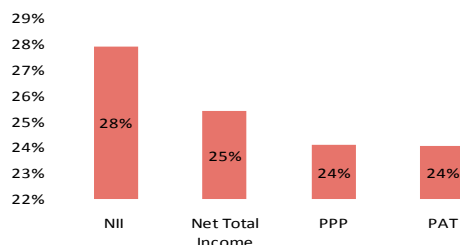


**Banking**  
**Sector Outlook - Neutral**

Yes Bank CAGR (FY12-14E)



<b>Recommendation</b>	<b>Hold</b>
CMP (₹)	400
Price Target (₹)	440
Upside (%)	10
52 Week H / L ₹	407/230
BSE 30	18710

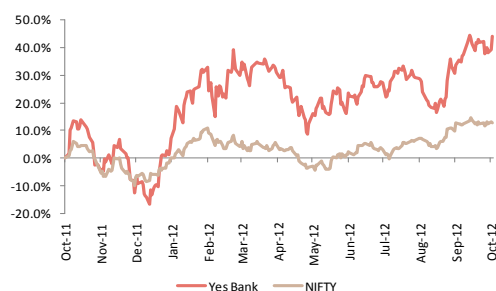
**Key Data**

No. of Shares, Mn.	356
Mcap, ₹ mn	142400
Mcap, USD Mn @ ₹53	2687
2 W Avg Qty, (BSE+NSE) Mn	4.2

**Share holding, Sept'12**

Promoters	25.9
FII	47.5
DII	14.3
Public & Others	12.3

Performance	1 M	3 M	6 M	12 M
Stock Return %	6.5	9.3	6.2	44.0
Relative Return %	3.6	-0.5	-1.9	31.3



**Amit Jain**

Amit.j@sunidhi.com  
Phone: +91-022-6113 1355

**Kanika Thacker**

Kanika.t@sunidhi.com  
Phone: +91-022-66318632

Yes Bank reported a healthy PAT growth of 30% yoy to ₹3.1 bn in Q2FY13. NIM improved by 10 bps qoq to 2.9% on the back of sequential CASA improvement, higher retail deposit and better CD ratio. Strong traction seen in SA deposits growing 351.3% yoy which resulted in CASA ratio improving to 17.3%. Asset quality improved with GNPA's coming off sequentially and no incremental restructuring.

**NIM improves sequentially**

Net interest income came in at ₹5.24 bn expanding by 36% yoy and 11% qoq owing to sequential improvement in NIM by 10 bps to 2.9%. NIM improved on the back of a 20 bps sequential decline in cost of funds, CASA improvement, higher retail deposit and better CD ratio.

**Loan book growth led by corporate segment**

Advances grew by a strong 23% yoy and 9% qoq exceeding deposit growth leading to a 360 bps sequential increase in the CD ratio to 80%. Loan book growth was led by the corporate and institutional segment. Meanwhile commercial banking came off sequentially. Advances including credit substitutes grew by 33%.

**CASA improves sequentially**

The bank reported a deposit growth of 19% yoy and 4% qoq. Strong traction was seen in SA deposit post RBI deregulation and tax benefit in budget reporting a growth of 351.3% yoy which resulted in CASA ratio improving to 17.3% from 11% in Q2FY12 (98 bps improvement sequentially). This was further supported by traction in branch network adding granularity in liabilities and assets which resulted in core deposit (CASA + Term deposit) improving to 36.6% of liabilities vs. 28.6% yoy.

**Strong non-interest income growth led by retail fees**

Non-interest income grew by a strong 29.3% yoy, led by a 113% increase in retail fees. However on a sequential basis other income came off by 4% qoq due to a 50% qoq decline in financial markets income. Going ahead, the bank targets to improve its retail based fee income of the total fee income.

**Asset quality improves sequentially**

Asset quality improved sequentially with GNPA's coming off by 6% qoq and NNPA's by 15% qoq. %GNPA's and %NNPA's too saw an improvement of 4 bps and 1 bps qoq respectively. The PCR improved by 209 bps qoq to 80.4%. The bank did not restructure any new accounts during the quarter and the outstanding restructured book stood at ₹1.9 bn or 0.5% of gross advances. Out of the total exposure of stressed media account, about Rs. 0.6bn hss already been recovered and Rs. 0.5bn has already been provided for whereas the remainder is adequately collateralized.

