

SIEMENS

Reaping benefits of infra pick up

India Equity Research | Engineering and Capital Goods



Siemens (SIEM) reported 25%/21% YoY surge in Q2/H1FY17 revenues, led by large orders in power T&D and oil & gas. SIEM reported strong 96%/45% YoY growth in Q2/H1FY17 orders. However, PAT came below estimates on poor gross margins (down 400bps YoY). At its H1FY17 analyst meet, management highlighted positive triggers: 1) government's push to rail infra; 2) rising need for states to invest in T&D; 3) government's focus on higher local content across sectors; and 4) SIEM's digital platform across industries would service client needs. We upgrade to 'HOLD' with TP of INR1,322 (INR788 earlier), assigning upcycle PE of 55x (versus 31x), which is at 10% discount to our ABB multiple. We prefer ABB and Cummins over SIEM given better OPM and cash flow profile.

High value orders, surging sectors underpin management stance

Siemens posted strong H1FY17 order intake of INR79.5bn (up 45% YoY), driving H1FY17 order book to INR124bn (+25%), led by large jobs in HVDC (T&D), oil & gas (ONGC) and railways, with good order pipeline in mobility and T&D. Order intake in H2FY17 is also likely to remain strong. While private sector slowdown is led by low capex (more by opex), management stated strong visibility in railways, metro rail and state T&D capex.

What is Siemens India focusing on?

Management expects strong growth in infra with the government's target to take manufacturing to GDP ratio to 25% from the current 15%, implying humungous market opportunity of USD1.25tn (versus USD300bn currently). Siemens is transforming from being an equipment manufacturer/projects player to a highly customised solutions provider with its digitisation platform at the core of each vertical. Basically, Siemens will drive value-added products across industries - pharma, oil & gas, thermal plants, T&D - with higher share of digitisation to make overall infrastructure more efficient.

Outlook and valuations: Growth reviving; upgrade to 'HOLD'

On account of SIEM's wide exposure to industrial basket, the company is benefitting from the broad-based pickup in large value orders across key sectors, which we believe will continue. While we are positive on SIEM's OB and top-line growth over next 2-3 years, we believe OPM scale up will be key challenge, given project volatility and competition. We estimate 19% earnings CAGR over FY16-18 with RoE profile of ~12%. At CMP, the stock trades at 55x FY18E PE. We upgrade to 'HOLD/SP' from 'REDUCE/SP' with TP of INR1,322 (based on 55x FY18E PE), given robust order book growth outlook.

Financials

Year to Sept.	Q2FY17	Q2FY16	% change	Q1FY17	% change	FY16	FY17E	FY18E	(INR mn)
Revenues	29,288	23,440	25.0	22,933	27.7	108,088	118,196	135,925	
EBITDA	2,786	3,117	(10.6)	2,337	19.2	9,731	11,288	13,254	
Adj. profit	1,791	1,890	(5.2)	1,607	11.4	6,056	7,406	9,092	
EPS (INR)	5.0	5.3	(5.2)	4.5	11.4	17.0	20.8	25.5	
P/E (x)						83.5	68.3	55.6	
ROAE (%)						10.3	10.9	12.6	

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA (R: SIEM.BO, B: SIEM IN)

CMP	: INR 1,422
Target Price	: INR 1,322
52-week range (INR)	: 1,471 / 1,011
Share in issue (mn)	: 356.1
M cap (INR bn/USD mn)	: 506 / 7,902
Avg. Daily Vol.BSE/NSE('000)	: 242.4

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	75.0	75.0	75.0
MF's, FI's & BK's	9.3	9.4	9.2
FII's	5.0	4.8	5.0
Others	10.7	10.8	10.8
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	9.5	3.2	3.9
3 months	18.3	8.3	18.4
12 months	25.6	20.9	34.6

