

Result Update

CMP : Rs. 2,997
Rating : Buy
Target : Rs. 3,695

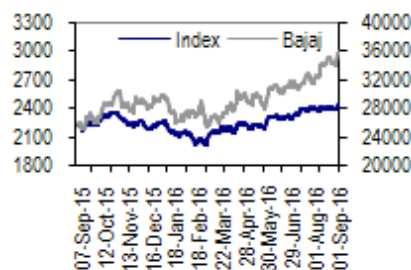
KEY DATA

Market Cap (Rs. bn)	867.2
Market Cap (USD mn)	12944
52 WK High / Low	3038 / 2173
Avg Daily Volume (BSE) (INR mn)	2783
Face Value (Rs.)	10

BSE Sensex	28,452
Nifty	8,786
BSE Code	532977
NSE Code	BAJAJ-AUTO
Reuters Code	BAJA.BO
Bloomberg Code	BJAUT IN

Shareholding %	3Q16	4Q16	1Q17
Promoters	49.3	49.3	49.0
MF/Banks/Indian FIs	8.3	8.0	9.0
FII/ NRIs/ OCBs	18.1	18.1	17.0
Indian Public	24.6	24.6	25.0

Performance Chart



Bajaj Auto Limited (BAL)

Fortune changers for Bajaj



Bajaj VS400



Bajaj V15



Avenger Street

Q1FY17 result review

Bajaj Auto Ltd.(BAL) delivered a subdued set of numbers in Q1FY17 on the back of headwinds on the export front. Total revenue grew by a modest 2.8% Y-o-Y to Rs 57.94bn while PAT grew by just 2.2% Y-o-Y to Rs 9.78bn. EBITDA margin was nearly flat at 21.1% Y-o-Y but down 47bps sequentially. EBITDA margin was impacted sequentially by a weaker product mix with lower 3W sales, lower exports and also slightly weak USD/INR.

BAL's domestic motorcycle sales grew by 13% Y-o-Y outperforming the industry growth of 9% during the quarter. The outperformance was mainly driven by the V15 pseudo cruiser (~82,000 units in Q1FY17) and Avenger (~56,000 units in Q1FY17). These two models have changed the tide for BAL with market share in domestic market going up from a low of 15.2% Q1FY15 to 18.6% in Q1FY17. However, BAL continued to face headwinds in export market as sales declined 23.3% Y-o-Y to Rs 20.21bn mainly due to continued slowdown in Nigeria & Egypt which were impacted by non-availability of foreign currency and depreciation in local currency.

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Investment thesis

BAL's strategy is to shift the customer from M2 (splendor class) segment to either M1 (Platina class) segment or the M3 (125-150cc class including Honda shine and V) segment. BAL succeeded in doing this via Platina/CT100 (M1) and the V15 (M3). With the price reduction in the Pulsar LS135 and launch of new color schemes in V15 sales could continue to be good in the M3 category. The expected launch of the most powerful Pulsar (probably VS400) the sales of its higher end bikes could get a boost. The new sports cruiser VS400 would compete against the Royal Enfields of the world. **We believe the VS400 could be an instant hit considering the styling and also the price/power advantage it would enjoy compared to its peer group (going by the historical experience of BAL pricing its products aggressively).** There is little competition in the 300-500cc segment with Royal Enfield ruling the roost in this category and BAL has a good chance to win some market share with its Pulsar VS400.

On the domestic industry front we expect the domestic motorcycle market to grow 9% to 11.64mn units in FY17E on the back of implementation of seventh pay commission and a better monsoon in FY16-17 season (on the back of 2 years of below average rains) with BAL is expected to grow at 18.8% to 2.26mn units on the back of traction from its Avengers, V brand and new Pulsars. On the back of new 3W permits being issued across many states we believe FY17E should be a better year with volumes expected to grow 21% to 310k units.

However exports continue to be a cause of worry for BAL as whatever traction the company is gaining on the domestic front it's losing out in exports. Nigeria and Egypt, BAL's to big export markets, sales continue to be on a downward spiral. The newer markets would take some time to fill the shortfall in volumes from the slowdown in Nigeria and Egypt. On the export front, we expect the motorcycle volumes to de-grow by 12.4% to 1.28mn units and 3W exports to de-grow by 23% to 215k on the back of pressure in some export markets.

