pursue their bids for the US-based Bradley Pharmaceuticals as the non-binding bids made by them were lower than the others. (BS)
- **Simplex Infrastructures Ltd** has announced that it has bagged orders worth Rs.8.02 bn in four business verticals - industrial structures, urban utilities, piling and marine structures in domestic as well as overseas markets. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, Tol: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

INITIATING COVERAGE

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REDINGTON (INDIA) LTD.

PRICE : Rs.314
TARGET PRICE : Rs.440

RECOMMENDATION : BUY
FY09E PE : 12.5x

Cons. Summary table (year end March)

(Rs mn)	FY07	FY08E	FY09E
Sales	90,614	113,713	137,080
Growth (%)	33.4	25.5	20.5
EBITDA	1,927	2,624	3,482
EBITDA margin (%)	2.1	2.3	2.5
Net profit	1,017	1,389	1,959
Net debt	4,018	6,204	7,736
EPS (Rs)	13.1	17.8	25.2
Growth (%)	36.8	36.6	41.1
DPS (Rs)	-	2.5	2.5
ROE (%)	16.3	20.3	23.7
ROCE (%)	15.1	19.0	21.7
EV/Sales (x)	0.3	0.3	0.2
EV/EBITDA (x)	14.8	11.7	9.2
P/E (x)	24.0	17.6	12.5
P/BV (x)	3.9	3.3	2.7

Source: Company & Kotak Securities - Private Client Research

True end-to-end supply chain company

Redington (India) Ltd (Redington) is the country's leading player in vendor authorized end-to-end supply chain management of computer hardware and software products. It is present across geographies that include South Asia, Middle East, Africa and Singapore. Redington undertakes the entire process of demand forecasting for a particular item, placing orders with suppliers, stocking at various warehouses, supplying it to channel partners, giving them credit, collecting receivables and finally rendering warranty and post warranty repairs.

Considering its overdependence on IT products, 92.4% of Redington's revenues in FY07, the company has diversified into supply chain management of various verticals like telecom, gaming, digital lifestyle and consumer durables. In 2006, Redington started distribution of Nokia mobile phones in Nigeria and Kenya, distribution of LG and Whirlpool consumer electronics. The company enjoys a strong brand, wide reach, superior logistics capabilities, long standing vendor relationships and a de-risked model in terms of substantial international business (48% of revenues in FY07). The company has already identified CIS and Vietnam for expanding its overseas operations.

Redington has set up a LCD repair facility and is in process of setting up high end telecom repair facility which would boost its high margin services business going forward.

The company has longstanding relationships with over 40 brands in India and 19 in international operations across all segments like HP, Intel, Microsoft, Nokia, Samsung, LG, etc. The company has relationships of more than 10 years with many of them.

We believe the experience and steady focus of the management on expanding and providing value-added services along with its aggressive expansion into non-IT verticals would significantly increase revenues and profitability of the company, going forward.

We are positive on the growth prospects of Redington. We expect the company to achieve EPS of Rs.17.8 in FY08E and Rs.25.2 in FY09E. Therefore, we are initiating coverage on Redington with a BUY recommendation with a price target of Rs.440 (40% upside potential) over a 12-month horizon. This is based on the DCF method of valuation with 11.8% WACC and 3% terminal growth rate.

