

# ENGINEERS INDIA

## Ordering lags; prospects hazier

India Equity Research | Engineering and Capital Goods

Engineers India (ENGR) posted good execution for Q4/FY18, indicating the government's strong focus on BS-VI norms. However, we believe: a) tapering pipeline of new orders in domestic market and delayed mega refinery project pose challenges to our order intake growth assumptions; and b) there exists possibility of deferrals/delays in large projects around elections which could hamper capex towards large lumpy projects in the oil and gas sector. Hence, earnings warrant normalised valuation multiples (vs. peak cycle multiple). Accordingly, we trim FY19/20E earnings by 8%/10% and revise our target PE multiple to 18x (24x earlier). Downgrade to 'HOLD' with a revised TP of INR140 (INR205 earlier).

### Q4/FY18 performance: Key inferences

ENGR posted in-line revenues for Q4/FY18 with 15%/23% YoY growth led by pick up in BS VI norms. However, EBIDTA adjusted for oil & gas investment provisioning grew 54%/45% for Q4/FY18, albeit on a low base, and stood below our/consensus estimates with EBIT margins of PMC/LSTK segments declining by 800/1,630bps to 26.6/7% YoY.

### Select projects to drive FY19/20E orders; most others sluggish

ENGR has a healthy long-term pipeline given expansion of refining capacity and petchem by OMC's. However, in past 10-12 months, there has been no major traction in the projects (evident from ENGR's dismal FY18 order intake) primarily due to deferments (Barmer, Numaligarh, etc). Also, we believe, while Barmer seems more or less finalised and will be awarded in next 1-2 months, number of projects expected to be awarded in FY19/20E seems much lower than our previous expectations. Hence, we prune our FY19/20E intake by 19/18% (Refer Table 1 on page 3).

### Outlook and valuation: Lull in fresh intakes; downgrade to 'HOLD'

ENGR maintains its leadership position in domestic oil & gas space while maintaining its niche in PMC space. However, slower pace of ordering by OMCs could hamper its revenue visibility in near to medium term, thereby posing downside risk to our FY18-20E growth. At CMP, the stock trades at 20x/18x FY19/20E EPS. Downgrade to 'HOLD/SP' from 'BUY/SO' with a target price of INR140 (18x FY20E EPS).

#### EDELWEISS 4D RATINGS

<b>Absolute Rating</b>	<b>HOLD</b>
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

#### MARKET DATA (R: ENGI.BO, B: ENGR IN)

CMP	: INR 136
Target Price	: INR 140
52-week range (INR)	: 206 / 132
Share in issue (mn)	: 631.9
M cap (INR bn/USD mn)	: 86 / 1,302
Avg. Daily Vol.BSE/NSE('000)	: 2,316.9

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	52.0	52.0	54.2
MF's, FI's & BK's	25.7	25.7	22.1
FII's	5.9	5.9	6.6
Others	16.4	16.4	17.1
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(10.9)	(0.0)	(1.0)
3 months	(19.5)	1.9	(0.0)
12 months	(12.0)	11.4	6.6

#### Amit Mahawar

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

#### Ashutosh Mehta

+91 22 6141 2748  
 ashutosh.mehta@edelweissfin.com

#### Darshika Khemka

+91 22 4063 5544  
 darshika.khemka@edelweissfin.com

May 29, 2018

#### Financials

(INR mn)

Year to March	Q4FY18	Q4FY17	% Chg	Q3FY18	% Chg	FY18	FY19E	FY20E
Net revenues	5,097	4,429	15.1	4,734	7.7	17,876	22,218	27,285
EBITDA	575	543	6.0	1,348	(57.4)	4,130	4,998	5,761
Adjusted Profit	953	660	44.5	1,084	(12.0)	3,779	4,421	4,891
Adjusted Diluted EPS	1.5	1.0	44.5	1.7	(12.0)	6.0	7.0	7.7
Diluted P/E (x)						22.8	19.5	17.6
EV/EBITDA (x)						14.8	12.9	11.3
ROAE (%)						15.0	19.2	20.5

### Q4FY18 conference call: Key highlights

#### Guidance

- **Order inflow** of INR 40bn subject to awarding of Barmer project in FY19. Order inflow split - PMC – INR20bn and LSTK – INR20bn.
- **Margins** – PMC 25-30% and LSTK 5-6%
- **Revenue** – 15-20% growth over FY18. Large part of contribution from Turnkey segment, PMC segment to remain slightly muted.

