



Economy News

- ▶ The Cabinet postponed a decision on disinvestment in PSUs through share buybacks and other means. Several administrative ministries sought more discussions, and said the companies had no cash to spare for buybacks. (BS)
- ▶ Data released by the CBDT showed a mop up of Rs 3.24 Tn between April and December 2011, up from Rs 2.99 Tn in the year-ago period. India's annual growth in net direct tax collections slowed to 8.3% in the first nine months of the fiscal, deepening concerns that the government will miss its revenue targets. (ET)
- ▶ The Securities and Exchange Board of India (Sebi) said the rationale behind allowing the auction route for companies to sell stake in the secondary market is aimed at the paramount objective of protecting interests of retail investors. (BS)
- ▶ India's economy will likely grow faster next fiscal year than in 2011/12 because of an improved external environment and a shift in policy focus from containing inflation to growth, a top government adviser said. (ET)

Corporate News

- ▶ **Reliance Industries (RIL)** said it would shut the crude oil distillation unit at its only-for-export refinery at Jamnagar in Gujarat for maintenance. (BS)
- ▶ **RIL** was to relinquish 25% of the gas-bearing KG-D6 block in 2004 and a similar area in 2006 but the DGH, which was at that time headed by V K Sibal, concluded that hydrocarbon prospectivity "extends over entire block and hence no block area needed to be relinquished. (ET)
- ▶ **RIL** is among companies in talks to buy the exploration and production (E&P) unit of US pipeline company El Paso Corp. (ET)
- ▶ **Oil and Natural Gas Corporation (ONGC)** will buyout British energy major BG Group's stake in three of its eastern offshore oil and gas exploration blocks, company Chairman and Managing Director Sudhir Vasudeva said. ONGC will buy BG Group's 45% participating interest in KG Basin block KG-OSN-2004/1, 25% interest in exploration block MN-DWN-2002/02 in the Mahanadi Basin and 30% stake in deep water block KG-DWN-98/4. (BS)
- ▶ **ONGC** said its board had approved a Rs 3.53 Bn investment in producing oil from a marginal field off the Mumbai coast. (BS)
- ▶ **ONGC** has found four new potential hydrocarbon reserves in the country's west and northeast. The new finds will take ONGC's total number of discoveries in FY12 to 15. (BS)
- ▶ **Mahindra Lifespace Developers**, the real estate and infrastructure arm of the \$14 bn Mahindra Group, may raise Rs 2.5 Bn in debt before the end of the fiscal to part-fund ongoing projects in various states, a top executive said. (BS)
- ▶ **Brigade Enterprises** is looking to raise around Rs 1.5 Bn through private equity route by offloading a part of its stake in one of the commercial projects in the city. (BS)
- ▶ **Dhanlaxmi Bank** raised the interest rates on Non-Resident External (NRE) term deposits across various maturities. (BS)
- ▶ **KEC International** hopes to end 2011-12 (April-March) with an order book of 15% despite the slowdown in domestic infrastructure projects, Ramesh Chandak, managing director and chief executive office.

Equity

	4 Jan 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	15,883	(0.4)	(5.5)	0.6
NIFTY Index	4,750	(0.3)	(5.7)	(0.0)
BANKEX Index	9,643	0.7	(8.6)	(3.2)
BSET Index	5,925	(0.5)	3.5	14.9
BSETCG INDEX	8,551	1.1	(14.6)	(18.7)
BSEOIL INDEX	7,738	(0.5)	(7.9)	(6.0)
CNXMcap Index	6,262	0.0	(8.2)	(8.9)
BSESMCAP INDEX	5,691	0.1	(8.1)	(15.1)
World Indices				
Dow Jones	12,418	0.2	2.6	13.5
Nasdaq	2,648	(0.0)	(0.3)	7.6
FTSE	5,668	(0.6)	1.8	11.1
NIKKEI	8,560	1.2	(2.1)	1.6
HANGSENG	18,727	(0.8)	(2.2)	15.5

