

January 25, 2012

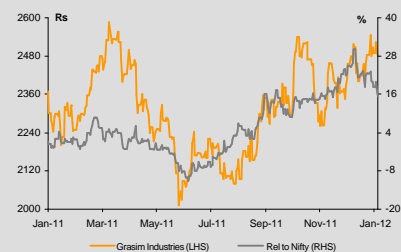
Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs2,483	Rs2,550
EPS change FY12E/13E (%)	+0.9/-4.9
Target Price change (%)	-6
Nifty	5,158
Sensex	17,077

Price Performance

(%)	1M	3M	6M	12M
Absolute	0	1	14	5
Rel. to Nifty	(7)	2	23	16

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	GRASIM@IN
Equity Capital (Rs mn)	917
Face Value(Rs)	10
No of shares o/s (mn)	92
52 Week H/L	2,625/1,981
Market Cap (Rs bn/USD mn)	228/4,553
Daily Avg Volume (No of sh)	68465
Daily Avg Turnover (US\$mn)	3.3

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	25.6	25.6	25.5
FII/NRI	38.0	38.2	38.2
Institutions	17.8	17.8	18.2
Private Corp	7.6	7.0	6.7
Public	11.1	11.4	11.4

Source: Capitaline

Ajit Motwani

ajit.motwani@emkayglobal.com
+91 22 6612 1255

Chandan Asrani

chandan.asrani@emkayglobal.com
+91 22 6612 1241

- Q3FY12 standalone EBIDTA at Rs2.8 bn (-23% yoy) below est led by lower VSF volumes and margins. However APAT at Rs2.7bn (-3% yoy) came in line led by higher other income
- Though VSF realisation improved 4.4% yoy (3% qoq) led by INR depreciation, VSF volumes decline 7.6% impacted by sluggish demand across markets particularly in EU
- Due to 3Q operation performance miss we we cut FY12/13 EBITDA estimates by -3.9%/-5.1%. However the cut in EPS estimates is lower on account of higher other income
- Demand outlook for VSF remains uncertain - expect volatile VSF prices affected by factors like channel inventory, currency fluctuations. Cost to remain high led by CIL's new coal pricing system. Downgrade to HOLD – lower TP Rs2550

Lower VSF volumes and higher cost pressures drag EBITDA below estimates

Grasim's Q3FY12 EBITDA at Rs2.8bn (-23% yoy) came in below estimates (Rs3.53bn) on account of lower than estimated VSF volumes and higher costs. Though VSF realizations improved 4.4% yoy to Rs128/kg (due to rupee depreciation), volumes disappointed with a 7.6% decline (as global slowdown and Eurozone uncertainties affected demand for VSF) thereby dragging VSF sales by 3.9% yoy to Rs10.85bn (vs est of Rs11.53bn). Consequently net sales for the quarter at Rs12.38bn (+2% yoy) came in below estimates of Rs13.12bn. On the cost front higher landed cost of imported pulp due to rupee depreciation and super inflated energy costs have resulted in margin contraction of 8820bps to 25.6% for the VSF segment.

However chemical division delivered better than estimated performance. With 6% growth in chemical volumes and 34% improvement in ECU realizations, revenues from the chemical division at Rs2.09bn (vs estimates of Rs1.88bn) grew 42% yoy. Led by better realizations driven by higher caustic prices, margins for the segment expanded 129bps yoy to 22.6%.

However PAT in line driven by higher other income and lower tax expenses

Despite disappointing operational performance PAT at Rs2.74bn, -3% yoy is in line with estimates of Rs2.7bn on account of higher other income of Rs1.14bn that the company received through dividends from subsidiaries & high investment yields. Also Grasim's tax rate for the quarter at 21.8% was lower than our estimates of 32%.

