

Equity	% Chg			
	16-Oct	1-day	1-mth	3-mth
India				
Sensex	19,052	(0.0)	22.9	24.6
Nifty	5,668	(0.0)	26.1	26.0
Global/Regional markets				
Dow Jones	13,913	(0.5)	3.8	(0.4)
Nasdaq	2,764	(0.6)	7.1	1.9
FTSE	6,614	(0.5)	7.0	(0.7)
Nikkei	16,958	(1.0)	5.2	(6.9)
Hang Seng	28,986	0.1	17.8	25.7

Value traded (Rs bn)	BSE	NSE
Cash	97.9	233.0
Derivatives	12.4	907.5
Total	110.3	1,140.5

Net inflows (Rs bn)	Recent trends (days)			
	15-Oct	-7d	-15d	-30d
FII	38.6	133.2	293.7	383.1
MF	1.1	(19.1)	(36.2)	(35.2)

Forex / Crude	% Chg			
	16-Oct	1day	1mth	3mth
Rs/US\$	39.4	0.0	3.1	2.5
Euro/US\$	1.4	(0.0)	2.2	2.8
Crude(\$/bbl)	87.5	(0.1)	8.6	18.2

Mkt movers (Rs)	Close	Pr. Cl.	% Chg
Top gainers			
Tata Power Co	1,370.9	1,110.1	23.5
Patel Engineering	764.7	653.8	16.9
Aftek	76.5	65.7	16.5
Top losers			
Bilcare	1,054.7	1,133.3	(6.9)
ISMT	81.2	86.4	(6.1)
Nitco Tiles	275.8	293.4	(6.0)

In focus

Shri Lakshmi Cotsyn – Results Update

Profiting from a strong product line CMP: Rs 123 Target: Rs 210 BUY

Tata Consultancy Services – Results Update

No surprises; estimates downgraded CMP: Rs 1,074 Target: Rs 1,193 BUY

STOCKS TO SELL

IDBI, IDFC, L&T, SAIL, Sterlite, SBI

News track

- ❖ SEBI has proposed to tighten the rules for purchase of shares and bonds in Indian companies through the participatory note (PN) route. The move aims at arresting the surge in foreign inflows through PNs. (BS)
- ❖ Maharashtra plans to remove the export fee of Rs 1.5/litre on movement of ethanol to other states. (ET)
- ❖ Housing Development & Infrastructure (HDIL) has bagged the bid to develop 276 acres of slum land near Chhatrapati Shivaji International Airport in Mumbai from the GVK Group-promoted Mumbai International Airport. (BS)
- ❖ Sun Pharma has received a “will-not-sue” covenant on generic Effexor XR from Wyeth. Venlafaxine is an antidepressant of the serotonin-norepinephrine reuptake inhibitor (SNRI) class, with branded sales of US\$ 2.6bn (BS)
- ❖ Reliance Petroleum (RPL) has achieved over 70% progress in implementation of the refinery. Based on the progress made till date in EPC activities, RPL expects to complete the project ahead of December 2008. (ET)
- ❖ Jet Airways has finalised an order of 20 next generation 737-800 Boeing aircraft valued at nearly US\$ 1.5bn at current prices.
- ❖ Dabur India recently announced its foray into the Rs 15bn malted food drink market with chawanprash blended with chocolate. (ET)
- ❖ CESC has decided to raise Rs 6bn of fresh resources to part-finance its Haldia greenfield thermal venture and also beef up its existing power distribution network. (ET)

Source: BL: Business Line, BS: Business Standard, ET: Economic Times, FE: Financial Express

Volume shockers

(No of shares)	16-Oct	2-mth avg	Chg (x)
Sundram Fasteners	1,022,622	58,933	17.4
FAG Bearings India	72,299	4,976	14.5
Gujarat Gas Co	160,024	15,431	10.4

Delivery toppers

	Del (%)	Total vol	Cons days up
Assam Co	100.0	1,289,1	5
Manugraph India	72.7	221,659	4
ICSA India	57.4	112,947	7

Shri Lakshmi Cotsyn

Results Update

CMP: Rs 123

Target: Rs 210

BUY

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BSE code 526049

Company data

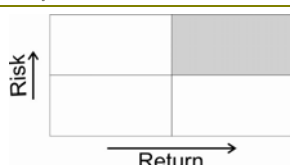
Particulars

Market cap (Rs bn / US\$ mn)	1.8/46.3
Outstanding equity shares (mn)	14.8
52-week high/low (Rs)	141/76
2-month average daily volume	31,437

Financial snapshot

Y/E June	FY07	FY08E	FY09E
Sales (Rs mn)	6,443.8	8,650.0	10,700.0
Growth (%)	79.0	34.2	23.7
Adj net profit (Rs mn)	408.4	600.0	840.0
Growth (%)	157.8	46.9	40.0
FDEPS (Rs)	27.6	30.0	42.0
Growth (%)	138.6	8.7	40.0
P/E (x)	4.5	4.1	2.9
ROE (%)	26.7	25.1	24.6

Risk-return profile



Shareholding pattern

(%)	Mar-07	Jun-07
Promoters	35.7	32.7
FIIIs	5.2	5.2
Banks & FIs	-	3.0
Public	59.1	59.1

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Shri Lakshmi	123	2.2	13.9	13.5
Sensex	19,052	22.9	24.6	40.0

Company website www.shrilakshmi.in

Profiting from a strong product line

Shri Lakshmi Cotsyn (SLC) has declared excellent results for the first quarter ended September 30, surpassing our estimates. While the July to September quarter typically records weak sales as it is the monsoon season and a non-festive period, we had projected a robust 90% YoY growth in topline and a 146% growth in PAT led by augmented capacities. SLC, however, has exceeded our projections by a distance to record a growth of 134% YoY in revenues to Rs 2.3bn and 195% in PAT to Rs 150.3mn.

