

February 01, 2013

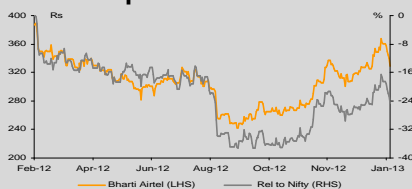
Rating	Previous Reco
Hold	Hold
CMP	Target Price
Rs329	Rs350
EPS Chg FY13E/FY14E (%)	-27/-21
Target Price change (%)	25
Nifty	5,999
Sensex	19,781

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	17	11	-9
Rel. to Nifty	1	10	-3	-20

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Telecommunications
Bloomberg	BHARTI IB
Equity Capital (Rs mn)	18,988
Face Value(Rs)	5
No of shares o/s (mn)	3,798
52 Week H/L	401/ 216
Market Cap (Rs bn/USD mn)	1,251/ 23,515
Daily Avg Volume (No of sh)	5,414,367
Daily Avg Turnover (US\$mn)	32.6

Shareholding Pattern (%)

	Dec'12	Sep'12	Jun'12
Promoters	68.5	68.5	68.5
FII/NRI	17.3	16.4	16.9
Institutions	8.2	8.5	8.4
Private Corp	4.2	4.5	4.4
Public	1.8	2.1	1.8

Source: Bloomberg

Naval Seth

naval.seth@emkayglobal.com
+91-22-66242414

- **Revenue at Rs202.5bn (+2.8% QoQ), EBITDA at Rs61.8bn (+1.4% QoQ) with EBITDA margin at 30.5%. APAT at Rs3.6bn declined 28% QoQ. Growth figures are adj. for one-time gain in Q2FY13**
- **Indian wireless rev. grew of 2.8% qoq, driven by 4.4% qoq growth in MoU and stable ARPM of Rs0.43. Africa- traffic grew 10.7% qoq led by discounted mins, consequently ARPM declined 7.3% qoq**
- **Reduction in channel payouts and pricing improvement would provide margin cushion going forward. However, we remain neutral as many regulatory issues still lack clarity**
- **We have adj. higher tax rate in our est, while Rev./EBITDA estimate remain unchanged. Maintain HOLD with target price of Rs350 (estimating -ve Rs33 of regulatory impact)**

India business –In-line with estimates

- Indian wireless rev. grew 2.8% qoq (in-line with est.), led by 4.4% qoq growth in usage and stable ARPM. India & SA wireless rev. grew 3.9% (adj. for one time gain of Rs5.9bn in Q2FY13) qoq to Rs109.4bn. Consolidated India & SA revenue grew 3.1% qoq to Rs142.7bn. Passive infra and Enterprise segment reported 3.1%/2 qoq revenue growth.
- Wireless EBITDA grew 3.6% qoq to Rs33.1bn with flat margins. India & SA EBITDA stood at Rs45.5bn +1.9% qoq, EBITDA margin at 31.9% grew 100bps. India&SA PAT at Rs8.0bn declined 21% qoq, due to higher finance cost.

KPI's in-line with expectations, Data growth encouraging

- Minutes on network grew 2.8% qoq to 240bn minutes, led by 4.4% growth in MoU. Q3FY13 net adds stood at -4mn v/s -1.4mn in Q2FY13.
- ARPM was flat qoq at Rs0.43, ARPU stood at Rs185 (+4.3% qoq). Voice ARPM declined 0.7% qoq, we believe operators are yet to see positive impact of reduced promotion in coming quarters. VAS share improved to 17.3% v/s 16.8% in Q2FY13. 3G subscribers stood at 5.2mn v/s 4mn in Q2FY13. Data usage (MB) grew 24.5% qoq with Data usage/ subs increased 21% qoq to 161MB. Data revenue grew 13.7% qoq to Rs5.8bn with total contribution of 5.7% to mobile revenues.