Financial Snapshot (Consolidated)

YE-	Net Sales	EBITDA			EPS (Rs)	EPS % chg	RoE (%)	P/E	Rs Mn	
		(Core)	(%)	APAT					EV/ EBITDA	P/BV
Mar										
FY10	199,334	57,867	29.0	27,595	300.9	26.2	22.9	8.3	3.9	1.8
FY11	212,690	46,832	22.0	22,790	248.5	-17.4	16.8	10.0	5.1	1.6
FY12E	225,056	49,607	22.0	22,528	245.6	-1.1	14.5	10.1	4.7	1.4
FY13E	252,021	54,928	21.8	22,211	242.2	-1.4	12.7	10.3	4.8	1.2

Standalone Results

(Y/E Mar, Rs mn)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Sales	12,137	14,258	10,234	12,035	12,381	2.0%	2.9%	34,650	30,912	12.1%
Total Expenditure	8,502	9,638	6,705	9,130	9,575	12.6%	4.9%	25,409	21,628	17.5%
as % of sales	70%	68%	66%	76%	77%			73%	70%	4.8%
stock	-13	285	-1,430	-516	-576	4259.8%	11.5%	-2,521	-415	508.2%
as % of sales	0%	2%	-14%	-4%	-5%			-7%	-1%	442.6%
raw material consumption	5,365	5,942	5,177	6,063	6,513	21.4%	7.4%	17,752	13,584	30.7%
as % of sales	44%	42%	51%	50%	53%			51%	44%	16.6%
purchase of traded goods	0	0	0	41	40	-	-4.3%	81	0	-
as % of sales	0%	0%	0%	0%	0%			0%	0%	-
payment to employees	802	666	764	809	846	5.5%	4.6%	2,418	2,334	3.6%
as % of sales	7%	5%	7%	7%	7%			7%	8%	-7.6%
power and fuel	1,406	1,393	1,381	1,751	1,803	28.2%	3.0%	4,934	3,596	37.2%
as % of sales	12%	10%	13%	15%	15%			14%	12%	22.4%
freight and handling	142	161	111	170	172	20.9%	1.2%	452	367	23.4%
as % of sales	1%	1%	1%	1%	1%			1%	1%	10.1%
other expenditure	801	1,191	702	813	778	-2.8%	-4.3%	2,293	2,163	6.0%
as % of sales	7%	8%	7%	7%	6%			7%	7%	-5.4%
EBIDTA	3,635	4,620	3,529	2,905	2,807	-22.8%	-3.4%	9,240	9,284	-0.5%
Depreciation	442	423	351	356	366	-17.3%	2.6%	1073	1340	-20.0%
EBIT	3,192	4,197	3,178	2,549	2,441	-23.5%	-4.2%	8,168	7,944	2.8%
Other Income	842	1209	1010	2157	1140	35.4%	-47.1%	4307	3058	40.9%
Interest	117	133	106	107	72	-39.0%	-33.0%	284	323	-11.8%
PBT	3,917	5,273	4,082	4,599	3,509	-10.4%	-23.7%	12,190	10,679	14.2%
Tax	1089	1318	941	1150	765	-29.8%	-33.5%	2856	2817	1.4%
Adjusted PAT	2827	3955	3141	3448	2745	-2.9%	-20.4%	9335	7862	18.7%
(Profit)/loss from JV's/Ass/MI										-
APAT after MI	2827	3955	3141	3448	2745	-2.9%	-20.4%	9335	7862	18.7%
Extra ordinary items	0	0	0	0	0	-		0	0	-
Reported PAT	2,827	3,955	3,141	3,448	2,745	-2.9%	-20.4%	9,335	7,862	18.7%
Reported EPS	30.8	43.1	34.3	37.6	29.9	-2.9%	-20.4%	101.8	85.7	18.7%

Margins (%)

