



## Index

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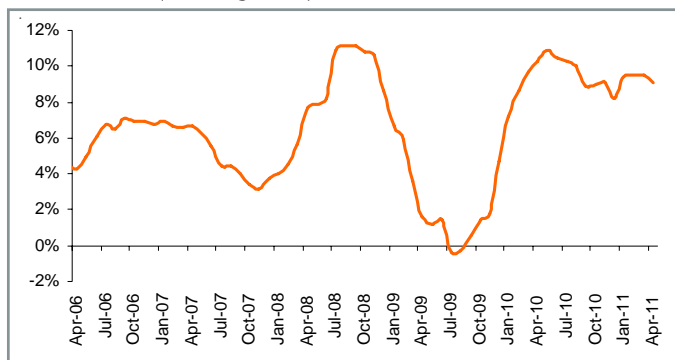
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Pulse Track

**Inflation declines to 8.66%**

- ◆ The wholesale price index (WPI) based inflation for the month of April 2011 came in at 8.66%, slightly higher than the market estimates. With an upward revision of the inflation figure for March 2011 to 9.04% from 8.98%, the inflation has declined by 45 basis points sequentially, led by a fall in the prices of primary articles and a fall in manufacturing inflation.
- ◆ On an annual basis, inflation increased in the fuel, power & light segment whereas it moderated in the primary articles segment and the manufactured goods segment. Inflation in primary articles moderated to 12.05% vs 12.96% in March 2011. In case of manufactured goods inflation was at 6.18% vs 6.50% in March 2011 whereas inflation in fuel, power & light segment increased to 13.32% compared to 12.92% in the previous month.
- ◆ On a sequential basis, the primary articles inflation was at 2.24% and inflation in fuel, power & light, and manufactured goods stood at around 1.07% and 1.04% respectively.
- ◆ The inflation rate for February 2011 was revised upwards to 9.54% year on year (YoY) from the provisional figure of 8.31%.
- ◆ Although inflation has declined for March and April 2011, an upward revision in the February inflation figure suggests rising pressure on prices. An expectation of a bumper rabi crop coupled with a decline in the prices of certain food items has led to a fall in the food inflation but non food inflation continues to soar due to rising commodity prices. We

Trend in WPI (% change YoY)

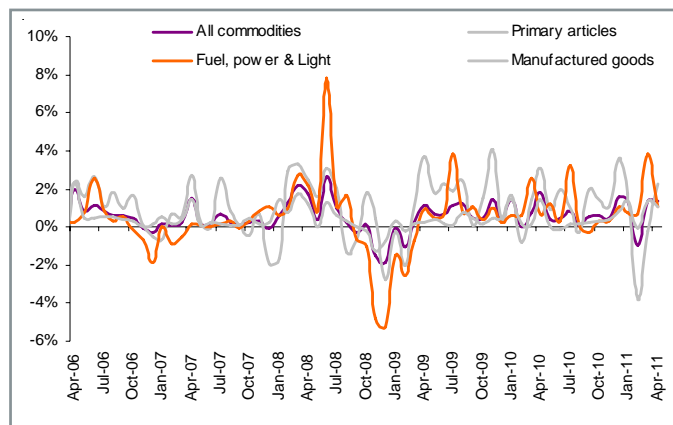


believe a steep increase in petrol prices and a possible hike in the diesel and LPG prices could exert upward pressure on inflation. Assuming normal monsoons, commodity prices will determine the inflation, which we expect to remain at 9% levels till H1FY2012. Going ahead, we expect the Reserve Bank of India (RBI) to continue with its tightening measures to control inflation; we expect the RBI to increase the repo rate by 25 basis points in its policy review in June 2011.

