

COLGATE-PALMOLIVE (INDIA) LTD.

BUY

CMP : Rs450 TP : Rs498

BSE Sensex : 10,803

Colgate-Palmolive (India) Limited (CPIL), a 51% subsidiary of Colgate Palmolive Company, USA, is the leading FMCG player in the Indian oral care market. The company also has presence in the personal care space with a range of products under the *Palmolive* brand name. A distribution network of 4.5 million retail outlets across the country ensures the company penetrates a vast coverage area.

Undisputed leader in Indian oral care market

A leader in the Indian toothpaste market, CPIL has a prominent edge with its two brands, *Colgate* and *Colgate Cibaca*, commanding an overpowering 49.6% share. The company also has sustained its dominant presence in the toothpowder and toothbrush markets with a share of 48.9% and 38% respectively.

Low per capita consumption levels

Currently, the Indian toothpaste consumption is at a dismal 92 gms per household per month. This is much lower compared to 219 gms /HH/ month and 285 gms /HH/ month in China and Malaysia respectively. However, increased awareness about oral hygiene is likely to change this scenario resulting in improved consumption augmenting growth of oral care products.

High Dividend yielding stock

The dividend yield expected on CPIL is 3.6% and 4.2% in FY09E and FY10E respectively. This yield would be higher than majority of its industry peers thereby effectively enhancing actual returns in comparison.

VALUATIONS

At the CMP of Rs450, the stock is trading at a P/E of 18.8x and EV/EBIDTA of 13.9x its FY10 estimates. CPIL has exhibited earnings visibility in the face of an economic slowdown thus demonstrating strong brand equity. Furthermore, a moderation in sorbitol prices would enhance margins together with benefits accruing from the Baddi plant reducing tax costs. Hence, we initiate coverage on the stock with a BUY rating and a 12-month price target of Rs498.

| KEY FINANCIALS (CONSOLIDATED) | | | | | Rs mn |
|-------------------------------|--------|--------|--------|--------|--------|
| | FY07 | FY08 | FY09E | FY10E | FY11E |
| Net Sales | 12,956 | 14,739 | 17,543 | 19,977 | 22,770 |
| YoY Gr. (%) | 15.1 | 13.8 | 19.0 | 13.9 | 14.0 |
| Op Profits | 1,491 | 2,497 | 3,310 | 3,887 | 4,365 |
| OPM (%) | 11.5 | 16.9 | 18.9 | 19.5 | 19.2 |
| Net Profits | 1,484 | 2,358 | 2,742 | 3,253 | 3,398 |
| YoY Gr. (%) | 6.0 | 58.9 | 16.3 | 18.6 | 4.4 |
| KEY RATIOS | | | | | |
| Dil. EPS (Rs) | 10.9 | 17.3 | 20.2 | 23.9 | 25.0 |
| ROCE (%) | 80.5 | 178.0 | 244.5 | 261.0 | 265.4 |
| RONW (%) | 53.1 | 105.8 | 154.8 | 163.9 | 153.9 |
| P/E (x) | 41.2 | 26.0 | 22.3 | 18.8 | 18.0 |
| EV/Sales (x) | 4.5 | 4.0 | 3.4 | 2.9 | 2.5 |
| EV/EBIDT (x) | 27.3 | 18.1 | 16.5 | 13.9 | 12.2 |

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STOCK DATA

| | |
|----------------------------|-----------|
| Market Cap | Rs61bn |
| Book Value per share | Rs12.3 |
| Eq Shares O/S (F.V. Re.1) | 136mn |
| Free Float | 49% |
| Avg. Traded Value (6 mths) | Rs52mn |
| 52 Week High/Low | Rs480/341 |
| Bloomberg Code | CLGT@IN |
| Reuters Code | COLG.BO |

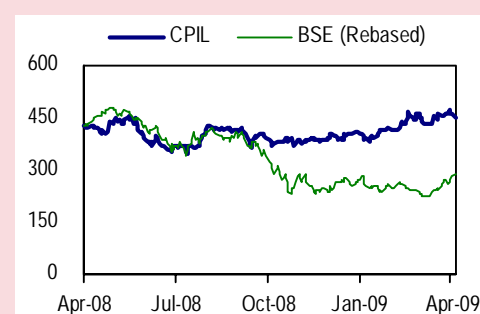
TOP SHAREHOLDERS

| Name | % holding |
|--|-----------|
| Life Insurance Corporation of India | 5.3 |
| HDFC Standard Life Co Ltd | 2.5 |
| Bajaj Allianz Life Insurance Company Ltd | 1.7 |
| Government of Singapore | 1.5 |