African operations – Volume driven growth continues

- Revenue grew 3.3% to \$1133mn led by 5% growth in subscribers. In INR terms revenue grew 1.9% qoq to Rs61.7bn. EBITDA during the quarter remained flat at Rs16.4bn, primarily due to higher network opex and license fee. EBITDA margin stood at 26.6% declining 50bps qoq. Net loss during the quarter stood at Rs5.2bn v/s Rs5.4bn in Q3FY13.
- Subscriber growth at 5% qoq remained strong. MoU grew 4.7% qoq to 144 mins, consequently ARPM declined 7.3% qoq, as traffic growth was driven on the back discounted mins. ARPU declined 2.8% qoq to \$6.2.

Financial Snapshot (Consolidated)

(Rsbn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY12A	715	237	33.2	43	11.2	-29.8	8.2	29.4	8.0	2.3
FY13E	806	247	30.6	23	6.2	-45.1	4.3	53.5	7.5	2.2
FY14E	879	274	31.2	38	10.0	62.1	6.6	33.0	6.5	2.1
FY15E	945	297	31.4	47	12.5	25.2	7.6	26.4	5.7	1.9

Exhibit 1: Quarterly financials

Rs mn	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	YoY (%)	QoQ (%)	YTD'13	YTD'12	YoY (%)
Mobile	144,859	155,341	158,968	164,434	171,682	171,058	10.1	(0.4)	507,174	442,388	14.6
Tele-media	9,528	9,128	9,159	9,442	9,526	9,566	4.8	0.4	28,534	28,113	1.5
Enterprise Total	11,042	11,881	11,209	11,906	13,934	14,219	19.7	2.0	40,059	33,333	20.2
Others	4,059	3,987	4,318	4,612	4,913	5,243	31.5	6.7	14,768	11,825	24.9
Passive Infrastructure	23,766	24,393	24,183	24,048	25,567	26,350	8.0	3.1	75965.0	70926.3	7.1
Total gross Sales	193,254	204,730	207,837	214,442	225,622	226,436	10.6	0.4	666,500	586,585	13.6
Inter-segmental elimination	20,488	19,983	20,543	20,823	22,893	23,899	19.6	4.4	67,615	59,244	14.1
Net Sales	172,766	185,078	187,388	193,619	202,830	202,537	9.4	(0.1)	598,986	527,672	13.5
Access charge	23,311	26,234	25,658	27,045	29,526	29,157	11.1	(1.2)	85,728	71,703	19.6
as % of sales	13.5	14.2	13.7	14.0	14.6	14.4			14.3	13.6	
Network Operating	38,038	40,669	41,583	45,425	46,297	48,461	19.2	4.7	140,183	116,015	20.8
as % of sales	22.0	22.0	22.2	23.5	22.8	23.9			23.4	22.0	
Employee Expenses	8,691	8,505	8,717	9,193	9,846	10,211	20.1	3.7	29,250	26,442	10.6
as % of sales	5.0	4.6	4.7	4.7	4.9	5.0			4.9	5.0	
Marketing Expenses	30,066	34,651	32,883	37,169	37,184	36,085	4.1	(3.0)	110,438	93,835	17.7
as % of sales	17.4	18.7	17.5	19.2	18.3	17.8			18.4	17.8	
License Fee	14,507	15,435	16,216	16,300	16,469	16,784	8.7	1.9	49,553	44,881	10.4
as % of sales	8.4	8.3	8.7	8.4	8.1	8.3			8.3	8.5	
Total operating expenditure	114,613	125,494	125,057	135,132	139,322	140,698	12.1	1.0	415152	352876	17.6
EBITDA	58,153	59,584	62,331	58,487	63,508	61,839	3.8	(2.6)	183,834	174,796	5.2
Depreciation	31,839	35,845	34,683	37,571	38,560	39,005	8.8	1.2	115,136	98,998	16.3
EBIT	26,314	23,739	27,648	20,916	24,948	22,834	(3.8)	(8.5)	68698	75798	(9.4)
Other Income	0	0	0	0	0	0			0	0	
Interest	11,186	7,877	10,572	8,211	10,219	13,319	69.1	30.3	31,749	27,613	15.0
Non operating expenses	0	0	0	0	0	0			0	0	
PBT	15,128	15,862	17,076	12,705	14,729	9,515	(40.0)	(35.4)	36949	48185	(23.3)
Tax	4,900	5,585	6,976	4,878	7,714	6,675	19.5	(13.5)	19,267	15,626	23.3
PAT before MI	10,228	10,277	10,100	7,827	7,015	2,840	(72.4)	(59.5)	17682	32559	(45.7)
Minority interest	-44	108	21	129	-197	3	(97.2)	(101.5)	-65	-34	91.2
PAT MI	10,272	10,169	10,079	7,698	7,212	2,837	(72.1)	(60.7)	17747	32593	(45.5)
share of associates	0	-56	-18	-76	0	0			-76	-56	35.7
PAT	10,272	10,113	10,061	7,622	7,212	2,837	(71.9)	(60.7)	17671	32537	(45.7)
Margins (%)							(bps)	(bps)			(bps)
EBIDTA	33.7	32.2	33.3	30.2	31.3	30.5	(166)	(78)	30.7	33.1	(244)
EBIT	15.2	12.8	14.8	10.8	12.3	11.3	(155)	(103)	11.5	14.4	(290)
EBT	8.8	8.6	9.1	6.6	7.3	4.7	(387)	(256)	6.2	9.1	(296)
PAT	5.9	5.5	5.4	3.9	3.6	1.4	(406)	(215)	3.0	6.2	(322)
Effective Tax rate	32.4	35.2	40.9	38.4	52.4	70.2	3,494	1,778	52.1	32.4	1,972