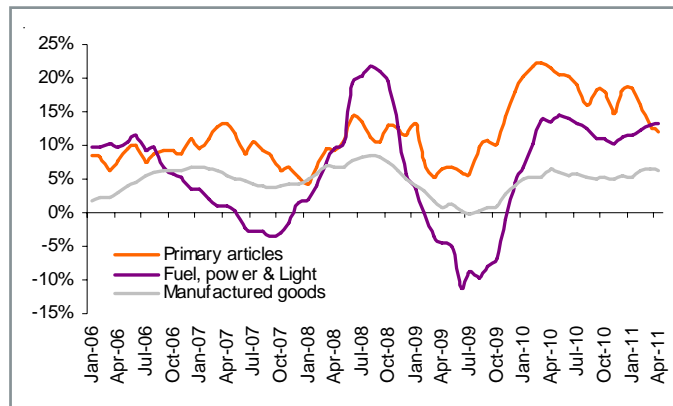
**Inflation in primary articles falls on decline in prices of food articles and minerals**

The inflation rate for primary articles in April 2011 fell to 12.05% from 12.96% in March 2011, primarily due to a decline in the index of food articles and minerals. Inflation in food articles declined to 8.7% from 9.5% in March 2011. Inflation in minerals declined from 12.2% in March 2011 to 7.4% in March 2011. Inflation for non-food articles increased from 25.9% in March 2011 to 27.3% in April 2011.

Trend in WPI components (% change YoY)



Trend in WPI components (% change MoM)



### Fuel inflation rises sequentially

The rate of inflation for fuel, power & light, stood at 13.3% in April 2011 as against 12.9% seen in March 2011. On a month-on-month (M-o-M) basis, the index expanded by 1.07% due to higher prices for bitumen, lubricants and light diesel oil, aviation turbine fuel, furnace oil and naphtha.

### Core manufacturing inflation grows to 6.2%

The inflation rate for manufactured goods came in at 6.2%, lower than the 6.5% Y-o-Y rate seen during March 2011. On a sequential basis, the manufacturing inflation was up by 1.04% led by a 1.53% sequential increase in prices of rubber and plastic and a 1.5% increase in the prices of basic metals and alloys.

### Outlook

Although inflation has declined for March and April 2011, an upward revision in the February inflation figure suggests rising pressure on prices. An expectation of a

bumper rabi crop coupled with a decline in the prices of certain food items has led to a fall in the food inflation but non food inflation continues to soar due to rising commodity prices. We believe a steep increase in petrol prices and a possible hike in the diesel and LPG prices could exert upward pressure on inflation. Assuming normal monsoons, commodity prices will determine the inflation, which we expect to remain at 9% levels till H1FY2012. Going ahead, we expect the RBI to continue with its tightening measures to control inflation; we expect the RBI to increase the repo rate by 25 basis points in its policy review in June 2011.

### Break-up of inflation in major categories (%)

Weight (%)	Particulars	April 2011	April 2010	Mar 2011
100.00	All commodities	8.7	10.9	9.1
20.12	Primary Articles	12.0	21.4	13.0
14.91	Fuel, Power and lighting	13.3	13.6	12.9
64.97	Manufacturing Products	6.2	6.4	6.5

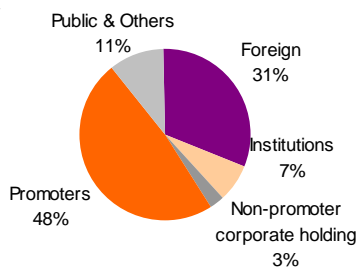
# Glenmark Pharmaceuticals

**Apple Green**
**Stock Update**
**Price target revised to Rs376**
**Buy; CMP: Rs306**

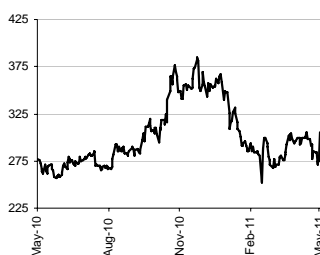
## Company details

Price target:	Rs376
Market cap:	Rs8266.2 cr
52 week high/low:	Rs390/242
NSE volume: (No of shares)	5.8 lakh
BSE code:	532296
NSE code:	GLENMAR
Sharekhan code:	GLENMARK
Free float: (No of shares)	14.0 cr

