



Economy News

- ▶ The finance ministry is scripting a liberal foreign investment policy framework that will allow at least 49% investment in all sectors, barring a few strategic ones, as part of plans to stimulate overseas interest and help lift the economy out of a prolonged slump. (ET)
- ▶ The commerce ministry will push for withdrawal of taxes on Special Economic Zones and duty cut for sectors with high export potential as part of a crisp five-point budgetary proposal it will make to the finance ministry. (ET)
- ▶ Emerging markets may begin to retaliate with monetary weapons of their own such as intervening in exchange rates if the central banks of the developed world are not mindful of the harm they cause because of their cheap money policies, said the RBI governor Raghuram Rajan. (ET)
- ▶ In a renewed attempt to introduce a national goods and services tax (GST), the finance ministry is trying to address BJP ruled states' concerns in the proposed legislation. It has prepared a note on GST for Prime Minister, while Finance Minister is planning to meet state finance ministers to remove hurdles in its introduction. (BS)
- ▶ The Andhra Pradesh and Telangana Governments are planning to waive loans worth Rs 1 Tn. This is perhaps the biggest loan waiver ever, say bankers. Apart from farmers and members of self-help groups, banks too are happy with the measure. With increasing bad loans, the loan waiver comes as a relief to banks, as they will be reimbursed. (BL)

Corporate News

- ▶ **Infosys'** President & Member of the Board, BG Srinivas resigned on Wednesday. Srinivas' resignation will be effective from June 10, 2014. He was considered to be the front-runner for the first non-founder chief executive at Infosys. (ET)
- ▶ The Supreme Court has upheld pleas by **Reliance Industries** and British Gas (BG) that Indian courts should not interfere with ongoing arbitration abroad, rejecting the government's contention that in cases involving public policy, the local judiciary has jurisdiction over arbitration that was agreed to be held in London. (ET)
- ▶ **HPCL** aims to increase its Mumbai refinery's capacity to 200,000 barrels per day from 130,000 bpd, the company said. (Livemint)
- ▶ The new government will go ahead with its predecessor's plan to sell minority stakes the government holds in formerly state-run companies **Hindustan Zinc Ltd** and Bharat Aluminum Co. (ET)
- ▶ **RIL** staring at fresh trouble, with the petroleum & natural gas ministry, after a Comptroller and Auditor General (CAG) report, considering taking action against the company for hiring a floating production, storage and offloading (FPSO) vessel for its KG-D6 block. (BS)
- ▶ The Competition Commission of India approved England-based retail company Tesco's purchase of 50% stake in **Trent** Hypermarket owned by the Tata Group. (BS)
- ▶ **Srei Infrastructure Finance Ltd**, plans to acquire Abhijeet Group's 1,080 megawatt Jharkhand power project, valued at Rs.90bn, in what could be the first of several acquisitions in India's power sector. (Livemint)
- ▶ Two state-owned lenders to power projects have bailed out **Reliance Infrastructure**-owned Delhi power distribution companies (discoms) from a payment crisis threatening to pull the plug on the national capital's power supply beginning June. (BS)

Equity

		% Chg			
	28 May 14	1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	24,556	0.0	9.3	16.3	
NIFTY Index	7,330	0.2	9.1	16.8	
BANKEX Index	17,383	0.6	17.7	41.5	
BSET Index	8,719	1.5	(0.6)	(11.0)	
BSETCG INDEX	14,914	0.4	20.6	43.7	
BSEOIL INDEX	11,050	(0.9)	15.8	31.1	
CNXMcap Index	10,208	0.6	14.7	30.8	
BSESMCAP INDEX	9,029	1.6	18.6	40.1	
World Indices					
Dow Jones	16,633	(0.3)	0.6	1.9	
Nasdaq	4,225	(0.3)	3.0	(1.9)	
FTSE	6,851	0.1	1.2	0.6	
NIKKEI	14,671	0.2	2.6	(1.2)	
HANGSENG	23,080	0.6	3.2	1.4	

Value traded (Rs cr)

	28 May 14	% Chg - Day
Cash BSE	3,140	(9.7)
Cash NSE	18,285	(7.9)
Derivatives	NA	NA

Net inflows (Rs cr)

	27 May 14	% Chg	MTD	YTD
FII	(223)	804	13,911	22,230
Mutual Fund	100	(76)	(568)	(11,259)

FII open interest (Rs cr)

	27 May 14	% Chg
FII Index Futures	21,472	9.8
FII Index Options	91,766	(0.4)
FII Stock Futures	56,811	3.1
FII Stock Options	5,025	(2.3)

Advances / Declines (BSE)

	28 May 14	A	B	T	Total	% total
Advances						
Declines						
Unchanged						

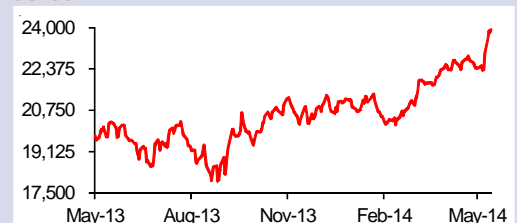
Commodity

		% Chg			
	28 May 14	1 Day	1 Mth	3 Mths	
Crude (NYMEX) (US\$/BBL)	102.9	0.2	1.6	0.3	
Gold (US\$/OZ)	1,258.8	(0.6)	(3.0)	(4.9)	
Silver (US\$/OZ)	19.1	0.0	(2.4)	(10.3)	

Debt / forex market

	28 May 14	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.7	8.7	8.8	8.9
Re/US\$	58.93	59.04	60.65	61.76

Sensex



RESULT UPDATE

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SHIPPING CORPORATION OF INDIA (SCI)

PRICE: Rs.63
TARGET PRICE: Rs.77

RECOMMENDATION: BUY
FY16E P/E: 11.1x

Improved performance - reports profits after 8 quarters

Stable shipping markets and better cost management has resulted in improved performance for SCI in the quarter. Topline reported impressive growth at Rs 12.8 bn (+33% YoY and +23% QoQ) attributed to improvement in freight rates (esp. in bulk and liner segment) for the company amidst capex done. Margins were impressive in the quarter at 19% improving almost 1000 bps QoQ. Other income was significantly lower in the quarter at 291 mn (down from 1223 mn in Q3FY14). Despite that the company reported PAT of Rs 133 mn after reporting losses for the last eight quarters.