Source: Company, Emkay Research

Wireless segment – seasonally backed growth

- Total Indian & SA revenue was driven by seasonally strong quarter, which was in-line with estimates. Domestic wireless revenue grew 2.8% in-line with our expectations. EBITDA stood at Rs33.1bn (+3.6% qoq) with margin at 30.3%, flat qoq.
- PAT for the Indian business stood at Rs8.0bn v/s Rs10.1bn. PAT declined due to high tax rate and finance cost during the quarter.
- India & SA capex during the quarter declined to Rs15.2bn v/s Rs29.0bn in Q2FY13. The company rolled out 2182 3G sites as compared to 2321 sites rolled out in the last quarter.

Exhibit 2: India and SA performance

	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	QoQ
Revenues	126,790	131,628	134,210	137,177	144,187	142,672	-1.1%
Opex	81,062	86,403	86,858	93,593	97,175	97,338	0.2%
EBIDTA	45,728	45,225	47,352	43,584	47,012	45,334	-3.6%
EBITDA %	36.10%	34.40%	35.30%	31.77%	32.60%	31.77%	
Depreciation	23,205	24,492	24,808	26,051	26,545	27,027	1.8%
EBIT	22,523	20,733	22,545	17,533	20,467	18,307	-10.6%

Source: Company, Emkay Research

Exhibit 3: Wireless revenue break-up

	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Voice revenue (Rs mn)	78,725	82,180	84,775	85,445	82,628	84,417
qoq growth (%)	-1.28%	4.39%	3.16%	0.8%	-3.3%	2.2%
Non-voice revenue (Rs mn)	15,054	15,478	16,349	16,646	16,691	17,659
qoq growth (%)	2.41%	2.81%	5.63%	2%	0%	6%

Source: Company, Emkay Research

Exhibit 4: Domestic wireless business

	2Q12	3Q12	4Q12	Q113	Q213	Q313	QoQ
ARPU (Rs)	183	187	189	185	177	185	4.3%
MOU (mins)	423	419	431	433	417	435	4.4%
RPM (Rs)	0.43	0.45	0.44	0.43	0.43	0.43	-0.2%
Traffic (mn mins)	217408	219152	230365	239338	234224	240814	2.8%
Subscribers ('000)	172782	175652	181279	187302	185922	181922	-2.2%
VAS revenue share	16.05%	15.85%	16.17%	16.30%	16.81%	17.30%	
3G metrics							
Subscribers ('000)			2,711	3,713	4,014	5,187	29.2%
ARPU (Rs)			44	40	43	47	8.8%
Data usage /User (MB)			107	112	133	161	20.7%
Data realization / MB (Rs)			41	35	32	29	-9.5%

