kotak Institutional Equities

GMR Infrastructure (GMRI)

Infrastructure

ADD

NOVEMBER 10, 2010

RESULT

Coverage view: Attractive

Price (Rs): 54

Target price (Rs): 60

BSE-30: 20,876

Low per pax revenues and capacity costs to impact near-term earnings as well.

Revenues were flat yoy at Rs12 bn while growth was led by the airport (42%). Power declined (by 8% on lower PLF) as did EPC (Sabiha complete). High capacity costs (operational cost, depreciation and interest costs) for T3 terminal led a net loss of Rs978 mn (DIAL EBITDA margin of 2%). Traffic growth was strong across airports while per pax aero (higher seat utilization) and non-aero (contract renegotiation) were lower.

Company data and valuation summary

GMR Infrastructure

Stock data			
52-week range (Rs) (high,low)			74-51
Market Cap. (Rs bn)			197.5
Shareholding pattern (%)			
Promoters			25.1
FIIs			45.2
MFs			9.6
Price performance (%)	1M	3M	12M
Absolute	(8.3)	(10.5)	(20.3)
Rel. to BSE-30	(11.0)	(21.9)	(37.3)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	0.4	0.2	0.1
EPS growth (%)	(43.8)	(48.9)	(40.0)
P/E (X)	125.0	244.6	407.3
Sales (Rs bn)	45.7	44.5	47.2
Net profits (Rs bn)	1.6	0.8	0.5
EBITDA (Rs bn)	13.6	20.7	22.6
EV/EBITDA (X)	22.5	14.5	13.6
ROE (%)	2.4	1.2	0.7
Div. Yield (%)	0.0	0.0	0.0

In line revenues; high depreciation and interest cost leads to net loss for the quarter

GMRI reported revenues of Rs12.2 bn, up 2.3% yoy, broadly in line with our estimate. The revenue growth was led by the airports segment (strong traffic growth, increase in UDF at Hyderabad airport) and increase in treasury income post QIP. Margins contracted by 270 bps yoy to 29.1% led by higher generation & operating expenses, employee and admin expenses as a percentage of sales. High depreciation and interest costs (due to capitalization of T3 terminal) led to net loss (excluding exceptional items) of Rs978 mn. GMR reported exceptional income of Rs1.4 bn led by reversal of impairment loss accounted earlier in its subsidiary Island Power Co. Pte. Ltd.

Low per pax revenue, capacity costs impact DIAL results; power revenues decline on low PLF

- **Airports:** The airports segment led revenue growth, growing at 42% yoy on strong traffic growth (at all three airports), higher per pax UDF collection at GHIAL and start of operations of new terminal building at SGIA. However, increased operational cost at new T3 terminal in DIAL and capitalization of the same led to lower profitability and net loss of Rs1.1 bn in 2QFY11.
- **Power:** The power segment reported a 8% yoy decline in revenues in 2QFY11 to Rs4.9 bn attributed to low PLF at the Chennai power plant (GPCPL) of 40% versus 76% in 2QFY10 on account of the heavy rainfall. GEL was successfully shifted to Kakinada and the plant started operations from August 2010 operating at a PLF of 46% in 2QFY11.
- **Roads, EPC, others:** Roads segment recorded 8% yoy revenue growth led by increased traffic levels at all three toll-based projects. The EPC revenues of the company declined on a yoy basis due to completion of construction works in Sabiha Gokcen airport while high treasury income (post QIP in April 2010) led to high other income in the quarter.

Maintain earnings estimates; reiterate ADD with a revised SOTP-based target price of Rs60/share

We revise our target price to Rs60 (from Rs65) based on the removal of value of coastal power and hydro projects from the target valuation as the company has reported little or no progress in these projects. Reiterate ADD based on (1) incremental visibility on identified projects, (2) likely pick-up in demand across assets and (3) incremental project wins.

Lokesh Garg
lokesh.garg@kotak.com
Mumbai: +91-22-6634-1496

Supriya Subramanian
supriya.subramanian@kotak.com
Mumbai: +91-22-6634-1383

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Revenues in line; higher depreciation and interest expenses leads to net loss

GMRI reported revenues of Rs12.2 bn, up 2.3% yoy, broadly in line with our estimate of Rs12.5 bn. The revenue growth was led by the airports and others segment due to increase in UDF at Hyderabad airport, strong traffic growth at Sabiha Gokcen and increase in treasury income post QIP. Margins contracted by 270 bps yoy to 29.1% led by higher generation & operating expenses, employee and admin expenses as a percentage of sales. This was versus our EBITDA margin expectation of 33%. Lower-than-expected other income of Rs143 mn and high depreciation and interest costs led to a net loss (excluding exceptional items) of Rs978 mn versus our expectation of a net loss of Rs59 mn. The increase in interest and depreciation cost in the quarter was primarily attributed to capitalization of T3 terminal at Delhi airport. The company reported an exceptional income of Rs1.4 bn in 2QFY11 led by reversal of impairment loss accounted earlier in its subsidiary Island Power Co. Pte. Ltd.

For the half year ending September 30, 2010, GMR has reported revenues of Rs24.5 bn, up 3.4% yoy. EBITDA margin remained relatively flat on a yoy basis at 29.9%. High interest cost and depreciation led to a net loss of Rs660 mn in 1HFY11 versus a net profit of Rs833 mn in 1HFY10.

