



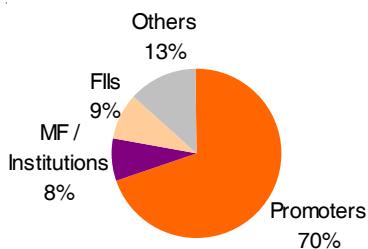
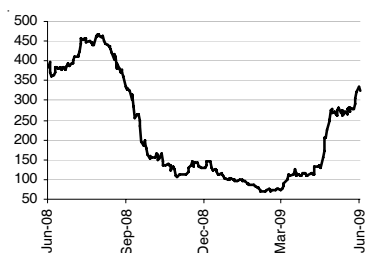
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# Unity Infraprojects

**Vulture's Pick**
**Stock Update**
**Price target revised to Rs395**
**Buy; CMP: Rs324**
**Company details**

Price target:	Rs395
Market cap:	Rs433 cr
52 week high/low:	Rs484/67
NSE volume: (No of shares)	26,703
BSE code:	532746
NSE code:	UNITY
Sharekhan code:	UNITYINFRA
Free float: (No of shares)	0.4 cr

**Shareholding pattern**

**Price chart**

**Price performance**

(%)	1m	3m	6m	12m
Absolute	24.7	343.3	160.3	-16.1
Relative to Sensex	22.9	200.2	67.1	-22.6

**Result highlights**

- Unity Infraprojects (Unity)' revenues grew by 21% year on year (yoy) to Rs383.6 crore, which was lower than our expectation of Rs447.6 crore. The revenues came below our expectation as the company slowed the execution of certain projects for which the payments were delayed.
- The operating profit margin (OPM) improved by 153 basis points to 12.9% despite a rise in the staff cost (up 130 basis points to 4.1%). The OPM improved on account of a sharp reduction in the raw material and construction expenses (down 230 basis points to 79.7%).
- The net profit grew by 4.2% yoy to Rs21 crore, which was below our expectation of Rs23 crore. The results were lower than our expectation due to lower than expected revenues and a sharp rise in the interest expenses. The interest expenses increased by 3.6x yoy and by 1.8x sequentially to Rs17.6 crore.
- Unity's order book stands at Rs2,700 crore, 2.4x its FY2009 revenues. Apart from this, Unity is the L-1 bidder for orders aggregating Rs400-500 crore. Going forward, the company is looking to diversify order inflows from transportation and urban infrastructure verticals. We highlight that though the company expects strong order inflows, we have factored in a flat order inflow in FY2010 due to the upcoming assembly election in Maharashtra, Unity's major geography.
- In terms of Q1FY2010, the first quarter is generally seasonally weak for the construction company. We expect Unity's revenues to grow by 23% yoy to Rs275

**Result table**

Rs (cr)

Particulars	Q4FY09	Q4FY08	% yoy	FY2009	FY2008	% yoy
Net sales	383.6	317.1	21.0	1130.8	849.5	33.1
Share of profit from JV	0.9	0.2	341.4	1.5	0.6	137.4
Other income	7.1	5.4	32.0	15.6	12.2	27.8
Total revenues	391.7	322.7	21.4	1147.9	862.4	33.1
Consumption of raw material	170.1	138.5	22.8	497.5	376.8	32.0
Staff cost	15.9	9.1	74.1	43.3	26.5	63.2
Construction expenses	135.7	121.5	11.7	420.9	319.8	31.6
Other expenditure	12.5	12.0	4.1	26.4	20.2	30.5
Total expenditure	334.2	281.1	18.9	988.0	743.3	32.9
Operating profit	49.5	36.1	37.2	142.8	106.2	34.4
Depreciation	6.8	2.2	206.2	15.9	7.3	117.9
Interest	17.6	4.8	264.8	40.0	20.6	94.1
PBT	33.1	34.6	-4.4	103.9	91.1	14.1
Taxes	12.1	14.4	-16.4	34.2	31.1	9.9
PAT	21.0	20.2	4.2	69.7	60.0	16.2
Equity capital	13.4	13.4		13.4	13.4	
EPS	15.7	15.1		52.1	44.9	
<b>Margin (%)</b>						
OPM	12.9	11.4		12.6	12.5	
NPM	5.5	6.4		6.2	7.1	

