



Economy News

- ▶ The plan to fund infrastructure projects by tapping into household savings that was announced by finance minister Pranab Mukherjee in Budget 2010-11 could be limited to public sector banks and state-owned financial institutions. According to two officials close to the matter, the revenue loss that the government has to bear because of tax free bonds can be mitigated if the funds flow into public sector companies. The idea is also to maximise the inflow of funds in projects that are carried out by the government or through the public-private partnership route, one of them said. (ET)
- ▶ India's monthly headline inflation could ease to below 10 per cent in June from a year ago, a chief statistician said on Wednesday. "It (WPI inflation) will come down because the base effect goes away," Pronab Sen said. (FE)
- ▶ The better-than-projected revenue from the 3G and broadband spectrum auctions is likely to reduce fiscal deficit to 4.47 per cent of GDP this fiscal from the budget estimate of 5.5 per cent. (FE)

Corporate News

- ▶ **ONGC's** revenues will see a boost as it might soon be allowed to sell gas from its marginal C-series field in Mumbai offshore at \$5.25/mBtu as against \$5.5/mBtu. This is lower than what ONGC wanted (\$5.5/mBtu) but is higher than the Reliance Industries Ltd (RIL) operated D6 block price of \$4.2/mBtu. Last month, the Government had taken a decision on raising the natural gas price, sold under the administered regime (APM) from \$1.79/mBtu to \$3.82/mBtu plus 10 per cent royalty. It had also decided to give ONGC and Oil India Ltd (both the public sector exploration companies) the freedom to sell gas from the new fields of the blocks given on a nomination basis at approved, non-APM prices or market price. (BL)
- ▶ Morgan Stanley, independent adviser to the directors of Parkway Holdings, has said the S\$3.78-pershare offer by Malaysian fund Khazanah to buy a majority stake in the Singapore-based hospital chain is reasonable but not compelling, putting pressure on Khazanah to increase its offer and raising the stakes for **Fortis Healthcare** should the Indian company decide to make a counter-bid. (ET)
- ▶ **TATA Motors** will consider ways of raising equity or foreign currency convertible bonds (FCCBs) on Monday as Indias largest truck and bus maker steps up efforts to pare debt and improve its debt-equity ratio. (ET)
- ▶ **Shree Renuka Sugars** has signed an agreement to acquire a majority stake in Brazilian firm Equipav SA for Rs 1.1 bn, which is 25% lower than the price agreed earlier. Shree Renuka, India's largest sugar refiner, will acquire a 50.3% stake in Equipav which has an annual cane crushing capacity of 10.5 million tonne and ownership of 1,15,000 hectares of land. The transaction is expected to close in two weeks. (ET)
- ▶ **Patni Computer Systems** on Wednesday denied any plans to sell their stake in the company, while responding to shareholders queries during the company's annual general meeting. (ET)
- ▶ The Orissa Hydro Power Corporation (OHPC) and the **National Hydel Power Corporation (NHPC)**, which had forged a joint venture for taking up 12 hydel power projects in the state, will undertake three hydel projects with a cumulative capacity of 300 MW in the first phase. (BS)

Equity

	23 Jun 10	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,756	0.0	7.8	1.7
NIFTY Index	5,323	0.1	7.7	1.9
BANKEX Index	11,056	0.4	7.0	6.5
BSET Index	5,408	0.7	6.8	(1.9)
BSETCG INDEX	14,499	(1.4)	7.1	4.1
BSEOIL INDEX	10,376	(0.1)	5.5	2.0
CNXMcap Index	8,108	0.8	6.8	6.8
BSESMCAP INDEX	9,022	0.7	6.6	6.8
World Indices				
Dow Jones	10,298	0.0	2.3	(5.0)
Nasdaq	2,254	(0.3)	1.8	(6.0)
FTSE	5,179	(1.3)	2.1	(8.8)
Nikkei	9,924	(1.9)	1.9	(8.1)
Hangseng	20,857	0.2	5.8	(0.9)

Value traded (Rs cr)

	23 Jun 10	% Chg - Day
Cash BSE	3,700	(17.7)
Cash NSE	12,312	(1.2)
Derivatives	110,311.5	(5.2)

Net inflows (Rs cr)