Revenues in line; higher depreciation and interest expenses leads to net loss
GMR Infrastructure 2QFY11 consolidated results - key numbers (Rs mn)

					% change					
	2QFY11	2QFY11E	2QFY10	1QFY11	vs est.	yoy	qoq	1HFY11	1HFY10	% change
Total operating income	**12,217**	**12,471**	**11,943**	**12,313**	**(2.0)**	**2.3**	**(0.8)**	**24,531**	**23,718**	**3.4**
Generation and operating exp.	(6,942)		(6,679)	(7,316)		3.9	(5.1)	(14,258)	(13,884)	2.7
Admin and other expenses	(1,024)		(904)	(650)		13.3	57.7	(1,674)	(1,605)	4.3
Employees	(690)		(559)	(574)		23.4	20.3	(1,264)	(1,216)	3.9
Total operating costs	**(8,656)**	**(8,356)**	**(8,142)**	**(8,539)**	**3.6**	**6.3**	**1.4**	**(17,195)**	**(16,705)**	**2.9**
EBITDA	**3,561**	**4,116**	**3,801**	**3,775**	**(13.5)**	**(6.3)**	**(5.7)**	**7,335**	**7,013**	**4.6**
Other income	143	673	155	673	(78.8)	(7.9)	(78.8)	815	275	196.2
PBDIT	3,703	4,788	3,955	4,448	(22.7)	(6.4)	(16.7)	8,151	7,289	11.8
Financial charges	(2,492)	(2,638)	(1,771)	(2,383)	(5.5)	40.7	4.6	(4,875)	(3,369)	44.7
Depreciation	(1,993)	(1,719)	(1,408)	(1,648)	15.9	41.5	20.9	(3,641)	(2,781)	30.9
Pre-tax profit	**(781)**	**432**	**776**	**416**	**NA**	**(200.7)**	**(287.7)**	**(365)**	**1,138**	**(132.1)**
Taxation	(197)	(130)	(183)	(98)		7.5	100.6	(295)	(306)	(3.5)
PAT	**(978)**	**302**	**592**	**318**	**NA**	**(265.1)**	**(407.6)**	**(660)**	**833**	**(179.3)**
Exceptional item	1,403	—	—	—						
Minority interest	260	—	(43)	(23)				237	(58)	
Reported PAT	**685**	**302**	**549**	**295**	**NA**	**24.7**	**132.4**	**980**	**775**	**(12)**
Profit from JVs/associates	26	10	(13)	(10)				16	(13)	
Reported PAT	**711**	**312**	**536**	**284**		**32.7**	**150.1**	**996**	**761**	**30.8**
Key ratios (%)										
Generation & operating exp./sales	56.8		55.9	59.4				58.1	58.5	
Admin & other exp./sales	8.4		7.6	5.3				6.8	6.8	
Employees/ sales	5.6		4.7	4.7				5.2	5.1	
EBITDA margin	**29.1**	**33.0**	**31.8**	**30.7**				**29.9**	**29.6**	
Pre-tax margin	(6.4)	3.5	6.5	3.4				(1.5)	4.8	
PAT margin	(8.0)	2.4	5.0	2.6				(2.7)	3.5	
Effective tax rate	(25.2)	30.0	23.6	23.6				(80.9)	26.9	

Source: Company, Kotak Institutional Equities estimates

Airports and others segments drive revenue growth

The yoy revenue growth in 2QFY11 was primarily led by the 'airports' and 'others' segments. The airports segment reported a 42% yoy growth in revenues to Rs4.8 bn in 2QFY11 from Rs3.4 bn in 2QFY10. The airport revenue growth was driven by (1) increased UDF charges at Hyderabad airport, (2) start of operations of the new terminal building in Saiha Gokcen Airport, (3) strong traffic growth at Sabiha Gokcen airport, (4) start of operations at Delhi's T3 terminal and (5) strong pick up in traffic growth at the Delhi and Hyderabad airports - partially aided by low base effect of 1HFY10. The sharp decline in profitability of the airport segment (EBIT margin of 1.5% in 2QFY11 versus 13.2% in 2QFY10 and 20.3% in 1QFY11) is likely to have been led by capitalization of T3 terminal.

The others segment revenues recorded a 71% yoy growth to Rs1.2 bn, primarily led by increase in treasury income post QIP in April-10. Low PLF at GMR Energy power plant in Chennai led to a 8% yoy decline in power segment revenues.

GMR Infrastructure 2QFY11 segmental numbers (Rs mn)

				% change				
	2QFY11	**2QFY10**	**1QFY11**	**yoy**	**qoq**	**1HFY11**	**1HFY10**	**% change**
Revenues	**12,657**	**12,050**	**12,545**	**5.0**	**0.9**	**25,202**	**23,915**	**5.4**
Power	4,942	5,395	5,838	(8.4)	(15.3)	10,780	11,688	(7.8)
Airports	4,830	3,398	4,251	42.1	13.6	9,081	6,676	36.0
Highways	945	875	984	8.1	(3.9)	1,929	1,639	17.7
EPC	759	1,692	405	(55.1)	87.6	1,164	2,842	(59.1)
Others	1,181	690	1,067	71.1	10.6	2,248	1,070	110.2
EBIT	**3,392**	**2,579**	**2,957**	**31.5**	**14.7**	**6,350**	**4,526**	**40.3**
Power	2,088	918	544	127.6	283.7	2,633	1,525	72.6
Airports	73	447	861	(83.6)	(91.5)	935	888	5.2
Highways	451	300	487	50.5	(7.4)	938	652	43.8
EPC	100	528	70	(81.1)	43.3	170	800	(78.8)
Others	680	387	995	75.5	(31.7)	1,675	660	153.9
Revenue mix (%)								
Power	39.0	44.8	46.5			42.8	48.9	
Airports	38.2	28.2	33.9			36.0	27.9	
Highways	7.5	7.3	7.8			7.7	6.9	
EPC	6.0	14.0	3.2			4.6	11.9	
Others	9.3	5.7	8.5			8.9	4.5	
EBIT margin (%)								
Power	42.3	17.0	9.3			24.4	13.1	
Airports	1.5	13.2	20.3			10.3	13.3	
Highways	47.7	34.3	49.5			48.6	39.8	
EPC	13.2	31.2	17.2			14.6	28.2	
Others	57.6	56.1	93.2			74.5	61.7	