PERFORMANCE (%)

| | 1M | 3M | 12M |
|----------|--------|------|------|
| Absolute | 4.3 | 15.4 | 5.1 |
| Relative | (21.2) | 0.5 | 51.7 |

RELATIVE PERFORMANCE

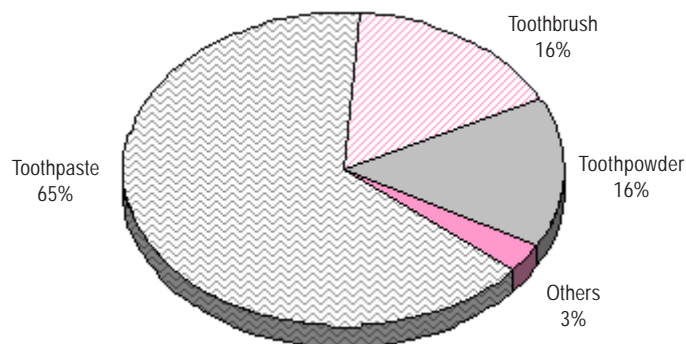


Indian Oral Care Industry

The dentifrice penetration in India stands at 78% ...

The Indian oral care market is estimated at Rs40bn populated by numerous companies ranging from large FMCG majors to other smaller regional players. This market should continue to witness growth in high single digits given the relatively low penetration and consumption levels. At present, the dentifrice (toothpaste and toothpowder combined) penetration in India stands at 78% with the remaining populace continuing to use traditional products like neem twigs, salt, ash, tobacco or other herbal ingredients. Furthermore, the percentage of Indians brushing their teeth twice a day stands at an undersized 7% in comparison to 61% for Chinese and 86% for Malaysians. Going further, the scenario is likely to alter as the consumption and penetration levels improve backed by growing awareness concerning oral hygiene thus fueling demand for oral care products.

Indian Oral Care Industry Break-up



Source: PINC Research

Toothpaste market forms the largest segment of the domestic oral care industry...

The Indian toothpaste market forms the largest segment of the domestic oral care industry with an estimated value of Rs26bn. This category has witnessed a CAGR of 9% in the past 3 years with a current penetration of 53% as against 44% in '01.

The Indian toothpowder market is estimated at ~Rs6bn with whites contributing 65% and the remaining being supplemented by reds and blacks. The penetration level in this segment has been witnessing a gradual decline from an initial 36% in '02 to the current 35%. This trend can be attributed to consumers increasingly switching from toothpowders to toothpaste.

The Indian toothbrush market is estimated at ~Rs6.5bn with a CAGR of 11.3% in the past 3 years. This segment's penetration level in the rural market stands at 50% with the rest of the population continuing to use twigs and other natural products as toothbrushes.

Additionally, the domestic oral care market includes other smaller segments like mouthwashes and dental rinses. The Indian mouthwash market is valued at Rs740mn with a CAGR of 5% in the past three years.

Industry Data

| Market Segment | CAGR(%) | Penetration(%) |
|----------------|---------|----------------|
| Toothpaste | 9 | 53 |
| Toothpowder | 1-2 | 35 |
| Toothbrush | 11.3 | - |

Source: Company

Company Background

The company currently has five manufacturing facilities located at Aurangabad, Baddi, Hyderabad and Goa...

Colgate - Palmolive (India) Limited (CPIL) was incorporated in Sept 1937 as a 100% subsidiary of the Colgate - Palmolive Company, USA. CPIL remains the only publicly listed subsidiary of the parent company since it commenced trading on stock exchanges in 1979. The company currently has five manufacturing facilities located at Aurangabad, Baddi, Hyderabad and Goa.