Key investment rationale

- ❑ **Under penetrated Indian IT markets.** The IT distribution industry is witnessing growth fuelled by investment in the IT and ITeS sector, increasing need for automation and information technology in all industries, increase in communication and computing infrastructure spending and increased internet usage in India. According to IDC India 2006, the IT products market is likely to grow at a CAGR of 17.5% and more than double to \$17 bn by CY10E. This is well supported by the fact that PC penetration in India is very low at 1.5 PCs per 100 people as compared to 35 in America, seven in Asia, and world average of 13 PCs per 100 people.
- ❑ **Growing IT markets in West Asia & Africa.** There is a trend of increasing economic liberalization in West Asia and Africa. This is increasing their spend on IT products, both hardware as well as packaged software. According to IDC 2006, the IT products market in these economies is likely to grow at a CAGR of 13.4% and almost double to \$30 bn by CY10E. PC penetration is very low in the African region, ranging from 0.7 PCs per 100 people in Nigeria to 4.7 in Oman among others as compared to the global average of 13 PCs per 100 people. This provides huge opportunity for the company to capture a major share of the rising market.
- ❑ **Excellent infrastructure to take advantage of rising opportunities** Currently, the company has 45 branch offices, 53 warehouses, 45 own service centers and 113 partner managed service centres across India. In the West Asian and African region it has 14 sales offices, seven warehouses, 12 service centers and 48 partner managed service centres. Thus, with the combination of the above infrastructure and quality service, Redington is ideally placed to provide efficient and time-bound services to its clients, which is the essence of the end-to-end supply chain logistics service provider.
- ❑ **Gaining strength in non-IT segments.** In FY06, only 1.2% of the revenues came from the non-IT segment. The company has diversified into supply chain management of non-IT verticals like telecom, gaming, digital lifestyle and consumer durables. As a result of this, the contribution of the non-IT segment has gone up to 5.6% in FY07. Some of the recent initiatives by the company are distribution of Nokia mobile handsets in Nigeria and Kenya, distribution of high value added products like Microsoft Xbox, Apple computer, HP digital printing press and LG and Whirlpool consumer electronics. Redington has set up a LCD repair facility and is in process of setting up high end telecom repair facility.
- ❑ **Exclusive contracts with vendors.** The company has also got exclusive distribution rights with few vendors to distribute their products in particular geographies. Thus, it enjoys exclusive benefits in terms of that particular product. In FY07, almost one-fifth of the revenues came from exclusive products. Some of the exclusive contracts for the company are Microsoft's Xbox and uninterrupted power supply systems of American Power Corporation.
- ❑ **Eyeing larger share of international business.** In FY07, 48% of revenues and 54% of PAT came from the overseas businesses. At present, the company is operating in West Asia and Africa. It is actively looking at other geographies that typically have low IT penetration or unstructured supply chain. Redington is looking to expand aggressively in other African markets & has already identified CIS and Vietnam as next potential geographies.
- ❑ **Strong brand & vendor relationship.** Over the years, Redington has been able to establish itself as a strong brand endorsing efficient and quality services. The company has longstanding relationships with over 40 vendors across all segments. With many of them the company has more than 10 years of relationships. Some of the vendors are Microsoft, HP, Nokia, Acer, IBM, Epson, Intel, Seagate, Wipro, Hitachi, Samsung, LG, Xerox, APC, Symantec, McAfee, among others.

- **Higher effective operating margins.** The company books the revenues as the entire sale proceeds of the products. Thus, if we exclude the cost of goods sold then the company is generating higher operating margins. In FY07 the company recorded operating margins of 2.1% with gross margins of 4.4%.
- **Robust growth in sales & profits.** The net sales of the company have grown at a CAGR of 56.0% and net profits at CAGR of 76.0% from FY03 to FY07. Going forward, we expect revenues to grow at CAGR of 23.0% and net profits at a CAGR of 38.8% from FY07 to FY09E.
- **Attractive valuations.** At the current price of Rs.314, the stock is trading at 12.5x earnings, 9.2x EV/EBIDTA and 0.2x EV/sales multiple based on FY09E estimates. We feel the valuations are attractive due to diversification into value-added verticals and focus of the company on overseas markets.

Key Risks

- Any economic slowdown would impact the demand for IT, telecom, gaming, digital lifestyle and consumer durables. Thus, it would also impact Redington's growth.
- Redington faces competition from Ingram Micro, a global player and eight to ten regional players in India. Any move to distort the market with irrational pricing would impact the profitability of the company.
- Redington purchases items from suppliers and therefore runs the risk of inventory pile up and obsolescence.
- Redington gives credit to its customers. Any default by customers would result in bad debts.
- Any delay in scheduled capex could lead to flat to marginal growth for Redington.