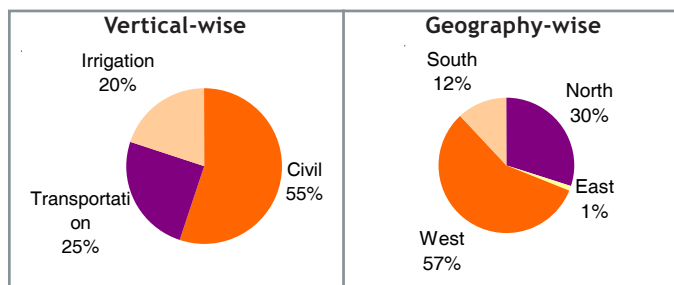
crore and its net income to decline by 6.5% yoy to Rs14.6 crore due to higher interest and depreciation expenses.

- ♦ Unity is also looking for a qualified institutional placement (QIP) to the tune of Rs220-250 crore in the future. The funds thus mobilised would be used to meet the working capital requirement and repay debt.
- ♦ We have fine-tuned our FY2010 earnings estimate to Rs56.1 per share to reflect the better than expected margins and to account for the higher interest expense. We have also introduced the FY2011 earnings estimate in this note: We expect Unity's earnings to grow at 8.2% yoy to Rs60.7 per share in FY2011.
- ♦ In view of the improvement in the macro environment, we have revised our target multiple for Unity (6.5x, at a 50% discount to the current multiple of the basket of mid-cap construction companies). We maintain our Buy recommendation on the stock with a revised price target of Rs395. At the current market price, the stock is trading at attractive valuation of 5.8x FY2010 earnings estimate and 5.3x FY2011 earnings estimate.

### Strong order book, 2.4x FY2009 revenues

Unity's order book stands at Rs2,700 crore, ie 2.4x its FY2009 revenues. The current order book includes the orders from the company's subsidiaries. At the end of Q3FY2009, the orders from the subsidiaries were worth Rs400 crore. Apart from this, the company is the L-1 bidder for orders aggregating Rs400-500 crore and appears to be confident of maintaining the order inflow in future. We highlight that though the company expects strong order inflows, we have factored in a flat order inflow in FY2010 due to the upcoming assembly election in Maharashtra, Unity's major geography. On the back of its strong order book, we expect Unity's revenues to grow at a compounded annual growth rate (CAGR) of 17.5% during FY2009-11.

### Order book



### Higher depreciation and interest expenses to mar Q1FY2010 earnings

The first quarter is generally weak for the construction industry. We expect Unity's revenues to grow at 23% yoy to Rs275 crore and its net income to decline by 6.5% yoy to Rs14.6 crore in Q1FY2010 due to higher interest and depreciation expenses.

### Q1FY2010 expectations

	Net sales		Operating profit		Adjusted PAT	
	Q1FY10E	% yoy	Q1FY10E	% yoy	Q1FY10E	% yoy
Unity	275	23.0	35.5	25.7	14.6	-6.5

### Planning to raise Rs220-250 crore through QIP

Unity is looking to raise funds through a QIP. The company is looking to raise Rs220-250 crore through this route. The funds thus raised would be used to meet its working capital requirement and repay debt.

### Real estate project update

With regard to the Nagpur project, Unity is going slow on the retail development front and is seeking extension from Nagpur Municipality for the build-own-transfer concession period. The Goa project is also witnessing a delay due to some political issue. For the Pune hotel project, the company has completed the construction work and the hotel is likely to be operational in a few months. We have not assigned any value to these projects in our valuation.