The strong performance was led by a healthy order book position of Rs 4bn for new products that commenced production in late FY07. The scaling up of operations coupled with the receipt of an interest subsidy available under TUF aided a better-than-expected growth in PAT. We maintain our Buy recommendation on the scrip with a target of Rs 210.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	2,306.1	1,800.0	28.1
EBIDTA	336.3	280.0	20.1
PAT	150.3	85.0	76.8
EPS (Rs)	10.2	5.7	76.8

Source: Company, Religare Research

Quarterly results

Y/E June (Rs mn)	Q1FY08	Q1FY07	% Chg YoY	Q4FY07	% Chg QoQ
Net sales	2,306.1	985.2	134.1	2,247.8	2.6
EBIDTA	336.3	78.6	327.9	369.6	(9.0)
Depreciation	51.0	6.7	661.2	51.3	(0.6)
EBIT	285.3	71.9	296.8	318.3	(10.4)
Interest	122.5	25.8	374.8	149.8	(18.2)
Other income	8.9	11.1	(19.8)	0.7	1171.4
PBT	171.7	57.2	200.2	169.2	1.5
Tax	21.4	6.2	245.2	27.8	(23.0)
PAT	150.3	51.0	194.7	141.4	6.3
EPS (Rs)	10.2	3.7	172.8	9.8	3.4

Margins (%)

EBIDTA	14.6	8.0	-	16.4	-
EBIT	12.4	7.3	-	14.2	-
PBT	7.4	5.8	-	7.5	-
PAT	6.5	5.2	-	6.3	-

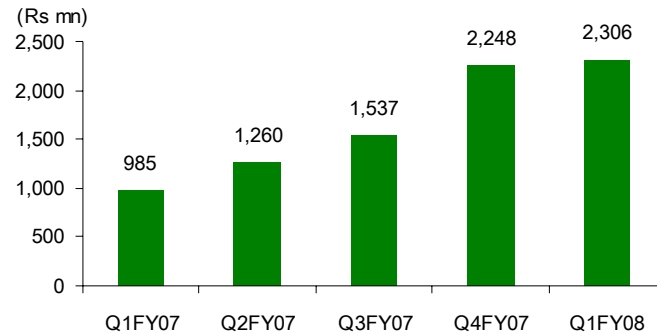
Source: Company, Religare Research

Result highlights

Net sales up 134% due to capacity augmentation

Net sales increased 134% YoY to Rs 2.3bn as against Rs 985mn for the corresponding year-ago quarter. The strong growth was led by augmented capacities for home furnishings, terry towels, bottom weight fabric and denim, which came onstream in December 2006. Since July to September is the monsoon season and a non-festive period, it is usually a lean quarter for the textile industry. Consequently, the company's QoQ sales have risen only 2.6%.

Net sales trend



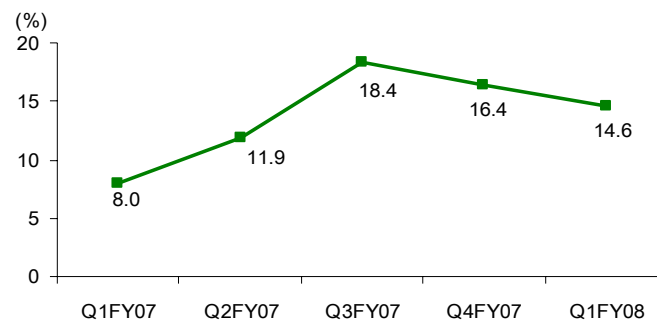
Source: Company, Religare Research

EBIDTA margin up 660bps led by economies of scale and new higher-margin products

New products propel margin growth

SLC's operating profit rose 328% YoY to Rs 336.3mn accompanied by a 660bps improvement in EBIDTA margin to 14.6% from 8% in Q1FY07. The margin expansion was led by the increased scale of operations and sales of new higher-margin products like terry towels and denim. While the older products comprising P.C. suiting and microdot fusible interlining fabric enjoy an established market, their margins are limited.

EBITDA margin trend



Source: Company, Religare Research

Tripling of PAT to Rs 150mn

PAT has risen three-fold to Rs 150.3mn over Rs 51mn in Q1FY07. This is despite a sizeable increase in interest and depreciation cost by 375% and 661% YoY respectively on account of term loans and depreciation for the first phase of expansion. Lower tax provisions during the quarter aided PAT growth. EPS for the quarter works out to Rs 10.2 which translates into an annualised EPS of Rs 40.8 on the existing equity capital of Rs 148mn.

Other highlights

Expansion progressing smoothly

Phase-I: SLC completed the first phase of capacity expansion in December 2006 at a cost of Rs 2.7bn. This entailed the set up of capacities for four new products, namely, wider width processing fabrics (12mn mtrs), denim fabric (20mn mtrs), bottom weight fabric (6mn mtrs) and terry towels (3,000mtpa), as well as a yarn dyeing facility (1,500mtpa).

New garment factory and nylon coated fabric line being set up by March 2008

Phase-II: The second phase of expansion will be completed by March 2008 at a cost of Rs 2.3bn. During this phase, a new garment factory is being set up at Roorkee for manufacturing 6.6mn garment pieces. The company will also be putting up a nylon coated fabric line (1.25mn mtrs) and a furnishing fabric line (knitted and woven – 7.2mn mtrs). This will include fully automatic integrated stitching lines for wider width sheets, pillow covers and the existing terry towel project. SLC will simultaneously be investing Rs 400mn in the joint venture with Armet Armored Vehicles.

Future plans: The company is also looking to further expand its terry towel capacity from 3,000mtpa to 12,000mtpa and its bottom weight fabric capacity from 6mn mtrs to 12mn mtrs at a capex of Rs 2.7bn. It further intends to meet its power requirements entirely through captive plants and has hence planned a 14MW power project at a cost of Rs 400mn. These plans will be funded through a mix of debt and equity.

Successful completion of US\$10mn FCCB issue

SLC has raised US\$ 10mn via the issue of zero coupon, unsecured FCCBs due in 2012 and convertible into equity shares. These funds will be utilised for its second phase of expansion. The FCCBs will mature in five years and are optionally convertible at Rs 150. If the conversion option is exercised in full, equity capital will further increase by Rs 26.7mn. We have factored full conversion into our estimates.

Issue of share warrants to promoters

The board of directors has approved the preferential allotment of 2,500,000 warrants at Rs 150 each to the promoter group, subject to shareholder approval. On conversion of these warrants into equity shares, the equity capital will rise to Rs 200mn.

Textile ministry guidelines point to vast potential for technical textiles

SLC is a major player in technical and safety textiles with specialised products like fusible interlining, PU coated nylon, fire retardant fabric, bullet proof jackets, anti-infrared and high altitude clothing. It has established itself as a major supplier to the defence sector. Technical textiles are likely to grow at 14% and have vast potential.