We initiate coverage on Redington with a BUY recommendation with a price target of Rs.440 (40% upside)

COMPANY UPDATE

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**We recommend a BUY on
HCL Technologies with a
price target of Rs.377**

HCL TECHNOLOGIES LTD

PRICE : Rs.275
TARGET PRICE : Rs.377

RECOMMENDATION : BUY
FY09E PE : 14x

Highlights

- We attended the recently held analyst meet of HCL Technologies.
- The management re-iterated that, till date, there has been no impact of the US sub-prime mortgage issues on business visibility.
- The company has initiated a survey among its clients. The results of this survey are expected to be known in the next 60 days.
- HCLT is furthering its efforts to offer transformational services to its target set of large-medium and under-penetrated clients in the \$1bn - \$10bn revenue space.
- The company is increasingly getting output-based pricing from its customers. HCLT is also fast adopting new technologies like SOA, Grid Computing and SAS.
- We maintain our FY08 EPS estimates for HCLT at Rs.19.8. We also maintain **BUY** on the stock with a price target of Rs.377.
- Rupee appreciation beyond our assumed levels and an accelerated slowdown/recession in the US economy, if any, remains major concerns.

The main takeaways of the meeting are as under:

No impact of the US sub-prime mortgage issue, till date

- The management has re-iterated that it has not seen any impact of the US sub-prime mortgage issues on its revenue visibility. There have been no cancellations, postponement or scale-down in any of the projects.
- The management has initiated a survey among its clients on the potential impact of their businesses and their views on outsourcing and offshoring. The results are expected over the next 60 days.

Transformational services

- HCLT has been focusing on providing its clients with end-to-end transformational services with a view to becoming their partners in progress.
- The company provides the entire gamut of services including IT, BPO and infrastructure management services.
- We believe this strategy would work well with relatively smaller clients as compared to large clients, which are now looking increasingly at multi-vendor outsourcing.
- In light of this, we opine that HCLT's focus on large-medium clients should bring in desired results.
- In the recent past, the company has won several deals from customers like Skandia, Celestica, Autodesk, etc which fall in this category.
- Several of these deals include differential pricing (value-based or output-based pricing), employing new technologies or modes of delivery like software-as-service (SAS) or services oriented architecture (SOA), etc.
- We also believe a large number of HCLT's projects will extensively use IPRs or frameworks, which will allow the company to pass on some of these benefits to the customers, while retaining a part of the same.
- HCLT has developed and already launched its first product on Master Data Management and is deploying the same for a leading stock exchange on SAS basis.

Output - based pricing

- HCLT is increasingly adopting the output-based pricing model with a view to bring in some non-linearity in its revenues and improve margins.
- In our opinion, the company is currently taking on mostly product development projects, which involve a proven product and lower risks.
- HCLT will be able to earn a part of the increased revenues generated by the client from that product.
- In IMS, the company is looking at device-based pricing as opposed to T&M pricing adopted by the company currently.

Verticals

- HCLT presented its vertical strategy whereby, it spoke about verticals like:

BFSI

- In addition to the large banks, HCLT is focusing on bagging transformational deals as well as smaller deals in sub-verticals like capital markets and insurance.
- With several peers already present in this vertical in a significant manner, we expect HCLT to face significant challenges to scale up this business rapidly.

Hi-tech and manufacturing

- This vertical is estimated to have annual IT spends of about \$15 bn. HCLT has focused on sub-verticals like aerospace, semiconductors, etc.
- With its inherent expertise in hardware and embedded software, we feel HCLT enjoys a unique positioning in this vertical.

Media, publishing, entertainment

- This \$1.5 tn segment spends about \$31 bn annually on IT outsourcing.
- Within this, HCLT is focused on publishing, gaming and recorded music. It has already developed several IPs in this segment.
- While 1,000 employees are employed in publishing, about 400 are employed in the gaming business.

Life sciences and healthcare

- This vertical spends about \$34 bn on IT and about \$16 bn on R&D every year. It has been a key contributor to HCLT's growth over the past few quarters.
- HCLT has focused on the medical devices segment and seven out of the global Top 10 medical devices companies are its clients. The company also has 10 out of the global Top 15 Pharma companies as its clients.
- Once again, the embedded services expertise is expected to hold HCLT in good stead as far as this business is concerned.