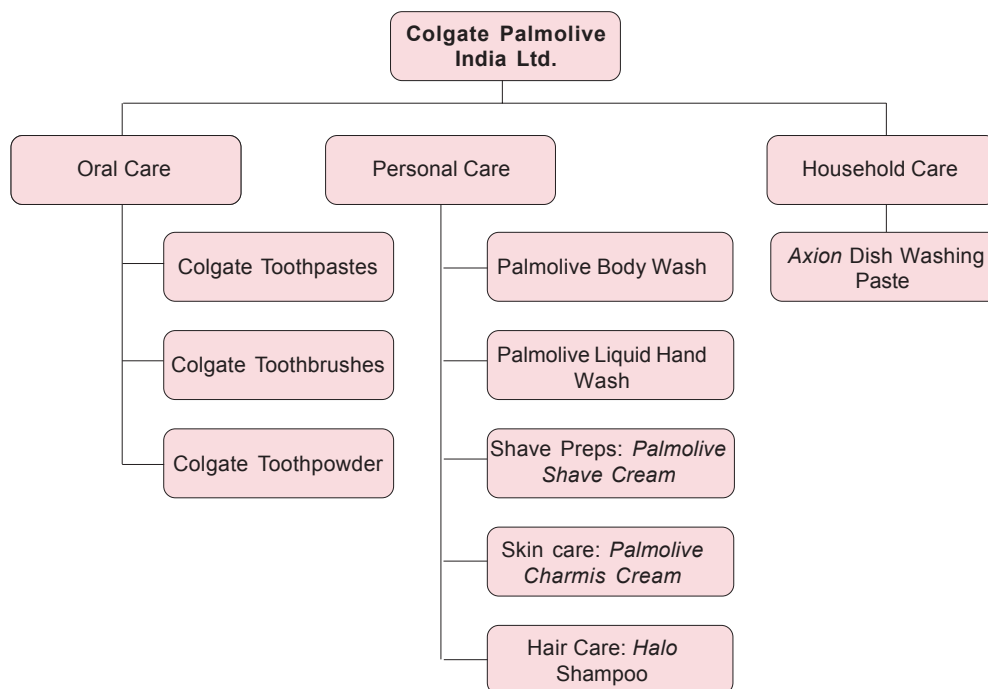
CPIL gained total control of Hyderabad-based SS Oral Hygiene Products Pvt. Ltd. through its purchase of the remaining 25% stake for Rs7.8mn in Dec'08. Preceding the acquisition, the target company manufactured toothpaste for CPIL. Further on, the company acquired 75% stake in the Hyderabad based toothpowder manufacturer CC Healthcare Pvt. Ltd. in Apr'08 for Rs19mn. On the contrary, the company sold its Nepalese wholly owned subsidiary in Nov'08 but decided to continue sourcing toothpowder from that factory.

The CPIL roadmap...

| Year | Details |
|------|--|
| 1968 | Added MFP Fluoride to its toothpaste |
| 1994 | Acquired the oral hygiene business of Hindustan Ciba-Geigy Ltd. for USD41.7mn |
| 2000 | Forayed into the herbal care category with <i>Colgate Herbal</i> Re-launched the Colgate Gel as <i>Colgate Fresh Energy Gel</i> Launched the Palmolive Aromatherapy personal care products range |
| 2004 | Tied up with IDA to create and promote oral health campaign |
| 2005 | Introduced the <i>Colgate Active Salt</i> toothpaste |
| 2006 | Launched a premium toothbrush under the brand name <i>Colgate 360</i> |

Source: Capitaline

Business Segments



Source: Company

ORAL CARE

Oral Care, the largest segment for CPIL, contributes more than 90% of the total turnover...

Oral Care forms the largest segment for CPIL contributing more than 90% of the total turnover. Within the oral care segment, toothpaste contributes the largest portion followed by toothpowder and toothbrush. Amongst them, toothbrush segment remains the fastest growing category contributing 11% to the company's revenues in FY08.

Toothpastes

CPIL toothpaste portfolio comprises several variants spread across a range of price points. In the regular and economy segments, *Colgate* and *Colgate Cibaca* respectively are renowned brands. *Colgate Sensitive* is placed at the uppermost end of the toothpaste price band in the premium segment. It is followed by the other colgate brands in the premium or mid-price segment. Meanwhile, *Colgate Cibaca Family Protection* is positioned at the lowest end of the price band. In Q3FY09, this portfolio recorded a robust 14% volume growth backed by a robust performance by *Colgate Dental Cream*, *Colgate Active Salt* and *Colgate Cibaca Family Protection*.