EBIDTA	29.9%	32.4%	34.5%	24.1%	22.7%	-728	-147	26.7%	30.0%	-337
EBIT	26.3%	29.4%	31.1%	21.2%	19.7%	-659	-146	23.6%	25.7%	-213
EBT	32.3%	37.0%	39.9%	38.2%	28.3%	-393	-987	35.2%	34.5%	64
EAT	23.3%	27.7%	30.7%	28.7%	22.2%	-113	-649	26.9%	25.4%	151
Tax rate	27.8%	25.0%	23.0%	25.0%	21.8%	-603	-323	23.4%	26.4%	-296

Consolidated Results

(Y/E Mar, Rs mn)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Sales	53,845	63,903	58,721	56,492	62,601	16.3%	10.8%	177,814	148,787	19.5%
Total Expenditure	42,644	48,524	42,967	47,464	49,511	16.1%	4.3%	139,942	117,334	19.3%
as % of sales	79%	76%	73%	84%	79%			79%	79%	-0.2%
stock	-455	432	-2,439	666	-832	82.8%	-225.0%	-2,606	-2,024	28.7%
as % of sales	-1%	1%	-4%	1%	-1%			-1%	-1%	7.7%
raw material consumption	12,205	13,311	12,558	13,139	13,798	13.0%	5.0%	39,494	31,709	24.6%
as % of sales	23%	21%	21%	23%	22%			22%	21%	4.2%
purchase of traded goods	378	498	519	701	672	77.7%	-4.1%	1,891	1,025	84.5%
as % of sales	1%	1%	1%	1%	1%			1%	1%	54.4%
payment to employees	3,217	3,296	3,114	3,396	3,631	12.9%	6.9%	10,141	9,080	11.7%
as % of sales	6%	5%	5%	6%	6%			6%	6%	-6.5%
power and fuel	11,384	12,209	12,951	12,408	14,145	24.3%	14.0%	39,504	31,421	25.7%
as % of sales	21%	19%	22%	22%	23%			22%	21%	5.2%
freight and handling	7,613	8,564	7,980	7,850	8,775	15.3%	11.8%	24,606	22,353	10.1%
as % of sales	14%	13%	14%	14%	14%			14%	15%	-7.9%
other expenditure	8,301	10,214	8,285	9,304	9,322	12.3%	0.2%	26,912	23,772	13.2%
as % of sales	15%	16%	14%	16%	15%			15%	16%	-5.3%
EBIDTA	11,202	15,380	15,754	9,028	13,090	16.9%	45.0%	37,872	31,453	20.4%
Depreciation	2992	2993	2815	2837	2887	-3.5%	1.8%	8539	8391	1.8%
EBIT	8,210	12,387	12,939	6,191	10,202	24.3%	64.8%	29,333	23,062	27.2%
Other Income	1472	2442	1530	2217	1783	21.1%	-19.6%	5530	4693	17.8%
Interest	1088	1081	998	951	881	-19.0%	-7.3%	2830	2974	-4.9%
PBT	8,594	13,747	13,472	7,457	11,104	29.2%	48.9%	32,033	24,781	29.3%
Tax	2604	2267	3726	2374	3302	26.8%	39.1%	9401	7310	28.6%
Adjusted PAT	5991	11481	9746	5084	7802	30.2%	53.5%	22632	17471	29.5%
(Profit)/loss from JV's/Ass/MI	973	2692	2485	1062	2162			5708.7	3469.5	64.5%
APAT after MI	5018	8788	7261	4022	5640	12.4%	40.2%	16923	14002	20.9%
Extra ordinary items	0	0	256	157	1050			1464	0	
Reported PAT	5,018	8,788	7,517	4,179	6,691	33.3%	60.1%	18,387	14,002	31.3%
Reported EPS	54.7	95.8	82.0	45.6	73.0	33.3%	60.1%	200.5	152.7	31.3%

Margins (%)