Technical textiles like fusible interlining and fire retardant fabric to drive future growth

The textile ministry recently recommended that fire retardant textiles be made mandatory in all public places. If the ministry has its way, all trains, hotels, theatres and public auditoriums in the country may have to replace their seats and other coatings with fire retardant material. The ministry has also proposed that flame-and-heat-resistant uniforms be made compulsory for fire fighters and employees working near furnaces or other similar places.

Joint venture with Armet Armored Vehicles

The company has entered into a joint venture with UK-based Armet Armored Vehicles (AAVL) for the assembly of armoured vehicles. SLC will hold a 49% equity stake in the JV company 'Armet Armored Vehicles & Shri Lakshmi', while AAVL will hold the balance 51%. This venture will require an investment of Rs 500mn from both partners to produce 300 vehicles a year, and is likely to commence production by FY09. The company will also manufacture armour plates, panels, helmets, ballistic body armour and similar safety and security-related equipment for domestic and foreign markets.

Outlook

Shift towards more lucrative products like terry towels and garments will augment growth

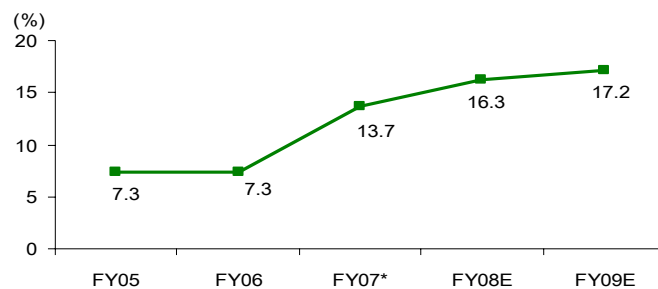
From textiles to garmenting and home furnishing

SLC has shifted its focus from pure fabric processing to the more lucrative and fast expanding business of home furnishing, denim fabric, terry towels and garments. This will put the company on a better footing vis-à-vis peers and attract better valuations.

EBIDTA margin set to improve steadily

We expect the company to report EBIDTA margins of 16.3% in FY08 and 17.2% in FY09. This is a dramatic improvement from its earlier margins of ~7%, and has been brought about by judicious product expansion. In addition, the company has availed of a term loan under the government's TUF scheme where the net interest burden is only 3.5%. Margins are likely to improve further when the garment division at Roorkee comes into full operation from April 2008.

EBITDA margin forecast



Source: Company, Religare Research *Unaudited

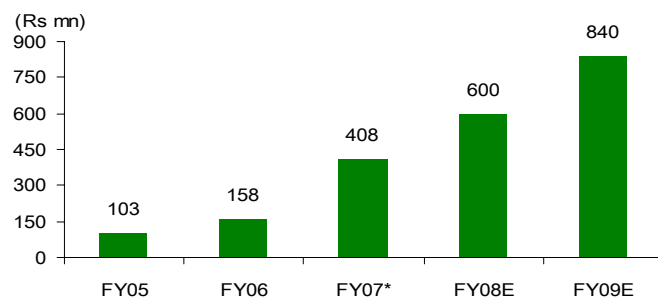
Valuation

Maintain Buy with price target of Rs 210

We expect SLC to deliver a topline CAGR of 43.8% to Rs 10.7bn over FY06-FY09 with an earnings CAGR of 74.5% to Rs 840mn. This will translate into an FDEPS of Rs 30 for FY08E and Rs 42 for FY09E assuming full conversion of the FCCBs issued in September and also conversion of the 2.5mn warrants to be issued to promoters.

The stock is currently trading at 4.1x and 2.9x on FY08E and FY09E earnings, with an EV/EBIDTA of 4.6x and 3.5x respectively. Current market capitalisation of the stock is just 2.17x of its expected net profit for FY09E, which leaves a significant upside potential. We reiterate our Buy recommendation with a price target of Rs 210.

Profit trend



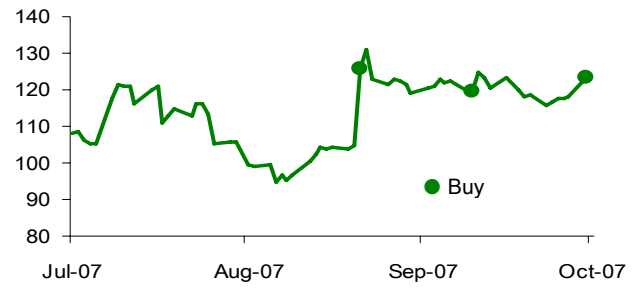
Source: Company, Religare Research *Unaudited

Recommendation history

Date	Event	Reco price	Tgt price	Reco
05-Sep-07	Initiating Coverage	104	210	Buy
25-Sep-07	Company Update	122	210	Buy
16-Oct-07	Results Update	123	210	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Financials

Profit and Loss statement

Y/E June (Rs mn)	FY06	FY07U	FY08E	FY09E
Revenues	3,600.3	6,443.8	8,650.0	10,700.0
Growth (%)	27.5	79.0	34.2	23.7
EBITDA	264.0	879.8	1,410.0	1,840.0
Growth (%)	27.5	233.3	60.3	30.5
Depreciation	27.3	127.3	250.0	280.0
EBIT	236.6	752.5	1,160.0	1,560.0
Growth (%)	28.9	218.0	54.2	34.5
Interest	98.5	295.9	300.0	330.0
Other income	39.1	41.1	50.0	50.0
EBT	177.2	497.7	910.0	1,280.0
Growth (%)	56.8	180.9	82.8	40.7
Tax	18.8	89.3	310.0	440.0
Effective tax rate	10.6	17.9	34.1	34.4
Adj net income	158.4	408.4	600.0	840.0
Growth (%)	54.1	157.8	46.9	40.0
Shares outstanding (mn)	13.7	14.8	20.0	20.0
FDEPS (Rs)	11.6	27.6	30.0	42.0
DPS (Rs)	0.0	3.0	4.0	5.0
CEPS (Rs)	14.5	40.1	48.3	60.3

