

NESTLE

Filling capacity to the brim

India Equity Research | Consumer Goods



We recently met Nestle management. Volume growth which has been lower than expectation in the past few quarters remains challenging due to discretionary slowdown in foods and high competitive intensity in Coffee, Chocolates and Noodles. On the positive side, the company's capacity is now largely in place to meet any demand. Also roping in Amitabh Bachchan for its brand Maggi has aided a revival in the brand's volume growth. Few innovations like Milkmaid Creations Kulfi have done exceptionally well. However, raw material pressure remains high. We expect a pick-up in the new product pipeline aided by the likely commencement of its R&D center and backed by aggressive ad spends (new focus on digital and regional media) that might help reverse the slowdown in sales. Maintain 'HOLD'.

Capacity largely in place; managing RM costs remains a challenge

Competition has become an issue, especially in Chocolates (Cadbury), Noodles (ITC) and Coffee (HUL). We expect Nestle to increase the intensity of innovations/new launches as the company's capacity is largely in place. However, RM pressure persists as its Commodity Basket Price Index has gone up from 138 in CY11 to 148 in YTD CY12.

Expansion plans, distribution reach to aid growth

Nestle has spent INR22.7bn on capex over the last six quarters, more than its gross block of INR18.6bn at the end of CY10 (~100 years' gross block), thus underlining its commitment to expand in India. Also, the company is likely to make continuous efforts to increase its distribution reach in North-East India.

Outlook and valuations: Fairly valued; maintain 'HOLD'

Nestle is the best play in the packaged food category in India over the longer term. We believe that volume growth would recover in coming quarters due to corrective actions taken by Nestle and its intense focus on new product launches. However, rising input cost is a worry. At CMP, the stock is trading at 39.7x CY12E and 32.7x CY13E and appears fairly valued over the near term. We maintain 'HOLD/ Sector Performer'.

Financials

Year to December	CY10	CY11	CY12E	CY13E
Revenues (INR mn)	62,547	74,908	86,872	103,318
Rev. growth (%)	21.9	19.8	16.0	18.9
EBITDA (INR mn)	12,497	15,528	18,325	22,538
Net profit (INR mn)	8,187	9,615	11,266	13,675
Shares outstanding (mn)	96	96	96	96
Diluted EPS (INR)	84.9	99.7	116.8	141.8
EPS growth (%)	25.0	17.5	17.2	21.4
Diluted P/E (x)	54.6	46.5	39.7	32.7
EV/EBITDA (x)	35.4	29.2	25.2	20.4
ROAE (%)	114.0	90.3	74.7	67.4

EDELWEISS 4D RATINGS

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

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

CMP	: INR 4,635
Target Price	: INR 4,900
52-week range (INR)	: 5,024 / 3,925
Share in issue (mn)	: 96.4
M cap (INR bn/USD mn)	: 447/ 8,032
Avg. Daily Vol.BSE/NSE('000)	: 32.2

SHARE HOLDING PATTERN (%)

	Current	Q4FY12	Q3FY12
Promoters %	62.8	62.8	62.8
MF's, FI's & BK's	7.7	7.8	8.0
FII's	10.9	11.0	10.9
others	18.6	18.4	18.3
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	3.5	0.6	4.6
3 months	2.9	6.8	11.5
12 months	5.6	5.1	32.5

Abneesh Roy

+91 22 6620 3141
abneesh.roy@edelcap.com

Hemang Gandhi

+91 22 6620 3148
hemang.gandhi@edelcap.com

Pooja Lath

+91 22 6620 3075
pooja.lath@edelcap.com

August 31, 2012

“Rural is now growing slower than urban. We didn’t see much slowdown in April, but June onwards, it has been bad” - Praveen Kulkarni, GM marketing, Parle Products speaking on slowdown in discretionary categories like biscuits.

Milk products & nutrition category is the only segment which increased as a % of its sales while contribution from the rest declined.



Key takeaways from management meet

Capacity largely in place, discretionary slowdown in foods

The discretionary food category has been facing some slowdown. Also, competition, especially in Chocolates (Cadbury), Noodles (ITC) and Coffee (HUL) has been hurting Nestle’s volume growth. Real internal growth (RIG) for Nestle has gone up to 6.5% YoY in H1CY12. However, we expect Nestle to increase the intensity of innovations/new launches since it has most of the capacity in place. Also, on the positive side, the company’s capacity is now largely in place to meet demand. By setting up its 9th manufacturing plant at Sanand, Gujarat, in addition to brownfield projects in Karnataka (INR3.6bn) to expand noodles capacity, Goa (INR5bn) for confectionaries, Punjab (INR2bn) for chocolates and greenfield expansion each in Haryana (INR6bn) and Himachal Pradesh (INR4bn-5bn), Nestle is preparing to meet the growing demand for its products and launch new ones.

Chart 1: Diversified product portfolio (% of net sales)