Value traded (Rs cr)

	4 Jan 12	% Chg - Day
Cash BSE	2,135	16.8
Cash NSE	9,716	18.3
Derivatives	86,385	(0.8)

Net inflows (Rs cr)

	3 Jan 12	% Chg	MTD	YTD
FII	326	(933.0)	287	287
Mutual Fund	315	(671.5)	260	260

FII open interest (Rs cr)

	3 Jan 12	% Chg
FII Index Futures	10,517	3.8
FII Index Options	25,622	3.4
FII Stock Futures	23,310	(0.6)
FII Stock Options	891	12.6

Advances / Declines (BSE)

	4 Jan 12	A	B	S	Total	% total
Advances	110	1,174	212	1,496	53	
Declines	95	953	152	1,200	42	
Unchanged	1	109	25	135	5	

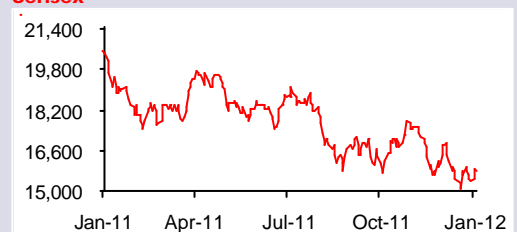
Commodity

	4 Jan 12	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	102.9	(0.3)	1.9	29.2
Gold (US\$/OZ)	1,616.6	1.1	(6.8)	(1.4)
Silver (US\$/OZ)	29.5	0.3	(9.6)	(3.3)

Debt / forex market

	4 Jan 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	52.98	53.23	51.42	49.40
Re/US\$	53.1	53.2	51.4	49.4

Sensex



MANAGEMENT MEET UPDATE**Sanjeev Zarbade**

sanjeev.zarbade@kotak.com

+91 22 6621 6305

VOLTAS LTD**PRICE: Rs.79****TARGET PRICE: Rs.91****RECOMMENDATION: ACCUMULATE****FY13E P/E: 11.1x**

- ❑ **Voltas' Central Airconditioning projects business would continue to witness diminished margins in the near future due to higher cost involved in expediting the execution of Sidra Medical project in Qatar.**
- ❑ **The central Air conditioning projects industry (MEP) continues to witness difficult market conditions due to dull commercial real estate activity both in india and abroad. Material cost pressure have also remained at elevated levels.**
- ❑ **We maintain ACCUMULATE with a revised target price of Rs.91 based on DCF.**

Key highlights**Electromechanical Projects Segment (59% of revenues)**

- The order intake (Central Airconditioning projects) in the domestic market has been healthy and the current order book also provides a revenue visibility of 14 months. However, the company indicated that since the past two months, enquiries for orders have shrunk appreciably. This may signal that order intake from indian geography could potentially slacken in the coming months.
- Given the slack enquiry levels combined with the general oversupply in commercial real estate, outlook for domestic orders is likely to remain subdued for atleast the next six months.
- The company's project business in the Middle East continues to witness diminished profitability due to the Sidra Medical and Reseach Center. This is a large project for a 700 bed hospital and research center from the government of Qatar.
- Voltas won this project in early 2010, however, the project activity remained sluggish in the initial months. Subsequently, Voltas was asked to expedite this project for which it had to employ additional resources in terms of manpower and materials. That it had exhausted its quota for indian labour also worked against the company as it had to recruit local labour to complete the project. This imposed additional cost burden on the company.
- The company also indicated that this was a design and build job and it had to make frequent modifications to its designs (the mgmt. indicated that a project of such magnitude has several drawings/designs running into thousands), which also added to the cost incurred.
- So far as the execution of this order is concerned, the initial order value stood at Rs 9000 mn (dynamic figure depending on costs fluctuation). Out of which, the company has executed 40% of the work even as the balance job is planned to be executed over the next three quarters.
- The management expects that continuing mismatch between costs incurred vs anticipated would weigh upon the profitability of this segment in the coming quarters.