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-7.6	-4.0	-21.1	-1.5
Relative to Sensex	-2.0	-8.3	-14.4	-9.5

## Key Points

- ◆ **The deal:** Glenmark Pharmaceuticals (Glenmark)'s deal with Sanofi grants the latter a license to develop and commercialize novel agents for crohn's disease and other anti-inflammatory conditions such as multiple sclerosis.
- ◆ **GBR 500:** GBR 500, a monoclonal antibody, is an antagonist of the VLA-2 (Alpha2 beta1) integrin, having anti-inflammatory properties. Glenmark also intends to develop GBR 500 for multiple sclerosis. The market for multiple sclerosis is around \$10 billion. Glenmark has completed the phase I dosing of GBR 500 in the US with encouraging data points.
- ◆ **What does Glenmark get?:** Glenmark would receive an upfront payment of \$50 million (in Q1FY2012) of which \$25 million will be paid on the closing of the transaction and another \$25 million is contingent of a positive assessment of certain data provided by Glenmark. It is entitled to receive milestone payments upto \$613 million (cumulative) and royalties (in mid-teens) on sales.
- ◆ **Marketing rights:** Sanofi will have the exclusive marketing rights for North America, Europe, Japan, Argentina, Chile and Uruguay. It will have co-marketing rights in Russia, Brazil, Australia, and New Zealand. Glenmark has the sole rights to market the product in India and other emerging markets.
- ◆ **Multiple positives:** Besides boosting confidence in Glenmark's R&D effort, it will also ease some of the pressure on its R&D. The cash flows from the deal would allow Glenmark to fund its proprietary R&D without depending too much on its generics cash flows.
- ◆ **Value the deal at Rs25/share:** The market size for multiple sclerosis is \$10 billion and is approximately \$2-3 billion for chron's disease, growing at the rate of 5-6% per annum globally. We use this as a starting point for our valuation. We assume that the milestones are spread and back ended over eight years and adjust these by declining probability rates, with a 10% probability of launch.

## Valuation Table (Consolidated)

Rs (cr)

Particulars	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net operating income	1976.9	2116.0	2484.8	2949.1	3383.3	3921.3
Adj. Net profit	631.9	308.6	331.0	392.8	422.1	570.6
Shares in issue (cr)	24.9	25.1	27.0	27.0	27.0	27.0
EPS (Rs)	25.4	12.3	12.3	14.5	15.6	21.1
PER (x)	12.0	24.8	24.9	21.0	19.6	14.5
EV/Ebidta (x)	10.5	21.3	16.2	17.2	14.4	11.0
Book value (Rs/share)	61.0	63.8	86.3	75.4	117.8	138.4
P/BV (x)	5.0	4.8	3.5	4.1	2.6	2.2
Mcap/sales	3.8	3.6	3.3	2.8	2.4	2.1
ROCE (%)	29.7	14.0	12.7	14.1	12.5	14.7
RONW (%)	41.6	19.3	14.2	19.3	13.3	15.3

We assume royalties of 15% on sales. We estimate a one-time cash value of Rs7.5 per share from the deal in our discounted cash flows assumption.

- ◆ **Maintain Buy:** Post GRC 15300, this is the second out licensing deal with Sanofi which proves the testimony of strong biologics platform that Glenmark has established in a relatively shorter frame of time. We view the out licensing deal as a big positive for Glenmark. The company has a pipeline of 5 NCE and NBE molecules in clinical trials. More out licensing deals would reaffirm its strength in the R&D pipeline and could thus spring a positive surprise. Given the out licensing deals and the favourable risk-reward ratio, we maintain our Buy recommendation on the

stock with a revised price target of Rs376 (20x FY2012E earnings for the base business plus Rs64 per share for the R&D pipeline). At the current market price of Rs306, the stock remains attractively valued at a price/earnings of 14.5x FY2013E earnings.