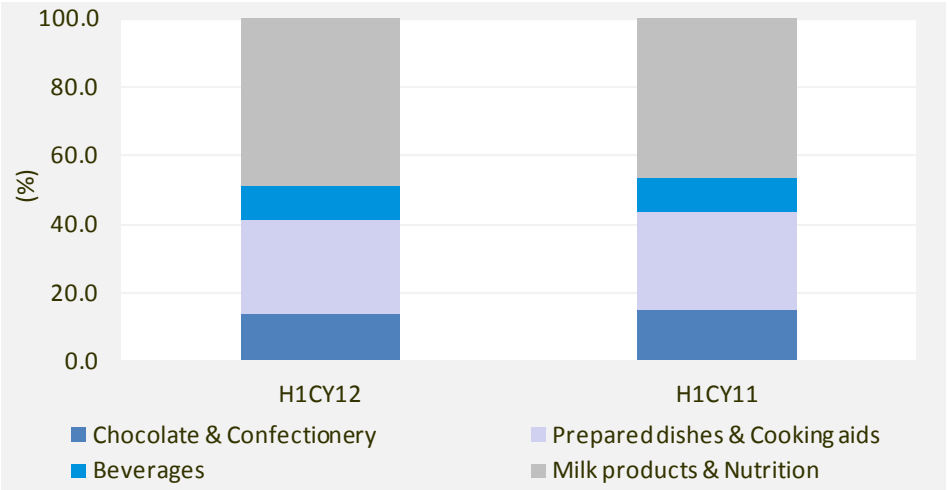
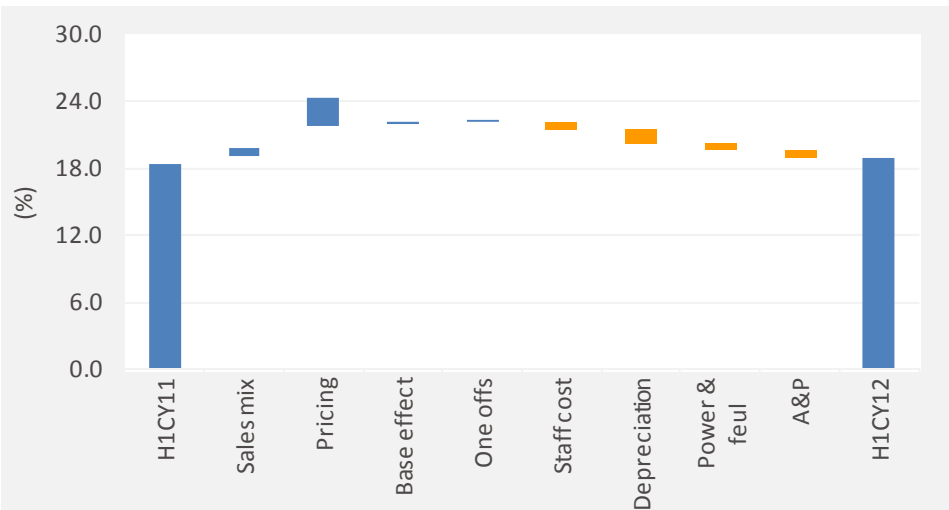


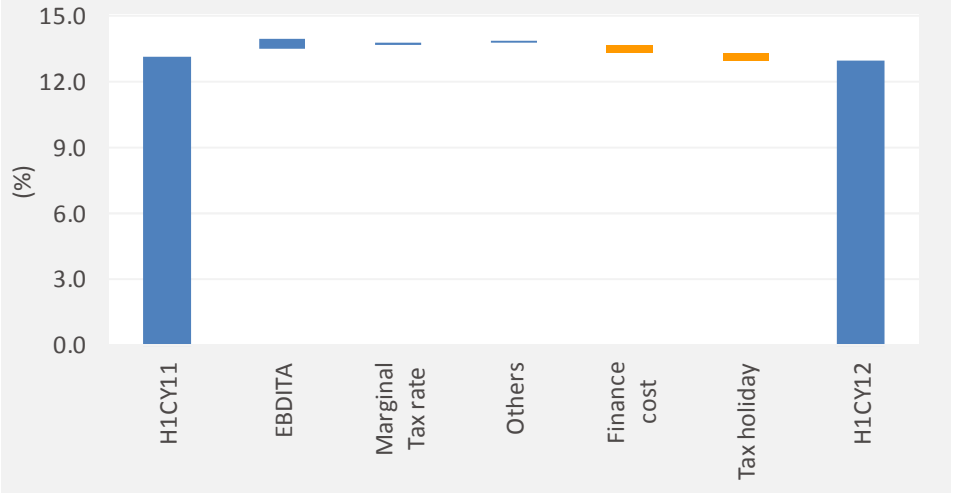
Chart 2: Contributors & diluters to EBITDA%



Source: Company, Edelweiss research



Chart 3: Contributors & diluters to PAT%



Source: Company, Edelweiss research

Third party sales

Third party sales increased 1.1% (volume) and 14.2% (value) YoY in H1CY12.

Chart 4: Volumes flat

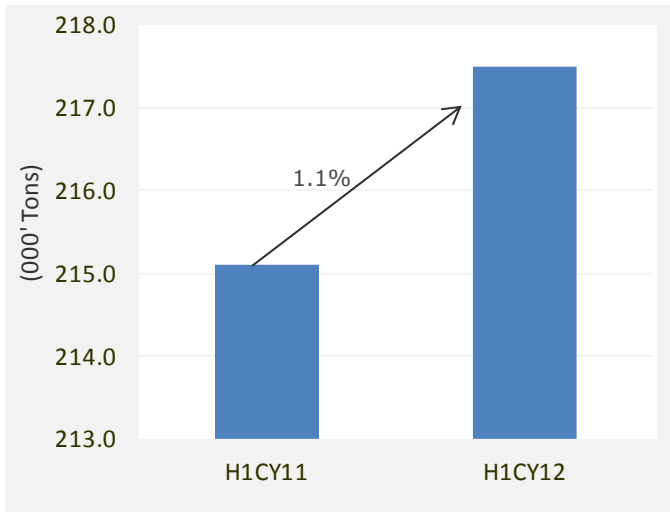
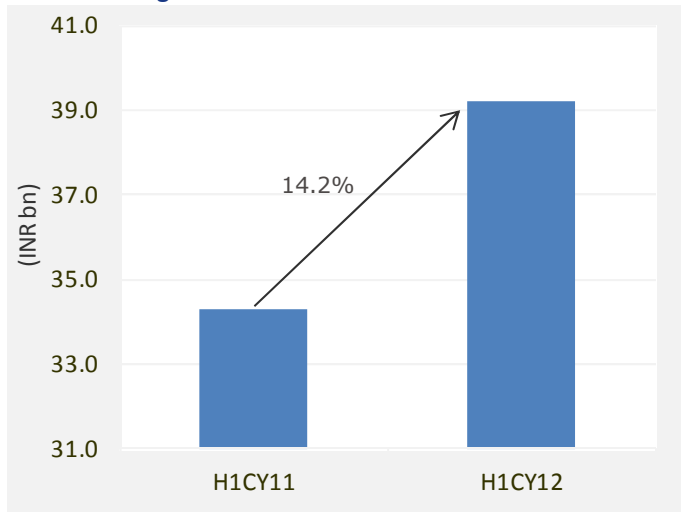


Chart 5: Sales growth in value terms



Source: Company, Edelweiss research

Exports: Revival seen as ban on milk powder goes

Nestlé's exports sales declined 27.3% (volume) and 19.1% (value) YoY in H1CY12, primarily due to a ban on milk powder exports. However, a revival in growth is expected as the ban on exports has been lifted.