Business Segments

Price Chart

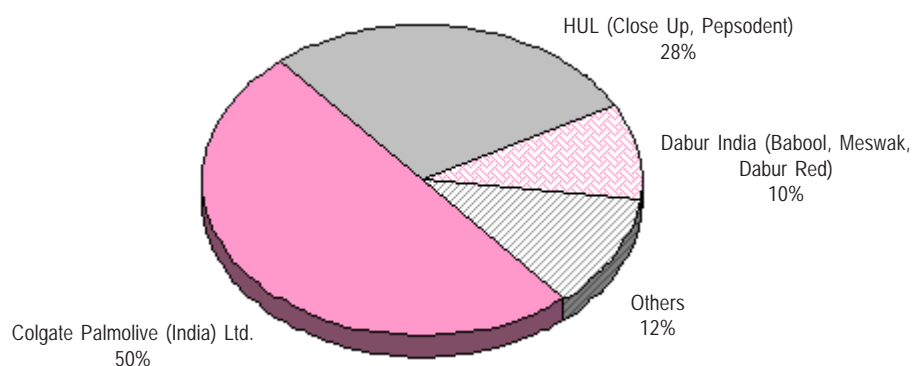
| Toothpaste Brand | Price(Rs./gm) |
|----------------------------------|---------------|
| Colgate Sensitive | 58/100 |
| Colgate Kids Toothpaste | 24/50 |
| Colgate Total 12 | 62/150 |
| Colgate Max Fresh | 50/150 |
| Colgate Fresh Energy Gel | 50/150 |
| Colgate Advanced Whitening | 50/150 |
| Colgate Herbal | 30/100 |
| Colgate Dental Cream | 42/150 |
| Colgate Active Salt | 42/150 |
| Colgate Cibaca Family Protection | 27/200 |

Source: PINC Research (Retail prices as on 2nd Apr '09)

CPIL is the undisputed leader in the Indian toothpaste market...

The company is an undisputed leader in the toothpaste market with a share of 49.6%. Moreover, it has a relative share of 1.6 times its closest competitor, HUL. *Colgate toothpaste* competes with *Pepsodent* and *Close-up* from the HUL stable and DIL's *Meswak* and *Dabur Red*. On the other hand, DIL's *Babool*, *Anchor toothpaste*, Ajanta India Ltd. and Amar Remedies Ltd. toothpaste brands provide competition to *Colgate Cibaca*.

Share in organised toothpaste market



Source: AC Nielson

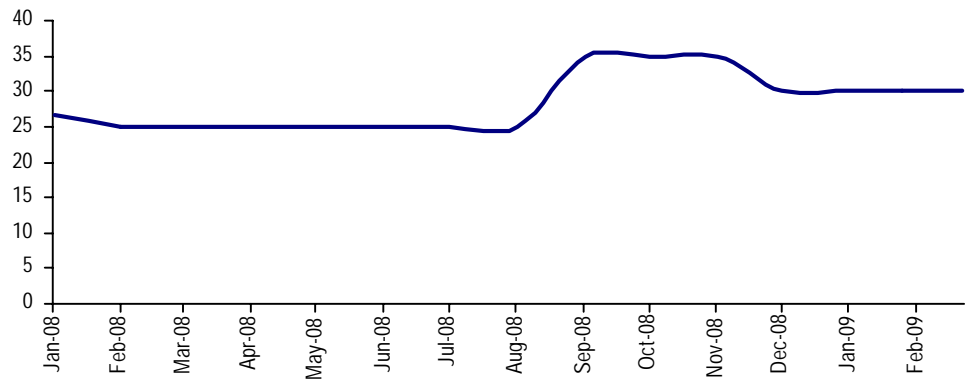
Business Segments

Raw material scenario

Prices of sorbitol surged by 30% YoY to Rs35/kg in Sept'08 ...

Sorbitol, a corn derivative, is a key raw material for toothpaste. Recently, the prices of sorbitol witnessed an upward trend following a sharp rise in corn prices. This trend can be attributed to the increasingly popular diversion of corn for production of bio-fuels. This saw sorbitol prices surging by 30% YoY to Rs35/kg in Sept'08. Further on, sorbitol has started easing since Dec'08 and has thereon to stabilized at Rs30/kg.