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	51,768	51,087	51,530
Growth (%)	7.7	-1.3	0.9
EBITDA	4,408	2,746	3,199
EBITDA margin (%)	8.5	5.4	6.2
PBT	5,244	4,006	3,509
Net profit	3170	1941	2316
EPS (Rs)	9.6	5.9	7.0
Growth (%)	-10.9	-38.8	19.3
CEPS (Rs)	10.2	7.0	7.7
Book value (Rs/share)	40.2	45.2	49.4
Dividend / share (Rs)	2.0	2.5	2.5
ROE (%)	25.9	13.4	14.5
ROCE (%)	30.8	14.8	17.3
Net cash (debt)	3594	-2406	-1169
NW Capital (Days)	28.9	84.2	83.7
EV/Sales (x)	0.4	0.5	0.5
EV/EBITDA (x)	4.5	9.3	7.6
P/E (x)	8.0	13.1	11.0
P/Cash Earnings	7.5	10.9	10.0
P/BV (x)	1.9	1.7	1.6

Source: Company, Kotak Securities - Private Client Research

Unitary Cooling Business (30% of revenue)- Room AC segment continues to remain weak

- The room AC market has shrunk by over 30% in the H1 FY12. The room AC industry was seeing strong growth till Feb 2011 and AC makers had built inventory in anticipation of robust demand. However, the summer season of 2011 has been unexpectedly weak for the AC manufacturers. Consequently, most leading players are saddled with unsold inventory.
- While the inventory levels are high, the industry has not seen price undercutting. On the contrary, manufacturers (including Voltas) have raised their product prices.
- The management believes that the Japanese players (Panasonic, Daikin and Hitachi) could pose a formidable competition in the future. The Yen has appreciated by 27% against the Rupee in 9MFY12, which is also turning into a cost advantage for the Japanese players. Given this, players including market leader LG have been working out their strategies to face the competition from Japanese. Voltas has a second higher market share (around 19%) in the room AC segment and expects to hike its Advertising and marketing campaign to protect its turf.

Segment Margins

(%)	Q2FY12	Q2FY11	Q1FY12
Electromechanical projects	0.7	8.2	4.6
Engg products and services	14.8	20.9	17.5
Unitary cooling	2.9	12.3	11.3
Total	-8.4	21.7	19.3

Source: Company

Capital engagement has increased significantly in Electromechanical projects and Unitary Cooling segment

- Higher capital employed has also been on account of slower collections, lower advances available (due to slower intake of new orders), increase in on-site inventory and slower clearance of certifications.
- Net working capital has increased to 92 days in H1 FY12 vs 29 days and 8 days at the end of FY11 and FY10 respectively.

Capital Employed

(Rs mn)	Q2FY12	Q2 FY11	Q1FY12
Electromechanical projects	7,123	2,349	6,163
Engg products and services	1,014	980	791
Unitary cooling	3,406	2,510	2,587

Source: Company

Order book remains subdued.

- As of Q2FY12, order backlog at Rs 45 bn is down 10% and 2% on a yoy and sequential basis respectively. Average execution period is around 20 months.
- The company won two orders in Q2 FY12 1) Retail mall project in Abu Dhabi worth Rs 5.0 and 2 bn) Rs 3.5 bn project through its Saudi JV. The advances on these two projects are healthy. However, the company received LOI for the Abu Dhabi order in 3Q and hence the order will be booked in Q3 FY12.

Outlook remains subdued

- The Management presented a more subdued outlook compared to the our previous interaction during Q2 FY12 results.
- The management's outlook remains especially grim on the profitability front. It expects the margins in projects segment to remain thin in the next few quarters. We see continued sluggishness and margin pressure in the near-term.