Source: Company, Religare Research

Cash flow statement

Y/E June (Rs mn)	FY06	FY07U	FY08E	FY09E
Net income	158.4	408.4	600.0	840.0
Depreciation	27.3	127.3	250.0	280.0
Other adjustments	13.0	57.5	115.0	85.0
Changes in WC	(251.9)	(1,164.1)	(780.0)	(800.0)
Operating cash flow	(53.2)	(570.9)	185.0	405.0
Capital expenditure	(1,850.2)	(1,909.9)	(1,000.0)	(300.0)
Investments	(4.4)	0.0	(150.0)	0.0
Other investing inc/(exp)	-	-	-	-
Investing cash flow	(1,854.6)	(1,909.8)	(1,150.0)	(300.0)
Free cash flow	(1,907.9)	(2,480.7)	(965.0)	(105.0)
Issue of equity	548.9	70.3	800.0	0.0
Issue/repay debt	1,372.6	2,409.4	224.0	0.0
Dividends paid	0.0	(50.0)	(94.0)	(117.0)
Others	0.6	44.4	44.0	23.0
Financing cash flow	1,922.1	2,474.1	974.0	(94.0)
Beg. cash & cash eq	2.4	16.7	10.0	19.0
Chg in cash & cash eq	14.3	(6.6)	9.0	11.0
Closing cash & cash eq	16.7	10.0	19.0	30.0

Source: Company, Religare Research

Balance sheet

Y/E June (Rs mn)	FY06	FY07U	FY08E	FY09E
Cash and cash eq	16.7	10.0	19.0	30.0
Accounts receivable	686.1	1,400.0	1,850.0	2,300.0
Inventories	636.7	1,100.0	1,730.0	2,230.0
Others current assets	98.8	239.5	139.5	139.5
Current assets	1,438.3	2,749.5	3,738.5	4,699.5
LT investments	4.6	4.6	154.6	154.6
Net fixed assets	347.4	3,689.6	4,639.6	4,659.6
CWIP	1,959.7	400.0	200.0	200.0
Total assets	3,750.0	6,843.7	8,732.7	9,713.7
Payables	146.2	300.0	500.0	650.0
Others	5.8	50.1	94.1	117.1
Current liabilities	152.0	350.1	594.1	767.1
LT debt	2,266.6	4,676.0	4,900.0	4,900.0
Other liabilities	18.2	75.7	190.7	275.7
Equity capital	208.6	148.0	200.0	200.0
Reserves	1,104.6	1,593.9	2,847.9	3,570.9
Net worth	1,313.2	1,741.9	3,047.9	3,770.9
Total liabilities	3,750.0	6,843.7	8,732.7	9,713.7
BVPS (Rs)	95.9	117.7	152.4	188.5

Source: Company, Religare Research

Financial ratios

Y/E June	FY06	FY07U	FY08E	FY09E
EBITDA margin (%)	7.3	13.7	16.3	17.2
EBIT margin (%)	6.6	11.7	13.4	14.6
Net profit margin (%)	4.4	6.3	6.9	7.9
FDEPS growth (%)	12.6	138.6	8.7	40.0
Receivables (days)	70.0	79.0	78.0	78.0
Inventory (days)	65	62	73	76
Payables (days)	15	17	21	22
Current ratio (x)	9.5	7.9	6.3	6.1
Interest coverage (x)	2.4	2.5	3.9	4.7
Debt/equity ratio (x)	1.7	2.7	1.6	1.3
ROE (%)	16.5	26.7	25.1	24.6
ROCE (%)	9.3	14.9	15.9	18.3
ROAE (%)	7.3	13.6	17.7	20.9
EV/Sales (x)	1.8	1.0	0.7	0.6
EV/EBITDA (x)	24.6	7.4	4.6	3.5
P/E (x)	10.6	4.5	4.1	2.9
P/BV (x)	1.3	1.0	0.8	0.7
P/CEPS (x)	8.5	3.1	2.5	2.0

Source: Company, Religare Research

Tata Consultancy Services

Results Update

CMP: Rs 1,074

Target: Rs 1,193 ↓

BUY

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BSE code	532540
NSE code	TCS

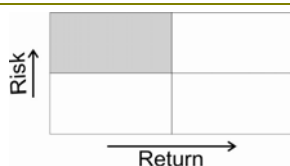
Company data

Particulars	
Market cap (Rs bn / US\$ bn)	1,051 / 26.7
Outstanding equity shares (mn)	978.6
52-week high/low (Rs)	1,399 / 978
2-month average daily volume	281,451

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs bn)	186.3	225.7	271.8
Growth (%)	40.6	21.1	20.4
Adj net profit (Rs bn)	41.3	50.5	58.4
Growth (%)	42.6	22.2	15.6
FDEPS (Rs)	43.1	51.6	59.7
Growth (%)	42.0	19.9	15.6
P/E (x)	24.9	20.8	18.0
ROE (%)	46.1	39.8	33.0

Risk-return profile



Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	79.8	80.1
FIs	8.1	7.7
Banks & FIs	2.1	5.6
Public	10.0	6.6

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
TCS	1,074	6.1	(4.6)	(14.1)
Sensex	19,059	22.1	24.5	39.2
BSE IT	4,712	5.9	(2.8)	(7.1)

Company website	www.tcs.com
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No surprises; estimates downgraded

Tata Consultancy Services' (TCS) Q2FY08 results were on par with expectations. Revenue and EBITDA grew by 8.4% and 11.7% QoQ respectively as against our estimates of 6.7% and 10.9% growth respectively. Higher other income shored up net income by 5.2% QoQ, ahead of our expectation of flattish growth. International IT services clocked 9% QoQ growth in volumes. Improved pricing, higher offshoring and forex gains allowed the company to expand its EBITDA margin by 79bps QoQ to 26.3%.

In line with our revised foreign exchange estimate of Rs 39/US\$ for FY09, we are decreasing our FY09 revenue and EPS estimates for TCS by 2.5% and 3.8% respectively. We are also decreasing our one-year target price for the stock from Rs 1,354 earlier to Rs 1,193. Our target price is based on 20x FY09E earnings of Rs 59.7 (a discount of 10% to Infosys' target multiple). Considering the 11% upside from current levels, we maintain our Buy recommendation on the stock.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	56,398.4	55,523.4	1.6
EBIDTA	14,820.6	14,706.0	0.8
PAT	12,469.5	11,912.4	4.7
EPS (Rs)	12.7	12.2	4.7

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q1FY08	% Chg QoQ	Q2FY07	% Chg YoY
Revenue	56,398.4	52,028.2	8.4	44,821.8	25.8
Cost of revenue	30,152.3	28,221.2	6.8	23,880.1	26.3
Gross profit	26,246.1	23,807.0	10.2	20,941.6	25.3
SG&A expenses	11,425.5	10,543.1	-	8,647.6	-
EBITDA	14,820.6	13,263.9	11.7	12,294.1	20.6
Depreciation	1,381.3	1,264.6	-	957.9	-
EBIT	13,439.3	11,999.3	12.0	11,336.2	18.6
Other income	1,104.7	1,516.3	-	77.3	-
PBT	14,544.0	13,515.6	7.6	11,413.5	27.4
Income taxes	2,036.6	1,523.0	-	1,446.8	-
Earnings from affiliates	4.1	2.4	-	7.7	-
Reported net income	12,469.5	11,855.1	5.2	9,915.1	25.8
EPS	12.7	12.1	5.2	10.1	25.8