With continuous reduction in global shipping order book with stable demand, we expect stable shipping market in FY15/improvement in FY16 with shipping companies including SCI reporting improved financial performance. We value SCI based on 0.7x of replacement value (NAV) of Rs 110 and recommend Buy with an increase TP of Rs 77 (earlier Rs 46) for the stock.

Summary table

(Rs Mn)	FY14	FY15E	FY16E
Sales	43,260	49,122	53,140
Growth (%)	4.2	13.6	8.2
EBITDA	6,099	10,116	12,136
EBITDA margin (%)	14.1	20.6	22.8
PBT	-2,191	1,594	3,318
Net profit	-2,724	1,275	2,654
EPS (Rs)	(5.8)	2.7	5.7
Growth (%)	L2L	L2P	108.2
CEPS (Rs)	12.5	21.3	24.7
BV (Rs/share)	129.5	132.3	138.0
DPS (Rs)	-	-	-
ROE (%)	(4.5)	2.1	4.1
ROCE (%)	(0.1)	2.1	3.0
Net cash (debt)	(76,386)	(86,651)	(89,912)
Net WC (Days)	92.5	99.0	100.0
EV/EBITDA (x)	17.3	11.5	9.8
P/E (x)	(10.8)	23.0	11.1
P/Cash Earnings	5.0	3.0	2.6
P/BV (x)	0.5	0.5	0.5

Source: Company, Kotak Securities - Private Client Research

Quarterly Snapshot - Consolidated

(Rs mn)	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14
Income from Operations	9,607	9,590	10,501	10,378	12,791
YoY growth (%)	-5.6	-17.0	2.4	2.7	33.1
QoQ growth (%)	-5.0	-0.2	9.5	-1.2	23.3
Employee	1,187	1,260	1,030	1,033	1,084
Bunker	3,949	3,268	3,826	3,745	3,350
Port	942	891	1,060	1,022	939
Cargo Handling activities	842	516	679	728	623
Repairs	747	536	598	654	1,031
Charter Hire	754	764	588	975	1,517
Provisions	1,033	15	56	13	427
Other expenditure	1,003	1,073	1,336	1,179	1,345
Operating expenditure	10,457	8,323	9,173	9,349	10,316
EBIDTA	-850	1,267	1,328	1,029	2,475
EBIDTA %	-8.85	13.21	12.65	9.92	19.35
Depreciation	2,024	2,047	2,171	2,220	2,125
EBIT	-2,874	-780	-843	-1,191	350
Interest	509	498	564	550	465
Other income	573	453	383	1,223	291
Interest income	236	271	270	485	259
Profit on sale of ships	177	171	84	730	28
Others	160	11	29	8	4
Exceptional	0	0	0	0	0
PBT	-2,810	-825	-1,024	-518	176
Taxes	37	160	190	140	43
Effective tax rate %	-1.3	-19.4	-18.6	-27.0	24.4
PAT	-2,847	-985	-1,214	-658	133

Source: Company

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

Financial Highlights:

- Topline reported impressive growth at Rs 12.8 bn (+33% YoY and +23% QoQ) attributed to improvement in freight rates (esp. in bulk and liner segment) for the company
- Margins were healthy in the quarter at 19% improving almost 1000 bps QoQ
- Other income was significantly lower in the quarter at 291 mn (down from 1223 mn in Q3FY14).
- With addition of new fleet and discard of fully depreciated old assets, the depreciation of the company has gone up to Rs 2125 mn (vs. Rs 2025 mn YoY).
- With capex, interest cost has also increased for the company
- Despite that the company reported PAT of Rs 133 mn after reporting losses for the last eight quarters.
- We believe FY15 to be much better for the company.
- In the last five months company rescinded contracts to purchase two 6500 TEUs container vessel, two Kamsarmax and one 80 T AHTS for delay in delivery for which it received refund of Rs 2.1 bn (part of FPO proceeds).

OTHER HIGHLIGHTS

Supply side pressure has eased in across segments - markets should be stable in FY15

In the dry bulk market, the order book to fleet ratio has improved to 23.5% from 38% YoY, while in dirty tanker segment the ratio has improved to 17% from 24% YoY. With demand improving especially from China for bulk and for crude from Europe and US, the shipping markets have improved in the last two quarters. Currently we estimate scrapping to be equal to or more than new order placement which is positive for the sector. With continuous reduction in global shipping order book, we expect stable shipping market in FY15 with shipping companies including SCI reporting improved financial performance.

Assets prices have also improved in the last 3 to 6 months

Asset prices across segments have improved between 2 to 15 % which indicates recovery and renewed interest in the sector. Simultaneously NAV of the company has improved from Rs 96 per share to Rs 110.

SCI currently owns a fleet of 73 ships = 5.85 mn dwt

SCI currently has a fleet of 73 ships equaling 5.85 mn dwt. It operates in all the segments of shipping through a mix of time charters, Contracts of Affreightment (COA's) and spot voyages.

Top line and earnings to improve over FY14 to FY16E

Subdued shipping market, higher bunker cost and higher depreciation has resulted in SCI reporting loss in the last eight quarters. However all the three key segments of shipping including container, bulk and the tanker segment have improved in the last six months with modest recovery in demand. The orderbook to fleet ratio has also improved significantly which bodes well for the sector. The company is also taking steps to exit loss making ventures and to diversify the portfolio of the company. With growing fleet we now estimate the revenues to grow at 10% CAGR over FY14 to FY16E with profits both in FY15 and FY16E.