Amit Mahawar

+91 22 4040 7451
amit.mahawar@edelweissfin.com

Swarnim Maheshwari

+91 22 4040 7418
swarnim.maheshwari@edelweissfin.com

May 15, 2017

Analyst meet: Key highlights

- **Results commentary:** 24% sales growth (continuing operations), ninth consecutive quarter of sales growth and twelfth quarter of 7% margins.
- **Public capex back on track:** Private sector capex is not happening given current utilisations at 65-70% and stressed assets/NPA issues. Private capex is happening mostly in opex.
- **Government policy for higher local content:** The government is mandating higher local content across key sectors like railways, oil and gas, power, etc.
- **Railways:** The upcoming metro rail policy could promote higher local content. Railways is focusing on efficiency capex. Average speed of trains in India needs to be increased substantially, a key driver of capex currently.
- **Power T&D:** Over next few years, 70-80GW DS sets and rising renewable capacity grid stability will be key issues that will drive T&D capex. STATCOMS and HVDC will be major focus areas. Current HVDC is the first contract for Siemens where PGCIL wanted higher local content (INR16bn is Siemens India's scope, which is 50% of total value). Medium voltage business is gaining momentum in T&D industry with rising scope of states in total T&D capex.
- **Airports & commercial building** will be a big growth area going ahead.
- **8GW of new ordering** is likely incrementally; 35GW of old thermal plants will be replaced.
- **Digital focus:** Siemens is unveiling its digital platform - announcing the concept of *Mindsphere* - across industries, pharma, oil and gas, thermal plants, T&D, etc. Siemens will drive value-added products with higher share of digitisation to automate processes to make overall infrastructure more efficient.
- **H2FY17 prospects robust:** Siemens expects many large ticket awards to happen in next 6 months in power T&D, railways, etc.
- **Government targets to increase manufacturing to GDP ratio from 15% to 25%:** Current GDP at 2.0tn implies USD300bn annual capex. Assuming reasonable growth rate, GDP number is expected to touch USD5.0tn over next decade or so. This implies >USD1.25tn investment in infra, implying 3-4 folds jump in infra capex over next decade.

Table 1: Segmental snapshot

Standalone	Q2FY17	Q2FY16	Y-o-Y growth (%)	FY16	FY15	Y-o-Y growth (%)
Revenues (INR mn)						
Power & Gas	4011.9	3504.36	14.5	14,207	15,710	(9.6)
Energy	12320.48	9269.56	32.9	36,162	31,627	14.3
Building technologies	1154.09	916.91	25.9	3,763	3,037	23.9
Mobility	3678.29	2544.47	44.6	10,933	9,671	13.0
Digital factory	5234.81	4454.8	17.5	18,780	16,414	14.4
Process Industries	5795.88	5602.37	3.5	21,975	19,045	15.4
Healthcare	0	0		8,326	14,248	(41.6)
Metals Technologies	0	0		-	1,505	(100.0)
Others	327.09	229.652	42.4	1,123	641	75.3
Total	32,523	26,522	22.6	115,269	111,898	3.0
EBIT (INR mn)						
Power & Gas	562.66	638.29	(11.8)	1,289	1,945	(33.7)
Energy	911.04	859.47	6.0	2,543	2,189	16.2
Building technologies	22.97	55.35	(58.5)	245	229	7.2
Mobility	132.81	259.61	(48.8)	694	475	46.2
Digital factory	312.31	401.33	(22.2)	1,232	1,267	(2.7)
Process Industries	267.14	332.56	(19.7)	1,016	729	39.2
Healthcare	0	0	NM	476	673	(29.2)
Metals Technologies	0	0			(104)	
Others	75	92	(18.7)	401	179	124.8
Total	2,284	2,639	(13.4)	7,897	7,580	4.2
EBIT margins (%)						
Power & Gas	14.0	18.2		9.1	12.4	
Energy	7.4	9.3		7.0	6.9	
Building technologies	2.0	6.0		6.5	7.5	
Mobility	3.6	10.2		6.3	4.9	
Digital factory	6.0	9.0		6.6	7.7	
Process Industries	4.6	5.9		4.6	3.8	
Healthcare	NA	NA		5.7	4.7	
Metals Technologies					(6.9)	
Others	22.9	40.1		35.7	27.9	
Total	7.0	9.9		6.9	6.8	