**Tier 1 CAR at 9.5%**

The bank has raised ₹6bn of lower Tier II bonds and ₹2 bn of upper Tier II bonds during the quarter. The CAR stands at 17.5% as at the end of Q2FY13 and the tier 1 capital at 9.5%.

**Revise rating from Accumulate to Hold with a target price of ₹440**

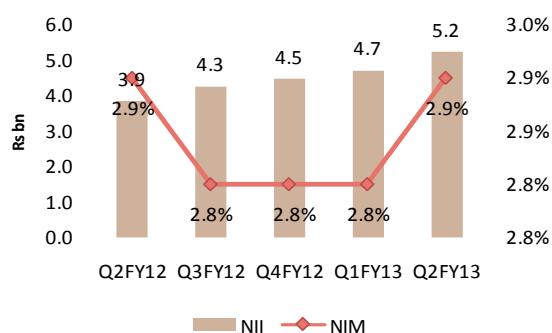
We have revised our estimates to factor in the bank's H1FY13 performance. At the CMP of ₹400 the bank trades at 2.5x its FY13E ABV and 2.0x its FY14E ABV. Due to the recent run up in the bank's stock price we revise our rating on the stock from Accumulate to Hold with a revised price target of ₹440 (2.2x its FY14E ABV) from ₹397 earlier.

Financials	NII ₹mn	PAT ₹mn	ABV ₹	P/E x	P/ABV x	ROA %	ROE %
FY10	7879.5	4777.4	90.6	28.4	4.4	1.6	20.3
FY11	12469.3	7271.4	109.0	19.1	3.7	1.5	21.1
FY12	16156.3	9769.9	132.0	14.5	3.0	1.5	23.1
FY13E	21240.8	12469.5	162.1	11.3	2.5	1.5	23.9
FY14E	26437.6	15038.9	199.9	9.4	2.0	1.5	23.4

Source: Company, Sunidhi Research

**NIM improves sequentially**

Net interest income came in at ₹5.24 bn expanding by 36% yoy and 11% qoq owing to sequential improvement in NIM by 10 bps to 2.9%. NIM improved on the back of a 20 bps sequential decline in cost of funds, CASA improvement, higher retail deposit and better CD ratio. .

**Exhibit 1: Trend in NII and NIM**

Source: Company, Sunidhi Research

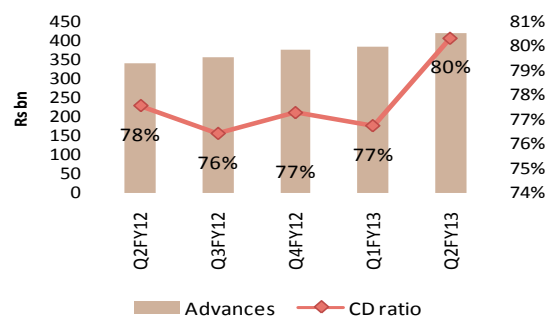
**Exhibit 2: Trend in yields and costs**

Yield /Cost	Q2FY13	Q2FY12	yoy bps	Q1FY13	qoq bps
Yield on advances - C	12.8%	12.3%	56	13.0%	-22
Yield on Inv - C	8.9%	8.2%	68	8.7%	20
Yield on Assets - C	9.9%	9.6%	24	9.9%	-8
Cost of Funds - C	7.8%	7.6%	19	8.0%	-20
<b>NIM - C</b>	<b>2.5%</b>	<b>2.6%</b>	<b>-10</b>	<b>2.6%</b>	<b>-6</b>
<b>NIM -R</b>	<b>2.9%</b>	<b>2.9%</b>	<b>0</b>	<b>2.8%</b>	<b>10</b>

Source: Company, Sunidhi Research

**Loan book growth led by corporate segment**

Advances grew by a strong 23% yoy and 9% qoq exceeding deposit growth leading to a 360 bps sequential increase in the CD ratio to 80%. Loan book growth was led by the corporate and institutional segment. Meanwhile commercial banking came off sequentially. Advances including credit substitutes grew by 33%.