Chart 6: Volumes head downwards

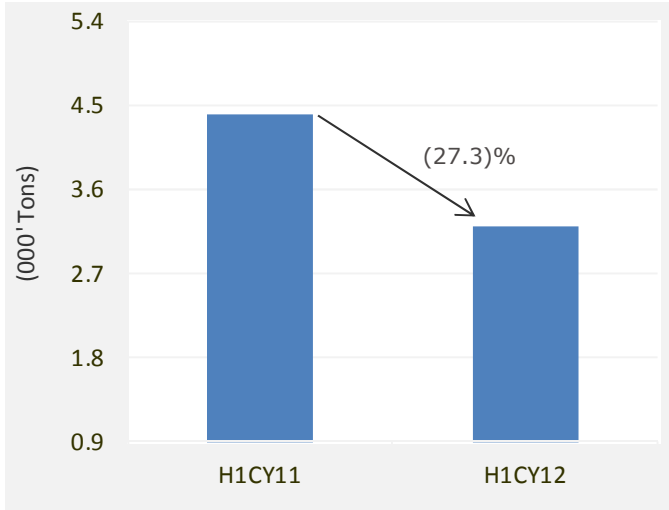
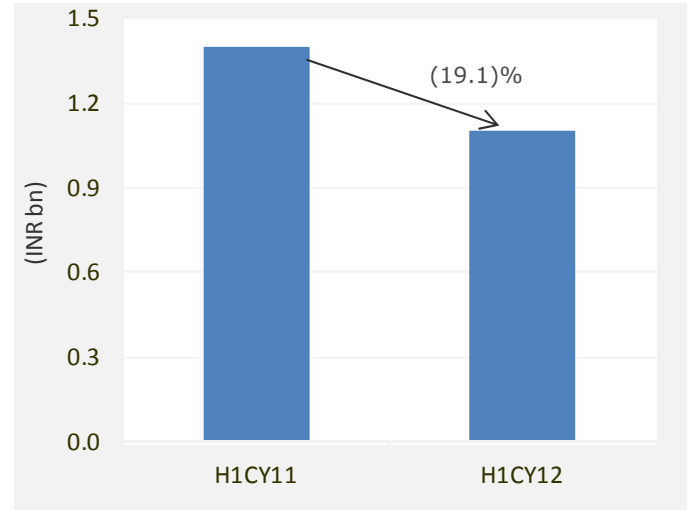


Chart 7: Sales growth in value terms also down

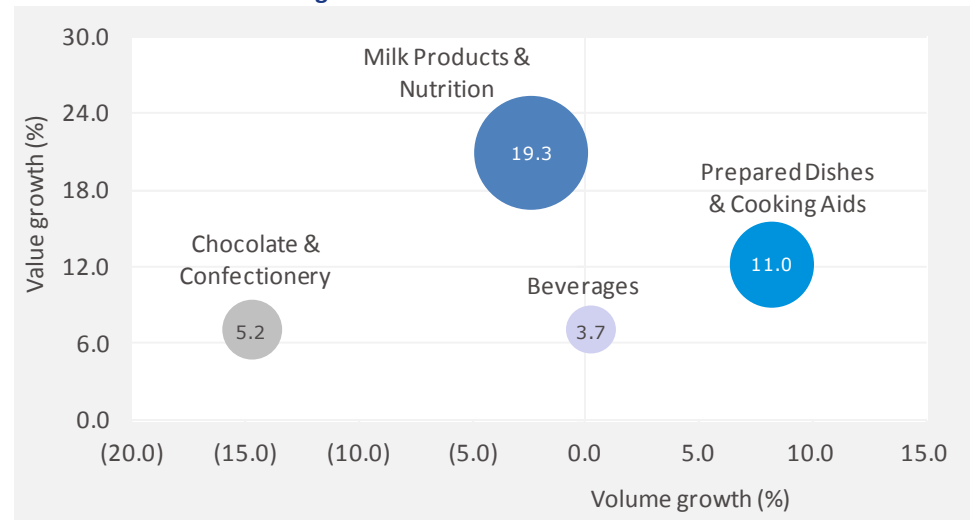


Source: Company, Edelweiss research

Growth across categories: Volume growth to remain demanding

Prepared dishes & cooking aids category showed a robust volume growth in H1CY12 YoY. However, chocolates disappointed largely due to competition from Cadbury. Volume growth will remain challenging in the coming quarters due to the discretionary slowdown in foods besides the persisting high competitive intensity.

Chart 8: Growth across categories



Source: Company, Edelweiss research



Milk products and nutrition: New launches fare well

Milk segment contributes the highest to overall sales at 49.2%. Nestle has weeded out the non-strategic part of its portfolio. A part of this segment such as baby foods and instant formula offer high entry barriers since no advertising is allowed in these categories. Nestle is the prime player in baby foods, instant formula, dairy whitener and sweetened condensed milk. Also, some innovations like Milkmaid Creations Kulfi have done exceptionally well. Though the company's sales declined ~2.4% in volume terms, it increased 20.9% in value

YoY. RIG for the category was 12.8% YoY in H1CY12. Recent product launches include Junior Daheez, Baby Me, Milkmaid Creations and innovations in Lactogen 1 and Cerelac.