Source: Company, Religare Research

Q1FY08 Performance highlights

Parameters	Comments
Volume growth	Volumes in international IT services grew at 9% QoQ while revenues from the Indian business declined by 0.7% QoQ due to seasonal reasons.
Pricing	Blended pricing improved by 85bps QoQ which is in line with our expectations. The management maintains a stable outlook on pricing. However, in some deals we are seeing resistance to price hikes, particularly in the BFSI space. Pricing improvement was an important contributor to the 79bps EBITDA margin expansion witnessed by the company during the quarter.
Onsite – GDC – Offshore mix	Offshoring is another lever employed by TCS to maintain profit margins. The share of offshore revenues increased to 43% during the quarter as compared to 41.1% in Q1FY08 and 41% in Q2FY07. The offshoring leverage contributed 36bps to the EBITDA margin expansion. The share of onsite revenues decreased from 54.8% in Q1FY08 to 53.3% in Q2FY08.
Employee addition	A total of 12,523 employees were added during the quarter (gross) of which 5,899 were trainees and 5,658 were lateral recruits. The management has maintained its FY08 guidance of recruiting more than 30,000 employees at the gross level. The overall headcount in TCS crossed the 100,000 milestone during the quarter. The company has 104,347 employees with 3,748 in GDC and 8,900 in overseas subsidiaries.
Attrition rate	A total of 3,255 employees left the company during the quarter, representing an attrition rate of 11.5% on LTM basis. Attrition in the BPO business rose from 16.7% in Q1FY08 to 17.9% in Q2FY08, while that in IT services remained stable at 10.9% (LTM).
Salary hikes	The company typically awards promotions to employees during the July–September quarter. The rise in salaries due to these promotions had a negative impact of 117bps on the EBITDA margin. We do not expect any further salary hikes during the fiscal.
Clients metrics	Momentum in client addition continues with 51 clients added during the quarter, and growth witnessed across revenue brackets. The number of clients contributing more than US\$ 20mn in annual revenues increased from 69 to 75 during the quarter.
Geographical mix	Despite concerns over the US economy, the North American geography grew at 11% QoQ, faster than the overall company growth rate. Revenue contribution from Europe declined by 100bps in the quarter to 28.3%. The management continues to focus on diversifying geographical risks by increasing revenues from Europe and other non-US geographies.
Utilisation levels	Utilisation including trainees was at 73.7%, a decrease of 230bps from Q1FY08 due to higher trainee employee additions during the quarter. However, the net utilisation (excluding trainees) remained stable at 78.9% as compared to Q1FY08.
Client growth	Growth was witnessed across all clients in rupee terms. However, revenues from the top client expanded faster than the overall company growth at 11.6% sequentially. Client growth excluding the top–10 accounts was at 11% QoQ, and contributed 72.4% of total revenues.
Services metrics	The contribution of ADM in overall revenues fell to 48.6% during the quarter as against 52.1% in Q2FY07 as newer services like infrastructure management, enterprise solutions and asset leveraged solutions continued to ramp up.
Vertical metrics	Despite US subprime issues, the BFSI vertical continued to grow faster than the overall company at 8.9% QoQ. Transportation, telecom and manufacturing also posted brisk growth due to strong deal inflow.

Source: Company, Religare Research

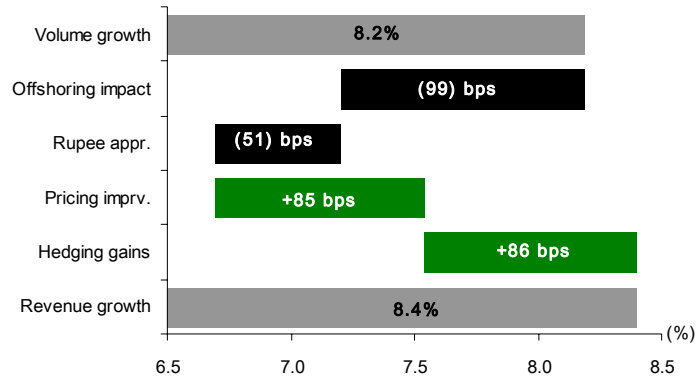
Result highlights

Overall dollar revenues grew at 10.8% QoQ with rupee revenues rising 8.4%

Strong volume growth propels revenues

The quarter witnessed strong volume growth of more than 9% in the international IT services business, propelling dollar revenue growth to 11.7% QoQ. Overall volumes grew at a slower rate of 8.2% due to the flattish volumes witnessed in the Indian IT services business stemming from the seasonal effect. Overall revenues in dollar terms grew at 10.8% sequentially. Rupee revenues witnessed lower growth at 8.4% QoQ due to the impact of higher offshoring and rupee appreciation.

Q2FY08 revenue growth profile



Source: Company, Religare Research

Slower rupee appreciation, improved pricing and higher offshoring expanded margins

Profit margins expand

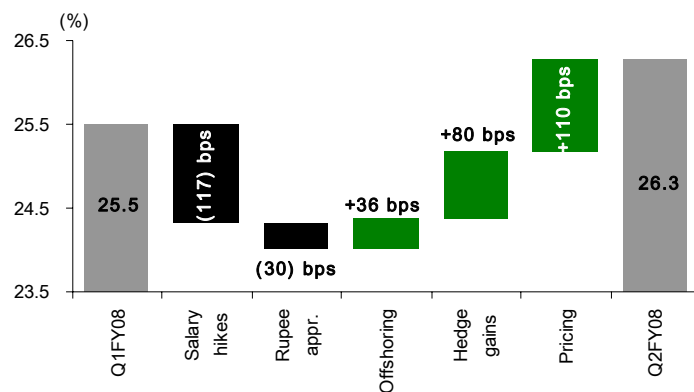
Operating profit increased 11.7% over Q1FY08 in the absence of the steep rupee appreciation that was witnessed in Q1FY08. Besides slower rupee appreciation, an 85bps improvement in pricing as well as higher offshoring also bolstered profit margins. However, the EBITDA margin expansion at 100bps has been marginally lower than our estimate of 79bps.

