

December 7, 2006

FOR PRIVATE CIRCULATION

**Equity**

	6 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	13,949	0.1	6.0	17.7
Nifty	4,016	0.0	5.7	16.3
Banking	7,197	0.1	12.0	34.3
IT	3,635	0.2	10.6	26.7
Healthcare	3,760	(0.7)	0.8	4.5
FMCG	2,054	(0.6)	(1.2)	1.9
PSU	6,249	(0.3)	3.8	11.3
CNX Midcap	5,113	(0.9)	3.4	15.0
<b>World indices</b>				
Nasdaq	2,445.9	(0.3)	2.9	13.5
Nikkei	16,371	0.6	0.2	2.5
Hangseng	19,026	0.4	0.3	11.1

**Value traded (Rs cr)**

	6 Dec 06	% Chg - 1 Day
Cash BSE	4,141	(3.4)
Cash NSE	8,702	(1.1)
Derivatives	32,054	24.2

**Net inflows (Rs cr)**

	5 Dec 06	% Chg	MTD	YTD
FII - 4 Dec	(2,813.8)	(905.6)	(2,465)	37,405
Mutual Fund	50.5	17.0	398	14,783

**FII open interest (Rs cr)**

	5 Dec 06	% chg
FII Index Futures	8,335.2	3.4
FII Index Options	5,437.2	5.2
FII Stock Futures	16,918.6	0.7
FII Stock Options	151.8	11.1

**Advances/Declines (BSE)**

	6 Dec 06	A	B1	B2	Total	% Total
Advances	60	169	413	642	35	
Declines	147	483	517	1147	63	
Unchanged	3	13	23	39	2	

**Commodity**

	6 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	62.2	(0.4)	3.6	(7.9)
Gold (US\$/OZ)	631.0	(1.9)	0.5	1.8
Silver (US\$/OZ)	13.6	(1.4)	7.0	7.4

**Debt/forex market**

	6 Dec 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.39	7.38	7.63	7.80
Re/US\$	44.71	44.53	44.90	46.15

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- The Insurance Regulatory and Development Authority (IRDA) announced that it would lift pricing controls on motor insurance, along with other lines of business currently under tariff, with effect from January 1, 2007. (BS)
- Going by the 40 per cent higher tax collections up to November, the finance ministry is hoping to net a whopping Rs.30,000 crore extra by way of direct and indirect taxes this financial year. (BS)
- The Forward Markets Commission (FMC) has banned members from offering clients portfolio advisory, portfolio management and other services in the commodity derivative markets. (BL)
- The Central Board of Trustees (CBT) of the employees' Provident Fund Organisation (EPFO) will meet here on Thursday to decide on the rate of interest to be paid to the nearly four crore provident fund subscribers for fiscal 2006-07. (BL)

**CORPORATE NEWS**

- Refining margins at **Indian Oil Corporation's (IOC)** upcoming Paradip refinery in Orissa would be "the highest in the country at \$11-12 a barrel at current prices," chairman Sarthak Behuria said. At present, Reliance Industries manages the highest margins in the country - about \$9 a barrel last quarter - from its refinery in Jamnagar. (BS)
- **Indian Oil Corporation Ltd** (IndianOil) is losing an additional Rs 8 crore a day on sale of petroleum products after the recent price cut. The company's total revenue loss per day is now close to Rs.53-54 crore. (BL)
- **Fortis Healthcare Limited** is close to picking up a majority stake in Naresh Trehan's upcoming Medicity project in Gurgaon, with the contours of the agreement expected to be finalised within a month. (BS)
- Aditya Birla Group Company **Idea Cellular** has approached SEBI for clearance of an initial public offering, to raise Rs 25 bn. The company is likely to offload about 10 per cent equity through the IPO and has the option to retain up to 15 per cent surplus through the green shoe option. The issue proceeds will be utilised in expanding services in new circles, national long distance operations, launch of its cellular services in Mumbai, redemption of preference shares and general corporate purposes. (BL)
- **Panacea Biotec Ltd** has acquired a 10 per cent in UK-based liquid vaccine developer Cambridge Biostability Ltd (CBL) for around Rs 17 crore (£1.935million) through a joint venture agreement with the company. It has also entered into a licensing agreement with CBL, to in-licence its proprietary technology to make vaccines of ready-to-inject stable liquid suspensions that do not require refrigeration or reconstitution, thus significantly reducing administration costs and effectiveness. (BL)
- Indian private sector lender **Yes Bank Ltd** on Wednesday launched a microfinance unit in a technical tie-up with Boston-based Accion International, and said it would spin off the unit once it reached critical mass. (FE)
- With plans to make India its global hub, US-based networking major **Cisco Systems** on Wednesday announced a slew of initiatives including setting up a manufacturing unit in Chennai and tripling its manpower in the country from 2,000 at present to 6,000 over the next 3-4 years. (BL)