	22 Jun 10	% Chg	MTD	YTD
FII	1,037	(42)	7,680	28,217
Mutual Fund	(232)	(419)	327	(6,839)

FII open interest (Rs cr)

	22 Jun 10	% Chg
FII Index Futures	25,492	19.8
FII Index Options	62,042	2.4
FII Stock Futures	30,913	1.5
FII Stock Options	1,595	0.9

Advances / Declines (BSE)

	23 Jun 10	A	B	S	Total	% total
Advances	129	1,230	275	1,634	60	
Declines	72	724	174	970	35	
Unchanged	2	109	19	130	5	

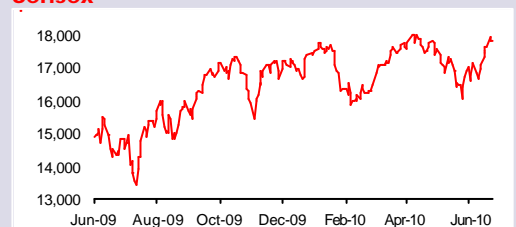
Commodity

	23 Jun 10	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	76	(0.2)	8.5	(5.5)
Gold (US\$/OZ)	1,237	(0.2)	3.7	13.7
Silver (US\$/OZ)	19	(1.5)	3.7	12.1

Debt / forex market

	23 Jun 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	N/A	N/A	N/A	N/A
Re/US\$	46.19	46.25	46.98	45.60

Sensex



COMPANY UPDATE

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UNITY INFRAPROJECTS

PRICE: Rs.109

TARGET PRICE: Rs.142

RECOMMENDATION: BUY

FY11E P/E: 7.5x

- ❑ Order inflow in building segment boosts our confidence about order book growth
- ❑ Company to enhance its presence in water treatment, desalination as well as power projects along with active focus on road segment
- ❑ Company expects operating margins to remain stable
- ❑ We fine tune our estimates and incorporate book value of investments in real estate division
- ❑ Stock is currently trading at very attractive valuations and we continue to recommend BUY on the stock with a revised price target of Rs.142 on FY11 estimates as against Rs.124 earlier.

Key highlights about the company

Summary table

(Rs mn)	FY10	FY11E	FY12E
Revenues	14,768	18,502	21,277
% change YoY	31	25	15
EBITDA	1,913	2,313	2,553
% change YoY	34	21	10
Other Income	122	122	122
Depreciation	175	235	298
EBIT	1,861	2,200	2,378
% change YoY	31	18	8
Net interest	584	649	695
Profit before tax	1,277	1,550	1,683
% change YoY	25	21	9
Tax	447	519	563
as % of PBT	35	33	33
Profit after tax	830	1,032	1,120
Share of Profits of JVs	22	40	40
Net income	852	1,072	1,160
% change YoY	22	26	8
Shares OS (m)	74.1	74.1	74.1
EPS (reported) (Rs)	11.5	14.5	15.7
P/E (x)	10.2	7.5	7.0
EV/EBITDA (x)	5.8	5.4	4.8
RoE (%)	17.3	17.6	16.5
RoCE (%)	20.4	19.8	19.2

Source: Company, Kotak Securities - Private Client Research

Strong order inflow to boost overall order book growth

Unity Infraprojects has recently announced order inflows of Rs 4.12bn in the buildings segment taking its total order book to approx Rs 39bn. Current order book provides revenue visibility for next two years. Company had also mentioned in the conference call about the L1 status of Rs 10bn which we believe would now stand at Rs 6bn. We believe that with a strong order inflow pipeline as well as with increased investments being planned by the government in infrastructure segment, order book should be able to grow by 25% in FY11. We thus expect overall order inflow in FY11 to jump to Rs 30bn as against Rs 21.5bn witnessed in FY10.

Unity infra's order book of Rs 39bn is diversified across irrigation (50%), civil (42%) and roads (8%). Order book mix towards irrigation segment has been continuously witnessing increase since last one year primarily led by order worth Rs 6.2bn for installation of AMR water meters and order worth Rs 12bn for construction of 8.3km long tunnel bagged in FY10. Going forward, we also expect proportion of road projects to increase in the total order book since company is actively looking at bidding for road BOT projects worth Rs 7.5-10bn.