Trend in sorbitol prices(Rs/kg)



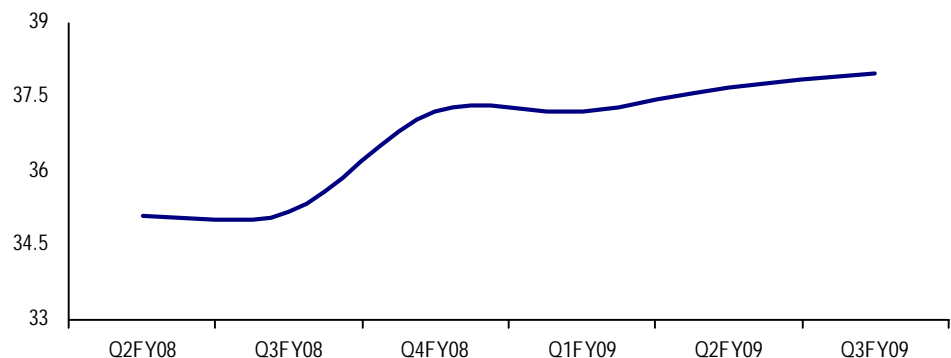
Source: Capitaline

Toothbrushes

Colgate competes with the brands Oral - B and Pepsodent in the toothbrush market...

CPIL's toothbrush portfolio comprises a vast range including *Colgate 360*, *Colgate Navigator Plus*, *Colgate Sensitive*, *Colgate Extra-Clean*, *Colgate Cibaca Top*, *Colgate Massager*, *Colgate Super Flexible* and *Colgate ZigZag*. According to marketers, brand loyalty supporting toothbrushes is lower than that in case of toothpastes. Regardless of this fact, CPIL continues to reinforce its leadership position in this market with a current 38% share against 35.1% in Sept'07. It is followed by P&G and HUL with their brands *Oral - B* and *Pepsodent* respectively. They are joined by smaller players like Ajanta India Limited and Anchor Health and Beauty Care Pvt. Ltd.

CPIL's Toothbrush market share



Source: Company

Business Segments

Toothpowders

CPIL's primary toothpowder brand, *Colgate Toothpowder* is a white toothpowder offering. In CY08, the brand steadily gained market share by 290bps to the current 48.9% thereby further consolidating its leadership position through successful competitive strategy. It is followed by DIL's *Lal Dant Manjan* possessing a ~29% share along with other smaller players such as Amar Remedies Limited (ARL) and Ajanta India Ltd. In the past couple of years, the toothpowder market has been witnessing marginal decline by low single digits. This trend can be attributed to an increasing number of consumers shifting directly from natural products such as datun to toothpaste rather than the gradual initial shift to toothpowder. However, this market is expected to sustain a CAGR of 1 - 2% for the next few years..

PERSONAL CARE

Palmolive has a 6.9% market share in the Indian liquid hand wash market...

CPIL's personal care portfolio contributes 5-7% to it's revenues with a range comprising of body wash, liquid hand wash, shave preps, skin cream and shampoos. The body wash collection boasts of moisturising body washes, shower gels and the recently added thermal spa range. Palmolive's *Halo* shampoo has a widespread presence in the Indian army store network. While, the shave preps range comprises two variants of shave cream, the skin cream category merely offers the *Palmolive Charmis cream*. The liquid handwashes are available in three variants in the Aroma and Naturals hand wash range. Palmolive has a 6.9% market share in the Rs500mn Indian liquid hand wash market growing at a rapid pace of 25%. Though this market has a low competitive intensity, *Dettol* is the established market leader followed by other brands such as *Fem* and HUL's *Lifebouy*.

HOUSEHOLD CARE

CPIL has a presence in the household care market with its *Axion* dish washing paste. This product is the singular dish washing paste in the market while the others are available in liquid or powder form. *Axion* continues to sustain a growth rate of 6 - 8%.