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

## FROM OUR RESEARCH TEAM

### MANAGEMENT MEET UPDATE

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## UTV SOFTWARE LTD (Rs.277, FY08E P/E: 17x)

**(HOLD, pending further details on Astro JV and Disney relationship)**

**We recently spoke with the management of UTV to update ourselves on the company's recent strategic announcements with the Astro group of Malaysia.**

### **Astro JV - plans for TV channels in multiple languages, a web channel and a mobile channel**

The JV with Astro signals UTV's re-entry into the broadcasting segment. UTV has announced the setting up of a JV with Astro- a prominent DTH operator and broadcaster in Malaysia. The new venture will operate across multiple platforms, including a television channel, gaming, mobile, licensing & merchandising, ground events and the Internet. The first television channel in Hindi is slated for launch in the second quarter of 2007.

The plans for the venture include the launch of multiple channels across languages in India and Southeast Asia. UTV had earlier entered into a business co-operation arrangement with Astro to set up kids channels in Malaysia and Indonesia. In terms of financial investments, UTV's contribution is expected to be close to Rs.600mn over a period of three years.

### **The Disney transaction**

UTV's previous foray into the broadcasting space, Hungama TV, has been a success with the channel achieving a leading position amongst all kids channels in less than two years of its launch. UTV sold its stake in Hungama to the Walt Disney group in the previous quarter for a consideration of about \$31mn, after receiving the final approval from the FIPB.

Disney has also invested Rs.670mn (USD 14.5 million) towards a 14.9% stake in UTV. We see the entry of a global major like Disney as a positive for an evolving enterprise like UTV as it can bring with it enhanced branding, client access and possibly scale in operations.

If all these factors do translate into business synergies between the parties, the growth rates for the company could be positively impacted. The two organizations have identified areas of common involvement, including the launch of niche channels, movie co-productions and television content creation by UTV for Disney channels.

We have not factored in any probable impact of this development, in terms of incremental revenue/work flow in our estimated financials for UTV.

### **Substantial cash inflow**

Post these developments, UTV received cash inflow of close to Rs.1.8bn (post capital gains on Hungama inflow). Of this, Rs.1.4bn is expected to come from the 'Hungama' sell off and Rs.654.5mn from the strategic stake sale to Disney.

Also, the promoter has subscribed to 1.95mn warrants (one warrant convertible into one equity share at Rs.192.5 over a time period) that could lead to additional inflows of Rs.374mn when exercised. This has led to an expansion in the equity capital to Rs.248mn from the prior Rs.195mn, which we have factored in our financials.

During our interactions, the management indicated its intention to utilise these proceeds to retire the debt in part and build a war-chest for possible acquisitions in different segments of new media like gaming or content development - essentially efforts towards developing IPR that could be monetised.

By the end of Q2FY07, UTV had utilised close to Rs.500mn of these inflows to retire debt and plans to utilise the rest of the monies towards the JV with Astro and other initiatives in the movie segment.