Source: Company, Kotak Institutional Equities

Lower per pax revenues and capacity costs impact results of DIAL

DIAL reported a relatively moderate revenue growth of 6.8% yoy in 2QFY11 to Rs2.8 bn from Rs2.65 bn in 2QFY10. This is despite a strong growth in passenger traffic which recorded a strong 25% yoy growth in 2QFY11 and 22% in 1HFY10 implying lower revenues per passenger and ATM. Revenues per passenger declined by about 5% yoy to Rs319 in 1HFY11 from Rs335 in 1HFY10. The decline in per passenger revenues was attributed to (1) stronger growth of domestic passengers (up 32% yoy) versus international (up 12% yoy), and (2) increase in load factor resulting in lower number of ATMs and higher number of passengers resulting in lower revenues per passenger. Also, note that the cargo revenues for last year contain the full revenues earned from the cargo handling business. GMR has now outsourced the cargo operations post 2QFY10 and earns about 26% revenue share from the cargo related business. Hence, a yoy comparison of the figures is not valid.

The results of DIAL were further impacted by higher operational costs led by start of operations at the new terminal T3. This led to a low operating profit of only Rs24 mn in 2QFY11, versus Rs558 mn in 2QFY10. Furthermore, capitalization of terminal T3 led to higher interest and depreciation costs in the quarter leading to a net loss of Rs795 mn for the quarter. Near-term earnings of DIAL are likely to continue to be impacted as the company has so far capitalized about 46% of T3 (related to international operations). The remaining portion would be capitalized post the start of domestic operations at the terminal from November 11, 2010.

Delhi Airport:2QFY11 financial and operational performance - key numbers (Rs mn)

				% change				
	2QFY11	2QFY10	1QFY11	yoy	qoq	1HFY11	1HFY10	% chg.
Gross revenues	**2,839**	**2,657**	**2,673**	**6.8**	**6.2**	**5,512**	**5,234**	**5.3**
Aero	1,060	1,090	1,091	(2.8)	(2.8)	2,151	2,095	2.7
Non-aero	1,247	952	1,072	31.0	16.3	2,319	1,965	18.0
Cargo	332	525	312	(36.8)	6.4	644	1,024	
Less: revenue share	(1,320)	(1,230)	(1,248)	7.3	5.8	(2,568)	(2,419)	6.2
Net revenue	**1,519**	**1,427**	**1,425**	**6.4**	**6.6**	**2,944**	**2,815**	**4.6**
Total expenditure	(1,494)	(869)	(765)	71.9	95.3	(2,259)	(1,806)	25.1
EBITDA	**25**	**558**	**660**	**(95.5)**	**(96.2)**	**685**	**1,009**	**(32.1)**
Other income	25	13	55	92.3	(54.5)	80	20	300.0
Financial charges	(610)	(302)	(318)	102.0	91.8	(928)	(629)	47.5
Depreciation	(521)	(304)	(291)	71.4	79.0	(812)	(551)	47.4
Pre-tax profit	**(1,081)**	**(35)**	**106**	**NA**	**NA**	**(975)**	**(151)**	**NA**
Taxation	287	55	(11)			276	92	
PAT	**(794)**	**20**	**95**	**NA**	**NA**	**(699)**	**(59)**	**NA**
Key ratios (%)								
Aero share	37.3	41.0	40.8			39.0	40.0	
Non-aero share	43.9	35.8	40.1			42.1	37.5	
EBITDA margin	**1.6**	**39.1**	**46.3**			**23.3**	**35.8**	
PAT margin	(28.0)	0.8	3.6			(12.7)	(1.1)	
Effective tax rate	26.5	157.1	10.4					
Operational performance								
Passenger (mn)	**6.7**	**5.4**	**7.3**	**25.3**	**(8.0)**	**14.1**	**11.5**	**22.3**
Domestic	4.6	3.4	5.3	32.8	(13.1)	9.8	7.7	28.0
International	2.2	1.9	2.1	11.9	4.8	4.2	3.8	10.9
Cargo ('000 tons)	**154.6**	**114.3**	**148.0**	**35.3**	**4.5**	**302.5**	**227.7**	**32.9**
Domestic	54.3	32.9	48.3	65.0	12.4	102.6	68.0	50.9
International	100.3	81.4	99.7	23.2	0.6	199.9	159.7	25.2
ATMs ('000)	**66.2**	**60.7**	**66.2**	**9.1**	**—**	**132.4**	**121.4**	**9.1**
Domestic	48.9	45.2	48.6	8.2	0.6	97.5	90.5	7.7
International	17.3	15.5	17.6	11.6	(1.7)	34.9	30.9	12.9

Source: Company, Kotak Institutional Equities

GHIAL: strong growth; expects to breakeven in FY2011E post demerger of hotel

GHIAL reported a strong yoy revenue growth of 27.5% in 2QFY11 to Rs1.14 bn from Rs899 mn in 2QFY10. The growth was led by aero revenues which increased by over 50% yoy on account of higher UDF collection per departing passenger. In fact, Aero revenues per pax (excluding UDF) and non-aero revenues per pax recorded a decline on a yoy basis. The 2QFY10 numbers of GHIAL included a charge of Rs124 mn towards service tax arrears in UDF which was not present in this quarter. Revenue growth in the quarter was also aided by passenger traffic which recorded a 12.7% yoy growth.

Demerger of the hotel business from GHIAL led to lower interest costs and a net PAT of Rs10 mn in 2QFY11 versus a loss of Rs364 mn in 2QFY10. The management expects GHIAL to break even at the PAT level in FY2011E and expects to report a net profit of Rs750-800 mn in FY2012E.