Profit margin trend

(%)	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Gross profit margin	46.7	47.0	47.2	45.8	46.5
EBITDA margin	27.4	28.3	28.3	25.5	26.3
EBIT margin	25.3	26.1	25.6	23.1	23.8
Net profit margin	22.1	22.7	22.8	22.8	22.1

Source: Company, Religare Research

QoQ EBITDA margin expansion



Source: Company, Religare Research

Impressive deal inflows especially from non-US geographies

Deal flow remains strong

Despite concerns over the demand environment in the industry, TCS has managed to record impressive deal inflows during the quarter. A considerable portion of the deals are from non-US geographies, primarily Europe and Latin America. Services like infrastructure management, consulting and asset leveraged solutions are witnessing an increase in deal size and duration.

Future outlook

Estimates reduced to factor in new exchange rate assumption

We are realigning our FY09 estimates for Indian IT services companies to an exchange rate of Rs 39/US\$ as against our earlier assumption of Rs 40.5/US\$. Considering this, our FY09 revenue and EPS estimates for TCS stand reduced by 2.5% and 3.8% respectively. We now expect EPS growth to be at 15.6% in FY09 as against 20.2% projected earlier.

Revised estimates

(Rs mn)	FY07			FY08E		
	Earlier	Revised	Chg (%)	Earlier	Revised	Chg (%)
Revenue	225,662.1	225,662.1	-	278,724.0	271,767.4	(2.5)
EBITDA	60,653.7	60,653.7	-	73,732.6	71,624.7	(2.9)
Net profit	50,498.7	50,498.7	-	60,712.0	58,390.7	(3.8)
EPS (Rs)	51.6	51.6	-	62.0	59.7	(3.8)

Source: Religare Research

We lower our target price to Rs 1,193 but maintain Buy considering the 11% upside

We decrease our target price to Rs 1,193; maintain Buy

Considering the expected growth deceleration we are also decreasing our target multiple for the stock from 22x to 20x, which is a 10% discount to our target multiple of 22x for Infosys. At the current price of Rs 1,074, the stock is trading at 20.8x and 18x its expected FY08 and FY09 earnings of Rs 51.6 and Rs 59.7 respectively. This is a discount of 12.9% and 12.2% to the current FY08 and FY09 valuation of Infosys respectively.

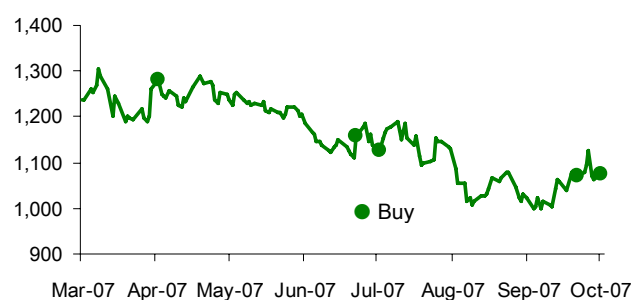
Our one-year target price for TCS now stands revised to Rs 1,193 as against Rs 1,354 earlier. We maintain our cautious view on Indian IT services companies considering the appreciating rupee and uncertain demand environment in FY09. However, considering the potential 11% upside to the TCS stock price from current levels, we maintain our Buy recommendation.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
17-Apr-07	Results Update	1,280	1,530	Buy
09-Jul-07	Sector Update	1,159	1,448	Buy
17-Jul-07	Results Update	1,128	1,415	Buy
05-Oct-07	Quarterly Preview	1,078	1,354	Buy
16-Oct-07	Results Update	1,074	1,193	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Revenues	132.6	186.3	225.7	271.8
Growth (%)	36.3	40.6	21.1	20.4
EBITDA	37.0	50.6	60.7	71.6
Growth (%)	29.8	36.8	19.8	18.1
Depreciation	2.8	4.2	5.7	6.6
EBIT	34.2	46.4	54.9	65.1
Growth (%)	27.0	35.8	18.3	18.4
Interest	0.3	1.9	3.8	3.5
Other income	34.5	48.4	58.7	68.6
EBT	5.0	6.7	7.9	9.8
Growth (%)	14.5	13.8	13.5	14.3
Tax	0.3	0.4	0.4	0.4
Effective tax rate	0.2	0.0	0.0	0.0
Adj net income	29.0	41.3	50.5	58.4
Growth (%)	41.2	42.6	22.2	15.6
Shares outstanding (mn)	489.3	978.6	978.6	978.6
FDEPS (Rs)	30.3	43.1	51.6	59.7
DPS (Rs)	16.3	11.5	12.0	13.0
CEPS (Rs)	64.9	46.5	57.4	66.4

Source: Company, Religare Research

Cash flow statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Net income	29.0	41.3	50.5	58.4
Depreciation	2.8	4.2	5.7	6.6
Other adjustments	-	-	-	-
Changes in WC	(6.8)	(8.1)	(4.7)	(5.7)
Operating cash flow	25.0	37.4	51.5	59.2
Capital expenditure	(5.9)	(16.2)	(11.7)	(11.0)
Investments	-	-	-	-
Other investing inc/(exp)	(8.7)	(5.4)	(6.4)	(9.5)
Investing cash flow	(14.6)	(21.7)	(18.1)	(20.5)
Free cash flow	10.4	15.8	33.4	38.7
Issue of equity	0.1	-	-	-
Issue/repay debt	(1.2)	4.1	-	-
Dividends paid	(8.0)	(12.7)	(13.2)	(14.3)
Others	-	-	-	-
Financing cash flow	(9.1)	(8.6)	(13.2)	(14.3)
Beg. cash & cash eq	2.6	4.0	11.1	31.4
Chg in cash & cash eq	1.3	7.2	20.2	24.4
Closing cash & cash eq	4.0	11.1	31.4	55.7

Source: Company, Religare Research

Balance sheet

(Rs bn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	4.0	11.1	31.4	55.7
Accounts receivable	37.5	50.9	60.6	71.5
Inventories	0.8	1.0	1.2	1.5
Others current assets	7.3	10.6	12.8	15.3
Current assets	49.6	73.7	105.9	144.0
LT investments	7.3	12.7	19.1	28.6
Net fixed assets	19.1	37.1	42.8	53.0
CWIP	9.6	7.1	7.1	7.1
Total assets	85.6	130.6	174.9	232.7
Payables	17.4	23.9	29.7	35.7
Others	5.3	7.7	9.3	11.2
Current liabilities	22.7	31.6	38.9	46.9
LT debt	1.0	5.0	5.0	5.0
Other liabilities	3.5	4.3	4.3	4.3
Equity capital	0.5	1.0	1.0	1.0
Reserves	57.9	88.7	126.0	170.0
Net worth	58.4	89.7	126.9	176.9
Total liabilities	85.6	130.6	174.9	232.7
BVPS (Rs)	175.0	133.4	178.7	237.8