**Exhibit 3: Trend in loan growth and CD ratio**

Source: Company, Sunidhi Research

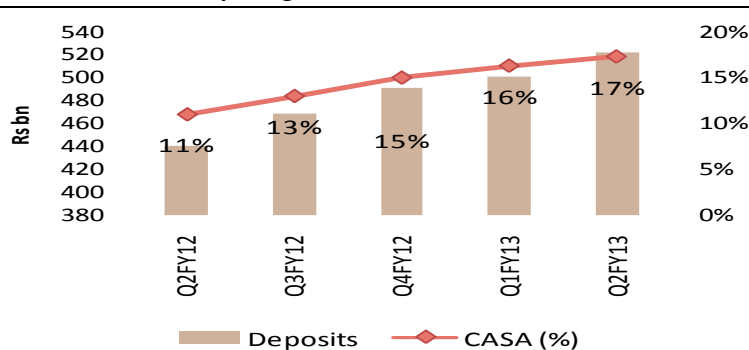
**Exhibit 4: Trend in loan book mix**

Advances (₹ bn)	Q2FY13	Q2FY12	yoy	Q1FY13	Qoq
Corporate	283.2	209.9	34.9%	246.6	14.8%
Commercial	75.2	81.4	-7.6%	77.8	-3.4%
Branch Banking	61.8	50.9	21.2%	60.9	1.5%
<b>Total</b>	<b>420.2</b>	<b>341.9</b>	<b>22.9%</b>	<b>385.3</b>	<b>9.0%</b>

Source: Company, Sunidhi Research

**CASA improves sequentially**

The bank reported a deposit growth of 19% yoy and 4% qoq. Strong traction was seen in SA deposit post RBI deregulation and tax benefit in budget reporting a growth of 351.3% yoy which resulted in CASA ratio improving to 17.3% from 11% in Q2FY12 (98 bps improvement sequentially). This was further supported by traction in branch network adding granularity in liabilities and assets which resulted in core deposit (CASA + Term deposit) improving to 36.6% of liabilities vs. 28.6% yoy.

**Exhibit 5: Trend in deposit growth and CASA ratio**

Source: Company, Sunidhi Research

**Strong non-interest income growth led by retail fees**

Non-interest income grew by a strong 29.3% yoy, led by a 113% increase in retail fees. However on a sequential basis other income came off by 4% qoq due to a 50% qoq decline in financial markets income. Going ahead, the bank targets to improve its retail based fee income of the total fee income.

**Exhibit 6: Trend in other income**

Other Income (₹ mn)	Q2FY13	Q2FY12	yoy	Q1FY13	Qoq
Transaction Banking	796.0	610.0	30.5%	694.0	14.7%
Financial Markets	471.0	411.0	14.6%	945.0	-50.2%
Financial Advisory	1196.0	978.2	22.3%	1025.0	16.7%
Retail fees and others	306.0	143.4	113.4%	217.0	41.0%
<b>Total</b>	<b>2767.6</b>	<b>2140.5</b>	<b>29.3%</b>	<b>2881.0</b>	<b>-3.9%</b>

Source: Company, Sunidhi Research

**Asset quality improves sequentially**

Asset quality improved sequentially with GNPA's coming off by 6% qoq and NNPA's by 15% qoq. %GNPA's and %NNPA's too saw an improvement of 4 bps and 1 bps qoq respectively. The PCR improved by 209 bps qoq to 80.4%. The bank did not restructure any new accounts during the quarter and the outstanding restructured book stood at ₹1.9 bn or 0.5% of gross advances. Out of the total exposure of stressed media account, about Rs. 0.6bn has already been recovered and Rs. 0.5bn has already been provided for whereas the remainder is adequately collateralized.

**Exhibit 7: Trend in asset quality**

Asset Quality (₹ mn)	Q2FY13	Q2FY12	yoy	Q1FY13	Qoq
<b>GNPA</b>	1028.4	688	49.5%	1094.9	-6.1%
<b>%GNPA</b>	0.24%	0.20%	4 bps	0.28%	-4 bps
<b>NNPA</b>	201.3	136	48.0%	237.2	-15.1%
<b>%NNPA</b>	0.05%	0.04%	1 bps	0.06%	-1 bps
<b>PCR</b>	80.4%	80.2%	19 bps	78.3%	209 bps

Source: Company, Sunidhi Research

**Tier 1 CAR at 9.5%**

The bank has raised ₹6bn of lower Tier II bonds and ₹2 bn of upper Tier II bonds during the quarter. The CAR stands at 17.5% as at the end of Q2FY13 and the tier 1 capital at 9.5%. The bank has sufficient capital to expand its book by ~20% yoy. Additionally the bank has received shareholder approval to raise equity capital of \$ 500 mn which it would exercise based on market conditions.

**Revise rating from Accumulate to Hold with a target price of ₹440**

We have revised our estimates to factor in the bank's H1FY13 performance. At the CMP of ₹400 the bank trades at 2.5x its FY13E ABV and 2.0x its FY14E ABV. Due to the recent run up in the bank's stock price we revise our rating on the stock from Accumulate to Hold with a revised price target of ₹440 (2.2x its FY14E ABV) from ₹397 earlier.