Valuation and Recommendation

Historically most Indian Shipping companies including SCI have traded in a range of 0.4 x to 1 x of its NAV. We now value SCI at 0.7 x improved NAV of Rs 110 in line with our view that the shipping sector would remain stable/improve in FY15. Recommend Buy with an increase TP of Rs 77 (from Rs 46) for the stock.

We recommend BUY on SCI with a price target of Rs.77

RESULT UPDATE

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THERMAX LTD**PRICE: Rs.910****TARGET PRICE: Rs.1095****RECOMMENDATION: BUY****FY16E P/E: 20.3x**

Thermax reported lower than expected numbers on the Revenue and Earnings front, as revenue contraction has resulted in negative operating leverage. Segment-wise Environmental Engg division reported drop in margins due to project specific issues (likely to be temporary).

On the positive side, the company has exited the current fiscal with a higher order book, which should reverse the trend in revenue decline in recent quarters. The management sees traction in equipment ordering to pick up from Q3FY15 onwards.

We have rolled over our target price to FY16 and now value the stock at 25x FY16 earnings. Thus, in view of the adequate upside to our target price, we raise our rating to "BUY".

Summary table

(Rs Mn)	FY14	FY15E	FY16E
Sales	50999	64743	73109
Growth (%)	-7	27	13
EBITDA	4265	5922	7909
EBITDA margin (%)	8.4	9.1	10.8
PBT	3893.5	5837.0	7884.2
Net profit	2750	3858	5211
EPS (Rs)	23.1	32.4	43.8
Growth (%)	-9.6	40.3	35.1
CEPS (Rs)	27.5	39.6	51.4
BV (Rs/share)	170.7	194.9	230.5
DPS (Rs)	6.0	7.0	7.0
ROE (%)	7.6	11.3	14.0
ROCE (%)	11.3	14.5	17.2
Net cash (debt)	4138	6503	12036
NWC (Days)	12.4	13.3	6.0
EV/Sales (x)	2.1	1.6	1.4
EV/EBITDA (x)	25.4	17.9	12.7
P/E (x)	39.2	28.0	20.7
P/Cash Earnings	33.0	22.9	17.7
P/BV (x)	5.3	4.7	3.9

Source: Company, Kotak Securities - Private Client Research

Result Performance

(Rs mn)	Q4FY14	Q4FY13	% (YOY)
Net Sales	13,575	14,487	(6)
other income from operations	251	195	29
Raw Material costs	8,816	9,673	(9)
Purchase of trading goods	286	353	(19)
Staff costs	1,189	1,078	10
Other expenditure	2,196	1,905	15
Total Operating Exp	12,486	13,009	(4)
PBIDT	1,339	1,672	(20)
Other Income	351	244	44
Depreciation	148	145	2
EBIT	1,542	1,772	(13)
Interest	39	5	726
PBT	1,503	1,767	(15)
Tax	444	614	(28)
Adj Profit After Tax	1,059	1,153	(8)
EPS (Rs)	8.9	9.7	(8)
EBITDA % (excluding other op income)	8.0%	10.2%	
EBITDA (%)	9.9%	11.5%	
Raw Material costs to sales (%)	65.8%	68.3%	
Staff costs to sales (%)	8.6%	7.4%	
Other costs to sales (%)	15.9%	13.1%	
Tax rate (%)	30%	35%	

Source: Company

Reported Vs Estimated

(Rs Mn)	Reported	Estimated	Comments
Revenue	13,575	15,774	Significant revenue miss
EBITDA %	8.02%	11.70%	Margin contraction due to revenue decline
PAT	1,059	1333	Significant profit miss

Source: Company

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Revenue declined as recent improvement in order backlog is yet to contribute meaningfully to the revenue. Margin contraction due to lower fixed cost absorption. Subsidiary performance - weighed down by loss at supercritical boiler division

Contraction in revenue during the quarter has been higher than expectation. Although the order backlog of the company has improved in recent quarters, these orders are yet to start contributing to the revenues in a meaningful way.

Thus, for the quarter, revenue from both the divisions (Energy and Enviro) declined mainly as bulk (~75%) of the order book is less than nine month old. Thus, majority of the order book could still be at design stage and may not have progressed into manufacturing stage from where the revenue recognition gains momentum.

Segment revenues

(Rs Mn)	Q4FY14	Q3FY14	% Change
Segment- Energy	10968	11391	-4%
Segment - Enviro	2978	3500	-15%

Source: Company

EBITDA margin for the quarter has contracted by 220 bps to 8% mainly due to lower revenue recognition coupled with margin decline in the Environmental engineering division.

Raw material to sales ratio remained benign thus gross margins improved to 34.2% vs 31.7% in Q4FY13.

Employee costs and other expenditure rose 10% and 15% yoy respectively and were mainly responsible for the margin contraction.

Segment-wise, the Environment engineering division reported drop in margins on account of some project-specific issues coupled with margin pressure in Air Pollution equipment division.

Segment Margins

(%)	Q4FY14	Q3FY14
Segment- Energy	10.9%	10.8%
Segment - Enviro	2.3%	10.1%

Source: Company

Subsidiary performance - weighed down by loss at supercritical boiler division

Consolidated PAT at Rs 955 mn for the quarter was lower than the standalone numbers, as its Supercritical boiler manufacturing subsidiary (TBW) continues to incur losses due to drying up of profitable orders in the power sector. TBW reported loss of Rs 250 mn and Rs 530 mn in Q4FY14 and FY14 respectively.

Subsidiary Numbers

(Rs Mn)	Q4FY14	Q3FY14	% Change
Revenues	2402	2313	-4%
PBT	-190	-96	na
PAT	-104	-107	na

Source: Company

Order backlog has improved. Corporates continue to be reluctant to commit investments on large projects. Fortunately, standard product orders have remained resilient.