Margin levers exist

- In Q1FY08, HCLT hiked offshore salaries about 15% and on-site about 3.5%.
- HCLT indicated it has several margin levers to restrict the impact of salary increases and potential rupee appreciation.
- The main margin levers are capacity utilization levels increase, pricing increases, re-usable components, execution of FPPs, etc
- HCLT has raised its forex hedges to \$1.7 bn of which, \$72 mn each, are in GBP and euros.
- Thus, the company has cover for about eight quarters now.
- In July and August 2007, the company has already realized \$11.8 mn of forex gains, which may change according to the movement of the rupee in the future.
- Esop conversion is expected to dilute the equity by about 7-4.9% on Esops issued at market price and 2.1% due to Esops issued below market price.

We maintain our earnings estimates.

Future prospects					
(Rs mn)	FY06	FY07	% chg	FY08E	% chg
Turnover	43938	60338	37.3	76006	26.0
Expenditure	34159	46967		59355	
EBIDTA	9779	13371	36.7	16651	24.5
Depreciation	2033	2531		3068	
EBIT	7746	10840	39.9	13583	25.3
Interest	0	0		0	
Other Income	579	4259		2360	
PBT	8325	15099	81.4	15943	5.6
Tax	626	1487		1567	
Adj. PAT	7698	13612	76.8	14376	5.6
Share of income	-6	-46		-10	
Sales incentive	0	0		0	
ESOP charge	0	503		946	
Minority interest	25	18		20	
PAT	7667	13045	70.1	13400	2.7
Shares (mn)	647	664		677	
EPS (Rs) *	11.6	19.7		19.8	
EBIDTA (%)	22.3	22.2		21.9	
EBIT (%)	17.6	18.0		17.9	
PAT (%)	17.5	22.6		18.9	

Source: Company & Kotak Securities - Private Client Research

- We have now assumed the average rupee-dollar exchange rate at 40.25 per US dollar by FY08 end.
- We expect revenues and profits to grow at 26% and 25%, respectively in FY08.
- While EBIDTA margins are expected to come down marginally, a lower other income component and a higher Esop charge are expected to impact profit growth in FY08.
- We expect the company to report an EPS of Rs.19.8 in FY08. This is after assuming a further 2% equity dilution in FY08.

Valuations

- We have accorded a discount to HCLT as compared to peers because of a relatively slower growth in IT services and relatively lower margins.
- After according a relatively lower P/E multiple of 19x to our FY08E EPS, we arrive at a price target of Rs.377 for HCLT and maintain a BUY on the stock.