EBIDTA	20.8%	24.1%	26.8%	16.0%	20.9%	11	493	21.3%	21.1%	16
EBIT	15.2%	19.4%	22.0%	11.0%	16.3%	105	534	16.5%	15.5%	100
EBT	16.0%	21.5%	22.9%	13.2%	17.7%	178	454	18.0%	16.7%	136
EAT	11.1%	18.0%	16.6%	9.0%	12.5%	134	346	12.7%	11.7%	99
Tax rate	30.3%	16.5%	27.7%	31.8%	29.7%	-56	-209	29.3%	29.5%	-15

Segmental Performance

Lower volumes and higher costs affect VSF performance

- VSF realizations for the quarter grew 4.4% yoy to Rs128.5/kg (vs est of Rs124.6/kg) supported by rupee depreciation. However 7.6% decline in VSF volumes (78,215 mnt (vs estimates of 85,467 mnt) due global slowdown and Eurozone uncertainties has resulted in VSF revenues declining 4% yoy to Rs10.85bn (vs est of Rs11.53bn).
- On the cost front higher landed cost of imported pulp due to rupee depreciation and super inflated energy costs have resulted in margin contraction of 8820bps to 25.6% for the VSF segment. With new pricing mechanism adopted by Coal India the energy costs for the company is to go up substantially affecting margins.
- The progress of Grasim's Greenfield project of 120,000 tons at Vilayat, Gujarat (expected completion Dec 2012) and Brownfield expansion at Harihar with a capacity of 36,500 tons (expected completion Sept 2012) is on track. Post this expansion Grasim VSF capacity would jump by 50% to 490KTPA by end of FY13 with focus on specialty fibres.
- The company also plans to set up a Greenfield VSF project of 180K TPA in turkey in joint venture with group companies for which the necessary land has been acquired and is currently in the process of seeking necessary approvals.

Higher chemical volumes & improved ECU realizations drive EBIDTA growth of 50.3%

- Chemical division volumes at 71,232 tones improved 6.1% yoy on the back of full capacity utilization. Caustic prices continued to move upward as production was curtailed globally due to lower chlorine demand, thereby resulting in higher ECU realizations to Rs24,385/t, up 34.5% yoy. Consequently revenues at Rs2.09 bn grew 42% yoy better than estimates of Rs1.88bn.
- Despite higher energy costs chemical EBITDA/t grew 41.7% yoy led by higher realizations. Overall, EBITDA from chemical division at Rs0.47 bn grew 50.3% yoy, better than estimates of Rs0.39bn.

Segmental performance

(Rs mn)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Yoy (%)	Qoq (%)	YTD'12	YTD'11	YoY (%)
Sales										
VSF	11293	13287	9012	10820	10851	-3.9%	0.3%	30683	28409	8.0%
Chemical	1475	1561	1534	1915	2091	41.8%	9.2%	5540	3862	43.4%
EBIDTA										
VSF	3886	5137	3498	3079	2777	-28.5%	-9.8%	9354	9656	-3.1%
Chemical	314	294	346	466	472	50.3%	1.3%	1284	948	35.4%
EBIDTA (%)										
VSF	34%	39%	39%	28%	26%	-882	-286	30%	34%	-350
Chemical	21%	19%	23%	24%	23%	129	-176	23%	25%	-137

Downgrade to HOLD – Lower target price to Rs2550

VSF scenario continues to remain uncertain due to 1. Demand remains volatile with the adverse macro environment and global slowdown affecting consumption. Also, due to high volatility in the prices for VSF and the macro credit environment, inventory levels in the value chain have been fluctuating thereby affecting volumes. 2. Even though the prices for pulp are expected to moderate in the near term, currency fluctuations and energy costs (post CIL's new pricing mechanism) are bound to exert pressures on the profitability.

In the cement business, though sharp price hikes ensured recovery in UTCCEM's profitability in Q3FY12 with normalized level of EBIDTA/t, cement demand remains sluggish (12M rolling average growth at 5.4%) raising question on medium to long term sustainability of price hikes. Additionally, CIL's new pricing method (Pricing on Gross Calorific Value (GCV) compared to Useful Heat Value (UHV)) with effect from Jan-12 is effectively a 28% coal price hike intensifying cost headwinds further. This has led to 3.9% downgrade in our earnings for Ultratech.