Management Outlook

Management has maintained its FY17 volumes guidance at ~4.6m units (Up 16% YoY), driven by domestic 2W growth of ~37% (2.6mn units) and domestic 3W growth of ~17.5%(300k units), but expects exports to decline by ~7% (~1.35mn 2Ws + ~250k 3Ws). However we believe in due course the management would revise its export expectations downwards on the back of continued decline in volumes.

The recovery of the export markets is crucial for BAL's performance going ahead. The strategies by BAL in recent times viz. revamping the Avengers, launching of Platina with power start, the V15 has worked wonders for BAL in the domestic market. The company's plans to upgrade all Pulsar models post festive season should augur well as it has lost some market share in the sports category (150-200cc) to Honda Hornet and Suzuki Gixxer from 21% in Q1FY16 to 15.7% Q1FY17 while the VS400 could boost the sales in the premium sports category.

After factoring the above points we expect the BAL to post sales of Rs 250bn and EPS of Rs 151 in FY17E. We expect the earnings of BAL to grow at a CAGR of 19% over FY16-18E. For Q1FY17, we expect BAL to post revenue of Rs 65.29bn and EPS of Rs 40 while EBITDA margin is expected to come in at 21.6% (up 50bps sequentially). We value the core operations of the company at a P/E of 20x FY18E EPS of Rs 179 to arrive at a standalone value of Rs 3,586 while we value the investment in KTM at a 30% discount which comes to Rs 109/share giving us a combined value of Rs 3,695 per share.

SOTP Valuation of BAL

Company	BAL's Holdings	Basis of Valuation	Valn. Parameter (CMP/EPS)	Value/Mcap (Rs.mn)	BAL's Shares (in mn)	Value/BAL Share (Rs.)	30% Discount on Subsidiary
BAL's Core Value		P/E	20.0x			3,586	3,586
KTM	47.18%	Mcap	Euro 115	95,458	289	156	109
Total Value / share							3,695
CMP							2,997
Upside							23%

Comparative Valuation

Company	Rs	Rs	Rs	(x)	Sales		EPS		P/E		EV/EBITDA	EBITDA	RoE	Annual	Annual	Div. Yield (%)	
	Price	Mcap	Cash		Net D/E	Rs Bn		Rs				(x)	(%)	(%)	EPS		Sales
						TTM/	FY18E	TTM/	FY18E	TTM/	FY18E	TTM/	FY16	TTM/	FY16		FY16
Auto-2W																	
Bajaj Auto	2,997	867	20.8	0.01	250	297	151	179	19.8	16.7	15.5	21.1	29.0	18.6	18.7	1.8	
Hero Moto Corp.	3,547	708	34	0.0	321	358	180	200	19.7	17.7	14.9	15.3	42.1	10.9	11.6	2.0	
Eicher Motors	22,786	620	7.5	0.0	153	190	635	800	35.9	28.5	27.5	17.6	48.6	25.9	24.2	0.4	
TVS	328	156	0.3	0.7	128	148	12	16	26.8	20.5	20.8	6.6	27.1	30.4	15.4	0.8	
Auto-Composite																	
Tata Motors	544	1,570	21.9	0.9	2,963	3,328	46.8	56.3	11.6	9.7	5.4	12.4	16.2	20.5	12.3	0.0	
Maruti	5,058	1,528	9.1	0.0	677	788	206	246	24.5	20.6	16.0	15.6	17.8	19.2	16.5	0.7	
Ashok Leyland	84	238	15.7	2.8	223	257	5	6	16.3	13.5	10.8	14.2	29.5	20.6	15.2	1.1	
SML Isuzu	1,353	20	0.4	0.2	15	18	56	73	24.3	18.4	17.9	8.3	15.9	31.9	20.2	0.6	
Mahindra & Mahindra (std)	1,452	902	46.7	1.5	460	526	62	73	23.5	19.8	12.7	11.7	8.8	18.5	14.2	0.8	
Escorts	330	40	2.5	0.2	39	45	20	29	16.6	11.3	20.1	4.1	4.2	47.3	15.6	0.4	
VST tillers and tractors	1,875	16	1.5	0.0	7	8	99	115	18.9	16.3	13.1	16.1	18.9	15.9	13.7	0.8	
Force Motors	3,055	40	3.2	0.0	36	43	160	195	19.1	15.7	10.8	9.0	8.0	30.4	16.9	0.3	