Chart 9: Volume: declines YoY

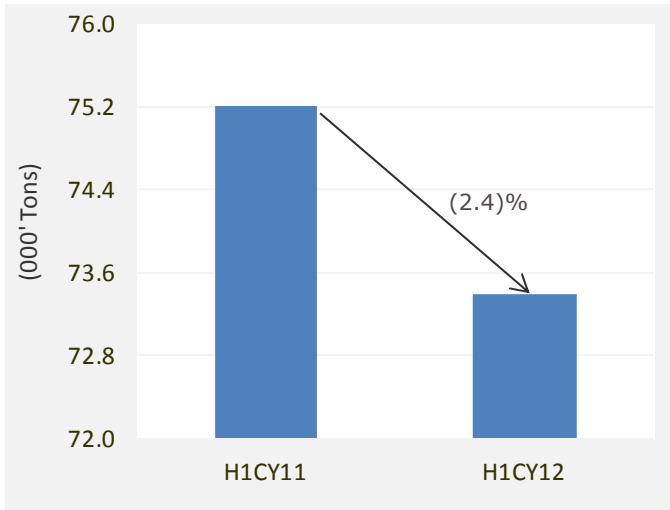
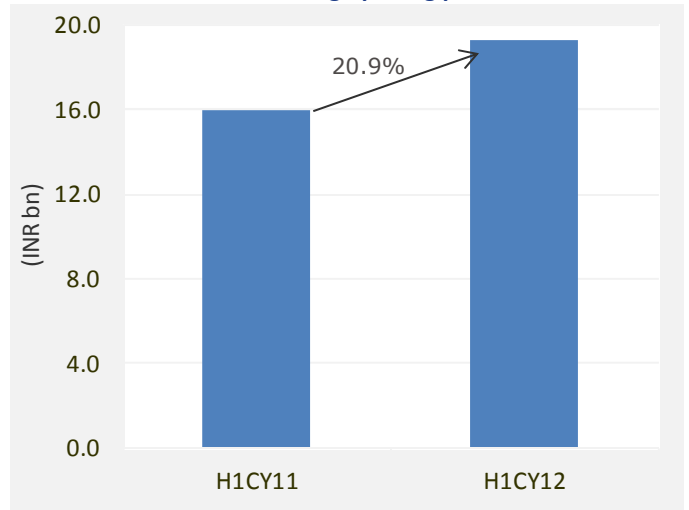


Chart 10: Sales: Pole vault; high pricing power



Source: Company, Edelweiss research

Prepared dishes and cooking aids: Sustains dominance

This segment remains the primary growth driver and accounts for 27.9% of sales. Nestle’s sales in this segment grew at a strong ~8.2% by volume and 12.2% by value YoY for H1CY12 - faster volume growth compared to other segments in spite of high competition in this segment. RIG for the category stood at 12.1% YoY for H1CY12. However, roping in Amitabh Bachchan for Maggi has helped a revival in its volume growth. The company remains the dominant player in instant noodles, sauces and pasta besides being a number two in healthy soups.

Fig 1: Nestle has surprisingly roped in Amitabh Bachchan for Maggi



Source: Company

Chart 11: Volume: On the rise

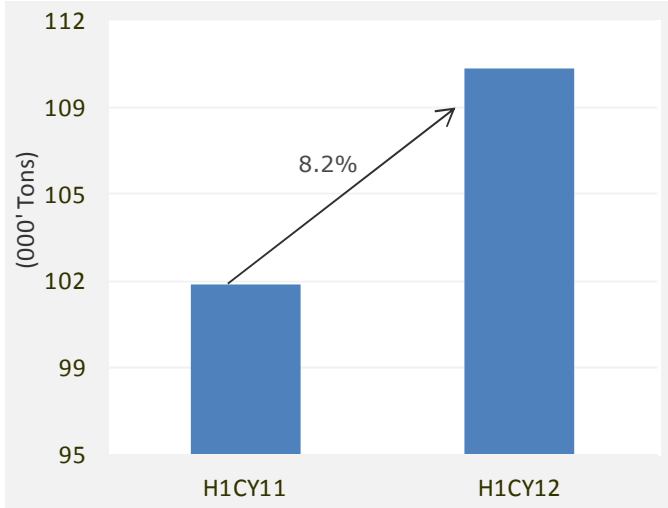
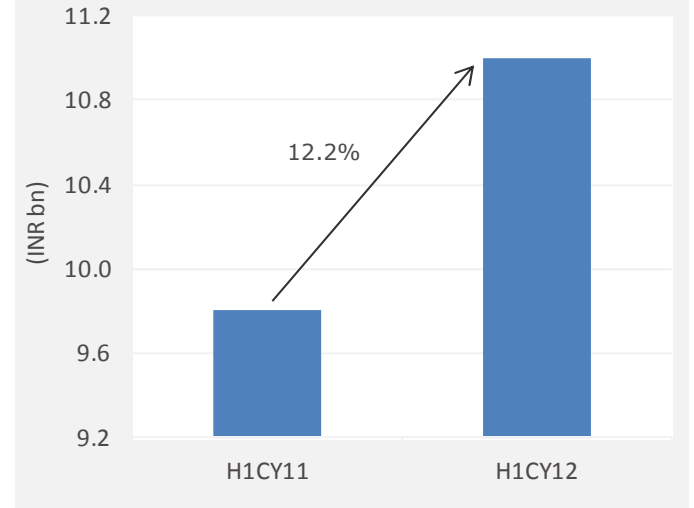


Chart 12: Gaining muscle in value terms



Source: Company, Edelweiss research

Beverages: HUL turns heat

In this segment (9.5% of sales), the company’s sales grew by a mere 0.2% (value) and 7.1% in volume in H1CY12. RIG also disappointed with a growth of 0.9% YoY. Nestle is the dominant force in instant coffee and has a strong presence in vending. Competition remains high with HUL becoming the market leader in the instant coffee segment in volume terms. Also, recent innovations include launch of Nescafe Caramel Macchiato.