Source: Company, Edelweiss research

Engineering and Capital Goods

Financial snapshot		(INR mn)							
Year to September		Q2FY17	Q2FY16	% change	Q1FY17	% change	YTD17	FY17E	FY18E
Net revenues		29,288	23,440	25.0	22,933	27.7	52,221	118,196	135,925
Raw material		19,960	15,042	32.7	14,768	35.2	34,728	78,992	90,568
Staff costs		3,339	3,132	6.6	3,365	(0.8)	6,704	15,799	18,237
Other expenses		3,204	2,149	49.1	2,462	30.1	5,666	12,117	13,866
Total expenditure		26,503	20,323	30.4	20,596	28.7	47,098	106,908	122,671
EBITDA		2,786	3,117	(10.6)	2,337	19.2	5,123	11,288	13,254
Depreciation		502	478	4.9	483	3.9	984	2,247	2,327
EBIT		2,284	2,639	(13.4)	1,854	23.2	4,138	9,041	10,927
Other income		529	269	96.4	623	(15.1)	1,151	2,011	2,629
Interest		21	14	47.6	20	1.4	41	80	88
Add: Exceptional items		72	-		-		72	-	-
Profit before tax		2,863	2,894	(1.1)	2,456	16.6	5,320	10,972	13,469
Tax		1,001	1,004	(0.4)	849	17.8	1,850	3,566	4,377
Reported net profit		1,863	1,890	(1.4)	1,607	15.9	3,470	7,406	9,092
Adjusted Profit		1,791	1,890	(5.2)	1,607	11.4	3,398	7,406	9,092
Equity capital(FV INR 2)		712	712		712		1,424	712	712
Diluted shares (mn)		356	356		356		712	356	356
Adjusted Diluted EPS		5.0	5.3	(5.2)	4.5	11.4	9.5	20.8	25.5
Diluted P/E (x)		-	-		-		-	68.3	55.6
EV/EBITDA (x)		-	-		-		-	41.4	35.0
ROAE (%)		-	-		-		-	10.9	12.6
As % of net revenues									
Direct costs		68.1	64.2		64.4		132.5	66.8	66.6
Employee cost		11.4	13.4		14.7		26.1	13.4	13.4
Other operating expenses		16.1	14.3		16.7		32.7	10.3	10.2
EBITDA		9.5	13.3		10.2		19.7	9.6	9.8
Adjusted net profit		6.1	8.1		7.0		13.1	6.3	6.7
Tax rate		34.9	34.7		34.6		69.5	32.5	32.5

Change in Estimates

	New	Old	% change	New	Old	% change	Comments
Net Revenue	118,196	115,058	2.7	135,925	126,564	7.4	
EBITDA	11,288	12,781	(11.7)	13,254	14,250	(7.0)	
EBITDA Margin	9.6	11.1		9.8	11.3		
Adjusted Profit	7,406	8,224	(10.0)	9,092	9,097	(0.1)	
After Tax							
Net Profit Margin	6.3	7.1		6.7	7.2		
Capex	1,000	1,000	0.0	1,000	1,000	0.0	

Company Description

Siemens India (SIEM) is a 55% subsidiary of Siemens AG, Germany, which has presence in more than 190 countries. SIEM offers diverse products and services solutions in power generation, transmission and distribution, automation and drives, industrial solution and healthcare. It has nation-wide sales and service network, 17 manufacturing plants, and 500 strong networks of channel partners.

Investment Theme

Siemens (SIEM) is one of the most diversified industrial equipment/solutions company with exposure in power, T&D, railways, oil and gas, cement and steel etc. The company is a major beneficiary of large project pickup in the economy which is largely driven by T&D, metals, oil and gas etc. The company also has major exposure to export markets especially the Middle East where it benefits purely on competence basis. With major government thrust to promote public infrastructure capex in large value sectors, we expect Siemens to see a robust growth in the order book in the next 3 to 5 years. However, on the private capex side especially steel etc. we expect pick up to happen after 12-15 months.