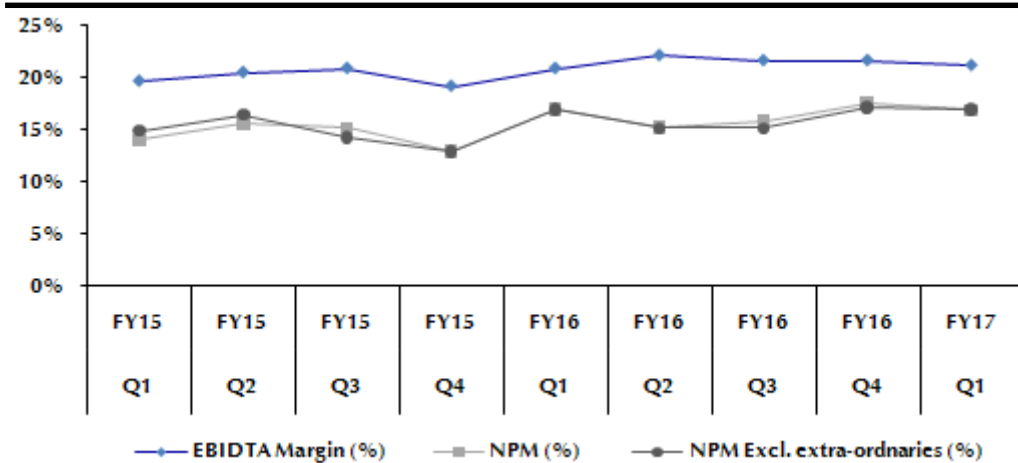
Source: FQ Research, Reuters

Q1FY17 Results Snapshot

YE March (Rs. mn)	Q1 FY17	Q1 FY16	Y-o-Y change %	Q4 FY16	Q-o-Q change %
Sales in mn nos	0.99	1.01	(1.9%)	0.87	14.0%
Net Sales	56,436	54,909	2.8%	52,552	7.4%
Other Operating Income	1,512	1,461	3.5%	1,518	(0.4%)
Total Revenue	57,948	56,369	2.8%	54,070	7.2%
Less:					
Net Raw Material consumed	38,628	37,728	2.4%	35,333	9.3%
Advertisement and sales promotion Exp.	4,405	4,476	(1.6%)	5,046	(12.7%)
Personnel	2,683	2,434	10.2%	2,024	32.6%
Total Expenditure	45,716	44,637	2.4%	42,403	7.8%
EBIDTA	12,232	11,732	4.3%	11,667	4.8%
Less: Depreciation	775	784	(1.2%)	761	1.8%
EBIT	11,457	10,948	4.7%	10,906	5.1%
Less: Interest	2	1	175.0%	1	266.7%
Add: Other income	2,202	2,686	(18.0%)	2,127	3.5%
Profit Before Extra-ordinary items and Tax	13,657	13,633	0.2%	13,032	4.8%
Less: Extraordinary Expense (net)	0	(47)	(100.0%)	(309)	(100.0%)
Profit Before Tax	13,657	13,680	(0.2%)	13,341	2.4%
Less: Total Tax	3,873	4,106	(5.7%)	3,844	0.8%
Profit After Tax	9,784	9,574	2.2%	9,497	3.0%
Profit After Tax Excl. extra-ordinaries	9,784	9,527	2.7%	9,187	6.5%
Diluted Shares Outstanding (mn)	289	289		289	
Reported EPS (Rs.)	33.81	33.09	2.2%	32.82	3.0%
Proforma EPS (Rs.)	33.81	32.92	2.7%	31.75	6.5%
Margin Analysis			Change in bps		Change in bps
EBIDTA Margin	21.1%	20.8%	30	21.6%	-47
Proforma NPM	16.9%	16.9%	-2	17.0%	-11
Effective Tax Rate	28.4%	30.1%	-176	29.5%	-114
Cost Analysis					
RM/Net Sales	66.7%	66.9%	-27	65.3%	131
Adv. & Sales Promotion Expenses./Net Sales	7.6%	7.9%	-34	9.3%	-173
Personnel/Net Sales	4.6%	4.3%	31	3.7%	89

Bajaj Auto Ltd. results were subdued in Q1FY17. Total sales de-grew by 1.9% Y-o-Y to Rs57.95bn as volumes declined by 1.9% Y-o-Y. EBITDA margin came in at 21.1%, up 30 bps Y-o-Y but down 47 bps sequentially. The sequential decline in EBITDA margin was due to rise in employee expenses in Q1FY17 (employee costs were higher due to change in actuarial valuation) while lower other expenses partially offset the increase in employee and raw material costs. Lower other income due to delay in dividend from BAL's Netherlands subsidiary (KTM's dividend has already paid it to the Netherlands subsidiary) slightly dented the bottom line, however shift to accrual accounting for FMP interest (Tax free) as per IND-AS, resulted in lower effective tax rate.