Hyderabad Airport: 2QFY11 financial performance - key numbers (Rs mn)

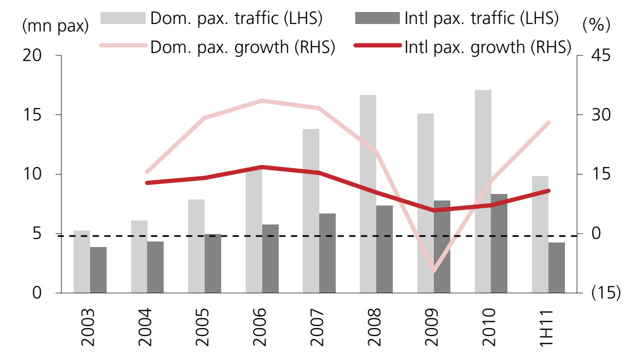
	2QFY11	2QFY10	1QFY11	% change yoy	% change qoq	1HFY11	1HFY10	% chg.
Gross revenues	**1,192**	**941**	**1,138**	**26.7**	**4.7**	**2,330**	**2,017**	**15.5**
Aero	660	439	619	50.3	6.6	1,279	1,015	26.0
Non-aero	532	503	518	5.8	2.7	1,050	1,002	4.8
Less: revenue share	(46)	(42)	(49)	9.5	(6.1)	(95)	(88)	8.0
Net revenue	**1,146**	**899**	**1,089**	**27.5**	**5.2**	**2,235**	**1,929**	**15.9**
Total expenditure	(423)	(434)	(484)	(2.5)	(12.6)	(907)	(868)	4.5
EBITDA	**723**	**465**	**605**	**55.5**	**19.5**	**1,328**	**1,061**	**25.2**
Other income	26	23	138	13.0	(81.2)	164	20	720.0
Financial charges	(442)	(554)	(531)	(20.3)	(16.9)	(973)	(1,049)	(7.3)
Depreciation	(299)	(298)	(296)	0.2	0.8	(595)	(582)	2.1
Pre-tax profit	**9**	**(364)**	**(84)**	**NA**	**NA**	**(75)**	**(550)**	**NA**
Taxation	1	—	6	NA	NA	7	-	NA
PAT	**10**	**(364)**	**(78)**	**NA**	**NA**	**(68)**	**(550)**	**NA**
Key ratios (%)								
Aero share	55.4	46.7	54.4			54.9	50.3	
Non-aero share	44.6	53.5	45.5			45.1	49.7	
EBITDA margin	**63.1**	**51.7**	**55.6**			**59.4**	**55.0**	
PAT margin	0.8	(38.7)	(6.9)			(2.9)	(27.3)	
Operational performance								
Passenger (mn)	**1.8**	**1.6**	**1.8**	**12.5**	**(1.0)**	**3.6**	**3.1**	**16.2**
Domestic	1.4	1.2	1.4	12.5	(2.2)	2.7	2.3	13.2
International	0.5	0.4	0.4	12.5	2.7	1.0	0.8	17.9
Cargo ('000 tons)	**20.5**	**15.8**	**19.0**	**29.4**	**7.7**	**39.5**	**31.2**	**26.7**
Domestic	9.3	8.5	8.6	9.8	8.4	17.9	14.7	21.4
International	11.2	7.4	10.5	52.0	7.2	21.7	16.5	31.5
ATMs ('000)	**20.8**	**19.5**	**20.1**	**6.5**	**3.3**	**40.9**	**39.8**	**2.8**
Domestic	17.2	16.2	16.8	6.1	2.3	34.0	33.3	2.2
International	3.6	3.3	3.3	8.1	8.4	6.9	6.5	5.8

Source: Company, Kotak Institutional Equities

Strong traffic growth in airport continues; SGIA also records strong results

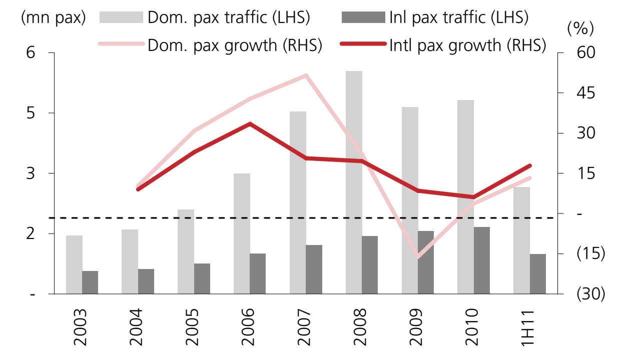
Both the Delhi and Hyderabad airports reported strong traffic growth in 2QFY11. This is a likely reflection of pick up in the economic environment although part of the growth was also boosted by low base effects of 1HFY10. The Hyderabad airport reported growth of 12.7% yoy in passenger traffic while Delhi airport witnessed a strong passenger traffic growth of 25% yoy led by the domestic segment. This is versus declines of 24% and 13.5%, respectively, in 2HFY09.

Domestic and international passenger traffic at Delhi airport, March fiscal year-ends 2003-1HFY11



Source: AAI, DGCA, Company, Kotak Institutional Equities

Domestic and international passenger traffic at Hyderabad airport, March fiscal year-ends 2003-1HFY11



Source: AAI, DGCA, Company, Kotak Institutional Equities

Operationalization of new terminal and strong traffic growth at SGIA boosts revenue growth

ISGIA (Turkey airport) reported a strong revenue growth of 101% yoy to Rs675 mn in 2QFY11 from Rs335 mn in 2QFY10. The strong revenue growth was led by (1) a very strong passenger growth of about 81% yoy, and (2) start of operations of the new terminal building. The capitalization of the new terminal building led to high interest and depreciation costs during the quarter - ISGIA reported a net loss of Rs289 mn in 2QFY11. The profitability was also impacted by a forex loss leading to a negative other income of Rs49 mn in 2QFY11.