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	27.9	27.2	26.9	26.4
EBIT margin (%)	25.8	24.9	24.3	23.9
Net profit margin (%)	21.9	22.2	22.4	21.5
FDEPS growth (%)	36.6	42.0	19.9	15.6
Receivables (days)	103.3	99.8	98.0	96.0
Inventory (days)	2.2	2.0	2.0	2.0
Payables (days)	47.9	48.0	48.0	48.0
Current ratio (x)	2.2	2.3	2.7	3.1
Interest coverage (x)	-	-	-	-
Debt/equity ratio (x)	0.0	0.1	0.0	0.0
ROE (%)	49.6	46.1	39.8	33.0
ROCE (%)	54.4	46.9	40.4	35.0
ROAE (%)	39.9	35.6	31.4	28.0
EV/Sales (x)	7.9	5.6	4.6	3.8
EV/EBITDA (x)	28.2	20.6	17.2	14.6
P/E (x)	35.4	24.9	20.8	18.0
P/BV (x)	6.1	8.0	6.0	4.5
P/CEPS (x)	16.5	23.1	18.7	16.2

Source: Company, Religare Research

Recommendation tracker

Date	Company	Report type	Stock price (Rs)	Target (Rs)	Reco
03-Sep-07	Central Bank of India	Company Update	125	144	HOLD
04-Sep-07	Maruti Udyog	Company Update	881	945	BUY
05-Sep-07	Parsvnath Developers	Company Update	316	512	BUY
05-Sep-07	MindTree Consulting	Initiating Coverage	589	556	SELL
05-Sep-07	Shri Lakshmi Cotsyn	Initiating Coverage	104	210	BUY
06-Sep-07	Power Grid Corporation of India	IPO Note	44 – 52	NA	SUBSCRIBE
07-Sep-07	Balaji Telefilms	Company Update	255	341	BUY
10-Sep-07	Greenply Industries	Company Update	230	288	BUY
10-Sep-07	HDIL	Initiating Coverage	533	694	BUY
11-Sep-07	Cadila Healthcare	Company Update	320	416	BUY
12-Sep-07	Petronet LNG	Company Update	67	73	BUY
12-Sep-07	Great Offshore	Company Update	868	1,045	BUY
13-Sep-07	IVRCL Infrastructure & Projects	Company Update	379	443	BUY
14-Sep-07	KPIT Cummins Infosystems	Company Update	142	173	BUY
14-Sep-07	Nicholas Piramal India	Company Update	272	332	BUY
18-Sep-07	HDIL	Company Update	609	694	BUY
19-Sep-07	Jubilant Organosys	Company Update	290	388	BUY
19-Sep-07	Punjab National Bank	Company Update	492	610	BUY
20-Sep-07	Tulip IT Services	Company Updates	862	1,015	BUY
20-Sep-07	Garware Offshore	Company Updates	187	272	BUY
21-Sep-07	Deccan Chronicle	Company Update	207	243	BUY
24-Sep-07	K S Oil	Company Update	74	85	BUY
25-Sep-07	Sasken Communication Technologies	Company Update	335	440	BUY
25-Sep-07	Shri Lakshmi Cotsyn	Company Update	122	210	BUY
25-Sep-07	UTV Software Communications	Initiating Coverage	584	795	BUY
26-Sep-07	Bihar Tubes	Company Update	133	172	BUY
27-Sep-07	Bank of India	Company Update	262	300	HOLD
28-Sep-07	Punj Lloyd	Initiating Coverage	299	367	BUY
01-Oct-07	Garware Offshore	Company Update	204	272	BUY
03-Oct-07	Bajaj Hindusthan	Sector Update	176	159	SELL
03-Oct-07	Balrampur Chini	Sector Update	78	82	SELL
03-Oct-07	Triveni Engg	Sector Update	115	116	HOLD
04-Oct-07	Opto Circuits (India)	Company Update	555	517	HOLD
04-Oct-07	Deepak Fertilisers and Petrochemicals	Initiating Coverage	114	158	BUY
08-Oct-07	Lakshmi Energy	Company Update	211	260	BUY
09-Oct-07	Time Technoplast	Company Update	612	736	BUY
10-Oct-07	Ashok Leyland	Company Update	41	48	BUY
10-Oct-07	Prism Cement	Results Update	63	81	BUY
12-Oct-07	Infosys Technologies	Results Update	1,977	2,071	HOLD
12-Oct-07	Bihar Tubes	Results Update	146	204	BUY
12-Oct-07	South Indian Bank	Results Update	165	192	BUY
15-Oct-07	HDFC Bank	Results Update	1,430	1,585	BUY
16-Oct-07	Axis Bank	Results Update	813	904	BUY
16-Oct-07	Sasken Communication Tech.	Results Update	329	417	BUY
16-Oct-07	Tata Consultancy Services	Results Update	1,074	1,193	BUY
17-Oct-07	Shri Lakshmi Cotsyn	Results Update	123	210	BUY

Market trends

BSE sectoral indices

	% Chg				Constituent performance
	16-Oct	1-day	1-mth	3-mth	
Automobiles	5,599	(0.3)	14.3	11.6	
Banks	9,974	2.8	23.3	19.4	
Capital Goods	17,114	(0.0)	24.9	33.7	
Comm. & Tech.	4,058	(1.1)	16.7	6.8	
Consumer Durables	4,892	1.2	3.8	15.4	
FMCG	2,136	(1.0)	2.2	15.7	
Healthcare	3,854	0.3	5.0	0.8	
IT	4,629	(1.8)	5.5	(5.1)	
Metal	16,157	(0.3)	34.5	36.1	
Oil & Gas	10,995	(0.5)	31.3	37.7	
Mid-caps	7,783	0.9	12.5	14.6	
Small-caps	9,356	0.5	8.3	14.0	