Company to enhance its presence in water treatment, desalination and power projects along with road segment

Company also plans to enhance its presence in water treatment or water desalination related projects. Unity is also there in micro tunneling segment and plans consolidate its presence in this segment going forward. Along with this, it also plans to leverage its experience in the irrigation and water related segment for venturing into hydro power segment going forward. As far as road BOT segment is concerned, company is already qualified for Rs 10bn worth of project in Maharashtra and would submit its bids by early next month.

Investments increased in real estate venture

Unity Infra is continuously expanding its presence in the real estate and has invested Rs 1.95bn till now in accumulating land at 5 places through its subsidiary Unity Realty and Developers Ltd (URDL). We present below the details of these investments as well as projects -

- **Mall development at Nagpur** - URDL has already invested Rs 360mn in Nagpur real estate project for construction of 6 retail malls. But work has only commenced for two malls and land for remaining four malls is still to be given to the company. Company is in talks with Nagpur Municipal Corporation about future viability of these projects. We currently value Nagpur project at book value of the investments and arrive at a value of Rs 5 per share for Unity.

- **Development of IT park in Goa** - For development of IT park in Goa, company has acquired 40,000 sq m of land at a total investment of Rs 100mn. But work on the project has faced significant delays since the award of the project and has not yet commenced. We thus value this project on the book value of Rs 100mn of investments done till date and arrive at a value of Rs 1.3 per share for Unity.
- **Hotel project in Pune** - Hotel project in Pune has already begun operations where Unity Infra through its subsidiary holds 19% stake bought at Rs.350 mn. Company is planning to exit from this venture and has sold its stake to Kamath Hotels for Rs 450 mn. These proceeds will be given over next 3 years. We calculate NPV of expected gains and arrive at a value of Rs 5.3 per share for Unity.
- **Land acquisition in Calcutta and Bangalore** - Unity is also acquiring land parcels in Calcutta and Bangalore for development of residential townships. It has acquired 15 acres of land in Bangalore at a total cost of Rs 390mn and 25 acres in Calcutta at a total cost of Rs 750mn. Since development plan is in the initial stages, we currently do not attribute any value to these projects. We would incorporate value from these projects once these projects get commenced.

We thus arrive at a valuation of Rs 12 per share from real estate investments where projects are under construction stage.

Financial outlook

- With strong order book, we continue to maintain our estimates for revenues and expect revenues to grow at a CAGR of 20% between FY10-FY12.
- We marginally revise our operating margin assumptions upwards for FY11 since commodity prices have been stable and 90% of company's order book has inbuilt price escalation clause. We now expect operating margins to be 12.5% and 12% for FY11 and FY12 respectively.
- In order to incorporate higher working capital requirements as well as higher borrowings, interest outgo estimates stand revised upwards. Thus, we expect net profits to grow at a CAGR of 16.7% between FY10-FY12.

Valuation and recommendation

- At current price of Rs 109, stock is trading at very attractive valuations of 7.5x and 7.0x P/E for FY11 and FY12 estimates.
- We value core business at 9x FY11 estimated EPS and also incorporate book value of the investments done in real estate division.
- We arrive at a revised price target of Rs 142 on FY11 estimates (Rs 124 earlier) and we continue to maintain **BUY** on the stock.

**We recommend BUY on Unity
Infraprojects with a revised price
target of Rs.142**

COMPANY UPDATE

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LARSEN & TOUBRO LTD

PRICE: Rs.1765

TARGET PRICE: Rs.1890

RECOMMENDATION: ACCUMULATE

FY11E P/E: 24.5x

- News reports indicate that L&T has been disqualified from the bulk tender of NTPC/DVC on technical grounds. We have assessed the opportunity loss at 2-4% of current year target order intake.
- NTPC is reported to be considering retendering of the boiler portion, which may delay the order finalisation process to FY12, thus posing risk to order intake target of current fiscal.
- The L&T stock has returned 9% plus in the current month itself registering strong outperformance against peers. In view of this, we downgrade the stock to Accumulate with a revised target price of Rs 1890. We retain positive stance on the company given the evolving capex cycle and L&T's strong order backlog. Recommend investors to utilize declines to BUY the stock.