#### Assumptions for NCE valuation

Particulars	GBR500
Potential launch	2019E
Peak revenues (\$bn)	4
Royalty (%)	15
Probability of success (%)	10
Tax rate (%)	18
Total value (\$mn)	179
Value per share (Rs)	24.4

## Annexure

### Glenmark's Novel drug pipeline

Compound	Primary Indication	Target	Phase	Status	Value
Crofelemer	Anti-diarrheal	CFTR inhibitor	Phase III	In-licensed from Napo Pharma	Rs11 for ROW markets
GRC 4039 (Revamilast)	Asthma, COPD, Rheumatoid Arthritis	PDE IV Inhibitor	Phase II		
GRC 15300	Osteoarthritis Pain, Neuropathic Pain	TRPV-3 Antagonist	Phase I completed	Out-licensed to Sanofi	Rs28.6
GRC 17536	Neuropathic Pain, Respiratory disorders	TRPA 1 Inhibitor	Pre-clinical trial completed		
GBR 500	Crohn's Disease, Multiple Sclerosis, Inflammatory Disorders	VLA-2 Antagonist	Phase I completed	Out-licensed to Sanofi	Rs24.4
GBR 401	Lymphomas, Leukemias, Autoimmune Disorders	Anti-CD19	Pre-clinical trials		
GRC 600	Thrombocytopenic purpura, Adjunct PCI/ ACS	Anti-Von Willebrand Factor	Pre-clinical trial completed		
GBR 900	Pain	TrKA Antagonist	Pre-clinical trials		

The author doesn't hold any investment in any of the companies mentioned in the article.

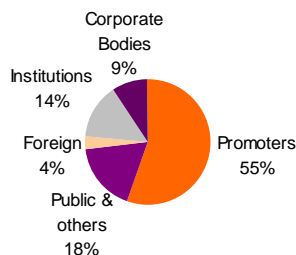
# Gayatri Projects

**Ugly Duckling**
**Stock Update**
**Price target revised to Rs405**
**Buy; CMP: Rs207**

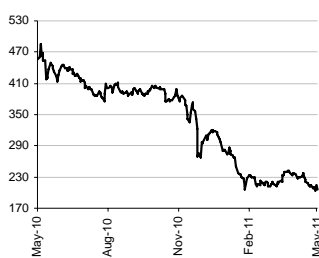
## Company details

Price target:	Rs405
Market cap:	Rs229.4cr
52 week high/low:	Rs503/201.3
BSE volume: (No of shares)	18,897
BSE code:	532767
Sharekhan code:	GAYAPROJ
Free float: (No of shares)	0.50 cr

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-10.0	-5.6	-44.5	-51.0
Relative to Sensex	-4.5	-9.8	-39.9	-55.0

## Result highlights

- Earnings below expectation:** Gayatri Projects Ltd (GPL) in its Q4FY2011 standalone results reported a net profit of Rs16.4 crore (grew by 9.1% year on year [YoY]) which is below our estimates on account of a lower than expected revenue growth and much higher than expected interest charges. The net sales of the company grew by 15% to Rs434 crore, which is lower than expected, mainly on account of a slower than expected execution of the projects, particularly of the ones in Andhra Pradesh (AP).
- Better operating margin:** The operating profit margin (OPM) expanded by 112 basis points YoY to 13.9% which is ahead of our estimates on account of revenue booking in its high margin power project. The management expects to sustain the margin around 13%, as the proportion of power orders has increased in its overall order book. Due to better margins, the earnings before interest, tax, depreciation and amortization (EBITDA) for the quarter grew 25% YoY which is in line of our estimates.
- Surge in interest cost limits net profit growth:** The interest outgo during the quarter has increased significantly by 76.1% to Rs32 crore which is much ahead of our estimates. The sharp increase in interest cost is on the back of an increase in the borrowings (present debt stands higher at Rs800 crore as compared to Rs609 crore for FY2010) and due to an increase in the interest rate. Hence an increase in the interest charges has limited the net profit growth to just 9.1% (as compared to 25% growth witnessed at the operating level).