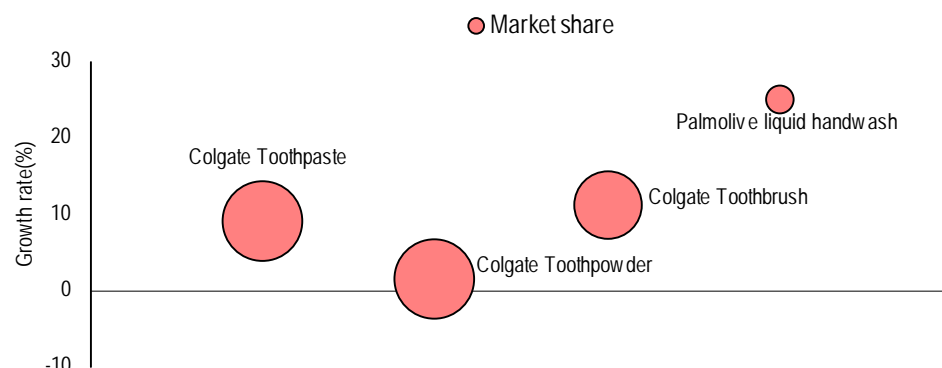
COMPETITIVE SCENARIO

| SEGMENT | BRAND | MARKET POSITION | MARKET SHARE(%) | COMPETITION |
|-----------------|---|-----------------|-----------------|---|
| Toothpaste | <i>Colgate, Colgate Cibaca</i> | Leader | 49.6 | HUL's <i>Pepsodent</i> and <i>Close-up</i> , DIL's <i>Meswak</i> , <i>Red</i> and <i>Babool</i> , <i>Anchor toothpaste</i> , Ajanta India Ltd. and Amar Remedies Ltd. toothpaste brands |
| Toothpowder | <i>Colgate Toothpowder</i> | Leader | 48.9 | DIL's <i>Lal Dant Manjan</i> , Ajanta India Ltd.'s toothpowder, Amar Remedies Ltd.'s toothpowder |
| Toothbrushes | <i>Colgate, Colgate Cibaca</i> | Leader | 38.0 | P&G's <i>Oral-B</i> , HUL's <i>Pepsodent</i> , <i>Anchor's</i> toothbrushes, Ajanta's <i>Dentocare</i> toothbrush |
| Liquid Handwash | <i>Palmolive Aroma Liquid Hand wash, Palmolive Naturals Hand Wash</i> | 4th | 6.9 | <i>Dettol</i> Liquid Handwash, HUL's <i>Lifebouy</i> , <i>Fem</i> liquid handwash. |

Source: PINC Research

Outlook

Market Share / Growth rate



Source: PINC Research

OUTLOOK

We expect CPIL to post a revenue growth of 19% to Rs17.5bn in FY09 driven by healthy volume growth along with steadily rising market shares. OPM should expand by 200 bps as advertisement and sales promotion spends are lower due to a slower pace of new launches. Accordingly, operating profits should rise by 33% to Rs3.3bn. Net profits are expected to show a 16.3% growth to Rs2.7bn as tax benefits from the Baddi plant begin to supplement earnings growth.

In FY10, net sales are likely to witness a growth of 13.9% to Rs20bn led by prudent price hikes coupled with increased penetration of oral care products. Margins are expected to expand by 60 bps to 19.5% backed by a moderation in raw material and packaging costs. While operating profits should rise by 17.4% to Rs3.9bn, net profits are expected to grow by 18.6% to Rs3.3bn.

VALUATIONS

At the CMP of Rs450, the stock is trading at a P/E of 18.8x and EV/EBIDTA of 13.9x its FY10 estimates. Being the undisputed leader with significant pricing power in the Indian oral care market, CPIL will continue to demonstrate steady growth backed by increasing oral care penetration and consumption levels. The stock has an upside potential of 11% along with a dividend yield of 4.2%. Hence we initiate coverage on the stock with a BUY rating and a 12 month target price of Rs498.

Revenues are expected to grow by 19.0% and 13.9% in FY09 and FY10 respectively...

We initiate coverage on the stock with a BUY rating...

Peer Valuation Matrix

| | Share Price(Rs) | Market Cap (Rs bn) | Price/Earnings | | Price/Book | | Dividend Yield | | EV/EBDIT | |
|-------------------------|-----------------|--------------------|----------------|-------|------------|-------|----------------|-------|----------|-------|
| | | | 2008 | 2009E | 2008 | 2009E | 2008 | 2009E | 2008 | 2009E |
| Amar Remedies# | 19 | 0.5 | 3.1 | - | 0.5 | - | 0.0 | - | 3.5 | - |
| Colgate Palmolive India | 450 | 61.2 | 26.0 | 22.3 | 36.6 | 32.7 | 2.9 | 3.6 | 18.1 | 16.5 |
| Dabur India | 95 | 82.3 | 24.5 | 21.6 | 13.3 | 9.7 | 1.6 | 1.6 | 18.4 | 15.9 |
| Gillette India# | 712 | 23.2 | 23.0 | - | 6.3 | - | 1.5 | - | 15.9 | - |
| GSK Con. Healthcare* | 701 | 29.5 | 12.7 | 15.7 | 3.1 | - | 2.7 | 2.5 | 6.7 | - |
| Hindustan Unilever^ | 233 | 514.8 | 24.6 | 21.9 | 30.9 | 23.6 | 4.2 | 3.7 | 22.1 | 18.6 |
| Marico | 61 | 36.8 | 21.8 | 19.7 | 11.7 | 8.1 | 1.1 | 1.1 | 15.7 | 13.0 |
| Procter & Gamble HH# | 783 | 25.9 | 18.9 | - | 7.2 | - | 2.6 | 4.7 | 12.7 | - |