Key Risks

Slowdown across major verticals (Steel, Power etc.) could hamper growth prospects of the company.

Increasing competitive intensity could impact the margins of the company & hence the profitability.

Financial Statements

Key Assumptions					Income statement (INR mn)				
Year to September	FY15	FY16	FY17E	FY18E	Year to September	FY15	FY16	FY17E	FY18E
Macro									
GDP(Y-o-Y %)	7.1	7.2	6.5	7.1	Income from operations	105,124	108,088	118,196	135,925
Inflation (Avg)	5.9	4.9	4.8	5.0	Direct costs	70,814	71,812	78,992	90,568
Repo rate (exit rate)	7.5	6.8	6.3	6.3	Employee costs	13,831	14,529	15,799	18,237
USD/INR (Avg)	61.2	65.0	67.5	69.0	Other Expenses	10,742	12,016	12,117	13,866
Company									
Order inflow growth (%)	(16)	25	35	20	Total operating expenses	95,387	98,357	106,908	122,671
Dep. (% gross block)	8.2	8.3	8.0	8.0	EBITDA	9,736	9,731	11,288	13,254
					Depreciation	2,156	2,263	2,247	2,327
					EBIT	7,580	7,468	9,041	10,927
					Add: Other income	1,604.4	1,639.14	2,010.88	2,629.46
					Less: Interest Expense	49	59	80	88
					Add: Exceptional items	7,827	29,923	-	-
					Profit Before Tax	16,964	38,971	10,972	13,469
					Less: Provision for Tax	5,131	10,091	3,566	4,377
					Reported Profit	11,833	28,880	7,406	9,092
					Exceptional Items	7,827	22,825	-	-
					Adjusted Profit	4,005	6,056	7,406	9,092
					Shares o/s (mn)	356	356	356	356
					Basic EPS (INR)	11.2	17.0	20.8	25.5
					Diluted shares o/s (mn)	356	356	356	356
					Adjusted Diluted EPS	11.2	17.0	20.8	25.5
					Adjusted Cash EPS	17.3	23.4	27.1	32.1
					Dividend per share (DPS)	7.0	33.5	8.5	8.5
					Dividend Payout Ratio(%)	36.2	49.5	49.0	39.9
Common size metrics									
Year to September	FY15	FY16	FY17E	FY18E	Year to September	FY15	FY16	FY17E	FY18E
Operating expenses	90.7	91.0	90.4	90.2	EBITDA margins	9.3	9.0	9.6	9.8
Net Profit margins	3.8	5.6	6.3	6.7					
Growth ratios (%)									
Year to September	FY15	FY16	FY17E	FY18E	Year to September	FY15	FY16	FY17E	FY18E
Revenues	(1.4)	2.8	9.4	15.0	EBITDA	63.8	(0.1)	16.0	17.4
Adjusted Profit	81.7	51.2	22.3	22.8					

Balance sheet (INR mn)				
As on 30th September	FY15	FY16	FY17E	FY18E
Share capital	712	712	712	712
Reserves & Surplus	50,554	65,107	68,884	74,346
Shareholders' funds	51,266	65,819	69,596	75,058
Long Term Liabilities	3,057	2,537	2,537	2,537
Sources of funds	51,148	65,103	68,880	74,343
Gross Block	27,887	27,088	28,088	29,088
Net Block	13,931	11,955	10,708	9,381
Capital work in progress	-	791	791	791
Total Fixed Assets	13,931	12,746	11,499	10,172
Non current investments	1,686	1,647	1,647	1,647
Cash and Equivalents	20,959	35,094	37,782	42,177
Inventories	9,509	9,993	11,037	12,655
Sundry Debtors	30,183	30,159	34,172	39,298
Loans & Advances	25,833	24,523	26,975	28,998
Current Assets (ex cash)	65,525	64,675	72,185	80,951
Sundry creditors	36,334	33,050	38,224	44,596
Provisions	14,620	16,009	16,009	16,009
Total Current Liab	50,954	49,059	54,233	60,605
Net Curr Assets-ex cash	14,571	15,616	17,952	20,346
Net Deferred tax	(3,175)	(3,253)	(3,253)	(3,253)
Uses of funds	51,148	65,103	68,880	74,343
BVPS (INR)	144.0	184.8	195.4	210.8