### Valuation and view

We have fine-tuned our FY2010 earnings estimate to Rs56.1 per share to reflect the better than expected margin and better order inflows (on account of an improvement in the macro environment) and to account for the higher interest expense. We have fine-tuned our FY2010 earnings estimate to Rs56.1 per share to reflect the better than expected margin and to account for the higher interest expense. We have also introduced our FY2011 earnings estimate in this note: We expect the earnings to grow at 8.2% yoy to Rs60.7 per share in FY2011.

In view of the improvement in the macro environment, we have revised our target multiple for Unity (6.5x, at a 50% discount to the current multiple of the basket of mid-cap construction companies). We maintain our Buy recommendation on the stock with a revised price target of Rs395. At the current market price, the stock is trading at attractive valuation of 5.8x FY2010 earnings estimate and 5.3x FY2011 earnings estimate.

### Valuation table

Particulars	FY07	FY08	FY09	FY10E	FY11E
Net sales (Rs cr)	542.9	849.5	1130.8	1375.0	1560.0
Net profit (Rs cr)	42.3	60.0	69.7	75.0	81.2
No of shares (cr)	1.3	1.3	1.3	1.3	1.3
EPS (Rs)	31.7	44.9	52.1	56.1	60.7
y-o-y growth rate		41.7	16.2	7.6	8.2
PER(x)	10.2	7.2	6.2	5.8	5.3
Price/BV(x)	1.4	1.2	1.0	0.9	0.7
EV/EBITDA(x)	8.8	5.7	5.4	4.5	5.2
RoCE(%)	26.3	21.7	19.0	18.3	17.6
RoNW(%)	21.3	18.2	17.9	16.2	15.0

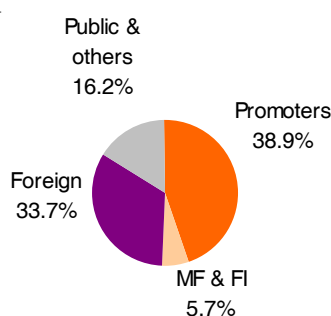
# Sanghvi Movers

**Ugly Duckling**
**Stock Update**
**Management meet update**
**Buy; CMP: Rs173**

## Company details

Price target:	Rs197
Market cap:	Rs751 cr
52 week high/low:	Rs264/60
NSE volume: (No of shares)	26,314
BSE code:	523207
NSE code:	SANGHVIMOV
Sharekhan code:	SANGMOVE
Free float: (No of shares)	2.4 cr

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	16.0	155.8	156.0	0.5
Relative to Sensex	14.4	73.2	64.3	-7.4

We recently met Sri Chandrakant Sanghvi, the chairman and managing director of Sanghvi Movers Ltd (SML), to discuss the future of the company. We present below the key takeaways from the meeting.

- The company has maintained its guidance of Rs136 crore of capital expenditure for FY2010. The management would revisit the planned capital expenditure in the event of a significant improvement in the business environment. The current capital expenditure would be funded through internal accruals.
- The utilisation level of the company's cranes is expected to dip from 85% in FY2009 to 80% in FY2010. In view of the current capital expenditure guidance and the expected dip in the utilisation of its cranes, the company is expected to grow its income from operations at a compounded annual growth rate (CAGR) of 9.7% over FY2009-11.
- The company is currently negotiating for orders with its key clients including Bharat Heavy Electricals and Oil and Natural Gas Corporation (ONGC). The management is bullish on the business opportunities in the power segment and is looking to increase the revenue contribution from the power sector to about 42% of the total revenue from 35% in Q4FY2009.
- SML is also negotiating with ONGC for its upcoming refinery, where the project cost is estimated at around Rs20,000 crore (potential business from this refinery could be estimated at Rs150 crore for SML).
- We expect SML to post a flattish revenue growth (+0.7% year on year) to Rs79.3 crore in Q1FY2010. The expectation is in line with our view of a sluggish H1FY2010, as we expect lower utilisation of its cranes and lower overtime revenues. We expect the margins to improve by 160 basis points in Q1FY2010. However, on account of a lower other income and a higher interest cost the profits of the company are expected to decline by 13.7% to Rs19.6 crore in Q1FY2010.
- We continue to like SML given its unique business model and competitive advantage in the industry. We maintain our earnings estimates and price target of Rs197 for SML. At the current market price the stock is trading at 7.2x and 6.2x FY2010 and FY2011 estimated earnings per share (EPS) respectively.