Source: Company, Emkay Research

Passive infrastructure – in-line quarter

- Passive infrastructure reported 3.1% qoq revenue growth to Rs26.3bn, driven by increase in revenue/tenant/tower and sites roll out happened in the last nine months.
- EBITDA grew 1.9% qoq to Rs9.8bn with EBITDA margin decline of 50bps qoq to 37.0%.
- Total towers for Bharti Infratel and Indus stood at 81,389 and 1,11,240. Tenancy during the quarter remained flat on sequential basis at 1.92x and 1.99x (1.98x for Q2FY13) for Bharti infratel and Indus towers, respectively.

Exhibit 5: Towers segment metrics

	2Q12	3Q12	4Q12	Q113	Q213	Q313
Bharti Infratel (cons.)						
Total Towers	78,835	79,025	79,154	79,574	80,656	81,389
Tenancy (x)	1.85	1.87	1.89	1.91	1.91	1.92
Sharing Revenue / sharing operator / month (Rs)	33,098	34,290	34,104	32,360	34,449	35,225
Indus Towers						
Total Towers	108,998	109,101	109,114	109,318	110,561	111,240
Tenancy (x)	1.89	1.91	1.94	1.97	1.98	1.99
Sharing Revenue / sharing operator / month (Rs)	31,112	32,272	32,563	30,139	31,711	31,969

Source: Company, Emkay Research

Enterprise and Tele-media performance

- Enterprise revenue grew 2% qoq and 19.7% yoy to Rs14.2bn. EBITDA for the segment grew 7% qoq and 14.5% yoy. EBITDA margin improved 80bps qoq to 16.2%.
- Revenue for Telemedia was flat qoq while grew 4.8% qoq to Rs9.6bn. EBITDA grew 3.1% qoq and 17.6% yoy. EBITDA margin improved 110bps qoq to 43.5%.

DTH – Net adds improve, ARPU growth and lower churn +ve

- DTH revenue grew 8.7% qoq to Rs4.3bn with EBITDA of Rs147mn v/s Rs33mn in the last quarter. Total subscriber base at the end of Q3FY13 stood at 7.9mn with net adds of just 0.44mn.
- ARPU during the quarter grew 5.2% qoq to Rs186 with lower churn rate of 1.3% v/s 1.9% in the last quarter.

Exhibit 6: DTH - key metrics

	2Q12	3Q12	4Q12	Q113	Q213	Q313	QoQ
Digital TV subs (000's)	6,614	7,069	7,228	7,400	7,454	7,889	5.83%
Net additions (000's)	352	455	159	172	55	439	692.82%
ARPU (Rs)	161	160	166	166	177	186	5.24%
Monthly Churn	1.20%	1.20%	1.20%	1.66%	1.92%	1.30%	
Revenue (Rs mn)	3,135	3,327	3,565	3,658	3,937	4,280	8.72%
EBITDA (Rs mn)	116	90	209	(23)	33	147	348.03%
EBITDA %	3.70%	2.70%	5.90%	-0.64%	0.83%	3.40%	

Source: Emkay Research, Company

African operations – Volume driven growth continues

- Revenue grew 3.3% to \$1133mn led by 5% growth in subscribers. In INR terms revenue grew 1.9% qoq to Rs61.7bn. EBITDA during the quarter remained flat at Rs16.4bn, primarily due to higher network opex and license fee. EBITDA margin stood 26.6% declining 50bps qoq. Net loss during the quarter stood at Rs5.2bn v/s Rs5.4bn in Q3FY13.
- Subscriber growth at 5% qoq remained strong. MoU grew 4.7% qoq to 144 mins consequently, ARPM declined 7.3% qoq, as traffic growth was driven on the back discounted On-net mins. ARPU declined 2.8% qoq to \$6.2.
- Capex during the quarter stood at Rs8.7bn v/s Rs11.6bn in the last quarter. Operating free cash flow grew to Rs7.7bn v/s Rs4.8bn Q2FY13, led by lower capex.