Chart 13: Volumes disappoint

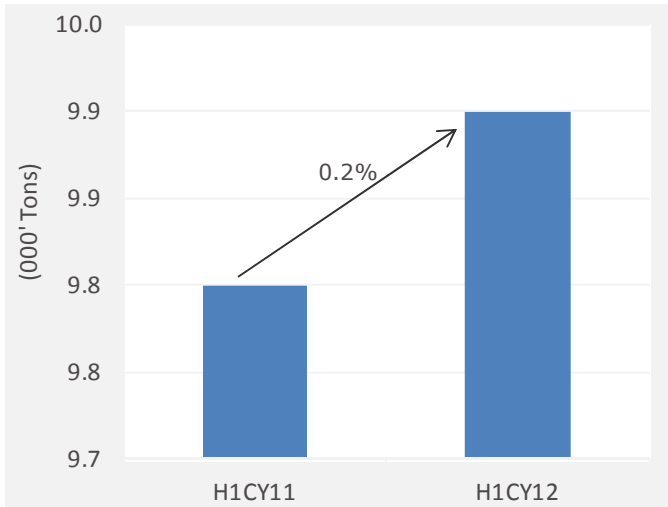
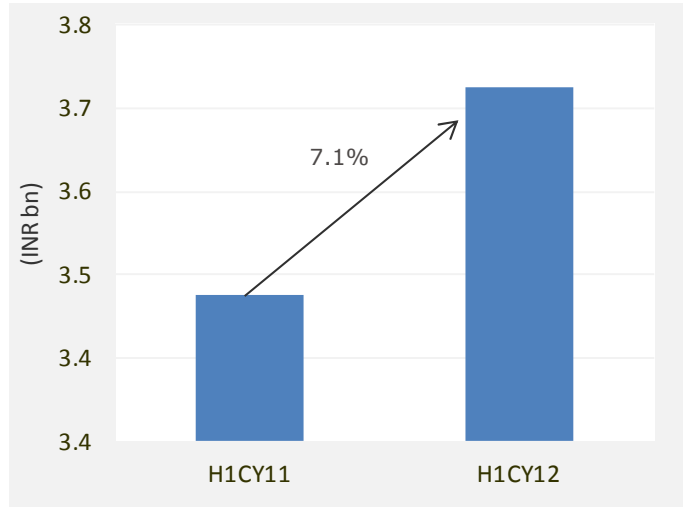


Chart 14: Pricing power save the day



Source: Company, Edelweiss research

Chocolates and confectionary: Launches new products

This segment accounts for 13.4% of total sales. Competition remains high with limited pricing power. Nestle is numero uno in wafers and white chocolates. Overall, it is a leading player in chocolates. In chocolates and confectionary, the company’s sales had declined 14.7% (volume) and increased by a mere 1.7% (value) YoY in H1CY12. RIG for the category stood at 2.8% YoY. Recently, the company also introduced new products like Munch Rolls and Dark Chocolate Dry Fruits.

Chart 15: Volumes decline YoY

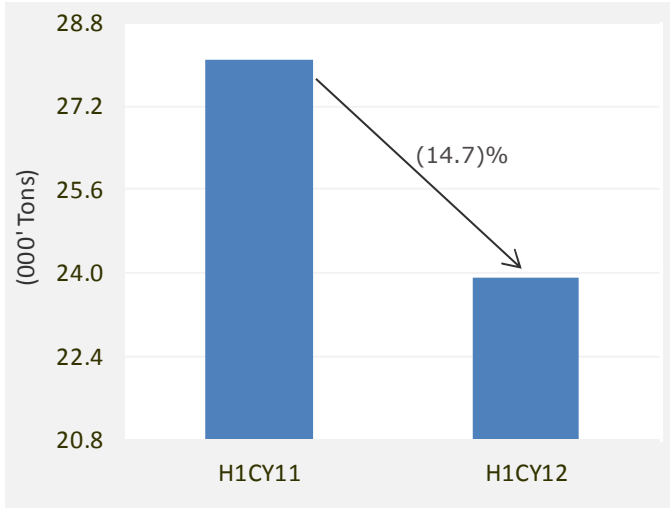
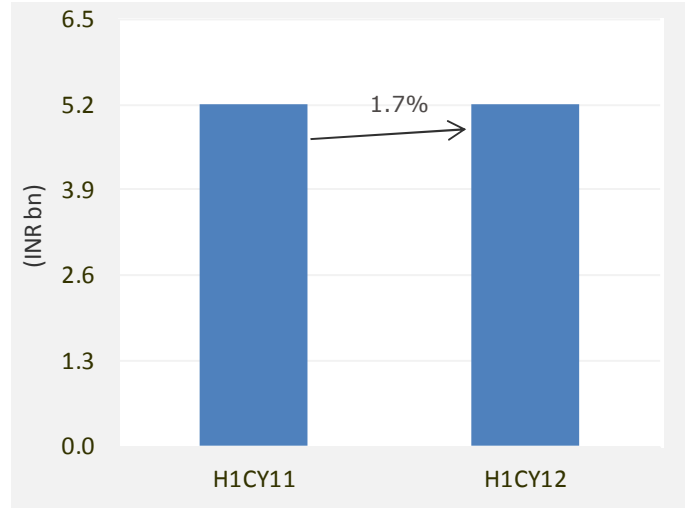