**Exhibit 8: Change in estimates**

Particulars (₹ mn)	FY13E			FY14E		
	Revised	Earlier	Change	Revised	Earlier	Change
<b>NII</b>	21240.8	21240.9	0.0%	26437.6	26358.1	0.3%
<b>PPP</b>	19553.9	19582.9	-0.1%	23717.7	23925.5	-0.9%
<b>PAT</b>	12469.5	12217.9	2.1%	15038.9	14434.1	4.2%

Source: Sunidhi Research



## Q2FY13 Financial highlights (Standalone)

Income Statement (₹ mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	% yoy	% qoq
Interest earned	14386.5	16841.0	17851.0	18863.4	19863.7	38.1%	5.3%
Interest on advances	10317.7	11726.0	11961.8	12473.3	12908.8	25.1%	3.5%
Interest on investments	3980.7	5060.0	5782.2	6302.1	6892.0	73.1%	9.4%
Interest on balances with RBI, others	41.4	49.0	62.6	39.2	56.7	37.0%	44.6%
Others	46.7	6.0	44.4	48.8	6.2	-86.7%	-87.3%
Interest expended	10530.2	12565.0	13368.7	14141.5	14622.1	38.9%	3.4%
<b>Net Interest income</b>	<b>3856.3</b>	<b>4276.0</b>	<b>4482.3</b>	<b>4721.9</b>	<b>5241.6</b>	<b>35.9%</b>	<b>11.0%</b>
Non-interest income	2140.5	2114.0	2663.5	2881.0	2767.6	29.3%	-3.9%
<b>Total Income</b>	<b>5996.8</b>	<b>6390.0</b>	<b>7145.8</b>	<b>7602.9</b>	<b>8009.2</b>	<b>33.6%</b>	<b>5.3%</b>
Operating expenses	2137.6	2402.0	2842.2	3006.8	3161.8	47.9%	5.2%
Staff Expenses	1099.5	1217.0	1336.9	1552.0	1642.3	49.4%	5.8%
Other operating expenses	1038.1	1185.0	1505.3	1454.8	1519.5	46.4%	4.4%
<i>Cost-income ratio</i>	35.6%	37.6%	39.8%	39.5%	39.5%		
<b>Operating profit</b>	<b>3859.2</b>	<b>3988.0</b>	<b>4303.6</b>	<b>4596.1</b>	<b>4847.4</b>	<b>25.6%</b>	<b>5.5%</b>
Provisions	378.7	224.0	284.8	300.1	317.3	-16.2%	5.7%
<b>Profit before tax</b>	<b>3480.5</b>	<b>3764.0</b>	<b>4018.8</b>	<b>4296.0</b>	<b>4530.1</b>	<b>30.2%</b>	<b>5.4%</b>
Tax provisions	1130.3	1224.0	1300.8	1394.6	1469.3	30.0%	5.4%
<i>Tax Rate</i>	32.5%	32.5%	32.4%	32.5%	32.4%		
<b>Profit after tax</b>	<b>2350.2</b>	<b>2540.0</b>	<b>2718.0</b>	<b>2901.4</b>	<b>3060.8</b>	<b>30.2%</b>	<b>5.5%</b>

Balance Sheet (₹ mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	% yoy	% qoq
Capital	3510.5	3519.3	3529.9	3539.6	3561.1	1.4%	0.6%
Reserves & Surplus	39396.5	42042.7	43236.5	46244.4	49573.8	25.8%	7.2%
Deposits	440759.0	469291.0	491517.1	502081.0	522908.1	18.6%	4.1%
Borrowings and other liabilities	143852.0	196238.0	198337.6	230374.0	253702.7	76.4%	10.1%
<b>Total Liabilities</b>	<b>627518.0</b>	<b>711091.0</b>	<b>736621.1</b>	<b>782239.0</b>	<b>829745.7</b>	<b>32.2%</b>	<b>6.1%</b>
Customer Assets	407601.0	437546.0	461199.0	493387.0	540173.0	32.5%	9.5%
Advances	341941.0	358678.0	379886.4	385339.0	420192.5	22.9%	9.0%
Investments	214369.0	261006.0	277573.5	305172.0	317549.8	48.1%	4.1%
<b>Total Assets</b>	<b>627518.0</b>	<b>711091.0</b>	<b>736621.1</b>	<b>782239.0</b>	<b>829745.7</b>	<b>32.2%</b>	<b>6.1%</b>