Quarterly Margin Analysis



Source: Company, FQ Research

Volume & Realization Analysis

YE March (Rs. mn)		Q1 FY17	Q1 FY16	Y-o-Y change %	Q4 FY16	Q-o-Q change %
DOMESTIC	Motorcycles	548,880	485,818	13.0%	468,782	17.1%
	% of total motorcycles	63%	56%		62%	
	Total CVs (mainly 3Ws)	75,204	50,715	48.3%	71,129	5.7%
	% of total CVs	62%	37%		59%	
	Volumes	624,084	536,533	16.3%	539,911	15.6%
	Total Revenue	34,648	28,569	21.3%	32,470	6.7%
	% of total revenue	63%	52%		62%	
	Blended Realization in Rs	55,518	53,246	4.3%	60,139	(7.7%)
EXPORTS	Motorcycles	323,660	389,417	(16.9%)	283,737	14.1%
	% of total motorcycles	37%	44%		38%	
	Total CVs (mainly 3Ws)	46,317	87,079	(46.8%)	48,810	(5.1%)
	% of total CVs	38%	63%		41%	
	Volumes	369,977	476,496	(22.4%)	332,547	11.3%
	Revenue	20,210	26,340	(23.3%)	20,210	0.0%
	% of total revenue	37%	48%		38%	
	Blended Realization in Rs	54,625	55,279	(1.2%)	60,773	(10.1%)
	Average USD/INR Realization	67.1	63.9	5.0%	67.5	(0.6%)
VOLUME	Motorcycles	872,540	875,235	(0.3%)	752,519	15.9%
	% of total volume	88%	86%		86%	
	CVs (mainly 3Ws)	121,521	137,794	(11.8%)	119,939	1.3%
	% of total volume	12%	14%		14%	
	Total Volume	994,061	1,013,029	(1.9%)	872,458	13.9%
	Domestic Volume (% of Total)	63%	53%		62%	
Export Volume (% of Total)	37%	47%		38%		
	Total Revenue from vehicle sales	54,858	54,909	(0.1%)	52,680	4.1%
	Blended Realization in Rs	55,186	54,202	1.8%	60,381	(8.6%)

The net realisation per vehicle was up marginally by 1.8% Y-o-Y to Rs 55,186 in spite of lower exports mainly on the back of higher 3W sales in the domestic market. However, the realizations were down sequentially mainly on account of lower sales of 3Ws in the export markets.

Managements expectations and Key highlights of concall

- The company expects BAL's FY17 volumes to come in at 4.6m units, up ~16% market on the back of new launches, good monsoon and implementation of the 7th pay commission.
- The company expects the domestic motorcycle market to grow ~6-7% in FY17.
- **Domestic 2 wheelers:** ~2.6m units (up from 1.9 mn in FY16) driven by additional volumes from V15 and Avenger. Also, the company is expected to launch refreshed versions of Platina/new Pulsar range & ~400 cc Pulsar. The strategy of the V15 is to move consumers from the M2 segment (Splendor) to either M1 (CT100, Platina) or M3 (~125cc class).
- **Domestic 3 wheelers:** Domestic 3W volumes are expected to increase to ~300,000 units in FY17E up from 253,610 units in FY16. This growth is expected to be on the back of new permits (~54,000 permits in FY17), entry in cargo 3Ws in Q4FY16, with good traction from the diesel segment. The management expects growth in non-cargo diesel segment to grow at ~8% Y-o-Y.
- **Exports:** FY17E volumes expected at ~1.6m units (~1.35mn 2Ws + ~250k 3Ws) compared to 1.46mn (2Ws + 280k 3Ws).
- Management mentioned that it had undertook price cuts in certain markets. There was no major improvement in exports market of Egypt and Nigeria due to currency issues. However volumes in Nigeria had improved to 20k units/month from a low of 10k units/month.
- **Tax rate** is expected to come in at 28-28.5% for FY17, lower than historical tax rate of ~30% due to change in accounting of tax free FMP to accrual basis as per IND-AS.
- **Price increase:** The company increased prices for its products in the range of Rs1,500/unit in case of 3Ws and Rs 500 in case of 2Ws in Apr'16. No price hikes were undertaken in July 16.
- **Emission and Safety norms:** CBS/ABS safety norms would kick in from April1, 2017 for new models and existing products from April1 2018. BS IV cost is expected to be higher by Rs500-800/vehicle. The company would look at the market situation and competition and then pass on the hike.
- **Capex:** Management maintained the capex guidance of Rs2.5-3bn in FY17.
- **Impact of IND AS:** a) Sales to include excise duty while it is also included in the cost. b) Cash discounts, target discounts on spare part sales to be removed from other expenses and reduced from sales. c) Financial instruments to be fair valued and interest to flow through P&L on accrual basis. d) MTM hedges: Time value and intrinsic value to be routed through other comprehensive income.