Exhibit 7: Key metrics – African operation

	2Q12	3Q12	3Q12	Q113	Q213	Q313	QoQ
Revenues (Rs mn)	47032	53577	53874	57,586	60,516	61,694	1.95%
EBIDTA (Rs mn)	12403	14351	14983	14,924	16,413	16,383	-0.18%
EBIDTA %	26.40%	26.80%	27.80%	25.92%	27.12%	26.56%	

Source: Company, Emkay Research

Exhibit 8: Key metrics – African operation

	2Q12	3Q12	4Q12	Q113	Q213	Q313	QoQ
ARPU (\$)	7.29	7.1	6.8	6.5	6.4	6.2	-2.8%
MOU (mins)	128	125	122	120	138	144	4.7%
RPM (\$/c)	5.7	5.7	5.6	5.4	4.6	4.3	-7.3%
Traffic (mn mins)	17,950	18,496	19,131	19,651	23,646	26,174	10.7%
Subscribers ('000)	48,437	50,949	53,140	55,855	58,667	61,687	5.1%

Source: Company, Emkay Research

Con-call highlights**India & SA**

- Increase in headline tariffs not required as the gap between actual tariff and realized tariff still remains very high. Still there are operators who have realized rate/min of as low as Rs0.27/min.
- SG&A cost has been trending downwards from last two quarters due to lower channels payout and significant decline in churn rate.
- Telecom tower companies are classified as retail buyers of diesel, so increase in prices for bulk buyers would not impact telcos.
- Bangladesh has turned EBITDA positive in Q3FY13, however impact on the consolidated basis is not visible as quantum is very low.
- Tax rate in the domestic market would be ~29% v/s management's earlier guidance of ~25%. Capex guidance on consolidated basis for FY14E stands at \$2.2-2.3bn.
- The regulatory changes in VAS services did not have major impact in Q3FY13 as Bharti been taking cuts in VAS revenues from last couple of months.

Africa

- Overall industry growth in Africa has come down to 8-9% v/s 14-15% when management took over Zain in 2010, which lead to deviation in the management's initial guidance of \$5bn revenue and \$2bn EBITDA.
- The company has been consistently gaining revenue market share in Africa. African markets have been more receptive in terms of data consumption.
- Leader in Nigeria reduced the tariffs by 30% in the last quarter, so Airtel had to further cut its tariffs. Impact of increased in traffic would be visible in coming quarters.
- Increase in license fees was due to one-time penalty in one of the African country, otherwise it remains stable. Tax rate during the quarter was higher partly due to one-time impact of \$11mn.
- Investments in Africa would continue as 1) Brand expansion would continue, 2) incorporation of tower company would also require additional investment and 3) 3G expansion would also demand investment
- Focus in FY14E for Africa would be more on margins than revenue market share.

Revision in estimates

Revenue and EBITDA estimates largely remain unchanged, however higher tax rate has led to significant cut in earnings.

Exhibit 9: Estimate revision

Particulars	FY13E			FY14E		
	Old	New	% Change	Old	New	% Change
Revenue	805,418	805,942	0.1	863,839	879,292	1.8
EBITDA	248,351	246,520	-0.7	275,260	274,455	-0.3
EBITDA Margin %	30.8	30.6	-25 bps	31.9	31.2	-65 bps
PAT	32,151	23,383	-27.3	47,984	37,905	-21.0
EPS	8.5	6.2	-27.3	12.6	10.0	-21.0

Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rsbn)	FY12A	FY13E	FY14E	FY15E
Net Sales	715	806	879	945
Growth (%)	20.2	12.7	9.1	7.4
Expenditure	478	559	605	648
Other Expenditure	317	373	402	429
Employee Cost	35	40	45	48
SG&A	126	146	158	171
EBITDA	237	247	274	297
Growth (%)	18.8	4.0	11.3	8.1
EBITDA margin (%)	33.2	30.6	31.2	31.4
Depreciation	134	156	169	178
EBIT	103	91	106	119
EBIT margin (%)	14.5	11.3	12.0	12.6
Other Income	0	0	0	0
Interest expenses	38	44	42	40
PBT	65	47	63	79
Tax	23	23	25	31
Effective tax rate (%)	34.6	49.6	39.0	39.0
Adjusted PAT	43	24	39	48
Growth (%)	-28.1	-44.7	63.5	25.2
Net Margin (%)	6.0	2.9	4.4	5.1
(Profit)/loss from JVs/Ass/MI	0	0	-1	-1
Adj. PAT After JVs/Ass/MI	43	23	38	47
E/O items	0	0	0	0
Reported PAT	43	23	38	47
PAT after MI	43	23	38	47
Growth (%)	-29.8	-45.1	62.1	25.2