Number of companies: down 5% down 2-5% down 0-2% up 0-2% up 2-5% up 5%

Emerging markets

Country	% Chg				
	16-Oct	1-day	1-mth	3-mth	6-mth
Brazil	61,718	(2.0)	13.6	7.0	26.6
Shanghai	6,076	(0.3)	12.1	56.0	68.2
Hong Kong	28,986	0.1	17.8	25.7	39.4
India	19,052	(0.0)	22.9	24.6	40.0
South Korea	1,961	(2.2)	4.8	0.6	28.3
Taiwan	9,567	(0.3)	7.5	0.6	20.2

FII statistics

(US\$ mn)	1-day	WTD	MTD	YTD
India	956.5	956.5	4,604.0	17,622.7
South Korea	(486.3)	(740.7)	(876.7)	(16,989.7)
Taiwan	(134.1)	(109.9)	970.4	4,864.7
Thailand	2,057.7	51.0	51.0	1,672.9

Events calendar

Financial results

October 17	18	19
Television Eighteen - Bonus Alembic RNRL Polaris Software Lab KPIT Cummins Infosystems HCL Technologies	Ashapura Minechem – Bonus Ranbaxy Laboratories Bannari Amman Sugars Biocon Garware Wall Ropes Godavari Fertilisers Hero Honda Motors	Tech Mahindra Grindwell Norton Hilton Metal Forging Asian Paints – Dividend Bajaj Auto Kirloskar Brothers Wipro
20	21	22
Gujarat Narmada Valley	-	Eicher Motors Finolex Industries Inox Leisure IL&FS Investment Managers Lumax Industries PSL Rajesh Exports – Bonus, split
23	24	25
Agro Tech Foods Binani Cement Binani Industries Deepak Fertilizers Micro Inks Greenply Industries Satyam Computer	3i Infotech Dabur India Gujarat Ambuja Exports Gujarat Gas Co Hindustan Motors Mro-Tek Page Industries - Unaudited Accounts	ABB Bharat Heavy Electricals Century Textiles & Indu MRF – Dividend Sun Pharma – Dividend
26	27	28
Bata India Bharat Electronics Hindustan Cons Lanco Infratech Tata Steel Ponni Sugars (Erode)	Kamat Hotels (I) Kansai Nerolac Paints South Asian Petrochem Sun Pharma Advanced Research Co. Thermax	-

Trade data

Institutional bulk deals

Scrip	Client	Buy/Sell	Quantity	Avg Price (Rs)
Bank Of Rajasthan	ABN Amro Bank N V London	B	978,129	140.0
Bank Of Rajasthan	ABN Amro Bank NV London Branch	B	1,021,871	140.0
Consol Const	U T I Investment Advisory Services Ac Ascent India Fund	S	391,000	800.0
Genus Overseas Electronic	LB India Holdings Mau	S	197,592	600.6
Genus Power	Lehman Brothers Asia Ac LB India Holdings Mauritius II	S	150,000	600.0
Hindustan Construc Co	Morgan Stanley Dean Witter Mauritius Co	S	1,471,282	178.9
Lok Housing	Goldman Sachs Inv Mauritius	B	100,000	204.9
Marg Constru	Melchior Indian Oppertunities Fund	B	351,444	205.0
Marg Constru	The Indiaman Fund Mauritius	S	352,150	205.0
Oswal Chem & Fert	Reliance Capital Trustee Co	S	1,975,000	45.0
PSL	Citi Group Global Mkt Mauritius	S	300,000	390.0
Trent	Reliance Capital Trust Co	B	100,000	530.0
Trent	Reliance Capital Mutual Fund	B	100,000	530.0
Walchandnagar Ind	Reliance Capital Trustee Co/A/C Reliance Growth Fund	S	24,000	5,808.2

Source: BSE

Insider trading

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Ambuja Cements	Harendra Suryakant Patel	S	3,000	-	32,000	-
Ambuja Cements	Harendra Suryakant Patel	S	5,225	-	26,775	-
Ambuja Cements	Girish Gangal	B	19,625	-	-	-
Ambuja Cements	Girish Gangal	S	4,500	-	37,500	-
Bgil Films & Technologies	Mr Rakesh Bhatia	S	85,100	-	765,381	11.9
Biopac India Corporation	Sangita P Doshi	S	102,000	-	153,825	1.0
Camlin Fine Chemicals	Leena A Dandekar	B	10,000	0.2	357,660	7.4
CHD Developers	Anagram Industries	B	7,400,000	7.7	7,400,000	7.7
CHD Developers	Anchal Mittal	B	5,000,000	5.2	11,060,000	11.5
CHD Developers	Ruchie Mittal	B	7,500,000	7.8	13,500,000	14.1
Choice International	Bombay Malay Finvest	S	66,300	1.7	-	-
Financial Technologies (India)	TRowe Price AssociatesInc & Affiliates	S	286,115	0.6	2,753,712	6.2
Garnet International	Indira Gaggar & Pacs	B	2,400	0.1	2,043,261	43.3
Indo Asian Fusegear	Refeer Gen Infotech	S	20,343	0.1	773,045	5.3
Ipca Laboratories	Chandurkar Investments	S	1,522,402	6.1	1,395,601	5.6
Ipca Laboratories	Kagee Investments	B	839,100	3.4	5,311,374	21.3
Ipca Laboratories	Premchand Godha	B	151,102	0.6	570,268	2.3
Ipca Laboratories	Exon Laboratories	B	532,200	2.1	1,620,200	6.5
Jam Shri Ranjitsinghji Spg& WvgMi	Rekha Thirani	S	50	-	-	-
Jam Shri Ranjitsinghji Spg& WvgMi	Damani Bimla Devi	B	50	-	469,878	13.4
Kamdhenu Ispat	Kamdhenu Cement Industries	B	30,000	0.2	250,000	-
Pitambar Coated Papers	Sumit Apparels	B	2,801,160	35.2	3,957,170	49.7
Rajshree Sugars & Chemicals	Rajshree Pathy	B	225,982	-	6,129,968	27.0
Rajshree Sugars & Chemicals	Rajshree Pathy	B	6,500	-	-	-
Triveni Engineering & Industries	Subhadra Trade And Finance	B	2,000,000	0.8	15,007,375	5.8
Triveni Engineering & Industries	The Engineering & Technical Services	S	2,000,000	0.8	2,423,750	0.9
Xo Infotech	Umesh Talwar	S	84,810	0.4	-	-

Source: BSE

RELIGARE RESEARCH

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Recommendation parameters

	Returns	Absolute
Large-caps*	> 10%	< - 5%
	BUY	SELL
Mid-caps**	> 25%	< 10%

*Market cap over US\$ 1bn **Market cap less than US\$ 1bn

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