SGIA: 2QFY11 financial performance - key numbers (Rs mn)

	2QFY11	2QFY10	1QFY11	% change		1HFY11	1HFY10	% chg.
				yoy	qoq			
Gross revenues	**675**	**335**	**502**	**101.5**	**34.5**	**1,178**	**567**	**107.8**
Aero	345	163	221	111.7	56.1	566	267	112.0
Non-aero	264	120	218	120.0	21.1	483	207	133.3
Fuel revenue	66	52	63	26.9	4.8	129	94	37.2
Total expenditure	**(268)**	**(182)**	**(231)**	**47.3**	**16.0**	**(499)**	**(300)**	**66.3**
EBITDA	**407**	**153**	**271**	**166.0**	**50.2**	**679**	**267**	**154.3**
Other income	(49)	-	9	NA	(644.4)	(40)	-	NA
PBDIT	358	153	280	134.0	27.9	639	267	139.3
Financial charges	(200)	(3)	(212)	7,307.4	(5.7)	(412)	(13)	
Depreciation	(303)	(143)	(283)	111.9	7.1	(586)	(290)	102.1
Pre-tax profit	**(145)**	**7**	**(215)**			**(359)**	**(36)**	
Taxation	(144)	(3)	(14)			(158)	19	
PAT	**(289)**	**4**	**(229)**			**(517)**	**(17)**	
Key ratios (%)								
EBITDA margin	**60.3**	**45.7**	**54.0**			**57.6**	**47.1**	
PAT margin	(42.8)	1.3	(45.6)			(43.9)	(3.0)	
Effective tax rate	21.3	0.9	2.8			13.4	(3.4)	
Operational performance								
Passenger (mn)	**3.4**	**1.9**	**2.7**	**81.1**	**27.4**	**6.1**	**3.3**	**86.5**
Domestic	2.2	1.3	1.9	67.7	17.3	4.0	2.2	86.0
International	1.3	0.6	0.9	109.9	49.4	2.1	1.1	87.5
ATMs ('000)	**31.0**	**17.5**	**27.0**	**77.1**	**14.8**	**58.0**	**31.0**	**87.1**
Domestic	18.4	10.5	16.4	75.2	12.2	34.8	18.7	86.1
International	12.6	7.0	10.6	80.0	18.9	23.2	12.3	88.6

Source: Company

Airport segment: 2QFY11 financial performance - key numbers (Rs mn)

				% change				
	2QFY11	2QFY10	1QFY11	yoy	qoq	1HFY11	1HFY10	% chg.
Gross revenues	**6,196**	**4,666**	**5,445**	**32.8**	**13.8**	**11,641**	**9,057**	**28.5**
Aero	2,065	1,691	1,930	22.1	7.0	3,995	3,291	21.4
Non-aero	3,468	2,267	2,886	53.0	20.2	6,354	4,403	44.3
Cargo operations	463	619	432	(25.2)	7.2	895	1,213	(26.2)
CPD rentals	199	90	197	121.1	1.0	396	149	165.8
Less: revenue share	(1,366)	(1,272)	(1,297)	7.4	5.3	(2,663)	(2,506)	6.3
Net revenue	**4,830**	**3,394**	**4,148**	**42.3**	**16.4**	**8,978**	**6,551**	**37.0**
Total expenditure	(3,604)	(2,233)	(2,614)	61.4	37.9	(6,218)	(4,232)	46.9
EBITDA	**1,226**	**1,161**	**1,534**	**5.6**	**(20.1)**	**2,760**	**2,319**	**19.0**
Other income	9	41	233	(78.0)	(96.1)	241	50	382.0
PBDIT	1,235	1,202	1,767	2.7	(30.1)	3,001	2,369	26.7
Financial charges	(1,323)	(863)	(1,115)	53.3	18.7	(2,438)	(1,698)	43.6
Depreciation	(1,161)	(755)	(880)	53.8	31.9	(2,042)	(1,444)	41.4
Pre-tax profit	**(1,249)**	**(416)**	**(228)**	**200.2**	**447.8**	**(1,479)**	**(773)**	**91.3**
Taxation	115	62	(30)	85.5	(483.3)	85	117	(27.4)
PAT	**(1,134)**	**(354)**	**(258)**	**220.3**	**339.5**	**(1,394)**	**(656)**	**112.5**
Minority interest	(334)	(106)	(52)	215.1	542.3	(386)	(205)	88.3
Reported PAT	**(800)**	**(248)**	**(206)**	**222.6**	**288.3**	**(1,008)**	**(451)**	**123.5**
Key ratios (%)								
Aero revenue share	33.3	36.2	35.4			34.3	36.3	
Non-aero revenue share	56.0	48.6	53.0			54.6	48.6	
EBITDA margin	**19.8**	**24.9**	**28.2**			**23.7**	**25.6**	
Pre-tax margin	(20.2)	(8.9)	(4.2)			(12.7)	(8.5)	
PAT margin	(18.3)	(7.6)	(4.7)			(12.0)	(7.2)	
Effective tax rate	(1.9)	(1.3)	0.6			(0.7)	(1.3)	

Source: Company

Power revenues decline yoy due to low PLF at Chennai project

Power segment recorded an 8% yoy decline in revenues in 2QFY11 to Rs4.9 bn from Rs5.4 bn in 2QFY10. The decline in revenues was attributed to low PLF at the Chennai power plant (GPCPL) of 40% versus 76% in 2QFY10 on account of the heavy rainfall. The barge mounted power plant (GEL) was shifted to Kakinada and the plant started operations from August 2010 operating at a PLF of 46% in 2QFY11. Note that this project has received gas allocation from KG basin only to the extent of 75%. Start of operations of GEL led to merchant sales of Rs1 bn in 2QFY11 (265 mn units).