Assumption

FCFF in FY13	2,220
WACC (%)	13.9
PV of FCF	32,519
TV as % of FCF	43.0
One year forward value	91
Implied PE FY13	12.9
Revenue growth FY11-17 (%)	9.5

Source: Kotak Securities - Private Client Research

We maintain ACCUMULATE rating on Voltas with a revised price target of Rs.91

Earnings Revised downwards post meeting

(Rs mn)	FY12		FY13	
	Earlier	Revised	Earlier	Revised
Revenue	51087	51087	53861	51530
EBITDA (%)	5.9	5.4	7	6.2
EPS (Rs)	6.4	5.9	8.2	7.0
		-8.2%		-14.5%

Source: Kotak Securities - Private Client Research

Valuation

- Voltas is currently trading at 13.1x and 11.0x FY12 and FY13 earnings respectively.
- Based on WACC of 14% and terminal growth rate of 4%, we arrive at a one-year forward DCF value of Rs 91 (Rs 116 earlier).
- In view of the aforementioned concerns, we maintain **ACCUMULATE** on the stock.

COMPANY UPDATE

Ritwik Rai

ritwik.raai@kotak.com
+91 22 6621 6310

TV18 BROADCAST

PRICE: Rs.36

TARGET PRICE: Rs.39

RECOMMENDATION: REDUCE

FY12E P/E: 38.2x

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	8,042	12,646	14,723
Growth (%)	33.3	57.2	16.4
EBITDA	463	1,262	1,598
EBITDA margin (%)	5.8	10.0	10.9
PBT	(131)	86	381
Net profit	(174)	77	343
EPS (Rs)	(0.7)	0.2	0.9
Growth (%)	NM	NM	346.0
CEPS (Rs)	0.0	1.3	2.2
Book value (Rs/share)	28.1	19.2	20.2
Dividend per share (Rs)	-	-	-
ROE (%)	(3.3)	1.1	4.8
ROCE (%)	1.5	5.7	6.2
Net cash (debt)	(3,302)	(5,687)	(6,453)
NW Capital (Days)	237	227	226
P/E (x)	(49.4)	170.3	38.2
P/BV (x)	1.3	1.9	1.8
EV/Sales (x)	1.5	1.5	1.3
EV/EBITDA (x)	25.7	14.9	12.2

Source: Company, Kotak Securities - Private Client Research

We recommend REDUCE on TV18 Broadcast with a price target of Rs.39

- ❑ **Continued Cheers for a debt-free TV18:** With 7.5% gains in yesterday's trade, TV18 Broadcast Ltd. (TV18) now trades within striking distance of our fair value estimate (Rs 39). We believe the benefits from likelihood of a stronger balance sheet are well priced in at this stage, and upsides are limited. Upsides are also well-capped by the upper band of the impending rights issue (Rs 40). At CMP, TV18 Broadcast stock prices in almost near-perfect valuations for the resultant entity (as per our assumptions and estimates).
- ❑ **Margin of safety low:** Our fair value estimate has provided for 2.5x EV/ Sales for TV18 (current operations), and 2.0x EV/ Sales for (assumed sales of) acquired entities. The valuations we have ascribed to TV18 Broadcast (current operations) are clearly higher than what the market has thought them worth, in the near past. Further, we believe there may be downsides to our assumptions of sales of the acquired entities. Lastly, there may be downside to our assumptions on the extent of dilution (our present calculations account for dilution at the highest permissible price). As such, the margin of safety is somewhat low, considering upside of 8% .
- ❑ **Downgrade to REDUCE:** We downgrade the TV18 stock to REDUCE on the back of significantly weaker risk-reward profile than our preferred stocks in our media coverage universe. We would be sellers into rallies, and would reconsider our recommendation on obtaining greater clarity on financials of acquired entities, or upon 10%-15% decline in the stock price.
- ❑ **Valuation and Risks:** We continue to see fair value of TV18 Broadcast at Rs 39/ share. Upside risks to our recommendation/ price target arises from changes in deal structure/ rights issues, stronger than expected financials/ operations of TV18 current operations/ disclosed financials of ETV acquired channels.