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	439,698	524,919	671,774
Growth (%)	8.6	19.4	28.0
EBITDA	64,387	75,303	93,272
EBITDA margin (%)	14.6	14.3	13.9
PBT	56,278	65,659	84,463
Growth (%)	9.6	16.7	28.6
Net profit	35,974	43,359	55,729
EPS (Rs)	58.1	72.0	92.5
Growth (%)	6.9	24.0	28.5
DPS (Rs)	10.5	10.5	10.5
ROE (%)	22.4	21.4	22.8
ROCE (%)	14.1	15.1	17.7
EV/Sales (x)	2.6	2.2	1.7
EV/EBITDA (x)	18.1	15.2	12.0
P/E (x)	30.4	24.5	19.1
P/BV (x)	5.8	4.8	4.0

Source: Company, Kotak Securities - Private Client Research

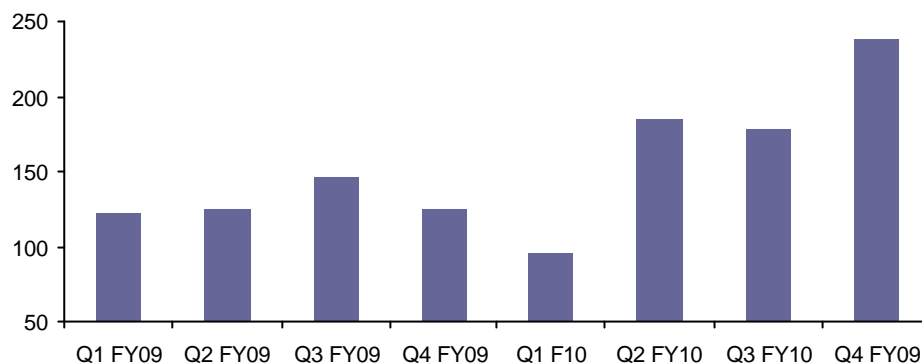
L&T has been disqualified from the NTPC/DVC bulk tender for procurement of 11 units of 660 MW

- News reports indicate that L&T has been disqualified from the NTPC/DVC bulk tender on technical grounds related to bidding norms (over non fulfillment of complete tech transfer for boiler as well as steam turbine generator over a fixed timeframe).
- The total size of the order is estimated to be in the range of Rs 210 bn with Boilers comprising close to Rs 131 bn.
- As per the tender, 11 units of boiler portion would be shared between two bidders with L1 bidder winning six units. BHEL has been guaranteed atleast five units of boilers (If it is not the L1 bidder). The TG portion will be shared between three players in ratio of 5:4:2.
- Meanwhile, NTPC has indicated that it will go for retendering of the bulk order for boiler portion as it has received bids from only two players. L&T will get a second chance to comply with the tender norms when the bids are retendered. However, competitive intensity may increase if more players are in a position to bid for the order.
- The TG portion has received adequate number of bids and hence may not be considered for retendering. This would entail a loss of opportunity for L&T as it was a serious contender for the order. Based on our assessment this would mean an opportunity loss of close to Rs 14 bn to Rs 36 bn depending upon its success rate. To put in perspective the opportunity loss would be in the range of 2-4% of target order intake in FY10.
- Even in case of retendering of the boiler order, there is a risk of order finalization getting delayed into the next fiscal. This could have serious negative implications to the company's order intake guidance of Rs 870 bn in FY11.
- The loss of orders may not have any material implications to the company's growth however success in the bulk tender would speed up the indigenisation process which is critical for profit maximization in the Power Equipment venture.

Order intake has been muted so far

L&T has guided for a 25% increase in order intake in FY11 to Rs 870 bn, which would require the company to win close to Rs 217 bn on a quarterly basis. As against this, the company has announced order wins of Rs 64 bn in Q1 FY11. However, this may not be a reason to worry as order intake is very lumpy especially now with the company winning large orders in the power generation sector. In the previous fiscal, Q4 FY10 accounted for 34% of the annual order intake.