Power segment: 2QFY11 financial performance - key numbers (Rs mn)

				% change				
	2QFY11	2QFY10	1QFY11	yoy	qoq	1HFY11	1HFY10	% chg.
Gross revenues	**4,943**	**5,395**	**5,838**	**(8.4)**	**(15.3)**	**10,781**	**11,688**	**(7.8)**
Contracted	3,553	4,436	3,934	(19.9)	(9.7)	7,487	8,500	(11.9)
Merchant sale	1,020	864	—	18.1	NA	1,020	1,776	(42.6)
Power trading	369	96	1,904	284.4	(80.6)	2,273	1,413	60.9
Total expenditure	**(3,917)**	**(4,321)**	**(5,269)**	**(9.3)**	**(25.7)**	**(9,186)**	**(9,737)**	**(5.7)**
Cost of fuel	(3,310)	(4,015)	(4,855)	(17.6)	(31.8)	(8,165)	(9,021)	(9.5)
Other operating exp.	(607)	(306)	(414)	98.4	46.6	(1,021)	(716)	42.6
EBITDA	**1,026**	**1,074**	**569**	**(4.5)**	**80.3**	**1,595**	**1,951**	**(18.2)**
Other income	28	54	273	(48.1)	(89.7)	301	85	254.1
PBDIT	1,054	1,128	842	(6.6)	25.2	1,896	2,036	(6.9)
Financial charges	(280)	(312)	(224)	(10.3)	25.0	(504)	(622)	(19.0)
Depreciation	(368)	(209)	(292)	76.1	26.0	(660)	(509)	29.7
Pre-tax profit	**406**	**607**	**326**	**(33.1)**	**24.5**	**732**	**905**	**(19.1)**
Taxation	(240)	(57)	(58)	324.8	313.8	(298)	(121)	147.3
PAT	**166**	**551**	**268**	**(69.8)**	**(38.1)**	**434**	**785**	**(44.7)**
Exceptional item	1,403	—	—			1,403	-	
Minority interest	86	129	64	(33.1)	34.4	150	224	(32.9)
Reported PAT	**1,483**	**422**	**204**	**251.4**	**627.0**	**1,687**	**561**	**200.7**
Key ratios (%)								
Cost of fuel/sales	67.0	74.4	83.2			75.7	77.2	
Other expenses/sales	12.3	5.7	7.1			13.6	8.4	
EBITDA margin	**20.8**	**19.9**	**9.7**			**14.8**	**16.7**	
Pre-tax margin	8.2	11.3	5.6			6.8	7.7	
PAT margin	3.4	10.2	4.6			4.0	6.7	
Effective tax rate	4.9	1.0	1.0			2.8	1.0	

Source: Company

Other segments: Roads, EPC, Others

- **Roads - revenue growth led by traffic pick-up:** Roads segment reported an 8% revenue growth led by increased traffic levels at all three toll-based road projects. This is reflected in higher toll collection revenue of Rs323 mn in 2QFY11, up 28% yoy while annuity income has remained steady on a yoy basis.

Roads segment: 2QFY11 financial performance - key numbers (Rs mn)

	2QFY11	2QFY10	1QFY11	% change yoy	% change qoq	1HFY11	1HFY10	% chg.
Gross revenues	**945**	**875**	**984**	**8.1**	**(4.0)**	**1,929**	**1,639**	**17.7**
Annuity income	622	622	618	-	0.6	1,240	1,239	0.1
Toll collection	323	253	366	27.7	(11.7)	689	400	72.3
Total expenditure	(162)	(212)	(176)	(23.7)	(8.0)	(338)	(323)	4.5
EBITDA	**783**	**662**	**808**	**18.3**	**(3.1)**	**1,591**	**1,315**	**21.0**
Other income	59	23	63	156.5	(6.3)	122	30	306.7
Financial charges	(574)	(516)	(617)	11.2	(7.0)	(1,191)	(895)	33.1
Depreciation	(391)	(385)	(384)	1.5	1.8	(775)	(693)	11.8
Pre-tax profit	**(123)**	**(216)**	**(130)**			**(253)**	**(243)**	**4.0**
Taxation	(22)	(26)	(8)			(30)	(40)	(25.0)
PAT	**(145)**	**(242)**	**(138)**			**(283)**	**(283)**	**(0.1)**
Minority interest	30	28	20			50	63	(20.6)
Reported PAT	**(175)**	**(270)**	**(158)**			**(333)**	**(346)**	**(3.8)**
Key ratios (%)								
Annuity income share	65.8	71.1	62.8			64.3	75.6	
Toll collection share	34.2	28.9	37.2			35.7	24.4	
EBITDA margin	**82.9**	**75.7**	**82.1**			**82.5**	**80.3**	
PAT margin	(15.3)	(27.7)	(14.0)			(14.7)	(17.3)	
Effective tax rate	(17.9)	(12.0)	(6.2)			(11.9)	(16.4)	

Source: Company

- EPC, others - lower EPC revenues due to SGIA completion, higher treasury income: Completion of construction work at Sabhiha Gokcen airport led to lower EPC revenues on a yoy basis, down 55% yoy. However, investment and other operating income recorded a very strong growth due to higher treasury income post the QIP in April 2010. Investment and other operating income grew to Rs1.2 bn in 2QFY11 from Rs696 mn in 2QFY10.

EPC & others segment: 2QFY11 financial performance - key numbers (Rs mn)