Computation of fair value post the announced transactions

(Rs mn)	FY12E
Sales, TV18 Broadcast, Existing Operations (pre-announcement)	12,646
Valuation Used - EV/ Sales (FY12E)	2.5
Value of Operations	31614
Fair market capitalization (Net of net debt Rs.6700 mn)	24914
Shares Outstanding (current structure)	362
Fair Value/ Share (before announcements made yesterday)	69
Post - Rights Issue	
Shares Issued (assuming price of Rs 40, amount Rs 27 Bn)	675
Total Shares Outstanding (post dilution)	1037
Value of Operations	31614
Fair Market Capitalization (adding net cash Rs.20.3 bn from rights issue)	51914
Fair Value/ Share (post rights issue, before ETV transactions)	50
Post Acquisition of ETV channels	
Fair Value of Operations (TV18 present operations)	31614
Sales, ETV Total (not provided, assumed)	7000
Sales, ETV stake bought out by TV18 (assumed at 60% of total ETV sales)	4200
Fair EV/ Sales, Acquired Stakes of Channels	2
Fair Value, Acquired Entities	8400
Fair Values, Operations Post restructuring (equals fair market cap)	40014
Shares outstanding post rights issue	1037
Fair Market Capitalization (post acquisition of ETV channels, post rights issue)	40014
Fair Value/ Share. Post restructuring (Target price)	39

Source: Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
4-Jan	Amarjothi Spin	Amarjothi Colour	B	1,822,500	46.3
4-Jan	Amarjothi Spin	Jaichander	S	607,500	46.3
4-Jan	Amarjothi Spin	Premchander R	S	607,500	46.3
4-Jan	Amarjothi Spin	Rajan	S	607,500	46.3
4-Jan	Clarus Finance	Rakesh Kumar Chordia	B	150,000	62.4
4-Jan	Clarus Finance	Paceman Sales Promotion Pvt Ltd	S	125,000	62.4
4-Jan	Dr Agarwals-\$	Harvest Value Partners I	S	56,088	134.3
4-Jan	Filatex Fash	Rajan Sharma	B	70,499	5.1
4-Jan	Filatex Fash	Kriti Suri	S	70,000	5.1
4-Jan	Gemstone Invest	Swati Financial Consultancy Services	S	749,500	8.0
4-Jan	Gomti Finlease	Vishnu Garg HUF	B	30,000	47.9
4-Jan	Gomti Finlease	Dinesh Choudhary	B	30,000	47.9
4-Jan	Gomti Finlease	Trading Llp Chirania	S	63,100	47.9
4-Jan	Gujarat Foils	Vardhman Investment	B	100,000	40.7
4-Jan	Gujarat Foils	Aap Investments	S	100,000	40.7
4-Jan	Gujarat Medi	Gold Dust Trading Co	B	118,001	19.8
4-Jan	Gujarat Medi	Anju Gupta	S	100,000	19.8
4-Jan	Kadamb Constr	Larica Trading Pvt Ltd	B	145,000	9.0
4-Jan	Kadamb Constr	Khoobsurat Limited	S	200,000	9.0
4-Jan	Kwality Cred	Varsha Dudheria	B	25,000	38.8
4-Jan	Kwality Cred	Pawantar Agro Agencies Pvt Ltd	S	26,119	38.2
4-Jan	Kwality Cred	Kalpa Mercantile Pvt Ltd	S	28,900	38.8
4-Jan	Kwality Cred	Chirayush Agro Marketing Pvt Ltd	S	18,891	38.9
4-Jan	LKP Fin	Dean Finance & Invest Pvt Ltd	B	100,000	75.0
4-Jan	LKP Fin	Evans Fraser & Co (India) Ltd	S	100,000	75.0
4-Jan	PFL Infotech	Vasanthi Kavur	B	50,000	94.4
4-Jan	Rajeswari Found	Pradeep Narendra Bhatt	S	28,000	28.3
4-Jan	Rama Paper	Anoop Kumar Beria	S	44,003	33.4
4-Jan	Scope Ind	Amit Suryakantbhai Soni	B	54,174	16.1
4-Jan	Southern Onlin	Smifs Capital Markets Ltd	B	500,000	5.9
4-Jan	Southern Onlin	Antriksh Vyapaar Pvt Ltd	S	500,000	5.9
4-Jan	Spectacle	Rajesh Jayantilal Khandhar	B	465,000	5.4
4-Jan	Spectacle	Jinal Apurva Rawal	S	307,283	5.4
4-Jan	SV Electricals	Sangam Merchants Pvt Ltd	S	107,765	11.1
4-Jan	Syncom Heal	Prudent Broking Services Pvt Ltd	S	200,000	11.4
4-Jan	Transpek Fin	Babulal Mohanlal Thakkar	B	25,000	12.5
4-Jan	Trimurthi Dr	Dhirajlal V Sanghvi HUF	B	47,119	13.4
4-Jan	Trimurthi Dr	Anubha Mukesh Saboo	S	43,279	13.4
4-Jan	Tutis Tech-\$	Bhanwarlal M Sanghvi HUF	B	93,000	16.1
4-Jan	Vaishnavi	Chandra Sekhara Rao Battula	B	118,000	8.2
4-Jan	Vaishnavi	Ashwani Kumar Agarwal	S	100,000	8.2
4-Jan	Vaishnavi	Jaya Veera V D Prakash Maddula	S	82,872	8.2