Key Financials

Profit and Loss Statement

YE March 31 (Rs. mn)	FY14	FY15	FY16	FY17E	FY18E
Total Revenues	204,328	218,175	228,678	250,118	296,893
Revenue Growth (Y-o-Y)	2.2%	6.8%	4.8%	9.4%	18.7%
Total Expenditure	160,414	174,452	179,482	196,441	232,170
EBIDTA	43,914	43,722	49,196	53,677	64,723
EBIDTA Margin (%)	21.5%	20.0%	21.5%	21.5%	21.8%
EBIDTA Growth (Y-o-Y)	125.4%	225.4%	325.4%	325.4%	325.4%
Other Income	4,203	3,267	7,779	11,112	12,464
Depreciation/Amortization	1,791	2,674	3,072	3,412	4,383
Interest	5	65	5	5	5
PBT	46,321	44,251	53,898	61,371	72,798
PBT Margin (%)	22.7%	20.3%	23.6%	24.5%	24.5%
Net Profit	32,433	31,540	36,570	43,741	51,885
Net Profit Excl. extra-ordinaries	32,453	31,898	35,855	43,741	51,885
Net Profit Gr. Excl. extra-ord. (Y-o-Y)	6.6%	(1.7%)	12.4%	22.0%	18.6%

Ratios

Particulars	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
P/E (x)			24.2	19.8	16.7
P/BV (x)			7.1	6.0	5.1
EV/EBIDTA (x)			17.5	16.0	13.1
Market Cap./ Sales (x)			3.8	3.5	2.9
Net cash/Market Cap (%)			0.8%	1.1%	1.9%
Dividend Yield (%)			1.4%	2.1%	2.5%
Leverage Ratios					
Debt/Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	8962x	674x	10249x	10322x	12447x
Per Share Data					
Diluted EPS Excl. extra-ordinaries (Rs.)	112.2	110.2	123.9	151.2	179.3
Diluted EPS	112.1	109.0	126.4	151.2	179.3
Diluted Cash EPS	118.3	119.5	134.5	163.0	194.5
Dividend per share	58.1	58.1	50.0	75.6	89.7
Book Value Per share (Rs.)	332.0	369.5	424.8	500.4	590.0
Returns					
RoE (%)	33.8%	29.0%	29.4%	30.2%	30.4%
RoCE(%)	32.4%	28.0%	28.4%	29.3%	29.5%
Dividend Payout(%)	51.8%	53.3%	39.6%	50.0%	50.0%
Dupont Analysis					
EBIDTA/Sales (%)	21.5%	20.0%	21.5%	21.5%	21.8%
Sales/Operating Assets (x)	3.7x	4.1x	3.2x	2.3x	2.4x
EBIDTA/Operating Assets (%)	78.8%	82.1%	69.2%	49.3%	52.4%
Operating Assets/ Net Assets(x)	0.6x	0.5x	0.6x	0.8x	0.8x
Net Earnings/ EBIDTA (%)	73.9%	73.0%	72.9%	81.5%	80.2%
Net Assets/ Equity (x)	1.0x	1.0x	1.0x	1.0x	1.0x
Return on Equity (%)	33.8%	29.0%	29.4%	30.2%	30.4%
Margins (%)					
EBIDTA (%)	21.5%	20.0%	21.5%	21.5%	21.8%
PBT Margin (%)	22.7%	20.3%	23.6%	24.5%	24.5%
NPM (%)	15.9%	14.6%	15.7%	17.5%	17.5%
Growth Ratios (%)					
Sales	2.2%	6.8%	4.8%	9.4%	18.7%
EBIDTA	22.8%	-0.4%	12.5%	9.1%	20.6%
PAT	6.6%	-2.8%	15.9%	19.6%	18.6%
Adj. PAT	6.6%	-1.7%	12.4%	22.0%	18.6%
Operating Cycle					
Debtors (Days of net sales)	14	12	11	11	11
Creditors (Days of Raw Materials)	56	44	49	49	49
Inventory (Days of Optg. Costs)	15	17	15	15	15
Cash Conversion Cycle	-27	-15	-23	-23	-23