	2QFY11	2QFY10	1QFY11	% change yoy	% change qoq	1HFY11	1HFY10	% chg.
Gross revenues	**1,940**	**2,388**	**1,624**	**(18.8)**	**19.5**	**3,564**	**4,038**	**(11.7)**
EPC	759	1,692	405	(55.1)	87.4	1,164	2,842	(59.0)
Investment, other operating	1,181	696	1,219	69.7	(3.1)	2,400	1,196	100.7
Total expenditure	(1,137)	(1,451)	(602)	(21.6)	88.9	(1,739)	(2,548)	(31.8)
EBITDA	**803**	**937**	**1,022**	**(14.3)**	**(21.4)**	**1,825**	**1,490**	**22.5**
Other income	47	37	104	27.0	(54.8)	151	111	36.0
PBDIT	850	974	1,126	(12.7)	(24.5)	1,976	1,601	23.4
Financial charges	(592)	(112)	(588)	428.6	0.7	(1,180)	(215)	448.8
Depreciation	(72)	(59)	(92)	22.0	(21.7)	(164)	(133)	23.3
Pre-tax profit	**186**	**803**	**446**	**(76.8)**	**(58.3)**	**632**	**1,253**	**(49.6)**
Taxation	(51)	(163)	(2)	(68.7)	2,450.0	(53)	(262)	(79.8)
PAT	**135**	**640**	**444**	**(78.9)**	**(69.6)**	**579**	**991**	**(41.6)**
Key ratios (%)								
Income from investment	39.1	70.9	24.9			32.7	70.4	
Operating income	60.9	29.1	75.1			67.3	29.6	
EBITDA margin	**41.4**	**39.2**	**62.9**			**51.2**	**36.9**	
PBDIT margin	43.8	40.8	69.3			55.4	39.6	
Pre-tax margin	9.6	33.6	27.5			17.7	31.0	
PAT margin	7.0	26.8	27.3			16.2	24.5	
Effective tax rate	2.6	6.8	0.1			1.5	6.5	

Source: Company

Retain estimates; reiterate ADD with a target price of Rs60/share

We have revised our SOTP-based target price to Rs60/share from Rs65/share earlier. Our SOTP-based target price comprises of value from existing operational projects as well as partial value (about 50%) of projects identified by GMRI. The revision in target price is based on removal of value of Coastal power and hydro projects (Talong, Bajoli Holi etc) from the target price as the company has reported little or no progress in these projects so far. Our target price still includes 50% value of the other under development projects viz. Chhattisgarh and Vemagiri expansion.

We value the existing projects of GMRI at Rs58/share comprised of (1) Rs24/share from the Delhi airport and associated real estate development, (2) Rs11/share from Hyderabad airport and associated real estate & SEZ development, (3) Rs3.1/share from road projects, (4) Rs14/share from power plants under development, (5) Rs0.8/share from Krishnagiri SEZ development and (7) Rs3.6/share of net cash. We estimate that the power projects under initial phase of development could potentially contribute Rs6/share while the coal mines could add an additional Rs3.6/share to the value of GMRI. However, we currently attribute 50% of the value of such identified projects in to the SOTP. We have not attributed any value to future development opportunities despite the strong execution track record of the company.

We retain our earnings estimates and reiterate our ADD rating on the stock based on (1) incremental visibility on identified projects (Chhattisgarh and Vemagiri expansion), (2) likely pick up in demand across assets led by broad economic revival (strong traffic growth in airport and road assets) and (3) incremental project wins.

We arrive at SOTP-based value of Rs60/share for GMRI

SOTP-based target price of GMR

	Total asset value		GMR's stake	Value of GMR's stake			
	(Rs bn)	(US$ mn)	(%)	(Rs bn)	(US$ mn)	(Rs/share)	(% Contribution)
Airports							
Delhi Airport	**161.3**	**3,506**	**54.0**	**87.1**	**1,893**	**23.8**	**38.2**
Core	27.2	591		14.7	319	4.0	6.4
Real estate	134.1	2,915		72.4	1,574	19.7	31.7
Hyderabad Airport	**62.6**	**1,362**	**63.0**	**39.5**	**858**	**10.8**	**17.3**
Core	32.7	710		20.6	447	5.6	9.0
Commercial real estate	21.9	477		13.8	300	3.8	6.1
Airport SEZs	8.0	175		5.1	110	1.4	2.2
Sabiha Gocken	**19.3**	**420**	**40.0**	**7.7**	**168**	**2.1**	**3.4**
Total for airports (A)	**243.2**	**5,288**		**134.3**	**2,919**	**36.6**	**58.8**
Roads	**14.8**	**322**					
GTTEPL	1.7	38	60.8	1.1	23	0.3	0.5
GTAEPL	1.3	29	60.8	0.8	17	0.2	0.3
GPEPL	1.0	22	100.0	1.0	22	0.3	0.5
GACEPL	0.8	17	100.0	0.8	17	0.2	0.3
GJEPL	3.5	76	100.0	3.5	76	1.0	1.5
GUEPL	6.4	140	100.0	6.4	140	1.8	2.8
GCORRPL	(2.6)	(57)	90.0	(2.4)	(51)	(0.6)	(1.0)
GHVEPL	0.2	4	74.0	0.1	3	0.0	0.1
Total for roads (B)	**12.4**	**269**		**11.4**	**247**	**3.1**	**5.0**
Power							
Vemagiri	16.8	366	100.0	16.8	366	4.6	7.4
Mangalore	6.0	130	100.0	6.0	130	1.6	2.6
Basin Bridge	4.2	92	51.0	2.2	47	0.6	0.9
Kamalanga (Orissa)	15.8	344	100.0	15.8	344	4.3	6.9
Alakananda	3.6	79	100.0	3.6	79	1.0	1.6
EMCO project	4.5	97	100.0	4.5	97	1.2	2.0
Projects in operation or substantial progress (X)	**50.9**	**1,107**		**48.9**	**1,062**	**13.3**	**21.4**
Chattisgarh	10.7	233	100.0	10.7	233	2.9	4.7
Vemagiri expansion	11.2	243	100.0	11.2	243	3.1	4.9
Projects yet to make substational progress (Y)	**21.9**	**477**		**21.9**	**477**	**6.0**	**9.6**
Total for power projects (C = X+ 50% Y)	**61.9**	**1,346**		**59.8**	**1,301**	**16.3**	**26**
SEZ (D)	**2.9**	**63**		**2.8**	**62**	**0.8**	**1.2**
Krishnagiri	2.9	63	98.0	2.8	62	0.8	1.2
Coal mines (E)	**18.3**	**398**		**13.0**	**283**	**3.6**	**5.7**
South Africal coal mines	**8.6**	187	38.5	3.3	72	0.9	1.4
Indonesian coal mines	**9.7**	212	100.0	9.7	212	2.7	4.3
Net cash at parent level (F)	**13.3**	**290**	**100.0**	**13.3**	**290**	**3.6**	**5.8**
Grand total (A + B+ C+ D + 50% E +F)	**342.9**	**7,454**		**228.2**	**4,960**	**62.2**	**100.0**