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ICICI Bank	743	2.4	6.6	6.0
Tata Motors	201	3.7	4.2	22.5
HDFC Bank	443	1.0	2.5	2.4
Losers				
Bharti Airtel	346	(3.4)	(4.9)	2.9
Reliance Ind	716	(1.2)	(4.7)	4.2
Hindustan Unilever	395	(3.1)	(4.2)	2.6

Source: Bloomberg

Fundamental Research Team

Dipen ShahIT, Media
dipen.shah@kotak.com
+91 22 6621 6301**Sanjeev Zarbade**Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305**Teena Virmani**Construction, Cement, Mid Cap
teena.virmani@kotak.com
+91 22 6621 6302**Saurabh Agrawal**Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309**Saday Sinha**Banking, NBFC, Economy
saday.sinha@kotak.com
+91 22 6621 6312**Arun Agarwal**Automobiles
arun.agarwal@kotak.com
+91 22 6621 6143**Ruchir Khare**Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6621 6448**Ritwik Rai**FMCG, Media
ritwik.rai@kotak.com
+91 22 6621 6310**Sumit Pokharna**Oil and Gas
sumit.pokharna@kotak.com
+91 22 6621 6313**Amit Agarwal**Logistics, Transportation
agarwal.amit@kotak.com
+91 22 6621 6222**Jayesh Kumar**Economy
kumar.jayesh@kotak.com
+91 22 6652 9172**K. Kathirvelu**Production
k.kathirvelu@kotak.com
+91 22 6621 6311

Technical Research Team

Shrikant Chouhanshrikant.chouhan@kotak.com
+91 22 6621 6360**Amol Athawale**amol.athawale@kotak.com
+91 20 6620 3350**Premshankar Ladha**premshankar.ladha@kotak.com
+91 22 6621 6261

Derivatives Research Team

Sahaj Agrawalsahaj.agrawal@kotak.com
+91 22 6621 6343**Rahul Sharma**sharma.rahul@kotak.com
+91 22 6621 6198**Malay Gandhi**malay.gandhi@kotak.com
+91 22 6621 6350**Prashanth Lalu**prashanth.lalu@kotak.com
+91 22 6621 6110

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