Source: Company, Sunidhi Research

**Financials (Standalone)**

<b>Profit &amp; Loss Account</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
Interest Earned	23697.1	40417.5	63073.5	76790.0	91180.0
Interest expended	15817.6	27948.2	46917.2	55549.2	64742.4
<b>Net interest income</b>	<b>7879.5</b>	<b>12469.3</b>	<b>16156.3</b>	<b>21240.8</b>	<b>26437.6</b>
Non-interest income	5755.3	6232.7	8571.2	10297.7	12443.9
<b>Net total income</b>	<b>13634.8</b>	<b>18702.0</b>	<b>24727.5</b>	<b>31538.6</b>	<b>38881.5</b>
Operating expenses	5001.5	6798.1	9325.3	11984.6	15163.8
<b>Pre- provisioning profit (PPP)</b>	<b>8633.3</b>	<b>11903.9</b>	<b>15402.2</b>	<b>19553.9</b>	<b>23717.7</b>
Provision & Contingency	1368.5	982.1	902.1	1047.2	1397.6
PBT	7264.9	10921.8	14500.1	18506.7	22320.2
Tax	2487.5	3650.4	4730.2	6037.2	7281.3
<b>PAT</b>	<b>4777.4</b>	<b>7271.4</b>	<b>9769.9</b>	<b>12469.5</b>	<b>15038.9</b>
<b>Balance Sheet</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
<b>Liabilities</b>					
Equity Capital	3,396.7	3,471.5	3,529.9	3,529.9	3,529.9
Reserves	27498.8	34469.3	43236.5	54065.0	67463.0
Networth	30,895.5	37,940.8	46,766.4	57,594.9	70,992.9
Deposits	267985.7	459389.3	491517.1	594181.3	766256.2
Borrowings	47490.8	66909.1	141564.9	174945.1	181496.8
Other Liabilities & Provisions	17,453.2	25,830.7	56,772.8	66,256.4	88,078.3
<b>Total Liabilities</b>	<b>363,825.1</b>	<b>590,069.9</b>	<b>736,621.2</b>	<b>892,977.7</b>	<b>1,106,824.2</b>
<b>Assets</b>					
Cash & Balances with RBI	19953.1	30760.2	23325.4	26631.8	33371.1
Balances with Banks & money at Call	6779.4	4199.6	12530.0	14306.1	17926.4
Investments	102099.6	188288.6	277573.5	329203.4	405577.3
Advances	221931.2	343636.4	379886.4	463461.4	574692.1
Fixed Assets	1140.9	1295.2	1771.0	2673.0	3971.5
Other Assets	11907.3	21861.1	41534.8	56702.0	71285.9
<b>Total Assets</b>	<b>363,825.1</b>	<b>590,069.9</b>	<b>736,621.2</b>	<b>892,977.7</b>	<b>1,106,824.2</b>
<b>Growth matrix P&amp;L</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
Interest Earned	18%	71%	56%	22%	19%
Interest expended	6%	77%	68%	18%	17%
<b>Net interest income</b>	<b>55%</b>	<b>58%</b>	<b>30%</b>	<b>31%</b>	<b>24%</b>
Non-interest income	32%	8%	38%	20%	21%
<b>Net total income</b>	<b>44%</b>	<b>37%</b>	<b>32%</b>	<b>28%</b>	<b>23%</b>
Operating expenses	19%	36%	37%	29%	27%
<b>Pre- provisioning profit (PPP)</b>	<b>64%</b>	<b>38%</b>	<b>29%</b>	<b>27%</b>	<b>21%</b>
Provision & Contingency	122%	-28%	-8%	16%	33%
PBT	56%	50%	33%	28%	21%
Tax	53%	47%	30%	28%	21%
<b>PAT</b>	<b>57%</b>	<b>52%</b>	<b>34%</b>	<b>28%</b>	<b>21%</b>
<b>Asset quality</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
GNPA (%)	0.27%	0.23%	0.22%	0.34%	0.38%
NNPA (%)	0.06%	0.03%	0.05%	0.08%	0.08%
Slippage Ratio (%)	0.91%	0.22%	0.19%	0.40%	0.40%
NPA reduction rate (%)	162.6%	49.0%	75.8%	95.0%	80.0%
PCR (ex tech write offs) (%)	78.4%	88.6%	79.2%	75.5%	80.0%
Credit Costs (%)	0.7%	0.2%	0.0%	0.2%	0.2%
Provisioning / avg assets (%)	0.5%	0.2%	0.1%	0.1%	0.1%
Provisioning / NPA additions (%)	167.6%	69.9%	62.6%	65.0%	55.0%
Reductions in provisions / NPA reductions (%)	270.0%	53.0%	79.0%	40.0%	40.0%