Source: Bloomberg, PINC research

*Year ending Dec'08 and Dec'09

#Year ending Jun'08 and Jun'09

^Year ending Dec'07 and Mar'09

Colgate-Palmolive (India) LTD.

Year Ended March (Figures in Rs mn)

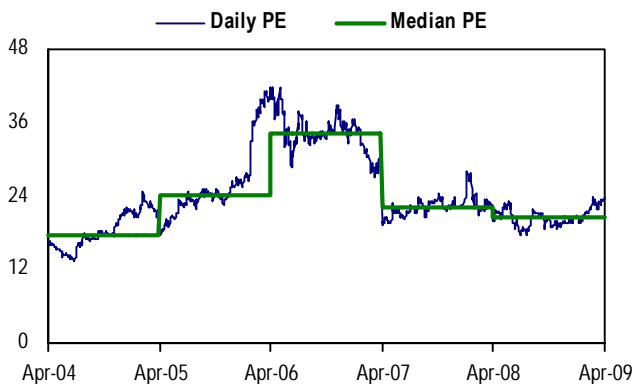
| Income Statement | FY07 | FY08 | FY09E | FY10E | FY11E |
|------------------------|--------|--------|--------|--------|---------|
| Net sales | 12,956 | 14,739 | 17,543 | 19,977 | 22,770 |
| Growth (%) | 15.1 | 13.8 | 19.0 | 13.9 | 14.0 |
| Operating profit | 1,491 | 2,497 | 3,310 | 3,887 | 4,365 |
| Other operating income | - | - | - | - | - |
| EBITDA | 1,491 | 2,497 | 3,310 | 3,887 | 4,365 |
| Growth (%) | (20.0) | 67.5 | 32.6 | 17.4 | 12.3 |
| Depreciation | (196) | (209) | (227) | (245) | (251) |
| Other income | 659 | 772 | 250 | 310 | 398 |
| EBIT | 1,954 | 3,059 | 3,333 | 3,952 | 4,512 |
| Interest paid | - | - | - | - | - |
| PBT (before E/o items) | 1,954 | 3,059 | 3,333 | 3,952 | 4,512 |
| Tax provision | (471) | (693) | (582) | (690) | (1,105) |
| E/o Income / (loss) | - | - | - | - | - |
| Net profit | 1,484 | 2,367 | 2,751 | 3,262 | 3,407 |
| Adjusted net profit | 1,484 | 2,358 | 2,742 | 3,253 | 3,398 |
| Growth (%) | 6.0 | 58.9 | 16.3 | 18.6 | 4.4 |
| Diluted EPS (Rs) | 10.9 | 17.3 | 20.2 | 23.9 | 25.0 |
| Diluted EPS Growth (%) | 6.0 | 58.9 | 16.3 | 18.6 | 4.4 |