## Financials

### Revenues

#### 1. Television

This segment saw revenues growing by 54% YoY to Rs.276mn in Q2 on the back of :

- Increase in air-time sales - the company now manages 24 hours of programming on an average per week across Sun TV, Gemini, Udaya and Surya in South India. This is a steep increase from the 11-12 hours it managed in Q1FY06 and has helped drive revenue growth in the TV segment and
- Steady contribution from the content supply segment (close to 8hrs/week on an average).

Within the TV segment, animation has started contributing to revenues with a contribution of Rs.53mn in Q2FY07. Given the visibility in terms of order-book and employee ramp up, we expect this business to contribute close to \$4mn in FY07 and subsequently \$6.6mn in FY08. UTV's current order-book from this segment consists of a 30-episodes TV series, 15 DVD features and one theatrical feature film.

#### 2. Movies

This segment saw a QoQ de-growth in revenues to only Rs.87mn in 2QFY07. This was mainly due to no major releases in this segment for the quarter. This number is expected to be higher in Q3 due to revenue accrual from its projects- international distribution of 'Don' and co- production 'Khosla ka Ghosla' that released towards the end of Q2FY07.

Going forward, this segment is expected to witness increased activity in 2HFY07 with a few talked-about releases in Hindi & English lined up. Amongst the release slated for 2HFY07 are 'Blue Umbrella'-a Vishal Bharadwaj movie and 'Namesake'- a Mira Nair movie, which is UTV's first international co-production.

However, we believe that, this segment may see revenue de-growth in FY07 over FY06, due to the lack of a blockbuster release like 'Rang de Basanti' in the current fiscal.

### Margins

In Q2FY07, the company saw margins improving significantly across businesses on a sequential basis. While television business achieved margins of 15.6% v/s 3.7% reported in Q1, the movies business had margins of 26%, up from 22.4% reported in Q1. Allied services were in investment mode over the last 2 quarters.

Overall, we expect the profitability across businesses to improve in 2HFY07, mainly due to release of movies in those quarters.

### Future Prospects

(Rs mn)	FY06	FY07E	% chg	FY08E	% chg
<b>Revenues</b>	<b>2086.7</b>	<b>2118.6</b>	<b>1.5</b>	<b>3421.6</b>	<b>61.5</b>
Expenditure	1979.0	1897.9		2993.9	
<b>EBDITA</b>	<b>107.8</b>	<b>220.6</b>	<b>104.7</b>	<b>427.8</b>	<b>93.9</b>
Depreciation	46.9	61.3		78.0	
<b>EBIT</b>	<b>60.9</b>	<b>159.3</b>	<b>161.8</b>	<b>349.8</b>	<b>119.5</b>
Interest	0.0	39.0		70.0	
Other Income	56.6	9.7		24.0	
<b>PBT</b>	<b>117.5</b>	<b>130.0</b>	<b>10.7</b>	<b>303.8</b>	<b>133.6</b>
Tax	24.7	28.6		88.8	
<b>PAT</b>	<b>92.8</b>	<b>101.4</b>		<b>215.0</b>	
Minority Int	0.3	0.0		0.0	
PAT after M I	92.5	101.4		215.0	
EO items	0.0	0.0		0.0	
PAT after EO items	92.5	101.4	9.7	215.0	112.0
<b>EPS (Rs)</b>	<b>4.7</b>	<b>5.2</b>		<b>8.7</b>	
OPM (%)	5.16	10.41		12.50	
GPM (%)	2.92	7.52		10.22	
NPM (%)	4.43	4.79		6.28	

Source : Company, Kotak Securities - Private Client Research Estimates

For UTV, we expect revenues of Rs.2.1bn in FY07 and increase to Rs.3.4bn in FY08, given its pipeline of movies and content. We expect improved profitability from different businesses, leading to an EBITDA of 10.4% in FY07 and 12.5% in FY08.