#### Project status

- **Barmer project**
  - Pre-project activities have started. It should be awarded in a month and a half, as currently negotiations of final terms are underway.
  - Mix of LSTK and PMC is being negotiated. Execution period will be for four years as it is a green field project.
- **Gail Kakinada project:** Feasibility study done and board approvals are in place; however, awarding is likely in FY20. Project size could be INR10bn.
- **Dangote:** ~45% billing done and now construction activities are picking up. Balance of INR8bn in order book relates to this project.
- **Namani Gange:** Not considering any projects to be bagged under this scheme.

#### Investments in fertiliser plant

- INR2bn has been invested and the project would be commissioned by FY19. As per the terms, if another partner is found, then that additional partner will infuse further funds and ENGR will not have to make further investments.
- ENGR is not looking at further projects for revival of sick fertiliser units.

#### Project pipeline over next two years

##### Domestic orders

- Rajasthan refinery
- Panipat (expansion from 15 to 25MMTPA)
- CPCL Nagappatnam (9MMTPA)
- Numaligarh refinery expansion plan
- Mumbai and Cochin refinery
- Bina refinery – Ordering unlikely until 1HFY20

##### International orders

- The Middle East (Abu Dhabi, Kuwait, Oman) – With pick up in crude prices, most companies are inviting RFI's to set up new plants. FY19 could still be muted, however there could be significant pickup in FY20 (average project size USD25-50mn).

## Other comments

- Oil and Gas write offs – Small write offs are still possible.
- Employee utilisation levels high at 90% plus.

Table 1: Current status of projects in the pipeline (vs. our previous assessment)

Project	Greenfield / expansion	Project size (INR bn)	PMC opportunity (INR bn)	Status	Year of estimated ordering	Remarks
Barmer	Greenfield (9 MMTPA)	431	17.2	Ordering to commence shortly	FY18	Spill over to FY19
Panipat	Expansion from 15 to 25 MMTPA	231	9.2	Received board approval	FY19/20E	Expected in FY19/20
CPCL Nagapattinam	Expansion from 1 to 10 MMTPA	275	11.0	Received board approval. Detailed feasibility study and land acquisition underway		Expected in FY19/20
Numaligarh	Expansion from 3 to 9 MMTPA	220	8.8	Received board approval from NRL and BPCL	FY18	Spill over to FY19/20
Bina Refinery	Expansion from 7.8 to 15 MMTPA	200	8.0	Early stages of evaluation	FY18	Spill over to FY19/20

Source: Company, Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	5,097	4,429	15.1	4,734	7.7	17,876	22,218	27,285
Staff costs	1,856	2,790	(33.5)	1,890	(1.8)	7,571	8,111	9,027
Other operating expenses	2,666	1,097	143.2	1,496	78.3	6,174	9,110	12,496
Total expenditure	4,522	3,887	16.3	3,386	33.6	13,746	17,220	21,523
EBITDA	575	543	6.0	1,348	(57.4)	4,130	4,998	5,761
Depreciation	58	60	(4.5)	59	(2.1)	238	251	266
EBIT	517	482	7.3	1,289	(59.9)	3,892	4,747	5,495
Interest	4	30	(87.6)	1	337.3	6	10	10
Other income	479	571	(16.1)	393	21.9	1,795	1,813	1,760
Profit before tax	993	1,023	(3.0)	1,682	(41.0)	5,681	6,550	7,245
Tax	303	363	(16.5)	597	(49.2)	1,902	2,129	2,355
Add: Exceptional items								
Reported net profit	689	660	4.4	1,084	(36.4)	3,779	4,421	4,891
Adjusted Profit	953	660	44.5	1,084	(12.0)	3,779	4,421	4,891
Equity capital(FV INR 2)	3,160	3,160		3,160		3,160	3,160	3,160
Diluted shares (mn)	632	632		632		632	632	632
Adjusted Diluted EPS	1.5	1.0	44.5	1.7	(12.0)	6.0	7.0	7.7
As % of net revenues								
Employee cost	36.4	63.0		39.9		42.4	36.5	33.1
Other operating expenses	52.3	24.8		31.6		34.5	41.0	45.8
EBITDA	11.3	12.3		28.5		23.1	22.5	21.1
Reported net profit	18.7	14.9		22.9		21.1	19.9	17.9