## Result table

Particulars	Rs (cr)					
	Q4 FY2011	Q4 FY2010	y-o-y %	FY2011	FY2010	y-o-y
Net sales	433.7	377.2	15.0	1440.6	1252.5	15.0
Total Revenues	433.7	377.2	15.0	1440.6	1252.5	15.0
Construction expenses	355.4	312.6	13.7	1190.3	1051.3	13.2
Employee cost	10.2	10.0	3.0	34.6	28.0	23.5
Other expenditure	7.8	6.5	19.5	23.5	20.8	13.1
Total operating expenditure	373.4	329.0	13.5	1248.5	1100.2	13.5
<b>Operating profit</b>	<b>60.3</b>	<b>48.2</b>	<b>25.0</b>	<b>192.1</b>	<b>152.3</b>	<b>26.1</b>
Other income	4.2	0.6	617.2	8.1	4.2	93.0
Depreciation	5.7	5.1	10.3	22.7	20.1	13.3
Interest	31.8	18.0	76.1	85.9	55.4	55.0
PBT	27.0	25.6	5.5	91.5	81.0	13.0
Taxes	10.6	10.6	0.4	30.5	27.7	10.3
<b>PAT</b>	<b>16.4</b>	<b>15.0</b>	<b>9.1</b>	<b>61.0</b>	<b>53.3</b>	<b>14.4</b>
Margin (%)						
OPM	13.9%	12.8%		13.3%	12.2%	
NPM	3.8%	4.0%		4.2%	4.3%	
Effective tax rate	39.3%	41.3%		33.3%	34.1%	



- ♦ **Full year performance:** For full year FY2011 the net sales of the company grew by 15% and the margin has expanded by 117 basis points. But on account of higher interest charges, the bottom line growth was restricted to 14.4% to Rs61 crore.
- ♦ **Update on its power portfolio:** Gayatri Energy Ventures Ltd (GEVL) plans to set up power plants in AP and Maharashtra. It is setting up a 1,320MW power plant in Nellore, AP along with Nagarjuna Construction Company (NCC) where it holds a 45% stake and a 660MW power plant in the Yawatmal district of Maharashtra where it has a 50% stake. GPL has invested Rs420 crore so far in all the three projects combined. In addition it has raised Rs250 crore of non convertible debentures (NCD) from IFCI at the GEVL level to invest further into these power projects. It is also looking to raise approximately Rs400 crore at the GEVL level by diluting its 10-15% stake in favour of private equity (PE) which can be used to invest in the power projects.
- ♦ **Rights issue planned:** GPL plans to raise upto Rs400 crore via a rights issue in order to fund its power projects. The board of directors of the company have declared a ratio of 1 rights share for every 2 equity shares held. This will result in an equity dilution of 50% and the conversion of the outstanding foreign currency convertible bonds (FCCB) will result in a further equity dilution of about 27%. Hence the total equity dilution will be to the extent of 77% which we have factored into our model.
- ♦ **Downgrading earnings estimates for FY2012 & FY2013:** We are lowering our revenue estimates to factor a slower than expected execution of the projects in AP. Further due to increased borrowings, we are factoring in a higher interest cost in our estimates, leading to a downgrading of our net profit estimates for FY2012 and FY2013. However, on account of a lower than expected equity dilution (on account of the right share issue) the impact on the earning per share (EPS) estimate would be limited compared to the impact on net profit. The revised EPS for FY2012 and FY2013 works out to Rs32.3 and Rs47.2 respectively.
- ♦ **Maintain Buy with revised price target of Rs405:** The present order book of the company, even excluding the irrigation projects, provides a strong revenue visibility. Further the build operate transfer (BOT) holding company Gayatri Infrastructure Ventures Ltd (GIVL) will no longer depend on the parent company for further investments as five of its seven road BOT projects have become operational and the same could be securitised. The funds raised thereby could be reinvested in new projects. GPL is also scaling up its

power portfolio from 1,320MW to 3,300MW. Thus it is clearly moving its focus more towards the developer space. At the current market price, the stock is trading at 6.4x and 4.4x its FY2012E and FY2013E diluted earnings respectively making the valuations attractive. Hence we maintain our Buy recommendation. However, we are downgrading our price target marginally to Rs405 (previously Rs412) as we roll forward our net asset value (NAV) to FY2012.