Balance Sheet

YE March 31 (Rs. mn)	FY14	FY15	FY16	FY17E	FY18E
Liabilities					
Equity Capital	2,894	2,894	2,894	2,894	2,894
Reserves & Surplus	93,187	104,028	120,023	141,893	167,836
Net Worth	96,080	106,922	122,917	144,787	170,730
Long term Borrowings	577	1,118	1,625	2,275	3,185
Other Long Term Liabilities	2,084	1,400	774	774	774
Net Deferred tax liability/(Asset)	1,432	1,416	1,883	1,883	1,883
Capital Employed	100,174	110,855	127,197	149,718	176,570
Assets					
Net Block	20,060	19,172	20,779	23,180	25,766
Capital WIP	326	1,017	0	0	0
Investment	62,599	33,528	82,943	99,532	119,438
Intangible assets	1,115	1,532	0	0	0
Others - A	7,209	5,111	6,822	6,503	7,719
Current assets:					
Inventories	6,397	8,142	7,191	7,870	9,302
Sundry Debtors	7,962	7,170	7,179	7,647	9,077
Cash and cash equivalents	27,852	63,867	20,778	27,384	40,161
Loans and Advances:	9,785	12,616	8,715	10,755	13,509
Other Current Assets	4,171	3,468	2,320	3,377	4,157
Total Current Assets	56,166	95,263	46,183	57,032	76,205
Less: Current Liabilities & Provisions					
Sundry Creditors	21,114	17,998	20,270	22,161	26,180
Provisions	18,527	19,096	3,215	7,364	17,472
Other Current Liabilities	7,662	7,675	6,045	7,003	8,907
Total Curr. Liabilities & Provisions	47,303	44,768	29,530	36,529	52,558
Capital Applied	100,174	110,855	127,197	149,718	176,570

Cash Flow Statement

YE March 31 (Rs. mn)	FY14	FY15	FY16	FY17E	FY18E
EBITDA	42,123	41,048	46,124	50,265	60,340
Less: Adjusted Taxes	12,629	11,791	14,828	14,440	17,334
NOPLAT	29,494	29,258	31,296	35,825	43,006
Plus: Depreciation	1,791	2,674	3,072	3,412	4,383
Gross Cashflow	31,285	31,932	34,367	39,237	47,389
Less: Increase in Working Capital	(6,909)	5,685	9,299	(2,647)	(9,401)
Operating Cashflow	38,194	26,247	25,069	41,885	56,789
Less: Net Capex	1,900	2,478	3,661	5,813	6,970
Less: Increase in Net Other Assets	1,444	533	(5,285)	2,885	4,983
FCF From Operation	34,851	23,236	26,693	33,186	44,836
Less: Inc./(Dec.) in Investment	25,408	(29,072)	49,416	16,589	19,906
FCF after Investment	9,443	52,308	(22,723)	16,598	24,930
Plus: Gain/(loss) on Extraordinary Items	(20)	(358)	716	0	0
Total FCF	9,423	51,950	(22,007)	16,598	24,930

Recommendation Summary

Event	Date	Price	Rating	Target
Result Update (Q2FY12)	25-10-2011	1,692	Buy	1,921
Result Update (Q3FY12)	25-01-2012	1,587	Buy	1,809
Result Update (Q4FY12)	18-05-2012	1,534	Buy	1,898
Result Update (Q1FY13)	24-07-2012	1,559	Buy	1,921
Result Update (Q2FY13)	01-11-2012	1,845	Buy	2,276
Result Update (Q3FY13)	24-01-2013	2,012	Buy	2,407
Result Update (Q4FY13)	28-05-2013	1,817	Buy	2,198
Result Update (Q1FY14)	20-08-2013	1,757	Buy	2,385
Result Update (Q2FY14)	11-11-2013	2,068	Buy	2,697
Result Update (Q1FY15)	13-08-2014	2,143	Buy	2,775
Result Update (Q1FY16)	08-09-2015	2,193	Buy	2,717
Result Update (Q3FY16)	29-02-2016	2,237	Buy	2,656
Result Update (Q4FY16)	23-06-2016	2,627	Buy	2,903
Result Update (Q1FY17)	02-09-2016	2,997	Buy	3,695

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BUY

More than 10% return

HOLD

Between 5-10% return

SELL

Less than 5% return