Chart 16: Sales in value terms flat



Source: Company, Edelweiss research



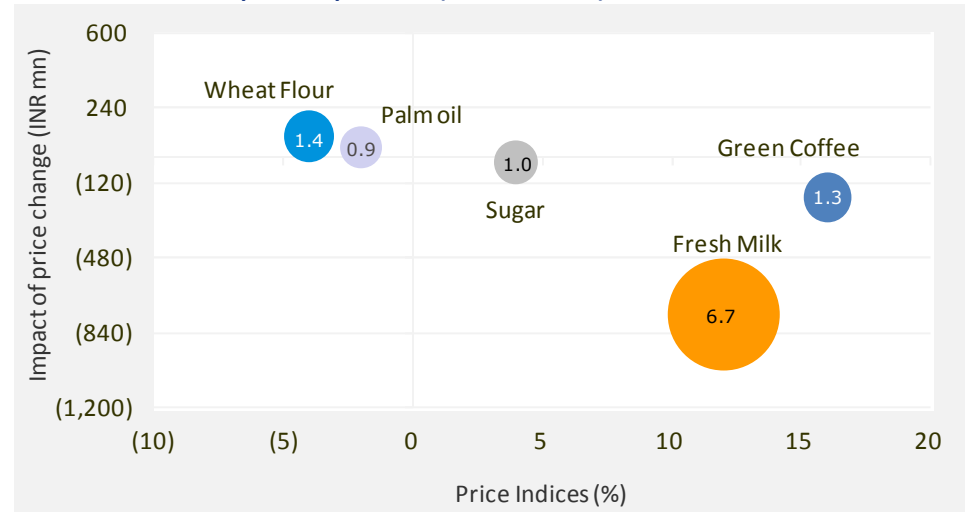
Capex moves as per plan

In recent years, Nestlé has stepped up its capex (to meet the growing demand for its products and launch new ones) which includes setting up new factories to increase capacity and modernise and expand existing ones. This includes a new manufacturing site in Nanjangud in Karnataka producing Maggi sauces, noodles, bouillons and seasoning, and another one at Tahliwal, Himachal Pradesh, which will manufacture Maggi noodles as well as chocolate and confectionery products. Also, Nestle is coming up with its ninth manufacturing plant at Sanand, Gujarat at a cost of ~INR4bn. The company has already spent ~INR5.4bn in H1CY12 and has capital commitments of another ~INR2.8bn.

Managing raw material costs remains a challenge

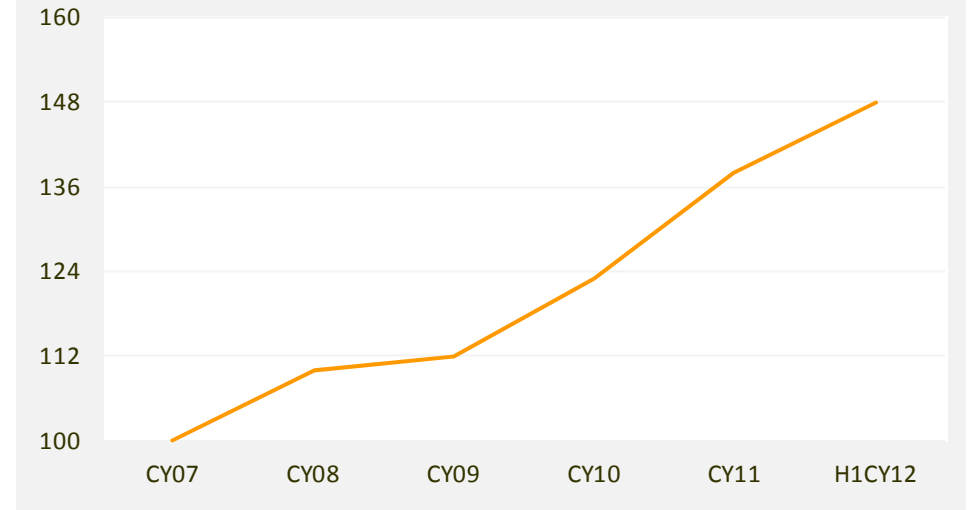
Nestlé's Commodity Basket Price Index has gone up from 138 in CY11 to 148 in YTD CY12. All key raw materials which include milk (up 10.8% over CY11- YTD), sugar (up 6%) and green coffee (up 14.4%) continue to remain a worry for the company as prices have firmed up significantly.

Chart 17: Diversified product portfolio (% of net sales)



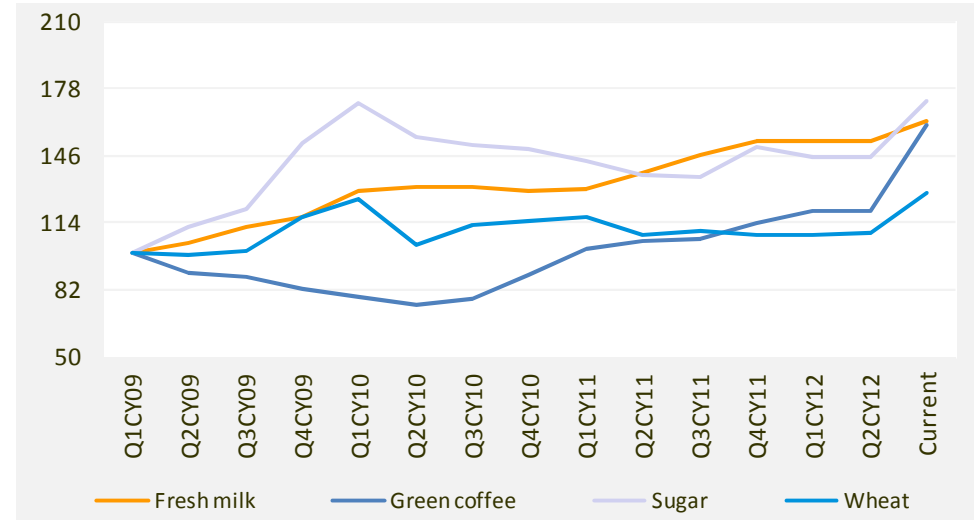
Source: Company, Edelweiss research

Chart 18: Commodity basket price index



Source: Company, Edelweiss research

Chart 19: Key raw material price index



Source: Company, Edelweiss research

Company Description

Nestle, a 62.8% subsidiary of its parent Nestlé S.A. of Switzerland, is India's third largest FMCG company after HUL and ITC. The company set up its first factory at Moga, Punjab, to develop milk production. Over the years, Nestlé has set up eight factories across the country, and is now involved in manufacturing and marketing a range of quality products. It has well-established brands, including Maggi, Nescafe, Lactogen, KitKat, and Milkmaid. Nestlé enjoys leadership position in its core categories like baby foods, instant noodles, and instant coffee. It enjoys a distinct advantage over competitors in the F&B space on account of its strong focus on developing products around the nutrition, health, and wellness platform, and a culture of renovation and innovation in its offerings, backed by strong parent support.