- Order backlog at group level stands at Rs 61.2 bn, up 26% yoy, mainly aided by a mega Rs 17 bn order for CSFB boilers, which the company won in Q1FY14.
- Order intake (Standalone) was flat yoy and declined on a sequential basis to Rs 1141 bn (Rs 13.65 bn in Q3FY14) in the quarter.
- Level of enquiries in the steel and power sectors remain at subdued levels.
- Outlook on power sector orders continues to be a matter of concern and there was no order won from this industry in the fourth quarter.
- Management has opined that on the ground level it has not seen any remarkable changes in terms of the inquiry inflows or any improvement in order finalisations. However, the company expects that post the formation of government, outlook has improved but traction in order intake should start from H2FY15 given time lag between project finalization and equipment ordering. The company expects H2FY15 order intake to be higher than that in H2FY14.

We recommend BUY on Thermax Ltd with a price target of Rs.1095

Upgrade to BUY

In view of the earnings revision, we raise our DCF based target price to Rs 1095 (Rs 705 earlier). At our TP, the stock would be trading at 25x FY16 earnings. Thus, in view of the adequate upside to our target price, we raise our rating to "**BUY**".

INDRAPRASTHA Gas (IGL)

PRICE: Rs.313
RECOMMENDATION: ACCUMULATE
TARGET PRICE: Rs.332
FY16E P/E: 9.1x

IGL's Q4FY14 results are broadly in-line with our expectations. In Q4FY14, the Company has reported a PAT of Rs. 905 Mn up by 1.2% QoQ and by 8.3% YoY basis thereby translating into quarterly EPS of Rs. 6.46 and CEPS of Rs. 10.5.

IGL's board has recommended a final dividend of Rs.5.5/share, resulting into 25% payout for FY14.

The next date of hearing of the case in Supreme Court between PNGRB and IGL is due on 4th July'14. The outcome of this judgment will have a significant bearing on the future prospects of the Company.

We expect FY15E EPS of Rs. 28.1 and Rs.34.5 for FY16E. Based on our estimates, the stock at current market price of Rs.313 is trading at 4.1x EV/EBIDTA and 9.1x P/E on FY16E earnings.

Based on our DCF valuation model, the fair value of IGL is Rs. 332 (earlier Rs.315) and we maintain Accumulate rating on the stock. The management believes that the strong trend in CNG and PNG segment will continue and IGL is best placed to benefit from rising gas consumption in India. However, we have been conservative in our assumptions considering the headwind of SC pending verdict, HC pending verdict regarding the lease from DDA, major raw material price hike from FY15E, etc.

Summary table

(Rs Mn)	FY14	FY15E	FY16E
Sales	43,280	50,066	56,541
Growth (%)	16.2	15.7	12.9
EBIDTA	7,824	8,516	9,959
EBIDTA margin (%)	18.1	17.0	17.6
PBT	5,398	5,963	7,315
Net profit	3,603	3,936	4,828
EPS (Rs)	25.7	28.1	34.5
Growth (%)	1.7	9.2	22.7
CEPS (Rs)	41.4	45.3	53.8
BV/Share (Rs.)	125.9	147.5	174.9
DPS (Rs)	5.5	5.6	6.0
ROE (%)	21.5	20.1	20.9%
ROCE (%)	20.3	19.2	20.7%
Net Debt	699	(933)	(2,725)
EV/Sales (x)	1.0	0.9	0.7
EV/EBIDTA (x)	5.7	5.0	4.1
P/E (x)	12.2	11.1	9.1
P/BV (x)	2.5	2.1	1.8
P/CEPS (X)	7.6	6.9	5.8

Source: Company, Kotak Securities - Private Client Research

Result Table

(Rs Mn)	Q4FY14	Q3FY13	YoY (%)	QoQ (%)
Net Sales	9,665	8,818	9.6	(7.1)
Less: Raw Material	6,778	5,851	15.8	(5.3)
Gross Margin	2,885	2,968	-2.8	(11.3)
Gross Margin (%)	29.8	33.7	(3.81)	(1.41)
Less: Opex	978	1,119	-12.6	(25.3)
Salaries,Wages & Bonus	145	178	-18.7	(7.4)
Other Mfg Expenses Excl Excise	834	941	-11.4	(27.8)
EBIDTA	1,906	1,848	3.1	(1.8)
EBIDTA Margin (%)	19.7	21.0	(1.2)	1.1
Add: Other Income	80	38	112.8	0.1
Less: Depreciation	558	489	14.1	(0.1)
EBIT	1,429	1,397	2.2	(2.4)
Less: Interest	96	125	(23.1)	(19.0)
PBT	1,332	1,272	4.7	(0.9)
Less: Tax	427	437	-2.2	(5.0)
PAT	905	835	8.3	1.2
PAT (%)	9.4	9.5	(0.1)	0.8
EPS	6.46	5.97	8.3	1.2
Ratio's (%)	Q4FY14	Q3FY13	YoY (%)	QoQ (%)
RW/Net Sales (Excise)	70.13	66.35	3.8	1.37
Staff Cost	1.50	2.02	(0.5)	(0.0)
Other Mfg Expenses Excl Excise	8.62	10.67	(2.0)	(2.5)
Cash EPS (Rs/share)	10.45	9.46	10.5	0.7
Other Income/Net Sales	6.00	2.95	3.0	0.1
Tax rate	32.07	34.34	(2.3)	(1.4)