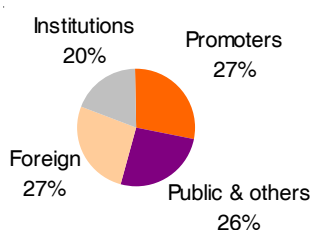
## Earnings table

Particulars	FY2007	FY2008	FY2009P	FY2010E	FY2011E
Net sales (Rs cr)	178.6	254.3	357.5	390.2	430.5
Net profit (Rs cr)	64.3	72.7	101.1	105.9	123.6
% y-o-y growth	99.4	13.2	38.9	4.8	16.8
Shares in issue (cr)	4.1	4.4	4.4	4.4	4.4
Fully diluted EPS (Rs)	15.7	16.6	23.0	24.1	28.2
% y-o-y growth	78.0	5.5	38.9	4.8	16.8
PER (x)	11.0	10.5	7.5	7.2	6.2
P/B (x)	3.5	2.5	2.0	1.6	1.3
EV/EBIDTA (x)	7.5	6.0	4.6	4.1	3.5
RoCE (%)	20.2	24.1	26.9	23.1	24.5
RoNW (%)	31.5	24.0	25.9	22.0	21.0

# India Cements

**Ugly Duckling**
**Stock Update**
**Price target revised to Rs160**
**Hold; CMP: Rs131**
**Company details**

Price target:	Rs160
Market cap:	Rs3,699 cr
52 week high/low:	Rs180/68
NSE volume: (No of shares)	17.6 lakh
BSE code:	530005
NSE code:	INDIACEM
Sharekhan code:	INDCEM
Free float: (No of shares)	20.3 cr

**Shareholding pattern**

**Price chart**

**Price performance**

(%)	1m	3m	6m	12m
Absolute	-10.3	25.3	41.4	-4.6
Relative to Sensex	-11.6	-15.1	-9.3	-12.1

**Result highlights**

- India Cements has announced its Q4FY2009 results. For the quarter, the adjusted net profit came in at Rs104.2 crore as against our estimate of Rs107.8 crore. The adjusted net profit declined by 22.5% year on year (yoy).
- The net sales increased by 3.6% yoy to Rs888.5 crore. The figure includes revenues from Indian Premier League (IPL), wind power and shipping businesses. The cement dispatches for the quarter fell by 5.3% yoy at 2.32 million metric tonne (MMT). The dispatches dipped mainly on account of unscheduled breakdown at Vishnupuram, Chilamkur and Yerraguntla facilities along with planned stoppage at one of the kilns at Vishnupuram facility.
- The operating profit margin (OPM) contracted by 686 basis points to 25.4%. The OPM drop was mainly due to inventory loss on account of coal and higher raw material cost (increase in gypsum prices), employee cost and other expenses. The employee cost was higher as the company paid bonus to its employees during the quarter. Consequently the operating profit fell by 18.4% to Rs225.5 crore.
- On a per tonne basis, the raw material cost increased by 34% to Rs436, the power and fuel cost rose 24.5% yoy to Rs1,006 and the other expenditure went up by 26.9% to 602. The freight cost however remained unchanged on year-on-year (y-o-y) basis.
- The interest outgo increased by 52.8% to Rs35 crore whereas the depreciation went up by 36.7% to Rs53.3 crore mainly due to capital expenditure (capex) on cement, shipping and IPL businesses.