Investment Theme

Nestle India (Nestle) is the best play on Indian processed food industry, which is on a high growth trajectory with multiple growth drivers in place, including low penetration levels, rising income levels, urbanisation, and changing lifestyle. Nestlé with established brands across food categories is expected to be a major beneficiary of this growth. Nestle is increasingly focusing to expand into tier II and tier III cities by introducing stock-keeping units (SKUs) below INR 10. Also, company has effectively leveraged its recent innovations/renovation positioned on health and wellness platform to gain incremental sales. Nestlé's high pricing power on account of strong brand equity shall aid in fighting margin pressure despite inflationary concern. Low volume growth in the past couple of quarters is a cause of concern.

Key Risks

Sharp increase in input costs

Sharp rise in the prices of its key inputs such as milk, wheat flour, edible oils, and sugar could impact margins adversely.

Competition from new entrants

GSK Consumer, ITC and HUL entered the noodles category in select markets and this could increase the ad spend for Nestlé. Nestlé also faces competition from dairy cooperatives like Amul and Mother Dairy, which have low focus on maintaining profit margins. Increase in competition could also limit Nestlé's ability to pass on input price hikes to consumers.

Failure of new product launches

Nestlé has launched premium variants in various categories such as chocolates, noodles, ketchup, and dairy products, which could face risk of failure due discretionary slowdown in foods.

Financial Statements

Macro Assumptions	FY10	FY11	FY12	FY13E	FY14E
GDP(Y-o-Y %)	8.4	8.4	6.5	6.4	7.0
Inflation (Avg)	3.6	9.9	8.8	7.0	6.0
Repo rate (exit rate)	5.00	6.75	8.50	7.25	6.75
USD/INR (Avg)	47.4	45.6	47.9	53.5	50.0

Company Assumptions	CY09	CY10	CY11	CY12E	CY13E
Volume growth (domestic) % YoY	12.3	15.0	4.7	3.9	5.6
Pricing change (domestic) % YoY	10.0	14.7	13.7	10.2	11.3
COGS as % of sales	47.7	48.9	47.9	47.8	46.4
A&P as % of sales	5.2	4.8	4.4	4.6	5.0

Income statement	(INR mn)				
Year to December	CY09	CY10	CY11	CY12E	CY13E
Net revenue	51,294	62,547	74,908	86,872	103,318
Materials costs	24,484	30,556	35,894	41,530	47,976
Gross profit	26,810	31,992	39,015	45,342	55,342
Employee costs	4,324	4,334	5,465	6,342	7,749
Other expenses	9,466	12,135	14,746	16,680	19,889
Advertisement & sales costs	2,675	3,026	3,276	3,996	5,166
EBITDA	10,345	12,497	15,528	18,325	22,538
Depreciation & Amortization	1,216	1,278	1,637	2,033	2,614
EBIT	9,129	11,219	13,890	16,292	19,925
Other income	378	427	509	542	703
Provision for contingencies	323	184	469	-	-
Interest expenses	14	11	51	388	591
Profit before tax	9,170	11,451	13,879	16,446	20,037
Provision for tax	2,620	3,264	4,264	5,181	6,362
Net profit	6,550	8,187	9,615	11,266	13,675
Shares outstanding (mn)	96	96	96	96	96
Diluted EPS (INR)	67.9	84.9	99.7	116.8	141.8
Dividend per share (INR)	48.5	48.5	48.5	58.4	70.9
Dividend payout (%)	71.4	57.1	48.6	50.0	50.0

Common size metrics - as % of net revenues

Year to December	CY09	CY10	CY11	CY12E	CY13E
Materials costs	47.7	48.9	47.9	47.8	46.4
Employee expenses	8.4	6.9	7.3	7.3	7.5
EBITDA margins	20.2	20.0	20.7	21.1	21.8
Net profit margins	12.8	13.1	12.8	13.0	13.2

Growth ratios (%)

Year to December	CY09	CY10	CY11	CY12E	CY13E
Rev. growth (%)	18.6	21.9	19.8	16.0	18.9
EBITDA	19.8	20.8	24.3	18.0	23.0
Net profit	16.0	25.0	17.5	17.2	21.4
EPS growth (%)	16.0	25.0	17.5	17.2	21.4

Balance sheet						(INR mn)
As on 31st December	CY09	CY10	CY11	CY12E	CY13E	
Equity capital	964	964	964	964	964	
Reserves & surplus	4,848	7,590	11,775	16,479	22,188	
Shareholders funds	5,813	8,554	12,740	17,443	23,152	
Secured loans	-	-	8	8,869	8,869	
Unsecured loans	-	-	9,700	10,840	10,840	
Borrowings	-	-	9,709	19,709	19,709	
Deferred tax liability	320	333	435	435	435	
Sources of funds	6,133	8,887	22,883	37,587	43,296	
Gross block	16,408	18,547	25,522	34,709	45,709	
Depreciation	7,446	8,420	9,765	11,797	14,411	
Net block	8,962	10,127	15,758	22,911	31,298	
Capital work in progress	796	3,489	14,186	20,000	17,000	
Investments	2,033	1,507	1,344	1,344	1,344	
Inventories	4,987	5,760	7,340	7,572	8,977	
Sundry debtors	642	633	1,154	1,012	1,176	
Cash and equivalents	1,556	2,553	2,272	4,064	4,669	
Loans and advances	1,380	1,514	1,964	1,964	1,964	
Total current assets	8,566	10,460	12,730	14,613	16,785	
Sundry creditors and others	5,876	7,617	10,096	10,242	12,092	
Provisions	8,348	9,079	11,038	11,038	11,038	
Total current liabilities & provisions	14,224	16,696	21,135	21,281	23,131	
Net current assets	(5,658)	(6,236)	(8,404)	(6,668)	(6,345)	
Uses of funds	6,133	8,887	22,883	37,587	43,296	
Book value per share (INR)	60.3	88.7	132.1	180.9	240.1	