Source: Company

Recent Developments

- **CNG and PNG price increased again:** In May'14, IGL has increased the CNG and PNG prices in Delhi and NCR. The gas price hike is mainly on account of 1). Increase of costlier RLNG in the gas sales mix and 2). Increase in the operating expenses which include increase in minimum wages announced by the government as well as increase in power tariffs. In Delhi, CNG price is hiked by Rs.2.95/kg to Rs.38.15/kg. Similarly, in Noida, Greater Noida and Ghaziabad, CNG price is hiked by Rs.3.35 /kg to Rs.43.5/kg. Coming to PNG prices, in Delhi, PNG price is hiked by Rs.1/Scm to Rs.25.5/SCM upto 30 scm in two months and for consumption beyond that PNG price is hiked by Rs. 3.5/Scm to Rs.48/scm. We believe the full benefit of gas price hike will be reflected in Q2FY15 and onwards.
- The Company is trying to enter into long term LNG supply agreement in order to reduce its dependence on costlier spot cargoes. In this regard, IGL is in talks with its promoters GAIL & BPCL and others.
- IGL's revenues are expected to grow with the increase in realization and huge demand of natural gas both in CNG and PNG segment. As mandated by Delhi government, LCVs will be converted into CNG which will boost the CNG sales.
- The management has guided that in addition to catering to the demand of households, the thrust would be on tapping industrial and commercial customers who have huge demand potential. Also, private vehicles will continue to be a growth driver for CNG sales in the coming years.

Key risk remains in terms of:

- 1). Any adverse judgment from SC regarding the capping of margins, retrospective or prospective
- 2). Further rise in gas prices both domestic and LNG,
- 3). Cost and time run in project execution and
- 4). Any major regulation by PNGRB on marketing margin.

Result Analysis

- **Net Revenue:** Net revenue for Q4FY14 is at Rs. 9.7 Bn up by 9.6% YoY but down by 7.1% on sequential basis. Lower revenue is on mainly on account of 1). Gas price cut undertaken by IGL in both CNG and PNG segment due to change in domestic gas allocation and 2). Change of sales mix. Sales volume has been flat on sequential basis but is down by 8.9% to 346 MSCM.
- **Sales Volume:** During Q4FY14, IGL sold ~191 mn kg of CNG thereby registering a growth of 2.4% YoY but fall of 1.03% on sequential basis. IGL sold 92 mn SCM of PNG in Q4FY14 showing a growth of 4.5% YoY and of 3.1% QoQ. Total sales volume has fallen by 0.2% QoQ and by 8.9% YoY to 346 MMSCM due to higher prices and lower industrial demand. CNG segment has witnessed dip in volumes as compare to PNG segment.
- **Segment wise revenue analysis:** IGL has registered net revenue of Rs.7.8 Bn in CNG segment posting a 6.5% YoY growth but fall of 10.7% QoQ on account of price cut. Whereas, PNG segment has registered revenue of Rs. 2.83 Bn resulting in a revenue growth of 64.5% YoY and 2.8% QoQ.
- **Realization:** Blended gross realization is higher by 20.3% YoY but down by 6.9% QoQ to Rs.28.0/Scm (net of excise). On QoQ basis, the realization has fallen mainly on account of price cuts undertaken in the both the segments.
- **Raw Material Cost:** The raw material cost has fallen by 5.3% QoQ but increased by 15.8% YoY basis to Rs. 6.78 Bn. The raw material cost as a percentage of revenue is up by 380 bps YoY and by 137 bps QoQ basis to 70.13%.

- In order to meet the rising domestic demand of natural gas, IGL not only source KG-D6 gas and Administered Price Mechanism (APM) gas but also source higher priced long-term RLNG as well as spot RLNG. Higher proportion of RLNG and weak rupee has led to increase in raw material cost. We would like to highlight here that the gas supplied by RIL and ONGC is fixed by government in US dollar terms. Hence any rupee depreciation increases the cost for IGL and vice-versa. The Company has partly passed on the burden on higher raw material cost.
- **Employee Expenses:** The staff cost (as a percentage of sales) has fallen on YoY basis (-5 bps) but flat on QoQ basis to 1.5% of net sales. In absolute terms, employee cost has fallen by 7.4% QoQ and by 18.7% YoY basis to Rs.145 Mn.
- **Manufacturing expenses:** Similarly, other manufacturing expenses has fallen by 27.8% QoQ and by 11.4% YoY basis to Rs. 834 Mn.
- **Operating Profit:** In absolute terms, EBITDA is at Rs. 1.91 Bn up by 3.1% YoY basis but down by 1.8% QoQ. Another important factor to monitor is EBITDA per unit of sales. The same has fallen on QoQ basis (1.6%) but up by 13.2% YoY to Rs.5.51 /SCM.
- **Operating Margins:** In Q4FY14, the EBITDA margin stood at 19.7%, which is down by 120 bps YoY basis but up by 110 bps on QoQ basis.
- Other income of the company has increased by 112.8% YoY basis but flat on QoQ basis to Rs. 80 Mn.
- The depreciation cost has gone up by 14.1% YoY basis but flat on QoQ basis to Rs. 558 Mn as the company has expanded the number of stations in & around Delhi and capitalized pipelines.
- In Q4FY14, the Company has paid an interest of Rs. 96 Mn, lower by 23% YoY and by 19.0% QoQ basis.
- PBT for Q4FY14 is at Rs.1.33 Bn up by 4.7% YoY but down by 0.9% on a sequential basis on account of reasons mentioned above.
- Bottom line for Q4FY14 is at Rs. 905 Mn up by 8.3% YoY and by 1.2% on sequential basis thereby translating into Q4FY14 EPS of Rs. 6.46 and CEPS of Rs. 10.45.
- In Q4FY14, the PAT margin stood at 9.4%, which is down by 10 bps on YoY basis but up by 8 bps on QoQ.

Valuation & Recommendation

We recommend ACCUMULATE on IGL with a price target of Rs.332

- We expect FY15E EPS of Rs. 28.1 and Rs.34.5 for FY16E. Based on our estimates, the stock at current market price of Rs.313 is trading at 4.1x EV/EBIDTA and 9.1x P/E on FY16E earnings.
- Based on our DCF valuation model, the fair value of IGL is Rs. 332 (earlier Rs.315) and we maintain Accumulate rating on the stock. The management believes that the strong trend in CNG and PNG segment will continue and IGL is best placed to benefit from rising gas consumption in India. However, we have been conservative in our assumptions considering the headwind of SC pending verdict, HC pending verdict regarding the lease from DDA, major raw material price hike from FY15E, etc.