Source: Kotak Institutional Equities estimates

Consolidated financials of GMR Infrastructure, March fiscal year-ends, 2006-12E (Rs mn)

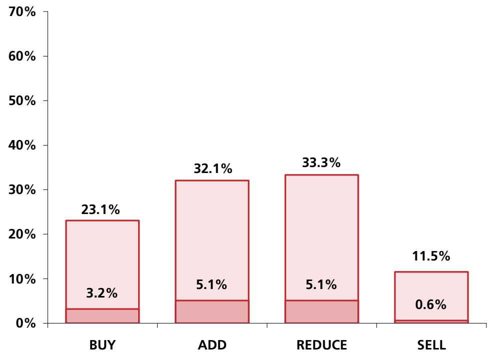
	2006	2007	2008	2009	2010	2011E	2012E
Income statement							
Operating income	**10,590**	**16,967**	**22,948**	**40,192**	**45,665**	**44,542**	**47,186**
Total operating expenses	(6,086)	(11,531)	(16,963)	(29,524)	(32,022)	(23,856)	(24,608)
EBITDA	**4,504**	**5,437**	**5,985**	**10,668**	**13,643**	**20,686**	**22,577**
Other income	315	183	698	214	1,634	250	592
Interest expense	(1,558)	(1,441)	(1,687)	(3,682)	(7,223)	(12,877)	(12,333)
Depreciation	(2,200)	(1,346)	(1,785)	(3,898)	(6,122)	(8,140)	(10,063)
Pre-tax profit	**1,061**	**2,833**	**3,210**	**3,301**	**1,931**	**(81)**	**774**
Tax	(125)	(415)	(584)	(530)	322	(1,176)	(890)
Net profits	**705**	**1,744**	**2,101**	**2,795**	**1,800**	**1,389**	**2,230**
EPS (Rs)	**0.5**	**1.1**	**1.2**	**0.8**	**0.4**	**0.4**	**0.3**
Balance sheet							
Shareholders funds	**5,704**	**19,923**	**61,172**	**64,780**	**66,386**	**67,815**	**68,814**
Equity share capital	2,644	3,311	3,641	3,641	3,667	3,667	3,667
Reserves and surplus	3,060	16,612	57,531	61,139	63,003	64,148	65,147
Minority interest	4,243	5,261	11,126	18,061	17,902	15,892	13,546
Deposit from real estate and ADF	—	—	—	—	—	40,113	42,717
Loan funds	**29,217**	**37,057**	**79,769**	**120,238**	**208,374**	**149,491**	**156,161**
Secured	25,438	30,220	68,438	106,602	162,294	148,421	155,091
Unsecured	3,778	6,837	11,331	13,636	46,080	1,070	1,070
Total sources of funds	**39,166**	**62,385**	**152,492**	**203,271**	**297,480**	**273,503**	**281,430**
Net block	13,508	29,000	52,699	96,516	125,481	211,086	214,645
Capital work in progress	16,318	19,060	45,227	67,909	103,829	4,344	8,688
Net fixed assets	**29,826**	**48,059**	**97,927**	**164,426**	**229,309**	**215,430**	**223,333**
Investments	2,557	2,625	48,996	13,109	46,411	13,109	13,109
Net current assets (excl. cash)	**29**	**(1,300)**	**(3,375)**	**1,071**	**4,929**	**7,410**	**7,384**
Cash	6,754	13,000	8,945	24,665	16,826	37,553	37,605
Total application of funds	**39,166**	**62,385**	**152,492**	**203,271**	**297,480**	**273,503**	**281,430**
Free cash flow							
Net profit before tax and extraordinary items	1,061	2,833	3,210	3,301	1,931	(81)	774
Add: Depreciation / amortisation / non-cash prov	2,200	1,346	1,785	3,898	6,122	8,140	10,063
Tax paid	(126)	(241)	(261)	(701)	(664)	(1,176)	(890)
Operating profit before working capital chang	**3,135**	**3,938**	**4,735**	**6,499**	**7,390**	**6,882**	**9,947**
Change in working capital / other adjustments	(2,400)	1,328	2,076	(4,446)	(3,858)	(107)	26
Net cashflow from operating activites	**735**	**5,266**	**6,810**	**2,053**	**3,532**	**6,775**	**9,973**
Fixed Assets	(8,654)	(19,589)	(51,679)	(70,091)	(70,490)	(17,281)	(17,965)
Investments	(802)	(68)	(46,371)	35,887	(33,302)	—	—
Cash (used) / realised in investing activities	**(9,456)**	**(19,656)**	**(98,050)**	**(34,204)**	**(103,791)**	**(17,281)**	**(17,965)**
Free cash flow	**(8,722)**	**(14,391)**	**(91,240)**	**(32,151)**	**(100,259)**	**(10,506)**	**(7,992)**
Ratios							
EBITDA margin (%)	42.5	32.0	26.1	26.5	29.9	46.4	47.8
Debt/equity	5.1	1.9	1.3	1.9	3.1	2.2	2.3
Net debt/equity	3.9	1.2	1.2	1.5	2.9	1.7	1.7
RoAE (%)	14.0	13.6	5.2	4.4	2.4	2.1	1.5
RoACE (%)	6.3	5.9	3.2	3.3	4.3	75.4	(0.3)

Source: Company, Kotak Institutional Equities estimates

"I, Lokesh Garg, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/09/2010 Kotak Institutional Equities Investment Research had investment ratings on 156 equity securities.

Source: Kotak Institutional Equities — As of September 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

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Corporate Office

Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel:+1-914-997-6120

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