Led by revision in our volumes estimates for VSF and higher costs in both VSF and cement segments we have revised our estimates for EBITDA on consolidated level downwards by 3.9% for FY12 and 5.1% for FY13. However due to higher other income and lower tax expenses, PAT estimates for FY12 are revised upwards by 0.9% while FY13 earnings are cut by 4.9%. Consequently we downgrade rating to HOLD with revised target price of Rs2550 (Rs2700 earlier)

Rs mn	FY12E			FY13E		
	Earlier	Revised	change	Earlier	Revised	change
Sales	224493	225056	0.3%	245500	252021	2.7%
EBIDTA	51602	49607	-3.9%	57894	54928	-5.1%
EBIDTA (%)	23.0	22.0		23.6	21.8	
Net Profit	22324	22528	0.9%	23343	22211	-4.9%
EPS	243.4	245.6	0.9%	254.5	242.2	-4.9%

Grasim SoTP fair value at Rs2, 550

Business segment	Valuation measure	Rsmn	Rs/share	(Rs/share)
Equity value of consolidated cement business	At our target price of Rs1050 for Ultratech	314922		
Grasim's Stake in cement business		60.33%		
Value of Grasim's stake in cement business		189992	2071	2071
Holding Company disc		0%	0%	30%
Total value of cement business		189992	2071	1450.0
ADD: Value of Non Cement Business				
Viscose Staple Fibre	4.5X EV/EBIDTA	52979	578	578
Chemical and others	3.0X EV/EBIDTA	4507	49	49
Total Value Of Non Cement Business		57486	627	627
Total value of Investments	@25% discount	51065	557	557
Total Enterprise value		298543	3255	2634
Less:				
Standalone Debt		7707	84	84
Fair value		290836	3171	2549

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	199334	212690	225056	252021
<i>Growth (%)</i>	8.3	6.7	5.8	12.0
Total Expenditure	141467	165858	175497	197145
Raw Materials Expenses	37637	45048	21886	22023
Power & Fuel + Freight cost	62733	89083	35292	39348
Employee cost	10586	12375	11479	13038
Admin & Other expenses	30510	19351	106840	122736
EBIDTA	57867	46832	49607	54928
<i>Growth (%)</i>	33.6	-19.1	5.9	10.7
EBIDTA %	29.0	22.0	22.0	21.8
Depreciation	9947	11384	10667	11971
EBIT	47920	35449	38940	42956
EBIT margin (%)	24.0	16.7	17.3	17.0
Other income	5356	7135	7290	7390
Interest	3346	4056	3162	5057
EBT	49930	38528	43067	45289
Tax	15705	9576	12562	14283
Effective tax rate (%)	31.5	24.9	29.2	31.5
Adjusted PAT	34225	28952	30505	31006
<i>Growth (%)</i>	30.9	-15.4	5.4	1.6
Net Margin (%)	17.2	13.6	13.6	12.3
(Profit)/loss from JVs/Ass/MI	-7141	-6600	-7977	-8796
Adj. PAT After JVs/Ass/MI	27595	22790	22528	22211
E/O items	-3360.7	0.0	0.0	0.0
Reported PAT	30955	22790	22528	22211
<i>Growth (%)</i>	41.6	-26.4	-1.2	-1.4