TV18 BROADCAST

PRICE: Rs.34

TARGET PRICE: Rs.34

RECOMMENDATION: REDUCE

FY16E P/E: 19.0x

TV18 Broadcast has registered a strong performance in the quarter - the reported PAT is in line with our expectations despite a restructuring charge of Rs.171mn. The company's results are ahead of our expectations largely on account of stronger than expected net distribution income, and consolidation of ETV financials. Going forward: 1/ some benefits the company has enjoyed related with election advertising are likely to fade 2QFY15 onwards (although they could potentially find an offsetting element in business news revenues), 2/ there could be significant competitive pressure in the Hindi GEC genre which could compromise the relative position of Colors- this could affect our thesis on net distribution revenues of the company, and/ or force the company on a more aggressive expense path , 3/ we think that at CMP, concerns relating to ownership of TV18 Broadcast assets and options find no discounting. While we raise our target price for TV18 Broadcast to Rs 34 (roll forward our DCF based price to the next year), we downgrade TV18 Broadcast to REDUCE.

Summary table

(Rs Mn)	FY14	FY15E	FY16E
Sales	20,360	22,997	26,350
Growth (%)	21.9	13.0	14.6
EBITDA	1,826	3,278	4,824
EBITDA margin (%)	9.0	14.3	18.3
PBT	1,152	2,790	4,613
Net profit	970	2,068	3,066
EPS (Rs)	0.6	1.2	1.8
Growth (%)	NM	113	48
CEPS (Rs)	0.9	1.5	2.1
BV (Rs/share)	19.8	21.0	22.8
DPS(Rs)	0	0	0
ROE (%)	2.9	5.9	8.2
ROCE (%)	3.8	6.9	9.1
Net cash (debt)	-1,995	-312	2,267
NWC (Days)	56	58	60
P/E (x)	60.0	28.1	19.0
P/BV (x)	1.7	1.6	1.5
EV/Sales (x)	2.9	2.5	2.1
EV/EBITDA (x)	32.5	17.6	11.4

Source: Company, Kotak Securities - Private Client Research

Results Summary

(Rs mn)	4QFY14	4QFY13	% y/y	3QFY14	% q/q
Revenues	5632	4747	18.6%	5255	7.2%
- Advertising Revenues	3578	2775	28.9%	3228	10.8%
- Subscription Revenues	809	328	146.6%	441	83.4%
-Motion Pictures and TIFC	145	397	-63.5%	355	-59.2%
-Distribution	2040	1509	35.2%	1946	4.8%
Less Inter-Segmental Revenues	-940	-328	186.6%	-716	31.3%
-Other Operating Revenues	0	66	-100.0%	0	
Expenses:	4936	4401	12.2%	4480	10.2%
- Employee Expenses	700	729	-4.0%	563	24.3%
- Mktg. Distrbn. And Promotional Exp.	514	1810	-71.6%	504	2.0%
-Production and Other Expenses	2613	1862	40.3%	2188	19.4%
-Indiacast	2049	0	NM	1941	5.6%
Less Inter-Segmental Eliminations	-940	0	NM	-716	31.3%
EBITDA	696	346	101.2%	775	-10.2%
Margin	12.4%	7.3%	5.1ppt	14.7%	-2.4ppt
-EBITDA, Broadcasting	756	348	117.2%	902	-16.2%
-EBITDA, Distribution	-11	-32	NM	9	-222.2%
-EBITDA, Motion Pictures	-47	30	-256.7%	-136	-65.4%
Depreciation and Amortization	206	108	90.7%	121	70.2%
EBIT	490	238	105.9%	654	-25.1%
ESOP Expenses	-5	1	-600.0%	1	-600.0%
Financial Expenses	132	244	-45.9%	171	-22.8%
Other Income	90	166	-45.8%	61	47.5%
Exceptional Items	171	0	NM	0	
PBT	282	159	77.4%	543	-48.1%
Provision for Tax	53	17	211.8%	31	71.0%
PAT before minority interest	229	142	61.3%	512	-55.3%
Minority Interest	-93	-32	190.6%	-5	1760.0%
Associate Income	38	0			
PAT	360	174	106.9%	517	-30.4%

Source: Company

- At the outset, we note that 4QFY14 financials include the financials of ETV (News and Entertainment), and, as such, the same are not comparable with prior quarters.
- We estimate that excluding ETV financials, TV18 Broadcast advertising revenues have registered a 4-5% growth, broadly in line with the growth observed in prior quarters. We note that advertising revenues of the company also see some benefits on account of inter-segment sales. Eliminating these, we believe advertising revenues of the company have been 2-3%.
- Subscription revenues of the company have seen substantial growth. This is on account of : 1/ rise of net distribution income of the company to Rs 603 mn, 2/ inclusion of ETV financials in the quarter (this is likely to the extent of c. Rs 200mn).
- Net distribution income for the company has registered significant growth; net distribution income for the quarter contains one-offs (lumpiness on certain deals going through) and does not carry the weight of the carriage fees the company shall have no incur on new channel launches (launched towards the end of this quarter, added to a wider distribution for CNBC Bajaar). We believe sequential quarter gains such as these shall not be sustainable, and Rs 650-750mn (including ETV) shall be the quarterly rate going forward. We note that our estimates factor in Rs 2940 net subscription revenues for FY15.
- On a q/q basis, about 90% of the rise in employee expenses is on account of inclusion of ETV financials. Production expenses, excluding ETV financials, have declined on a q/q basis (lower movie expenses in Viacom18), thus the rise in the same line item is fully attributable to inclusion of ETV. Marketing and distribution expenses have registered only a modest increase on a q/q basis, even post inclusion of ETV, as there has been a significant decline in Viacom18 marketing spends.
- EBITDA excluding ETV financials is ahead of our expectations, largely on account of higher than expected net distribution revenues. The company has registered higher depreciation expenses in the quarter relative to our (ex-ETV) estimates, and net financial income has outperformed our expectations. As a result of reported EBITDA and net financial income exceeding our estimates, the company's PAT has come in line with our estimates despite a restructuring charge of Rs 171mn for the quarter (one-time restructuring and acquisition charge of ETV and a one-time severance pay).
- ETV channels have registered strong performance in the quarter. ETV News has brought in revenues Rs 415mn, with 39% EBITDA margin (down 6 ppt on a y/y basis, on account of launch of new channels), and ETV Entertainment's losses continued to remain moderate relative to recent past (Rs 111mn losses on revenues of Rs 789mn).
- The company has reported net debt of Rs 2420mn, broadly in line with expectations.
- A day after release of the results, TV18 Broadcast has announced that the company's CEO, Mr. B. Saikumar has resigned from the organization.