Free cash flow (INR mn)				
Year to September	FY15	FY16	FY17E	FY18E
Reported Profit	11,833	28,880	7,406	9,092
Add: Depreciation	2,156	2,263	2,247	2,327
Interest (Net of Tax)	34	44	54	59
Others	(7,323)	(24,813)	(1,985)	(2,601)
Less: Changes in WC	496	(18)	2,336	2,394
Operating cash flow	6,204	6,392	5,386	6,483
Less: Capex	420	(799)	1,000	1,000
Free Cash Flow	5,784	7,191	4,386	5,483

Cash flow metrics				
Year to September	FY15	FY16	FY17E	FY18E
Operating cash flow	6,204	6,392	5,386	6,483
Investing cash flow	5,896	2,396	931	1,542
Financing cash flow	(2,703)	(16,071)	(3,629)	(3,629)
Net cash Flow	9,397	(7,283)	2,688	4,395
Capex	(2,533)	(2,979)	(1,000)	(1,000)
Dividend paid	(2,703)	(16,071)	(3,629)	(3,629)

Profitability and efficiency ratios				
Year to September	FY15	FY16	FY17E	FY18E
ROAE (%)	8.4	10.3	10.9	12.6
ROACE (%)	19.3	15.6	16.3	18.7
Inventory Days	51	50	49	48
Debtors Days	137	102	99	99
Payable Days	207	176	165	167
Cash Conversion Cycle	(18)	(25)	(17)	(21)
Current Ratio	1.7	2.0	2.0	2.0
Interest Coverage Ratio	156.0	126.4	113.4	124.6

Operating ratios				
Year to September	FY15	FY16	FY17E	FY18E
Total Asset Turnover	2.2	1.9	1.8	1.9
Fixed Asset Turnover	7.8	8.4	10.4	13.5
Equity Turnover	2.2	1.8	1.7	1.9

Valuation parameters				
Year to September	FY15	FY16	FY17E	FY18E
Adj. Diluted EPS (INR)	11.2	17.0	20.8	25.5
Y-o-Y growth (%)	81.7	51.2	22.3	22.8
Adjusted Cash EPS (INR)	17.3	23.4	27.1	32.1
Diluted P/E (x)	126.4	83.6	68.4	55.7
P/B (x)	9.9	7.7	7.3	6.7
EV / Sales (x)	4.6	4.4	4.0	3.4
EV / EBITDA (x)	49.8	48.4	41.5	35.0
Dividend Yield (%)	0.5	2.4	0.6	0.6

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Siemens	7,902	68.4	55.7	7.3	6.7	10.9	12.6
ABB India	5,189	88.4	67.3	10.1	9.1	12.0	14.2
Median	-	78.4	61.5	8.7	7.9	11.4	13.4
AVERAGE	-	78.4	61.5	8.7	7.9	11.4	13.4

Source: Edelweiss research

Additional Data

Directors Data

Deepak S Parekh	Chairman	Armin Bruck	Managing Director
Joe Kaeser	Additional Director	Johannes Apitzsch	Alternate Director
Darius C Shroff	Director	Narendra J Jhaveri	Director
Keki Dadiseth	Director	Yezdi H Malegam	Director
Pradip V Nayak	Director	Roland Busch	Director
Sunil D Mathur	Executive Director & Chief Financial Officer		