**Result table**

Rs (cr)

Particulars	Q4FY09	Q4FY08	% yoy	% qoq	FY2009	FY2008	% yoy
Net sales	888.5	857.5	3.6	17.7	3,426.8	3,057.8	12.1
Total expenditure	663.0	581.1	14.1	15.4	2,430.6	1,964.8	23.7
Operating profit	225.5	276.4	-18.4	25.2	996.2	1,092.9	-8.8
Other income	13.1	24.2	-45.7	-6.5	47.0	27.5	70.8
EBIDTA	238.6	300.6	-20.6	22.9	1,043.2	1,120.4	-6.9
Interest	35.0	22.9	52.8	19.3	112.2	109.9	2.1
PBDT	203.6	277.7	-26.7	23.5	931.1	1,010.6	-7.9
Depreciation	53.3	39.0	36.7	4.0	203.3	127.9	58.9
Eo	14.9	53.3	-72.0	13.1	79.4	38.0	109.0
PBT	135.4	185.4	-27.0	34.8	648.3	844.6	-23.2
Tax	41.5	81.0	-48.7	7.8	216.1	207.1	4.4
Rep. profit after tax	93.9	104.4	-10.1	51.6	432.2	637.5	-32.2
Adj. profit after tax	104.2	134.5	-22.5	48.8	485.1	666.2	-27.2
<b>Margins</b>							
OPM (%)	25.4	32.2			29.1	35.7	
Adj PATM (%)	11.7	15.7			14.2	21.8	
Tax rate (%)	30.7	43.7			33.3	24.5	

- ◆ The reported profit after tax (PAT) went down by 10.1% yoy to Rs93.9 crore. During the quarter the company had a foreign exchange translation loss of Rs14.9 crore. Thus, the adjusted PAT declined by 22.5% yoy and improved by 48.8% quarter on quarter (qoq) to Rs104.2 crore.
- ◆ For the full year (FY2009) the company posted a 12.1% growth in its net sales to Rs3,426.8 crore whereas the reported net profit dropped by 32.2% to Rs432.2 crore.
- ◆ On capacity addition front, the expansion of line 2 at Malkapur facility has been completed up to clinkerisation stage and the cement grinding facility at this plant is expected to be complete by the end of June 2009. The present capacity of the company stands at 14MMT.
- ◆ The board of directors has declared a dividend of 20% on equity shares of the company for the year FY2009.
- ◆ The board has also approved the proposal for raising funds not exceeding US\$100 million (Rs500 crore) by the way of issue of equity or equity-linked instruments for meeting the funds required for projects undertaken by the company and for repayment of debts.
- ◆ We are upgrading our earning estimates for FY2010 to factor in the higher-than-expected cement realisation and volume growth. The revised earnings per share (EPS) for FY2010 stands at Rs17.7 (upgraded by 7.6%). We are also introducing earnings estimate for FY2011 with an EPS of Rs14.8. At the current market price of Rs131 the stock trades at price/earning (PE) of 7.4x and 8.8x its FY2010 and FY2011 earnings respectively, an enterprise value (EV)/earning before interest, tax, depreciation and amortisation (EBITDA) of 5.2x and EV/tonne of \$62 (including windmill and shipping divisions) in FY2011. We maintain Hold recommendation on stock as the stock could underperform in the near term due to seasonal weakness in monsoon. We are rolling over our valuation on FY2011 and have arrived at the price target of Rs160 (valued at EV/tonne of \$72 on FY2011 capacity).

#### Volume and realisation

Particulars	Q4FY09	Q4FY08	Q3FY09	% yoy	% qoq
Volumes (tonne)	2325000	2,456,000	2,000,000	-5.3	16.3
Realisation per tonne	3,732	3,443	3,638	8.4	2.6

The company's dispatches during the quarter declined by 5.3% yoy to 2.3MMT. The poor performance in terms of volume is on account of unscheduled breakdown at Vishnupuram, Chilamkur and Yerraguntla facilities along with planned stoppage at one of the kilns at Vishnupuram for up-gradation. The stoppage of plant has resulted in lower production and affected the volume growth. However,

the volume has grown by an impressive 16.3% on a sequential basis mainly because of a lower base effect (in Q3FY2009 the volume has declined by 17.6% compared to Q2FY2009).