### Healthy order book despite excluding AP irrigation projects

The current order book of the company stands at around Rs7,200 crore, which is 5x its FY2011 revenues, as 40% of the order book is still exposed to the irrigation projects in AP where the execution is very slow. The situation in AP has still not improved and clarity is not emerging on the front. Hence, the pace of execution continues to be slow and the same is expected to pick up only after the emergence of political stability in the state.

Thus, the order book net of irrigation projects will be approximately Rs3,765 crore, which is 2.6x its FY2011 revenues, providing revenue visibility for the coming two years.

### GIVL, the holding subsidiary of BOT projects—no more dependent on parent company for funding

GIVL, the holding company of all the BOT projects of GPL will not require any further investment from the parent company. The company currently has a portfolio of seven road BOT projects. Of these, five have become operational in FY2011. Of the remaining two projects (Cyberabad and Hyderabad-Karimnagar) won by the company, the Cyberabad project is likely to be completed by July and the Hyderabad-Karimnagar project has achieved financial closure with work on it having started recently.

GPL will look at securitizing these five operational projects at the special purpose vehicle (SPV) level. Further it has raised Rs135 crore in the form of NCD from IL&FS at the GIVL level. Thus further investment in any of the new projects including the two projects in the development stage will be met through this NCD and securitization. Hence GPL will not be required to invest any further in GIVL.

### Setting up two more power plants in AP & Maharashtra, expanding its power portfolio

GEVL, the holding company of power projects of GPL is setting up a 1,320MW power plant in Krishnapatnam, AP. The construction work is progressing as per schedule and the plant is expected to be operational in a span of three years. In addition to this, GEVL has recently announced its plan of further setting up two more power plants in AP and Maharashtra. It is setting up a 1,320MW power plant in Nellore, AP along with NCC wherein it holds a 45% stake.

It is also setting up a 660MW power plant in the Yawatmal district of Maharashtra where it has a 50% stake.

GPL has invested Rs420 crore so far in all the three projects combined. Further it has raised Rs250 crore of NCD from IFCI at GEVL level to invest further into these power projects. It is also looking to raise approximately Rs400 crore at the GEVL level by diluting its 10-15% stake in favour of a PE which can be used to invest in the power projects.

#### Plans a rights issue—will help meet its investment needs

GPL plans to raise upto Rs400 crore via a rights issue in order to fund its power projects. The board of directors of the company have declared a ratio of 1 rights share for every 2 equity shares held. This will result in an equity dilution of 50% and the conversion of the outstanding FCCB will result in a further equity dilution of about 27%. Hence the total equity dilution will be to the extent of 77% which we have factored into our model.

#### Valuation

We are lowering our revenue estimates to factor a slower than expected execution of the projects in AP. Further due to increased borrowings, we are factoring in a higher interest cost in our estimates, leading to a downgrading of our net profit estimates for FY2012 and FY2013. However, on account of a lower than expected equity dilution (on account of the right share issue) the impact on the earning per share (EPS) estimate would be limited compared to the impact on net profit. The revised EPS for FY2012 and FY2013 works out to Rs32.3 and Rs47.2 respectively.

The present order book of the company, even excluding the irrigation projects, provides a strong revenue visibility. Further the BOT holding company GIVL will no longer depend on the parent company for further investments as five of its seven road BOT projects have become operational and the same could be securitised. The funds raised thereby could be reinvested in new projects. GPL is also scaling up its power portfolio from 1,320MW to 3,300MW. Thus it is clearly moving its focus more towards the developer space. At the current market price, the stock is trading at 6.4x and 4.4x its FY2012E and FY2013E diluted earnings respectively making the valuations attractive. Hence we maintain our Buy recommendation. However, we are downgrading our price target marginally to Rs405 (previously Rs412) as we roll forward our NAV to FY2012.