| Cash Flow Statement | FY07 | FY08 | FY09E | FY10E | FY11E |
|----------------------------|---------|---------|---------|---------|---------|
| Pre-tax profit | 1,954 | 3,059 | 3,333 | 3,952 | 4,512 |
| Depreciation | 196 | 209 | 227 | 245 | 251 |
| Total tax paid | (618) | (489) | (666) | (759) | (1,179) |
| Chg in working capital | 289 | 339 | 101 | 156 | 333 |
| Other operating activities | (88) | (9) | - | - | - |
| Cash flow from oper. (a) | 1,577 | 2,914 | 2,745 | 3,284 | 3,519 |
| Capital expenditure | (293) | (434) | (175) | (170) | (145) |
| Chg in investments | 161 | 305 | (98) | (200) | (350) |
| Other investing activities | - | 104 | - | - | - |
| Cash flow from inv. (b) | 40 | 200 | (23) | (60) | (97) |
| Free cash flow (a+b) | 1,617 | 3,114 | 2,722 | 3,224 | 3,422 |
| Equity raised/(repaid) | - | (1,213) | - | - | - |
| Debt raised/(repaid) | (1) | 4 | - | - | - |
| Chg in Minorities int. | - | - | - | - | - |
| Dividend (incl. tax) | (1,350) | (1,560) | (2,546) | (3,023) | (3,182) |
| Other financing activities | - | - | - | - | - |
| Cash flow from fin. (c) | (1,360) | (2,781) | (2,546) | (3,023) | (3,182) |
| Net chg in cash (a+b+c) | 256 | 333 | 177 | 201 | 240 |

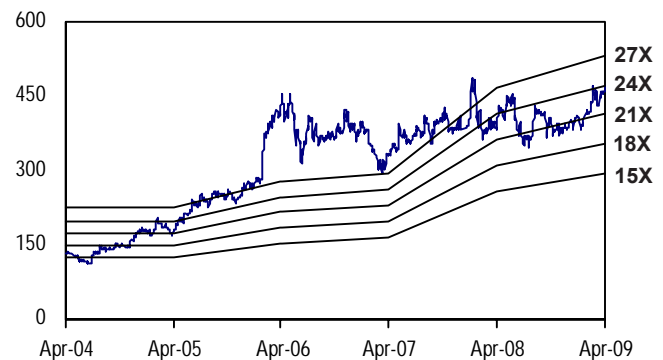
| Balance Sheet | FY07 | FY08 | FY09E | FY10E | FY11E |
|--------------------------|---------|---------|---------|---------|---------|
| Equity Share Capital | 1,360 | 136 | 136 | 136 | 136 |
| Reserves & surplus | 1,424 | 1,537 | 1,734 | 1,964 | 2,180 |
| Shareholders' funds | 2,784 | 1,673 | 1,870 | 2,100 | 2,316 |
| Minorities interests | - | 41 | 50 | 59 | 68 |
| Total Debt | 43 | 47 | 47 | 47 | 47 |
| Capital Employed | 2,827 | 1,761 | 1,966 | 2,206 | 2,430 |
| Net fixed assets | 1,920 | 2,403 | 2,351 | 2,276 | 2,170 |
| Cash & Cash Eq. | 1,149 | 1,481 | 1,658 | 1,859 | 2,100 |
| Net other Current Assets | (1,801) | (3,059) | (3,160) | (3,316) | (3,650) |
| Investments | 1,302 | 652 | 750 | 950 | 1,300 |
| Net Deferred Tax Assets | 257 | 283 | 367 | 436 | 510 |
| Total assets | 2,827 | 1,761 | 1,966 | 2,206 | 2,430 |

| Key Ratios | FY07 | FY08 | FY09E | FY10E | FY11E |
|----------------------------|------|-------|-------|-------|-------|
| OPM (%) | 11.5 | 16.9 | 18.9 | 19.5 | 19.2 |
| Net margin (%) | 11.5 | 16.0 | 15.6 | 16.3 | 14.9 |
| Dividend yield (%) | 2.1 | 2.9 | 3.6 | 4.2 | 4.4 |
| Net debt/Equity (x) | - | - | - | - | - |
| Net Working Capital (days) | (69) | (77) | (74) | (76) | (76) |
| Asset turnover (x) | 5.0 | 10.0 | 11.0 | 11.3 | 11.9 |
| ROCE (%) | 80.5 | 178.0 | 244.5 | 261.0 | 265.4 |
| RoE (%) | 53.1 | 105.8 | 154.8 | 163.9 | 153.9 |
| EV/Net sales (x) | 4.5 | 4.0 | 3.4 | 2.9 | 2.5 |
| EV/EBITDA (x) | 27.3 | 18.1 | 16.5 | 13.9 | 12.2 |
| PER (x) | 41.2 | 26.0 | 22.3 | 18.8 | 18.0 |
| Price/Book (x) | 22.0 | 36.6 | 32.7 | 29.1 | 26.4 |

Median PE v/s Daily PE



P/E Band



T E A M

EQUITY DESK

| | | | |
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COMPLIANCE

| | | | |
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