Cash Flow

Y/E Mar (Rsbn)	FY12A	FY13E	FY14E	FY15E
PBT (Ex-Other income)	65	47	63	79
Depreciation	134	156	169	178
Interest Provided	38	44	42	40
Other Non-Cash items	0	0	0	0
Chg in working cap	-27	18	-2	-1
Tax paid	-23	-23	-25	-31
Operating Cashflow	187	242	247	265
Capital expenditure	-181	-169	-138	-136
Free Cash Flow	7	73	109	129
Other income	0	0	0	0
Investments	-15	0	0	0
Investing Cashflow	-196	-169	-138	-136
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	74	-35	-40	-50
Interest Paid	-38	-44	-42	-40
Dividend paid (incl tax)	-4	-4	-4	-4
Income from investments	0	0	0	0
Others	-2	25	19	45
Financing Cashflow	29	-58	-68	-49
Net chg in cash	20	14	41	81
Opening cash position	10	20	14	41
Closing cash position	20	14	41	81

Balance Sheet

Y/E Mar (Rsbn)	FY12A	FY13E	FY14E	FY15E
Equity share capital	19	19	19	19
Reserves & surplus	516	540	578	625
Net worth	535	559	597	644
Minority Interest	28	28	28	29
Secured Loans	497	462	422	372
Unsecured Loans	193	193	193	193
Loan Funds	690	655	615	565
Net deferred tax liability	-49	-49	-49	-49
Total Liabilities	1,204	1,193	1,192	1,190
Gross Block	1,670	1,919	2,062	2,198
Less: Depreciation	378	593	762	940
Net block	1,292	1,325	1,300	1,257
Capital work in progress	44	24	19	19
Investment	33	33	33	33
Current Assets	142	142	180	235
Inventories	1	1	2	3
Sundry debtors	64	69	76	85
Cash & bank balance	20	14	41	81
Loans & advances	21	22	25	28
Other current assets	35	35	37	39
Current lia & Prov	306	331	340	355
Current liabilities	297	321	329	343
Provisions	9	10	11	11
Net current assets	-165	-189	-160	-119
Misc. exp	0	0	0	0
Total Assets	1,204	1,193	1,192	1,190

Key Ratios

Y/E Mar	FY12A	FY13E	FY14E	FY15E
Profitability (%)				
EBITDA Margin	33.2	30.6	31.2	31.4
Net Margin	6.0	2.9	4.4	5.1
ROCE	8.9	7.6	8.9	10.0
ROE	8.2	4.3	6.6	7.6
RoIC	9.6	8.2	9.5	11.0
Per Share Data (Rs)				
EPS	11.2	6.2	10.0	12.5
CEPS	46.4	47.1	54.4	59.4
BVPS	140.9	147.2	157.2	169.7
DPS	1.0	1.0	1.0	1.0
Valuations (x)				
PER	29.4	53.5	33.0	26.4
P/CEPS	7.1	7.0	6.0	5.5
P/BV	2.3	2.2	2.1	1.9
EV / Sales	2.6	2.3	2.0	1.8
EV / EBITDA	8.0	7.5	6.5	5.7
Dividend Yield (%)	0.3	0.3	0.3	0.3
Gearing Ratio (x)				
Net Debt/ Equity	1.2	1.1	0.9	0.7
Net Debt/EBIDTA	2.7	2.5	2.0	1.5
Working Cap Cycle (days)	-94.3	-92.1	-83.4	-77.4

Emkay Global Financial Services Ltd.

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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