Consequently, the company is expected to report profits of Rs.179mn in FY07 and Rs.350mn in FY08, translating into an EPS of Rs.7.2 and Rs.14.2 in FY07 & FY08 respectively. Estimates are on a fully diluted equity capital of Rs.248mn.

### Valuation and Recommendation

We have valued the UTV stock based on the DCF methodology. Our DCF valuations incorporate a 4% growth in perpetuity and a 13.3% WACC. Based on these, we arrive at a fair value of Rs.243 for UTV. We will ascribe a financial value to the Astro JV, as and when further clarity emerges on the future plans.

We like UTV on the back of its positioning as an integrated media player, maturing of past investments, growing presence in animation and its movie pipeline. We opine that, the Disney partnership could open up opportunities for UTV to expand its reach and addressable market in the media and entertainment sector-a potentially fast growth domain.

We see a good amount of synergies emanating from this partnership in new media segments like animation and movie production given the presence of UTV and Disney in these segments. We believe that some clarity on this front could be expected post the formalities of the partnership being completed and as the parties settle down to fortifying their partnership.

Given the expected increase in modes of content delivery (DTH, broadband, mobile phones) we opine that, quality content companies like UTV could stand to gain from this possible content explosion.

We believe that, at the current price levels, our FY08 estimates are fairly priced in. However, we recommend a **HOLD** on the stock due to the above-mentioned factors. Possible upsides to our estimates could also emanate from a higher-than-expected increase in order-book for animation business and better-than-expected revenue and margin performance from the movie and television segments.

### Key Risks

#### ■ Earnings remain sensitive to the volatile movie segment

We note that the movie segment contributed around 63% of revenues (Rs.1312mn) and 55% of the EBIT (Rs.107mn) in FY06. Going forward, we expect the movies segment to contribute around 40-50% of revenues in FY07 and FY08.

We note that, due to good process development and project monitoring initiatives, UTV's risks are lesser than most other producers. However, returns from this business could remain volatile at best, dependent on the commercial fate of projects.

#### ■ Further delays in animation segment

A delay in ramp up or lesser-than-expected progress on the order book from the animation segment could impact our earnings estimates negatively.

## COMPANY UPDATE

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## ASHOK LEYLAND

### (Rs.43, FY08 P/E: 10.3x, BUY)

Ashok Leyland reported a 59% yoy increase in domestic sales while exports were also up by 179% for the month of November'06. The overall sales increased by 64% for the month and by 39% for the year till date. Goods M&HCV sales continue to perform well with a growth of 109% in the domestic market. The demand for goods vehicles this year has been positively impacted by the Supreme Court's order last year banning overloading of vehicles over the prescribed limit. Also buoyancy in the IIP and better freight rates for the truck operators during the year has contributed to the sustained higher growth in the segment (YTD up by 66%).

However in the passenger segment the company continues to disappoint reporting a 21% decline in domestic volumes for the month with sales of 1,119 units. Export volumes for the passenger segment were however higher resulting in lower overall decline of 3% for the passenger segment. So far, this year the domestic sales for the passenger segment are down by 13% YoY. The de-growth can be attributed to slowdown in orders from state transport undertakings (STUs) for buses due to elections held in five states last year. However the management remains optimistic on procuring fresh orders from the STUs in the coming months. Given the buoyant overall economic scenario the company remains on track to comfortably achieve its overall sales volumes of 80,000 units for the full year.

We had earlier forecasted the company to achieve overall volume growth of 26% for the full year. However based on the company's performance in the last two months, we are revising our full year volume estimate to 79,286 units (increase of 2%), which implies a growth of 29%. Residual growth required in balance part of FY2007 to meet our full year forecast now stands at 13%.