Order intake (Rs bn)



Source: Company

Order wins in Q1 FY11

	(Rs mn)
Offshore platform for GSPC	10600
EPC for Doha South Sewage treatment works	8500
Krishnagiri-Walajahpet Highway	14500
Material Handling sector	7470
Civil construction	14400
GVK Power	8250
Total	63720

Source: Company

Power sector to continue to be the major growth driver for order intake

Order intake from the power sector was the main driver in FY10 accounting for 33% of fresh orders. The company is a complete EPC player in the power sector with capabilities in manufacturing of Boiler and Turbine Generator (BTG), Balance of Plant, Transmission and Civil construction. It is setting up a 4000 MW Supercritical boiler and turbine generator manufacturing unit in India in a JV with Mitsubishi Heavy Industries.

While L&T has been disqualified in the NTPC/DVC bulk tender for procurement of 11 units of Supercritical Boilers and TG sets, it can be serious contender for second bulk tender of 7 units of 800 MW each also based on Supercritical technology.

Order mix

(Rs mn)	FY09	FY10	% change
Process	82,560	90,444	9.5
Power	129,000	229,588	78.0
O&G	61,920	139,144	124.7
Infrastructure	201,240	187,844	-6.7
Others	41,280	48,700	18.0

Source: Company

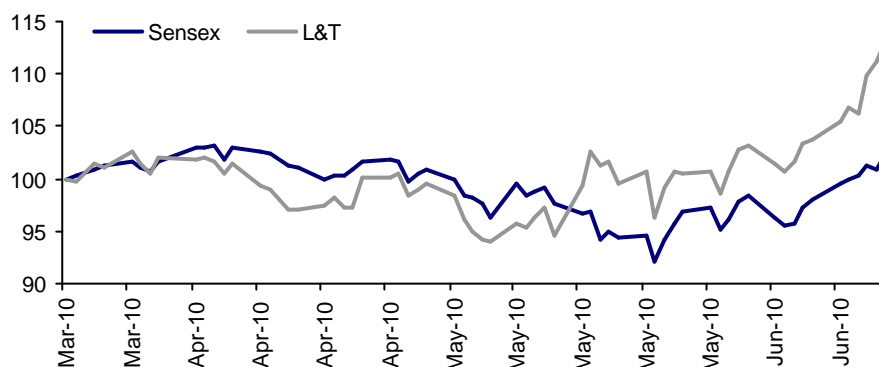
Valuation and Stock outlook: Fourth quarter numbers was the key trigger for the stock performance

The fourth quarter numbers was the key trigger for the stock as the reported robust revenue growth put at rest execution concerns which was weighing on the stock price. While L&T had reported lackluster numbers for the first nine months citing execution delays due to election related inactivity to state level agitations in AP. The company reported 28% yoy rise in Q4 FY10 revenues and 8% for FY10. Propelled by strong order intake, the company guided for a healthy 20% and 25% increase in revenues and order intake in FY11 respectively. The company guided for a stable margin scenario in FY11, which is achievable given the recent softness in commodity prices. Building this favourable scenario, the stock has been re-rated.

We recommend to ACCUMULATE on L&T with a price target of Rs.1890

At the current price, the stock is trading 24.5x and 19.1x FY11 and FY12 earnings respectively. With the economic scenario looking up, we have factored in a more beneficial scenario for FY12 and beyond thus prompting an upward revision in target price. However, in view of the recent outperformance in the stock price, we down-grade the stock to **ACCUMULATE**.

Relative to Sensex



Source: Bloomberg

SOTP

(Rs mn)	Parameter	Fair Value	Per share
L&T Infotech	15x FY10 earnings	42,000	72
L&T Finance	13x FY10	20,280	35
L&T IDPL	2x BV	17,754	30
L&T Standalone	DCF		1744
Market value of stake in Satyam Computer	Market Value	5009	8
Total			1,889