#### Valuation table

Particulars	FY09	FY10	FY11E	FY12E	FY13E
Sales (Rs cr)	1,005	1,253	1,441	1,800	2,249
<i>% yoy growth</i>	33.5	24.7	15	24.9	25
EBITDA (Rs cr)	113.6	152.3	192.1	238.4	298
<i>Margins %</i>	11.3	12.2	13.3	13.3	13.3
Adj. Net profit (Rs cr)	41.3	53.3	61	68.1	99.6
<i>% yoy growth</i>	5.1	29.1	14.4	11.6	46.2
Shares in issue (Cr)	1	1.1	1.2	2.1	2.1
EPS (Rs)	40.9	48	50.9	32.3	47.2
<i>% yoy growth</i>	5.1	17.5	5.9	-36.6	46.2
PER (x)	5.1	4.3	4.1	6.4	4.4
P/BV (Rs)	1	0.8	0.7	0.7	0.6
EV/EBITDA (x)	3.4	3.3	3.3	2.5	1.8
RoCE (%)	18.2	18.2	17.1	16.3	17.5
RoNW (%)	20.9	21.5	19.3	13.7	14.5

The author doesn't hold any investment in any of the companies mentioned in the article.



## Sharekhan Stock Ideas

### Evergreen

Housing Development Finance Corporation  
HDFC Bank  
Infosys Technologies  
Larsen & Toubro  
Reliance Industries  
Tata Consultancy Services

### Apple Green

Aditya Birla Nuvo  
Apollo Tyres  
Bajaj Auto  
Bajaj FinServ  
Bajaj Holdings & Investment  
Bank of Baroda  
Bank of India  
Bharat Electronics  
Bharat Heavy Electricals  
Bharti Airtel  
Corporation Bank  
Crompton Greaves  
GAIL India  
Glenmark Pharmaceuticals  
Godrej Consumer Products  
Grasim Industries  
HCL Technologies  
Hindustan Unilever  
ICICI Bank  
Indian Hotels Company  
ITC  
Mahindra & Mahindra  
Marico  
Maruti Suzuki India  
Lupin  
Piramal Healthcare (Nicholas Piramal India)  
PTC India  
Punj Lloyd  
Sintex Industries  
State Bank of India  
Tata Global Beverages (Tata Tea)  
Wipro

### Cannonball

Allahabad Bank  
Andhra Bank  
IDBI Bank  
Madras Cements  
Phillips Carbon Black  
Shree Cement

### Emerging Star

3i Infotech  
Axis Bank (UTI Bank)  
Cadila Healthcare  
Eros International Media  
Greaves Cotton  
IL&FS Transportation Networks  
IRB Infrastructure Developers  
Max India  
Opto Circuits India  
Patels Airtemp India  
Thermax  
Yes Bank  
Zydus Wellness

### Ugly Duckling

Ashok Leyland  
Deepak Fertilisers & Petrochemicals Corporation  
Federal Bank  
Gayatri Projects  
Genus Power Infrastructures  
India Cements  
Ipca Laboratories  
ISMT  
Jaiprakash Associates  
JB Chemicals & Pharmaceuticals  
Kewal Kiran Clothing  
NIIT Technologies  
Orbit Corporation  
Polaris Software Lab  
Pratibha Industries  
Provogue India  
Punjab National Bank  
Ratnamani Metals and Tubes  
Selan Exploration Technology  
Shiv-Vani Oil & Gas Exploration Services  
Subros  
Sun Pharmaceutical Industries  
Torrent Pharmaceuticals  
UltraTech Cement  
Union Bank of India  
United Phosphorus  
V-Guard Industries

### Vulture's Pick

Mahindra Lifespace Developers  
Orient Paper and Industries  
Tata Chemicals  
Unity Infraprojects

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