## Summary table

(Rs mn)	FY06	FY07E	FY08E
Sales	52,477	70,188	83,157
Growth (%)	25	34	18
EBITDA	5,316	7,161	9,545
EBITDA margin (%)	10.1	10.2	11.5
Net profit	3,273	4,210	5,581
Net cash (debt)	(891)	(2,454)	(2,441)
EPS (Rs)	2.2	3.2	4.2
DPS (Rs)	3.0	3.0	3.0
ROE (%)	23.0	27.5	30.3
ROCE (%)	19.5	27.4	34.9
EV/Sales (x)	1.04	0.80	0.68
EV/EBITDA (x)	10.3	7.9	5.9
P/E (x)	19.4	13.7	10.3
P/BV (x)	3.7	3.2	2.6

Source: Company & Kotak Securities - Private Client Research

## Ashok Leyland - November volume

	Nov'06	Nov'05	YoY(%)	Apr-Nov'06	Apr-Nov'05	YoY (%)
<b>MDV Passenger</b>						
Domestic Sales	1119	1408	-21	6,615	9,110	-27
Exports	344	98	251	2,338	1,159	102
Total Passenger	1463	1506	-3	8,953	10,269	-13
<b>MDV Goods</b>						
Domestic Sales	5281	2529	109	40431	24,296	66
Exports	158	82	93	1,462	1,639	-11
Total Goods	5,439	2,611	108	41,893	25,935	62
<b>LCV</b>						
Domestic Sales	20	96	-79	232	481	-52
Exports	1	-		3	24	-88
<b>Total LCV</b>	<b>21</b>	<b>96</b>	<b>-78</b>	<b>235</b>	<b>505</b>	<b>-53</b>
<b>Total Domestic</b>	<b>6,420</b>	<b>4,033</b>	<b>59</b>	<b>47,278</b>	<b>33,887</b>	<b>40</b>
<b>Total Exports</b>	<b>503</b>	<b>180</b>	<b>179</b>	<b>3,803</b>	<b>2,822</b>	<b>35</b>
<b>Total</b>	<b>6,923</b>	<b>4,213</b>	<b>64</b>	<b>51,081</b>	<b>36,709</b>	<b>39</b>