As known the cement makers have raised the price of cement from January 2009. The positive impact of the same is clearly visible in the realisation of the company for Q4FY2009. The realisation per tonne for the cement division went up by 8.4% yoy and 2.6% qoq to Rs3,732 per tonne.

#### Revenues from non-cement division

Though the company is engaged mainly in cement business, it also derives revenues from windmill, shipping and IPL businesses. For Q4FY2009, the revenues from shipping division fell by 37.9% yoy to Rs7.3 crore. The severe drop in shipping revenues is due to sharp correction in the Baltic Dry Index. From the IPL tournament, the company received Rs13 crore as revenues, whereas from the windmill division garnered revenues of Rs0.5 crore.

#### Capex plan

During the quarter the company made progress in its on-going capacity expansion plan. The new 1MMT grinding unit at Chennai has been completed and is in operation from the end of August 2008 while the up-gradation of capacity of kiln 1 at Vishnupuram was completed in March 2009. The expansion of line 2 at Malkapur facility has been completed up to clinkerisation stage and the grinding facility at this plant, having a capacity of 1.2 MMT, is expected to come on-stream by the end of June 2009. The company has also commissioned 1MMT grinding unit at Parli (Maharashtra) in April. With the commissioning of Parli facility, the company has entered in the western region. The company has initiated work for setting up a 1.5MMT green field plant in Rajasthan and the preliminary works for the same are under way. The plant is expected to come on-stream by March 2010. The present cement capacity of the company stands augmented at 14MMT and by the end of FY2011 the grinding capacity of the company will enhance to 16MMT.

#### Measures taken to control power and fuel cost

As we have seen the company's cement volume for Q4FY2009 has declined on a y-o-y basis mainly due to stoppage of its plant (for up-gradation) and power supply shortage in Tamil Nadu and Andhra Pradesh. To ensure continuous flow of power at enhanced capacity the company is planning to set up a 100 megawatt (MW) coal-based captive power plant in Tamil Nadu and Andhra Pradesh at an investment of Rs500 crore. The project is expected to come on-stream by March 2011. As per the management, the savings from the implementation of 100MW of captive power plant is expected in the range of Rs0.6-0.7 per unit.

Moreover, the company is also planning to acquire a coal mine in Indonesia. The company has already done technical due diligence and it is expected to finalise the deal by Q2FY2010.

### Likely to raise funds by issue of equity instruments

For funding the on-going capacity expansion plan, the board of directors has approved the proposal for raising funds not exceeding US\$100 million (Rs500 crore) by the way of issue of equity or equity-linked instruments from domestic and global markets. The fund so raised will also be used for repayment of debts.

### Valuations

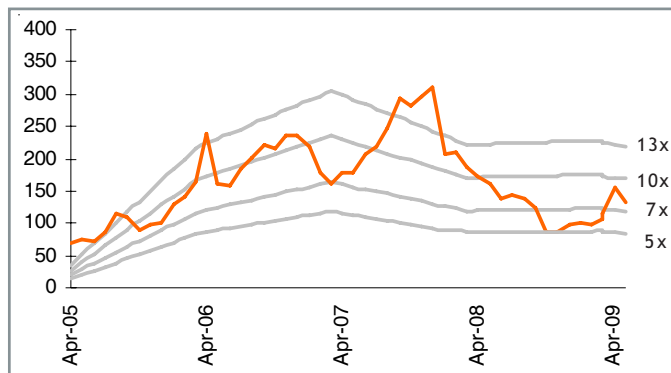
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EBITDA of 5.2x and EV/tonne of \$62 (including wind mill and shipping division) in FY2011. We maintain Hold recommendation on stock as the stock could underperform in the near term due to seasonal weakness in monsoon. We are rolling over our valuation on FY2011 and have arrived at a price target of Rs160 (valued at EV/tonne of \$72 on FY2011 capacity).