Outlook and Investment View

- We are encouraged by the strong results that the company has posted in the quarter. With this, the company has comprehensively beaten its guidance of Rs 1.6Bn in EBITDA for FY14.
- Key positive of the result, as with the previous quarter's results, is that the company has displayed that its operations can be consistently profitable, and that, given current quarterly rate of c. Rs 500mn PAT, earnings can impose a significant floor on the price. Further, we think that given recent trends, the visibility on FY15 earnings is fairly strong.

- The key positive surprise to watch for would be the potential growth in revenues of the company's business channels (we have currently factored in 12-15% growth in FY15/FY16). The company could also make some gains if it were to be able to pass on higher rates (as permitted by a recent tariff order from the regulator).
- There are potential negatives lined up as well: 1/ application of the 10+2 cap to news channels could adversely impact TV18 Broadcast's general news operations, 2/ potential positives relating with elections that would form part of the past few quarters' results, will fade post 1QFY15, 3/ we are concerned by the fact that Viacom18's TV operations are registering only mild, sub-industry growth. Moreover, we note that the company's flagship channel Colors has been largely dependent on non-fiction shows, and the company could be impacted by the rising competitive intensity in the Hindi GEC genre, 4/ uncertain impact of impending break-up of Indiacast - UTV.
- Pending a detailed discussion with the management, we leave our estimates for FY15/FY16 largely unchanged.
- Some of the concern areas relating with TV18 Broadcast, mostly relating with Viacom's role in TV18 Broadcast, remain unresolved. As of now, our base case continues to be that Viacom shall purchase the remaining stake in ETV Entertainment; however, in our belief there is no discount factored into the price that incorporates the probability of the deal not happening.
- We see the resignation of group CEO Mr. Saikumar as a potential negative for the company, in so far as operations of the company are concerned. In our understanding Mr. Saikumar has played a significant and hands-on role in the strong turnaround that net distribution income of the company has witnessed.
- It is worth noting that certain media outlets have pointed out that the resignation of Mr. Saikumar could be a signal for eventual shift of ownership/ management to Reliance Industries - we are in no position to make a judgment on this matter, and our recommendation on the stock ignores this aspect of the development.
- Given the modest upside in our base case, potential negatives, and unresolved concerns regards ownership/ options, we are reluctant to value the TV18 Broadcast stock aggressively. We raise our price target to Rs 34 (roll-forward DCF value by a year); given limited upside, we downgrade TV18 Broadcast to REDUCE.

CONTAINER CORPORATION OF INDIA

PRICE: Rs.1130

RECOMMENDATION: ACCUMULATE

TARGET PRICE: Rs.1200

FY16E P/E: 17.0x

Profitability continues to grow in a challenging business environment

Concor reported its Q4FY14 net profit at ~Rs 2.36 bn (+5% YoY) ~ slightly below our expectation of Rs 2.49 bn. Realizations have fallen marginally for Exim but improved for the domestic segment. Company has reported strong volumes of 615,693 TEUs in the Exim (+8% YoY) and 146,269 TEUs in the domestic segment (+24% YoY). Higher haulage, weak container market, high empty running and provisioning for rebates continue to impact the operational performance of the company. Operating margins of the company came in at 19.9% decreasing 120 bps YoY. Sales was reported at Rs 13 bn (+4% QoQ and +4% YoY) primarily aided by improvement in volumes.

There are two positives for the company from the results: (1) Improving market share in the Exim segment at 79% (73% in Q4FY13) (2) improving traffic (exports growing and outpacing imports) leading to lower empty running. The company has reported strong volumes for FY14 and we estimate the company to deliver 9% volume CAGR over FY14 to FY16E in Exim (versus guidance of 10%) and volume CAGR of 8% in the domestic segment (versus guidance of 15%). We estimate operating margins to sustain at ~23% and ROE of ~15%.

We value the company at 18 times FY16E EPS, a premium for its dominant market share, strong asset base, outperformance and strong balance sheet. Recommend Accumulate with an increased TP of Rs 1200. (from Rs 1075).