Auditors - S R B C & Co. LLP

*as per last annual report

Holding – Top10

	Perc. Holding		Perc. Holding
Siemens ag	71.7	Life insurance corp	5.02
Siemens metals tech	3.3	Hdfc asset managemen	1.76
Vanguard group	0.81	Blackrock	0.67
Reliance capital tru	0.56	Axis asset managemen	0.34
Goldman sachs group	0.22	Govmt pension invst	0.14

*in last one year

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*in last one year

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*in last one year

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	BUY	SO	L	Bajaj Electricals	HOLD	SP	M
Bharat Forge	BUY	SO	M	Bharat Heavy Electricals	BUY	SO	M
Crompton Greaves	HOLD	SP	M	Cummins India	BUY	SO	L
Engineers India Ltd	BUY	SO	L	Greaves Cotton	HOLD	SP	M
Havells India	BUY	SP	M	Kalpataru Power	BUY	SO	M
KEC International	BUY	SP	M	Larsen & Toubro	BUY	SO	M
Praj Industries	BUY	None	None	Ramkrishna Forgings	BUY	SP	M
Siemens	HOLD	SP	L	TD Power Systems	BUY	None	None
Techno Electric & Engineering	BUY	SO	M	Thermax	REDUCE	SP	L
Triveni Turbine	BUY	None	None	VA Tech Wabag	BUY	None	None
Volta	BUY	SP	L				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Engineering and Capital Goods

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain
Head of Research
aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB India, Bharat Heavy Electricals, Bharat Forge, Bajaj Electricals, Crompton Greaves, Engineers India Ltd, Greaves Cotton, Havells India, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Praj Industries, Ramkrishna Forgings, Siemens, TD Power Systems, Techno Electric & Engineering, Thermax, Triveni Turbine, VA Tech Wabag, Voltas

Recent Research

Date	Company	Title	Price (INR)	Recos
15-May-17	Engineering & Capital Goods	Capex recovery: Here it comes!; <i>Sector Update</i>		
12-May-17	Havells India	On a transformational growth path; <i>Result Update</i>	513	Buy
05-May-17	Greaves Cotton	Growth challenges mount amidst stretched valuations ; <i>Result Update</i>	166	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

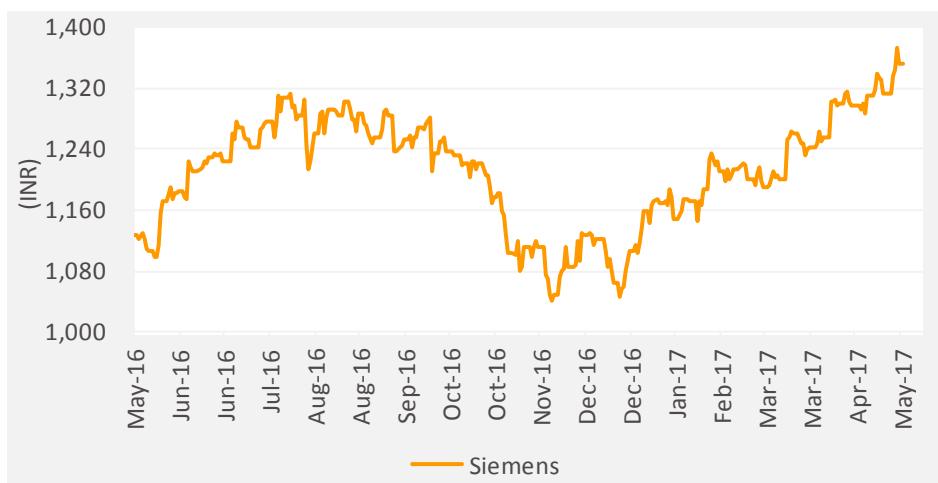
	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	

Market Cap (INR) 156 62 11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



DISCLAIMER

Edelweiss Securities Limited ("ESL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

Engineering and Capital Goods

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange Commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved

Access the entire repository of Edelweiss Research on www.edelresearch.com