<b>Other operating indicators</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
NIM (%)	3.0%	2.9%	2.7%	2.9%	2.9%
Cost to income (%)	36.7%	36.3%	37.7%	38.0%	39.0%
Business per branch (₹ mn)	3266.1	3752.5	2447.8	2176.2	2194.7
Business per employee (₹ mn)	152.7	204.4	154.4	137.3	138.5
Profit per branch (₹ mn)	31.8	34.0	27.4	25.7	24.6
Profit per employee (₹ mn)	1.6	1.9	1.7	1.6	1.6
CASA per branch (₹ mn)	187.9	222.0	207.6	195.6	213.2
CASA ratio (%)	10.5%	10.3%	15.0%	16.0%	17.0%
Other income / Total income	42.2%	33.3%	34.7%	32.7%	32.0%
CEB / Other income	65.9%	94.2%	89.6%	86.9%	88.5%
CEB / average advances	2.2%	2.1%	2.1%	2.1%	2.1%

<b>Capital Adequacy ratios</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
CAR (%)	20.6%	16.5%	17.9%	16.0%	14.5%
Tier 1 (%)	12.9%	9.7%	9.9%	9.6%	9.3%
Tier 2 (%)	7.7%	6.8%	8.0%	6.4%	5.2%
Leverage (x)	11.8	15.6	15.8	15.5	15.6
Risk weighted assets / Total Assets (%)	70.1%	73.1%	70.7%	72.9%	73.6%

<b>Valuation Table</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
Net profit (₹ mn)	4777.4	7271.4	9769.9	12469.5	15038.9
Shares in issue (mn)	339.7	347.1	353.0	353.0	353.0
EPS (₹)	14.1	20.9	27.7	35.3	42.6
EPS growth (%)	37.5%	48.9%	32.1%	27.6%	20.6%
PE (x)	28.4	19.1	14.5	11.3	9.4
P/PPP (x)	15.7	11.7	9.2	7.2	6.0
Book value (₹/share)	91.0	109.3	132.5	163.2	201.1
P/BV (x)	4.4	3.7	3.0	2.5	2.0
Adj book value (₹/share)	90.6	109.0	132.0	162.1	199.9
P/ABV (x)	4.4	3.7	3.0	2.5	2.0
ROAA (%)	1.6%	1.5%	1.5%	1.5%	1.5%
ROE (%)	20.3%	21.1%	23.1%	23.9%	23.4%
ROE (adj for reval reserve) (%)	20.3%	21.1%	23.1%	23.9%	23.4%
Dividend Yield (%)	0.4%	0.6%	1.0%	1.0%	1.0%

<b>Du pont Decomposition</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
Yield on Assets	8.0%	8.5%	9.5%	9.4%	9.1%
Less: Cost of Assets	5.3%	5.9%	7.1%	6.8%	6.5%
Net Interest Income	2.7%	2.6%	2.4%	2.6%	2.6%
Other Income	1.9%	1.3%	1.3%	1.3%	1.2%
Less: Operating Exp	1.7%	1.4%	1.4%	1.5%	1.5%
Less: Provisions	0.5%	0.2%	0.1%	0.1%	0.1%
Less: Tax	0.8%	0.8%	0.7%	0.7%	0.7%
<b>RoA</b>	1.6%	1.5%	1.5%	1.5%	1.5%
Leverage	12.6	13.9	15.7	15.6	15.6
<b>RoE</b>	20.3%	21.1%	23.1%	23.9%	23.4%

Source: Company, Sunidhi Research



## Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

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BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

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Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

## SUNIDHI SECURITIES & FINANCE LTD

Member: National Stock Exchange (Capital, F&O & Debt Market) & The Stock Exchange, Mumbai

SEBI Registration Numbers: NSE: INB 230676436 BSE: INB 010676436

Maker Chamber IV, 14th Floor, Nariman Point, Mumbai: 400 021

Tel: (+91-22) 6636 9669 Fax: (+91-22) 6631 8637 Web-site: <http://www.sunidhi.com>

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