Concerns

- An accelerated slowdown/recession in major user economies may impact our projections.
- The rupee has appreciated to 40 against the US dollar. This is higher than our assumed levels for FY08. A sharp acceleration from the current levels may impact our earnings estimates for the company.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
21-Sep	Action Const	Stanchart Classic Equity Fund	B	165,000	339.99
21-Sep	Action Const	Western Ind Trste & Executor	S	165,000	340.00
21-Sep	Ashco Indust	Anil Amrutlal Gandhi	S	75,000	32.25
21-Sep	Ashco Indust	Neha Ashok Kotwani	S	250,000	32.43
21-Sep	Baba Arts	Bhagwati Holdings Pvt Ltd	S	150,000	58.50
21-Sep	Bombay Paint	Hemant Kumar Gupta	B	10,730	53.17
21-Sep	Cupid Trade	Withal Commercial Pvt Ltd	B	14,000	23.65
21-Sep	Cupid Trade	Dipak N Mehta	B	9,500	22.75
21-Sep	Filat Fash	Chiranjilal Jayram Vyas	B	50,750	14.24
21-Sep	Filat Fash	Jitendra Harivansh Joshi	S	50,000	14.24
21-Sep	Gemstone Inv	Hemant Madhusudan Sheth	B	54,300	21.82
21-Sep	Gemstone Inv	Prem Mohanlal Parikh	B	50,020	22.29
21-Sep	Gemstone Inv	Kishorbhai Balubhai Chauhan	S	39,970	22.34
21-Sep	Gemstone Inv	Ankit R. Sanchaniya	S	46,300	21.95
21-Sep	Gremac Infra	Calcutta Comprosent Infotech	S	100,000	240.50
21-Sep	Gulsha Sug C	Arion commercial	B	77,287	37.22
21-Sep	Hind Hardy S	Rajiv Arora	S	9,030	105.76
21-Sep	IFL Prmoter	Tamanna S. S. Rolling Mills	S	37,595	24.50
21-Sep	IOL Chem Ph	Vaghjibhai Gagaldas Shah	B	69,585	85.29
21-Sep	Karur Kcp Pk	Ketan Natwarlal Shah	S	79,000	62.24
21-Sep	Kohinoor Bro	Rhodes Diversified Dr Ac	S	500,000	12.86
21-Sep	Lotus Choc C	Jyoti Harish Shah	B	214,681	19.03
21-Sep	Macmilan Ind	Citigroup Global Mkt Maur	B	549,672	267.00
21-Sep	Macmilan Ind	HDFC Asset Mgmt Co.	S	274,669	267.00
21-Sep	Macmilan Ind	HDFC Trustee Co Cap Build Fnd	S	275,000	267.00
21-Sep	Madhav Mar G	Eldorado Biotech Pvt Ltd	B	100,000	105.07
21-Sep	Madhav Mar G	Fortune Gilts Pvt Ltd	B	100,000	108.96
21-Sep	Magnum Vent	Sri Salasar Suppliers Pvt Ltd.	B	250,000	53.23
21-Sep	Magnum Vent	Step Two Corporation Ltd.	B	800,000	53.23
21-Sep	Magnum Vent	Decent Fin. Ser. Pvt Ltd	B	250,000	53.09
21-Sep	Magnum Vent	Alosha Vanijya Pvt Ltd.	B	275,000	52.99
21-Sep	Magnum Vent	Mahendra P Rathod	B	528,695	52.07
21-Sep	Magnum Vent	Anand Yagesh Shares & Cons	B	250,000	52.99
21-Sep	Magnum Vent	Maruti Securities Ltd	B	332,920	51.33
21-Sep	Magnum Vent	Vijay Y Nanvare	B	305,468	51.94
21-Sep	Magnum Vent	Mahendra P Rathod	S	528,695	52.93
21-Sep	Magnum Vent	Maruti Securities Ltd	S	332,920	52.51
21-Sep	Magnum Vent	Vijay Y Nanvare	S	305,468	53.93
21-Sep	Mah Ind Leas	Pradeep Bhat	S	37,250	47.62
21-Sep	Neha Interna	Vipul D Shah	B	19,800	61.00
21-Sep	OK Play Indi	B K Khullar And Co	S	39,000	102.13
21-Sep	Parsoli Corp	JMP Securities Pvt. Ltd.	S	86,108	86.74
21-Sep	Photoquip In	Sulaxmi Export and Marketing	B	83,000	20.00
21-Sep	Photoquip In	Javed S.Saiyed	S	117,000	20.05
21-Sep	Sh.Precoated	Citigroup Global Mkt Maur	B	1,220,467	425.00
21-Sep	Stel.Str.&Tu	Chamatkar Net India Ltd	B	75,800	77.04
21-Sep	Visa Steel	Goldman Sachs Inv Maur I	S	550,000	34.37
21-Sep	Worldw Le Ex	Kishan Singh	B	15,000	31.05

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Industries	2,280	4.1	24.0	2.9
Reliance Petroleum	155	11.7	14.0	74.0
Bharti Airtel	921	3.1	9.9	1.4
Losers				
ITC Ltd	191	(1.7)	(2.3)	6.1
Suzlon Energy	1,468	(2.4)	(2.0)	0.5
Sun Pharma	973	(2.2)	(0.8)	0.2

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
24-Sep	Pfizer to announce 3rd quarter earnings
26-Sep	Pantaloon Retail to announce audited annual result and dividend
29-Sep	Abbott India to announce third quarter earnings

Source: Bloomberg

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