## Change in Estimates

	FY19E			FY20E			
	New	Old	% change	New	Old	% change	Comments
Net Revenue	22,218	21,589	2.9	27,285	26,589	2.6	
EBITDA	4,998	5,690	(12.1)	5,761	6,639	(13.2)	Increased contribution to revenues from low margin LSTK segment
EBITDA Margin	22.5	26.4		21.1	25.0		
Adjusted Profit	4,421	4,822	(8.3)	4,890	5,434	(10.0)	
After Tax							
Net Profit Margin	19.9	22.3		17.9	20.4		
Capex	(34)	250	(113.8)	250	250	0.0	

## Company Description

EIL was established in 1965 as a private limited company pursuant to the formation agreement between the Government of India and Bechtel International Company (BIC). It is a Navratna PSU is one of India's leading engineering consulting and EPC company with more than five decades of experience on landmark projects with global energy majors. Significant track record across entire oil & gas value chain including 10 green-field refineries, 41 oil & gas processing plants, 40 offshore process platforms, 46 pipelines and 9 petrochemical complexes. The company has 2,500 highly experienced professionals and technical workforce with in-house and collaborative R&D support with 16 registered patents. It is majorly involved in executing project management consultancy for refineries. The company also execute turnkey projects for refineries, consultancy for petrochemicals and metallurgical segment and also involved in consultancy of fertilizers and strategic storage terminals and pipelines. EIL also have presence in infrastructure space and is planning to increase its participation in water treatment and smart cities. The company broadly works in two segments, which are, consultancy and turnkey.

## Investment Theme

**1) Policy push, robust demand to drive massive OMC capex:** OMCs' spending capability has jumped 3x post deregulation. Moreover, at 6% demand for petroleum products, India is likely to face deficit situation by FY19-20E. This warrants significant capex, implying improving business prospects for ENGR.

**2) Delays in order finalisation and possibility in deferments around elections:** While the ordering pipeline remains robust, ENGR has witnessed deferments in large order finalisation, thereby limiting its revenue visibility. Further, with the elections coming up in the next one year, the company continues to face the risk of delays in award of large projects.

## Key Risks

**1) Slowdown in refining capex:** While EIL is fairly diversified into various businesses including petrochemical, pipelines, fertilisers, power, EPC, etc., its current mainstay is refining. Any slowdown/cancellations in the planned refining capex could impact future estimates and profitability of the company which is currently being witnessed across large projects

**2) Lumpy ordering of large projects ahead of elections:** While our estimates factor in order book CAGR of 17% over FY18-20, with order inflow growing at 36% CAGR—albeit a low base, our order intake assumptions pose upside risk in case of contracts being finalised ahead of the upcoming elections, which could significantly improve revenue visibility for ENGR.

## Financial Statements

## Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
<b>Company</b>				
<b>Order intake (INR mn)</b>				
Consultancy & Engineering Projects OI	22,963	16,608	19,597	21,165
Lumpsum Turnkey Projects OI	34,118	4,797	19,188	18,229
<b>OB Conversion Rate (%)</b>				
Consultancy & Engineering Projects	22	24	25	24
Lumpsum Turnkey Projects	7	10	13	17
Tax rate (%)	42.9	32.5	32.5	32.5

## Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	14,486	17,876	22,218	27,285
Materials costs	2,269	3,119	5,444	8,131
Employee costs	7,440	7,571	8,111	9,027
Other mfg expenses	1,756	3,055	3,666	4,366
Total operating expenses	11,464	13,746	17,220	21,523
EBITDA	3,022	4,130	4,998	5,761
Depreciation	225	238	251	266
EBIT	2,797	3,892	4,747	5,495
Less: Interest Expense	32	6	10	10
Add: Other income	2,236.6	1,794.71	1,813.13	1,759.82
Profit Before Tax	5,002	5,681	6,550	7,245
Less: Provision for Tax	1,751	1,902	2,129	2,355
Reported Profit	3,250	3,779	4,421	4,891
Adjusted Profit	3,250	3,779	4,421	4,891
Shares o /s (mn)	632	632	632	632
Adjusted Basic EPS	5.1	6.0	7.0	7.7
Diluted shares o/s (mn)	632	632	632	632
Adjusted Diluted EPS	5.1	6.0	7.0	7.7
Adjusted Cash EPS	5.5	6.4	7.4	8.2
Dividend per share (DPS)	3.0	4.0	5.0	5.0
Dividend Payout Ratio(%)	74.5	80.1	85.5	77.3

## Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	15.7	17.4	24.5	29.8
Staff costs	51.4	42.4	36.5	33.1
Other mfg expenses	12.1	17.1	16.5	16.0
Operating expenses	79.1	76.9	77.5	78.9
Depreciation	1.6	1.3	1.1	1.0
EBITDA margins	20.9	23.1	22.5	21.1
EBIT margins	19.3	21.8	21.4	20.1
Interest Expense	0.2	-	-	-
Net Profit margins	22.4	21.1	19.9	17.9

## Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	(4.1)	23.4	24.3	22.8
EBITDA	53.3	36.7	21.0	15.3
PBT	19.1	13.6	15.3	10.6
Adjusted Profit	17.7	16.3	17.0	10.6
EPS	17.7	16.3	17.0	10.6

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	3,369	3,160	3,160	3,160	
Reserves & Surplus	24,390	19,519	20,162	21,273	
Shareholders' funds	27,760	22,679	23,321	24,433	
Long Term Liabilities	76	73	73	73	
Def. Tax Liability (net)	(2,657)	(3,029)	(3,029)	(3,029)	
<b>Sources of funds</b>	<b>25,179</b>	<b>19,723</b>	<b>20,365</b>	<b>21,477</b>	
Gross Block	3,906	4,084	4,334	4,584	
Net Block	2,254	2,204	2,203	2,187	
Capital work in progress	181	234	234	234	
Intangible Assets	450	343	59	59	
Total Fixed Assets	2,885	2,781	2,496	2,480	
Non current investments	5,695	2,728	2,728	2,728	
Cash and Equivalents	23,105	24,806	21,534	20,950	
Inventories	11	11	15	22	
Sundry Debtors	3,831	5,449	4,870	6,354	
Loans & Advances	419	441	452	463	
Other Current Assets	4,583	5,056	5,309	5,575	
Current Assets (ex cash)	8,843	10,958	10,646	12,414	
Trade payable	2,229	2,180	1,939	2,896	
Other Current Liab	13,121	19,372	15,099	14,199	
Total Current Liab	15,350	21,552	17,038	17,095	
Net Curr Assets-ex cash	(6,507)	(10,594)	(6,392)	(4,682)	
<b>Uses of funds</b>	<b>25,179</b>	<b>19,723</b>	<b>20,365</b>	<b>21,477</b>	
BVPS (INR)	43.9	35.9	36.9	38.7	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	3,250	3,779	4,421	4,891	
Add: Depreciation	225	238	251	266	
Interest (Net of Tax)	18	4	7	7	
Others	139	5,952	(10,212)	(5,178)	
Less: Changes in WC	1,379	4,005	(4,201)	(1,711)	
Operating cash flow	2,253	5,968	(1,332)	1,696	
Less: Capex	435	18	(34)	250	
<b>Free Cash Flow</b>	<b>1,818</b>	<b>5,950</b>	<b>(1,297)</b>	<b>1,446</b>	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		2,253	5,968	(1,332)	1,696
Financing cash flow		(769)	(9,622)	(3,789)	(3,789)
Investing cash flow		6,742	(1,190)	1,848	1,510
Net cash Flow		8,226	(4,844)	(3,273)	(583)
Capex		(435)	(18)	34	(250)
Dividend paid		(2,422)	(3,028)	(3,779)	(3,779)

Profitability and efficiency ratios		FY17	FY18	FY19E	FY20E
Year to March					
ROACE (%)		18.2	22.5	28.5	30.4
ROAE (%)		11.7	15.0	19.2	20.5
Inventory Days		2	1	1	1
Debtors Days		94	95	85	75
Payable Days		342	258	138	109
Cash Conversion Cycle		(246)	(162)	(52)	(33)
Current Ratio		2.1	1.7	1.9	2.0
Adjusted Debt/Equity		-	-	-	-
Interest Coverage Ratio		88.2	680.3	474.7	549.5

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover		0.6	0.8	1.1	1.3
Fixed Asset Turnover		5.6	6.8	9.2	12.1
Equity Turnover		0.5	0.7	1.0	1.1

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		5.1	6.0	7.0	7.7
Y-o-Y growth (%)		17.7	16.3	17.0	10.6
Adjusted Cash EPS (INR)		5.5	6.4	7.4	8.2
Diluted P/E (x)		26.5	22.8	19.5	17.6
P/B (x)		3.1	3.8	3.7	3.5
EV / Sales (x)		4.4	3.5	2.9	2.4
EV / EBITDA (x)		20.8	14.8	12.9	11.3
Dividend Yield (%)		2.2	2.9	3.7	3.7