Source: Company

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
23-Jun	ABL Biotech	Silver Golden Property Develop Fin	B	100,000	20.3
23-Jun	Anand Credit	Dhaval Amrish Shah	B	85,000	59.4
23-Jun	Anand Credit	Hemendralilachandshah	S	100,000	59.4
23-Jun	Balaji Dist	Dalmia Securities Private Limited	B	265,600	43.7
23-Jun	Birla Shloka	Saakshi Shares Pvt Ltd	B	170,198	82.7
23-Jun	BNK Cap Mkts	Brijnath Khandelwal And Co.	B	47,901	41.3
23-Jun	Centron Indl	Vinay Premchand Surana	B	10,000	24.8
23-Jun	Centron Indl	Anjali Talwar	S	10,000	24.8
23-Jun	Eldeco Hous	Vijay Pravinchandra Shah	B	20,857	182.9
23-Jun	Eldeco Hous	Kiran Vijay Shah	S	20,675	182.9
23-Jun	Ennore Coke	Haldia Coke And Chemicals Limited	B	697,000	99.5
23-Jun	Ennore Coke	Shriram Auto Finance	S	697,000	99.5
23-Jun	Fair Deal	Vishal Agarwal	B	25,002	19.0
23-Jun	Farmax Ind	Winners Sales Private Limited	S	111,939	127.2
23-Jun	Gujarat Capital	Tripurari Properties Private Limited	B	67,813	71.8
23-Jun	Gujarat Capital	Cheviot International Ltd	S	75,000	71.8
23-Jun	Howard Hotels	SKI Consultancy Services Ltd	B	40,051	13.0
23-Jun	IFL Promoters	Kapil Gupta	B	46,050	19.7
23-Jun	IFL Promoters	Shark Communication Pvt Limited	S	40,952	19.7
23-Jun	IFL Promoters	DMC International Limited	S	20,000	19.7
23-Jun	Indus Fila	Sarswati Vincom Limited	B	400,000	24.7
23-Jun	Indus Fila	Fulchand Finance Private Limited	B	407,647	24.7
23-Jun	Indus Fila	Kamal Kishor Finvest Pvt Ltd	S	950,000	24.5
23-Jun	Jaipan Inds	Chandiwala Shares And Securities	B	31,000	23.9
23-Jun	Jamna Auto	Atambhu Buildwell Private Limited	S	226,580	86.1
23-Jun	Kay Power	Sudhir Sharma	B	70,000	18.0
23-Jun	Kay Power	Kaushalya Garg	S	57,000	18.2
23-Jun	Kik Electric	Hiren Paramananddas Shah	B	7,200	18.7
23-Jun	Master	Gopalakrishna Bonam	B	45,478	34.5
23-Jun	Master	Satyanarayana Varaprasad Garikipaty	B	72,822	38.1
23-Jun	Master	Venkatesh Vaddepally	S	45,478	34.5
23-Jun	Master	Devaianh Mondhi	S	33,000	37.2
23-Jun	Moldtkpack	Navinchandramanilsheth	B	40,100	62.2
23-Jun	Moldtkpack	Bhav nabn Hasmukhlal Shah	S	47,000	62.3
23-Jun	Nexsoft Info	Hiteshshashikant Jhaveri	B	45,000	48.7
23-Jun	Nissan Copper	Manibhadra Shares and Services	B	122,000	40.5
23-Jun	Nissan Copper	Sushila Poddar	S	100,000	40.5
23-Jun	Nissan Copper	Anil Kumar Poddar	S	119,700	41.1
23-Jun	Polypro Fibrils	Ajay Ravindra Shah	S	72,021	37.5
23-Jun	Ranklin Sol	Manikyala Raovura	B	30,352	98.6
23-Jun	Saag Rr Infra	Durai Venkatesan	S	65,000	21.8
23-Jun	Sark Sys	Elcon Investment	B	54,345	38.2
23-Jun	Sell aids Pub	Baby Vijay Sharma	B	25,000	15.5
23-Jun	Sell aids Pub	Gyanchand Mehta	S	25,000	15.5
23-Jun	Shah Foods	Ravi Ludhiyani	B	4,000	38.3
23-Jun	Shah Foods	Vishal Agarwal	S	16,188	38.3
23-Jun	Star Paper	Sar Auto Products Limited	S	126,551	48.7
23-Jun	Suave Hotels	Hindustan Continental Limited	S	200,000	27.1
23-Jun	Vikram Thermo	Paramount Enterprises	B	13,782	23.9
23-Jun	Vikram Thermo	Global Concepts	S	50,000	24.1

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Infosys Tech	2,798	1.1	5.1	0.6
ICICI Bank	900	1.0	3.4	3.2
Maruti Suzuki	1,407	2.8	1.8	0.9
Losers				
L&T	1,765	(3.3)	(11.0)	2.5
Reliance Ind	1,059	(0.5)	(3.0)	2.7
Sterlite Ind	176	(1.5)	(1.4)	6.1

Source: Bloomberg

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