Free cash flow						(INR mn)
Year to December	CY09	CY10	CY11	CY12E	CY13E	
Net profit	6,550	8,187	9,615	11,266	13,675	
Add : Non cash charge	1,553	1,472	2,157	2,421	3,205	
Depreciation	1,216	1,278	1,637	2,033	2,614	
Others	337	194	520	388	591	
Gross cash flow	8,103	9,659	11,773	13,687	16,880	
Less: Changes in WC	15	(978)	(377)	(56)	(281)	
Operating cash flow	8,088	10,636	12,150	13,743	17,161	
Less: Capex	2,064	4,832	17,672	15,000	8,000	
Free cash flow	6,024	5,804	(5,522)	(1,257)	9,161	

Cash flow metrics					
Year to December	CY09	CY10	CY11	CY12E	CY13E
Operating cash flow	9,268	10,368	11,876	13,743	17,161
Investing cash flow	(2,552)	(4,459)	(15,552)	(15,000)	(8,000)
Financing cash flow	(5,413)	(5,438)	3,232	3,049	(8,557)
Net cash flow	1,303	471	(444)	1,792	604
Capex	(2,064)	(4,832)	(17,672)	(15,000)	(8,000)
Dividends paid	(5,471)	(5,448)	(5,430)	(6,562)	(7,966)

Profitability & efficiency ratios

Year to December	CY09	CY10	CY11	CY12E	CY13E
ROAE (%)	124.2	114.0	90.3	74.7	67.4
ROACE (%)	206.0	195.5	96.1	56.4	51.0
Inventory day	33	31	32	32	32
Debtors days	4	4	4	4	4
Payable days	49	49	54	55	55
Cash conversion cycle (days)	(12)	(14)	(18)	(18)	(19)
Current ratio	0.6	0.6	0.6	0.7	0.7

Operating ratios

Year to December	CY09	CY10	CY11	CY12E	CY13E
Total asset turnover	9.1	8.3	4.7	2.9	2.6
Fixed asset turnover	6.2	6.6	5.8	4.5	3.8
Equity turnover	9.7	8.7	7.0	5.8	5.1

Valuation parameters

Year to December	CY09	CY10	CY11	CY12E	CY13E
Diluted EPS (INR)	67.9	84.9	99.7	116.8	141.8
Y-o-Y growth (%)	16.0	25.0	17.5	17.2	21.4
CEPS (INR)	80.5	98.2	116.7	137.9	168.9
Diluted PE (x)	68.2	54.6	46.5	39.7	32.7
Price/BV (x)	76.9	52.2	35.1	25.6	19.3
EV/Sales (x)	8.6	7.1	6.0	5.3	4.5
EV/EBITDA (x)	42.9	35.4	29.2	25.2	20.4
Dividend yield (%)	1.0	1.0	1.0	1.3	1.5

Peer comparison valuation

Company	Market Price (INR)	Mcap (INR bn)	P/E (x)		EV/EBITDA(x)		ROE (%)	
			FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Consumer Goods								
Asian Paints	3,641	349	31.0	26.1	19.8	16.6	37.6	37.6
Colgate	1,207	164	31.3	27.1	23.0	19.3	112.0	112.9
Dabur	123	214	28.3	23.5	19.9	16.4	40.7	38.8
Emami	489	74	24.8	20.4	20.7	16.9	40.0	43.1
GSK Consumer*	2,956	124	30.2	26.0	19.5	16.6	33.9	33.0
Godrej Consumer	695	237	34.2	28.3	24.4	20.1	26.6	26.9
Hindustan Unilever	515	1114	34.2	29.8	26.3	22.7	77.1	69.7
ITC	268	2100	28.5	24.7	19.6	17.1	36.2	37.7
Marico	200	129	31.1	25.5	20.4	16.7	29.4	28.2
Nestle*	4,635	447	39.7	32.7	25.2	20.4	74.7	67.4
United Spirits	969	127	38.7	27.9	14.7	12.5	7.2	9.3
Consumer Goods - Mean			32.0	26.5	21.2	17.8	46.8	45.9
Consumer Goods - Mean (market cap wtd average)			31.5	26.9	21.9	18.6	49.9	48.3
Consumer Goods - Mean (ex-Nestle)			31.2x	25.9x	20.8x	17.5x	44.1	43.7

* CY numbers

Source: Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SP	M	Colgate	HOLD	SP	M
Dabur	BUY	SO	M	Emami	BUY	SP	H
GlaxoSmithKline Consumer Healthcare	BUY	SP	M	Godrej Consumer	BUY	SO	H
Hindustan Unilever	BUY	SO	L	ITC	BUY	SO	L
Marico	BUY	SO	M	Nestle Ltd	HOLD	SP	L
United Spirits	HOLD	SU	H				

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

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelcap.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelcap.com	+91 22 4040 7499

Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Colgate, Dabur, Godrej Consumer , Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
30-Aug-12	Dabur	Making a mark in the world beauty list; <i>EdelFlash</i>	125	Buy
28-Aug-12	Consumer Goods	Rise of the minions; <i>EdelFlash</i>		
17-Aug-12	ITC	Women, new consumers to puff up volume; <i>EdelFlash</i>	258	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	104	60	18	183
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	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

DISCLAIMER

General Disclaimer:

This document has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ 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. This document 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 document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies 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. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. 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 Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document 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. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their dependents from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The information provided in these documents remains, unless otherwise stated, the copyright of Edelweiss. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright Edelweiss 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. Edelweiss might be engaged or may seek to do business with companies covered in its research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should take informed decision and use this document for assistance only and must not alone be taken as the basis for their investment decision.

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.

Analyst holding in the stock: No.

Additional 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, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

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

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