## Additional Data

### Directors Data

Ajay Narayan Deshpande	Director (Technical), Additional charge Chairman & Managing Director	V.C.Bhandari	Director HR
R K Sabharwal	Director Commercial	Sandeep Poundrik	Government Nominee Director
Sandeep Poundrik	Government Nominee Director	Sushma Taishete	Government Nominee Director
Shazia Ilmi	Government Nominee Director		

Auditors - Arun K. Agarwal & Associates

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Government of india	52.02	Icici prudential ass	6.44
L&t mutual fund	4.16	Life insurance corp	3.54
Reliance capital tru	3.17	Uti asset management	1.65
General insurance co	1.3	Dsp blackrock invest	0.89
Canara robeco asset	0.89	Idfc mutual fund	0.88

*\*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	Bharat Forge	BUY	SO	M
Bharat Heavy Electricals	BUY	SP	M	CG Power and Industrial Solutions	HOLD	SP	M
Cummins India	BUY	SO	L	Engineers India Ltd	BUY	SO	L
Greaves Cotton	HOLD	SP	M	Kalpataru Power	BUY	SO	M
KEC International	BUY	SO	M	Larsen & Toubro	BUY	SO	M
Praj Industries	BUY	None	None	Ramkrishna Forgings	BUY	SP	M
Siemens	HOLD	SP	L	TD Power Systems	HOLD	None	None
Techno Electric & Engineering	BUY	SP	M	Thermax	REDUCE	SP	L
Triveni Turbine	BUY	None	None	VA Tech Wabag	BUY	None	None

## 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
	Stock return < 1.25 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
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss  
Ideas create, values protect



**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: [research@edelweissfin.com](mailto:research@edelweissfin.com)

Aditya Narain

Head of Research

[aditya.narain@edelweissfin.com](mailto:aditya.narain@edelweissfin.com)

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

ABB India, Bharat Heavy Electricals, Bharat Forge, CG Power and Industrial Solutions, Engineers India Ltd, Greaves Cotton, 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

### Recent Research

Date	Company	Title	Price (INR)	Recos
29-May-18	<b>VA Tech Wabag</b>	Poor domestic visibility impacts FY18; large orders on anvil; <i>Result Update</i>	447	Buy
28-May-18	<b>Larsen &amp; Toubro</b>	On fast track; reiterate perception change ; <i>Result Update</i>	1378	Buy
28-May-18	<b>Ramkrishna Forgings</b>	Another strong quarter; bright outlook; <i>Result Update</i>	770	Buy

### Distribution of Ratings / Market Cap

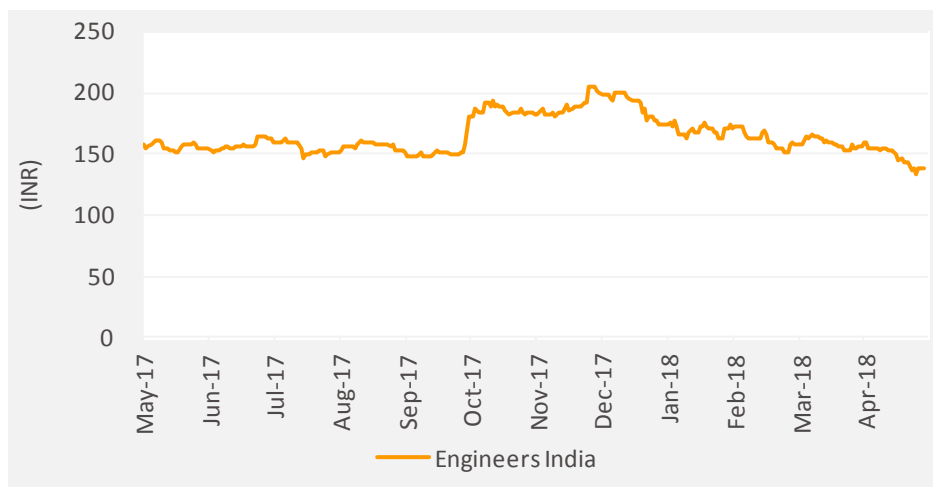
#### Edelweiss Research Coverage Universe

	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
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	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](http://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.

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](http://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