Cash Flow

Cash Flow	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	49930	31393	35778	37899
Depreciation	9947	11384	10667	11971
Interest Provided	3143	4056	3162	5057
Other Non-Cash items	-2045	0	0	0
Chg in working cap	-1497	-8309	10847	1244
Tax paid	-11190	-9576	-12562	-14283
Operating Cashflow	48288	28947	47891	41889
Capital expenditure	-14555	-28603	-49706	-75208
Free Cash Flow	33733	344	-1815	-33319
Other income	12497	7135	7290	7390
Investments	-32909	-12574	4429	6000
Investing Cashflow	-34967	-5439	11719	13390
Equity Capital Raised	18	22	0	0
Loans Taken / (Repaid)	-4647	11835	2861	19000
Interest Paid	-4039	-4056	-3162	-5057
Dividend paid (incl tax)	-3025	-2237	-2695	-2657
Income from investments	-1009	0	0	0
Others	-520	-489	0	0
Financing Cashflow	-13221	5075	-2996	11286
Net chg in cash	100	464	6907	-8643
Opening cash position	2270	2379	2844	9751
Closing cash position	2379	2843	9751	1108

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	917	917	917	917
Preference paid up	363	377	377	377
Reserves & surplus	123827	144292	164125	183679
Networth	125246	145733	165566	185120
Minority Interest	37548	43514	51491	60287
Secured Loans	38508	38346	43842	62842
Unsecured Loans	17484	29481	26846	26846
Loan Funds	55992	67827	70688	89688
Net Deferred tax liability	20057	19616	19616	19616
Total Liabilities	238844	276690	307361	354711
Gross Block	229509	252268	274412	344358
Less: Depreciation	71646	83749	94416	106387
Net block	157864	168519	179996	237971
Capital work in progress	7734	13578	41141	46402
Investment	66759	79333	74904	68904
Current Assets	45379	58784	66999	62655
Inventories	21835	27216	28560	31751
Sundry debtors	8803	14346	12785	13893
Cash & bank balance	2379	2844	9751	1108
Loans & advances	12362	14378	15903	15903
Other current assets	0	0	0	0
Current liabilities	38891	43524	55677	61220
Current liabilities	30370	35753	45358	50901
Provisions	8522	7771	10319	10319
Net current assets	6488	15261	11321	1435
Miscellaneous expenditure	0	0	0	0
Total Assets	238844	276690	307362	354711

Key Ratios

Valuations Ratios	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	29.0	22.0	22.0	21.8
Net Margin	17.2	13.6	13.6	12.3
ROCE	23.9	16.5	15.8	15.2
ROE	22.9	16.8	14.5	12.7
RoIC	29.7	18.8	19.2	19.0
Per Share Data (Rs)				
EPS	300.9	248.5	245.6	242.2
CEPS	409.4	372.6	361.9	372.7
BVPS	1366	1589	1805	2018
DPS	30	20	25	24
Valuations (x)				
PER	8.3	10.0	10.1	10.3
P/CEPS	6.1	6.7	6.9	6.7
P/BV	1.8	1.6	1.4	1.2
EV / Sales	1.1	1.1	1.0	1.0
EV / EBITDA	3.9	5.1	4.7	4.8
Dividend Yield (%)	1.2	0.8	1.0	1.0
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.1	0.0	0.2
Net Debt/EBIDTA	0.0	0.2	0.1	0.6
Working Cap Cycle (days)	0.5	10.0	0.0	0.0

Recommendation History: Grasim Industries – GRASIM IN

Date	Reports	Reco	CMP	Target
24/10/2011	Grasim Industries Q2FY12 Result Update	Accumulate	2,362	2,700
01/08/2011	Grasim Industries Q1FY12 Result Update	Accumulate	2,193	2,600
12/05/2011	Grasim Industries Q4FY11 Result Update	Accumulate	2,362	2,672
27/01/2011	Grasim Industries Q3FY11 Result Update	Accumulate	2,359	2,730

Recent Research Reports

Date	Reports	Reco	CMP	Target
23/01/2012	Shree Cement Q3FY12 Result Update	Accumulate	2,227	2,500
23/01/2012	Century Plyboards Q3FY12 Result Update	Accumulate	51	60
23/01/2012	Ultratech Cement Q3FY12 Result Update	Reduce	1,214	1,150
20/01/2012	Cement Sector Update			

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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