Source: Company

## Valuation

Based on the changes in volume we have suitably adjusted our revenue estimates for the company. We now expect the company's revenues at Rs70.1bn for FY07E resulting in an EPS of Rs3.2 for FY07E. For FY08E we expect revenues of Rs83.1bn and EPS of Rs4.2. At the current market price, the stock is currently trading at 10.3x times FY08E earnings and 5.9x times EV/EBITDA multiple for FY08. Based on the revised financials the stock price has been increased to Rs54 (earlier Rs53) based on the DCF model. At our target price of Rs 54 the stock provides an upside of 25% from current levels. We reiterate Buy on the stock with a revised price target of Rs.54.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
6-Dec	Action Const	DSP Merrill Lynch Trustee	S	105,000	387.92
6-Dec	Alchemist Lt	Onkar Anand	S	555,000	36.93
6-Dec	BDH Industri	Hi Klass Trading and Inv	B	36,900	35.89
6-Dec	BDH Industri	Hemantkumar Mahabir Gupta	B	50,000	37.80
6-Dec	BDH Industri	Jyoti Subhash Bohra	B	50,000	37.85
6-Dec	Bilpower Lt	Matterhorn Advisory Singa	B	27,019	173.81
6-Dec	Blissgvs Ph	Arwa Umesh	B	15,000	56.83
6-Dec	Blissgvs Ph	Param Pharma P. Ltd	B	100,000	55.45
6-Dec	Class Diam I	Jigneshbhai Hiralal Shah	B	50,000	472.50
6-Dec	Class Diam I	Chauhan Finstock	B	42,000	469.90
6-Dec	Class Diam I	Rajshah Enterprises Priva	S	117,000	471.99
6-Dec	Core Project	BNP Paribas Ac Parvest Si	B	50,000	470.00
6-Dec	Damodar Thre	Chetan Mehta	B	20,178	40.36
6-Dec	Donear Indus	HSBC Financial Services M	B	275,000	209.24
6-Dec	Elnet Techno	Shailesh A. Jhaveri HUF	B	25,000	105.57
6-Dec	Elnet Techno	Money Matters Advisory Se	S	25,000	105.51
6-Dec	Garnet Const	Hitesh Jhaveri	S	29,271	78.42
6-Dec	Indra Gas	Genesis Fund Managers Llp	B	1,620,391	119.00
6-Dec	Indra Gas	California Public Employe	B	1,028,647	119.00
6-Dec	Karuturi.Com	Vivek Mehrotra	B	26,500	199.94
6-Dec	Mah Ind Leas	Rashel Agrotech Ltd.	B	11,265	97.95
6-Dec	Mefcom Agr I	Dipak Rana	B	24,148	70.95
6-Dec	Mefcom Agr I	Purshottam Khandelwal	S	19,401	70.95
6-Dec	Milkfood	JPM Ac Cophthall Mauritius	B	50,000	361.05
6-Dec	Mohit Indust	Ramniklal Kunverji Shethi	B	26,022	63.46
6-Dec	Mohit Indust	SRK Projects Pvt. Ltd.	B	50,226	63.60
6-Dec	Mohit Indust	Ramniklal Kunverji Shethi	S	30,422	63.05
6-Dec	Nitco Tiles	Franklin Tempel Mutual Fu	B	500,000	243.00
6-Dec	Nitco Tiles	Indiabulls Insurance Advi	S	518,071	243.21
6-Dec	Pace Elec(P)	Pilot Consultants Ltd	B	106,450	36.07
6-Dec	Royale M H I	Pilot Consultants Ltd	B	200,000	70.37
6-Dec	Royale M H I	Amrabathi Investra Pvt Ltd	B	70,350	68.83
6-Dec	Royale M H I	Jhaveri Trading and Inves	B	229,627	68.71
6-Dec	Sh Hari Ch E	BCB Finance P Ltd	B	23,492	13.30
6-Dec	Shree Ram	HSBC Financial Services	B	110,000	601.23
6-Dec	Standard Ind	Morgan Stanley Dean Witte	S	380,000	62.44
6-Dec	Sujana Metal	Goldman Sachs And Company	B	541,060	99.47
6-Dec	Supreme Yarn	Mit Gopalbhai Shah	B	193,860	23.80
6-Dec	Supreme Yarn	Sejal G.Shah	S	206,118	23.80
6-Dec	Suryajyoti S	Shradha Tradelinks P Ltd	B	85,003	63.73
6-Dec	Usher Agro	Bharat Tukaram Gaikar	B	294,100	11.76
6-Dec	Usher Agro	Deutsche Securities Mauri	S	414,290	11.84
6-Dec	Vimal Oil Fo	Pilot Consultants Ltd	B	71,766	46.08
6-Dec	Visaka Ind L	Findeal Investments Priva	B	151,643	153.79
6-Dec	Vjil Consiti	Paras Bathia HUF	B	43,400	23.85
6-Dec	Vyapar Inds	Charmi Investments	B	100,000	111.86

Source: BSE



## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
ONGC	866	1.0	3.6	0.9
Bharti Airtel	647	1.3	3.1	1.3
Reliance Com	463	1.0	1.9	4.4
<b>Losers</b>				
Suzlon Energy	1,369	(4.2)	(3.5)	1.1
ITC	188	(1.1)	(1.6)	3.1
Punjab National Bank	554	(2.7)	(1.0)	0.6

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
7-Dec	ONGC organises a workshop; The Baltic Sea Region organises a press briefing; UTI AMC holds press conference for its new initiatives; Bharti Airtel holds press conference; IOB & IIFC holds press conference; Apollo Health and Lifestyle organises an event; Wipro holds press conference
11-14 Dec	Initial Public Offer of Tanla Solutions opens
11-15 Dec	Initial Public Offer of Cairn India opens
13-Dec	Bharti AXA Life Insurance holds conference for expansion plan
14-21 Dec	Initial Public Offer of Lumax Auto Technologies open

Source: Bloomberg

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