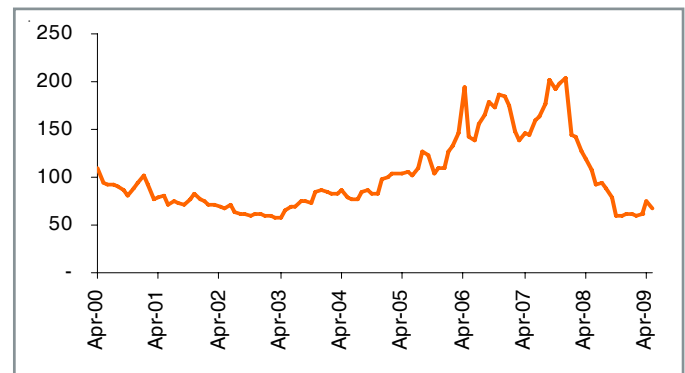
### Valuation table

Paticulars	FY07	FY08	FY09	FY10E	FY11E
Adj. net profit (Rs cr)	472.7	666.2	485.1	499.6	418.0
Shares in issue (cr)	28.2	28.2	28.2	28.2	28.2
EPS (Rs)	16.8	23.6	17.2	17.7	14.8
EPS growth (%)	941.2	40.9	-27.2	3.0	-16.3
PE (x)	7.8	5.5	7.6	7.4	8.8
Book value	50.6	92.1	106.1	122.3	135.8
P/BV	2.6	1.4	1.2	1.1	1.0
EV/EBIDTA	7.4	4.5	5.3	4.6	5.2
RoCE (%)	20.2	23.3	15.5	16.8	13.4
RoNW (%)	33.1	25.7	16.2	14.5	10.9

### One-year forward EV/EBITDA chart



### EV/tonne (\$)



The author doesn't hold any investment in any of the companies mentioned in the article.

## Sharekhan Stock Ideas

### Evergreen

Housing Development Finance Corporation  
HDFC Bank  
Infosys Technologies  
Larsen & Toubro  
Reliance Industries  
Tata Consultancy Services

### Apple Green

Aditya Birla Nuvo  
Bajaj Auto  
Bajaj Finserv  
Bajaj Holdings & Investment  
Bank of Baroda  
Bank of India  
Bharat Electronics  
Bharat Heavy Electricals  
Bharti Airtel  
Corporation Bank  
Crompton Greaves  
Glenmark Pharmaceuticals  
Godrej Consumer Products  
Grasim Industries  
HCL Technologies  
Hindustan Unilever  
ICICI Bank  
Indian Hotels Company  
ITC  
Mahindra & Mahindra  
Marico  
Maruti Suzuki India  
Lupin  
Piramal Healthcare (Nicholas Piramal India)  
Punj Lloyd  
Sintex Industries  
State Bank of India  
Tata Tea  
Wipro

### Cannonball

Allahabad Bank  
Andhra Bank  
IDBI Bank  
Madras Cements  
Shree Cement  
Tourism Finance Corporation of India

### Emerging Star

3i Infotech  
Alphageo India  
Axis Bank (UTI Bank)  
Balrampur Chini Mills  
Cadila Healthcare  
Emco  
Navneet Publications (India)  
Network 18 Fincap  
Opto Circuits India  
Orchid Chemicals & Pharmaceuticals  
Patels Airtemp India  
Thermax  
Zee News

### Ugly Duckling

BASF India  
Deepak Fertilisers & Petrochemicals Corporation  
Genus Power Infrastructures  
ICI India  
India Cements  
Ipca Laboratories  
Jaiprakash Associates  
Mold-Tek Technologies  
Orbit Corporation  
Punjab National Bank  
Ratnamani Metals and Tubes  
Sanghvi Movers  
Selan Exploration Technology  
SEAMEC  
Shiv-Vani Oil & Gas Exploration Services  
Subros  
Sun Pharmaceutical Industries  
Torrent Pharmaceuticals  
UltraTech Cement  
Union Bank of India  
Zensar Technologies

### Vulture's Pick

Esab India  
Mahindra Lifespace Developers  
Orient Paper and Industries  
Unity Infraprojects  
Tata Chemicals  
WS Industries India

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