Summary table

(Rs Mn)	FY14	FY15E	FY16E
Sales	49,745	56,505	62,920
Growth (%)	12.9	13.6	11.4
EBITDA	10,910	12,812	14,488
EBITDA margin (%)	21.9	22.7	23.0
PBT	12,733	14,612	16,238
Net profit	9,741	11,690	12,990
EPS (Rs)	50.0	59.9	66.6
Growth (%)	3.5	20.0	11.1
CEPS (Rs)	59.7	69.9	76.9
BV (Rs/share)	358.8	403.7	455.3
DPS (Rs)	12.0	15.0	15.0
ROE (%)	13.9	14.8	14.6
ROCE (%)	13.4	14.3	14.5
Net cash (debt)	25,641	28,356	32,421
NWC (Days)	(9.0)	(8.9)	(9.5)
EV/EBITDA (x)	20.2	17.2	15.2
P/E (x)	22.6	18.9	17.0
P/Cash Earnings	18.9	16.2	14.7
P/BV (x)	3.1	2.8	2.5

Source: Company, Kotak Securities - Private Client Research

Quarterly Snapshot (Consolidated)

(Rs mn)	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14
Revenues	12,314	11,946	12,540	12,392	12,867
Staff cost	220	281	283	341	330
Rail freight expenses	7,501	7,146	7,469	7,282	7,637
Others	1,999	1,805	2,013	1,912	2,336
Operating expenditure	9,720	9,232	9,765	9,535	10,303
EBIDTA	2,594	2,714	2,775	2,857	2,564
EBIDTA (%)	21.1	22.7	22.1	23.1	19.9
Other Income	899	900	785	888	1,145
Interest	0	0	0	0	0
Depreciation	456	460	466	468	499
Taxation	782	688	676	779	849
PAT	2,255	2,466	2,418	2,498	2,361
Prior period adjustment	0	2	0	0	0
Adjusted PAT	2,255	2,464	2,418	2,498	2,361

Source: Company

Financial Highlights:

- Sales was reported at Rs 13 bn (+4% QoQ and +4% YoY)
- EBIDTA was reported at Rs 2.67 bn translating into Ebidta margin of 19.9% (down 120 bps YoY). Company usually provides for discounts in the fourth quarter which impacts the margins. Even with that the margins don't look encouraging.

- Higher haulage, weak container market, high empty running and provisioning for rebates continue to impact the operational performance of the company. However with improving traffic (exports growing and outpacing imports) empty running was lower in the quarter. Consequently operating margins of the company came in at 23.1 % increasing 100 bps QoQ.
- Company continues to pay MAT and would continue to pay MAT going ahead.
- Consequently company reported PAT of Rs 2.47 bn (flat QoQ and +9% YoY)
- Company has declared a final dividend of Rs 5.3 /share (total dividend for Rs 12/ share for FY14)

Volumes and Realisation

	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14
Exim volumes (TEUs)	568,421	547,619	603,475	594,642	615,693
Domestic volumes (TEUs)	117,237	114,006	119,646	127,262	146,269
Total volumes (TEUs)	685,658	661,625	723,121	721,904	761,962
Exim revenues (Rs Mn)	9,673	9,416	9,970	9,626	9,646
Domestic revenues (Rs mn)	2,641	2,530	2,570	2,766	3,221
Total revenues (Rs mn)	12,314	11,946	12,540	12,392	12,867
Realisation Exim/ TEU	17,017	17,194	16,521	16,188	15,667
Realisation Domestic/ TEU	22,527	22,192	21,480	21,735	22,021
Avg Realisation/TEU	17,959	18,056	17,341	17,166	16,887

Source: Company

Estimates large capex in logistics parks of ~Rs 60 bn in XII plan

Concor shared a capex plan of Rs 60 bn for the XII plan- FY12 to FY17E (Rs11bn in FY14) with plans to develop several logistics parks/private freight terminals (PFT) across India and along the dedicated freight corridor. We expect this will add another source of revenue to the company (open for private use) and also complement the current business of the company. The company has already notified and started operations at two PFTs - one in Khatuwas and second in Secunderabad. Management expects the number of terminals to increase to 78 (now 60) by end of FY17.

We estimate these investments would have a long gestation period and would be returns dilutive in the near term. However, note that return dilution should be seen in the context that currently this capital earns returns attributable to cash only. While short-term pressure may exist, eventually operational returns would exceed cash returns

The company is currently having 240 rakes with 10 more rakes expected to join the fleet by end of FY15E.

Cash balance is healthy which yields significant other income

Concor today has a cash balance of over Rs 26 billion on its balance sheet which would yield the company around 8 to 9% per annum. We estimate the company to utilize these cash reserves for financing the expansion plans as per the capex plan of the Company. In long term we expect the operational returns from the capex to exceed investment cash returns.

We estimate overall volume CAGR of 8.5% over FY14 to FY16E

Concor management has guided for a 10% growth in Exim volumes versus ~10% YOY growth in FY14. The Exim business has improved with positive global business sentiment. Furthermore, the recent rupee appreciation (against US\$) is also likely to impact import volumes positively.

Improving volumes is critical in 1) Deploying idle capacity; 2) Reducing empties; 3) Bring down rebates and 4) Business opportunities for all players allaying fears of competition.

Container Volumes for Concor (000)

	FY12	FY13	FY14	FY15E	FY16E
IExim TEUs	2,145	2,152	2,361	2,574	2,800
YoY %	6.3	0.3	9.7	9.0	8.8
Domestic TEUs	468	433	507	538	546
YoY %	-13.9	-7.5	17.1	6.0	1.6
Total	2,613	2,585	2,869	3,112	3,346
YoY %	2.0	-1.1	11.0	8.5	7.5

Source: Company, Kotak Securities - Private Client Research

Outlook and Valuation

We are increasing the target price for Concor to Rs 1200 (from Rs 1075). We estimate the company to deliver 9% volume CAGR over FY14E to FY16E in Exim (versus guidance of 10%) and volume CAGR of 8% in the domestic segment (versus guidance of 15%). We estimate operating margins to sustain at ~23% and ROE of ~15%.

We are further increasing the TP on the back of (1) healthy long-term volume growth (2) Concor's ability to maintain market share and margins (3) reasonable valuations. We value the company at 18 times FY16E EPS, a premium for its dominant market share, strong asset base, outperformance and strong balance sheet. Recommend Accumulate with a TP of Rs 1200 (earlier Rs 1075).

**We recommend ACCUMULATE on
Concor with a price target of
Rs.1200**

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