

July 18, 2014

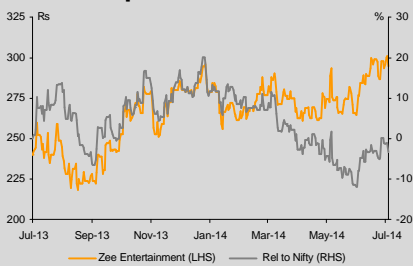
<b>Rating</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs295	Rs325
EPS Chg FY15E/FY16E (%)	-4/NA
Target Price change (%)	+3
Nifty	7,664
Sensex	25,642

### Price Performance

(%)	1M	3M	6M	12M
Absolute	7	12	6	19
Rel. to Nifty	5	-1	-13	-6

Source: Bloomberg

### Relative price chart



Source: Bloomberg

### Stock Details

Sector	Media & Entertainment
Bloomberg	Z IB
Equity Capital (Rs mn)	960
Face Value(Rs)	1
No of shares o/s (mn)	960
52 Week H/L	311/ 208
Market Cap (Rs bn/USD mn)	283/ 4,693
Daily Avg Volume (No of sh)	2,768,831
Daily Avg Turnover (US\$m)	12.8

### Shareholding Pattern (%)

	Jun'14	Mar'14	Dec'13
Promoters	43.1	43.1	43.1
FII/NRI	49.8	47.9	47.3
Institutions	2.2	3.4	4.1
Private Corp	2.3	3.0	3.0
Public	2.6	2.6	2.6

Source: Bloomberg

### Naval Seth

naval.seth@emkayglobal.com  
+91-22-66242414

### Pratik Shah

pratikm.shah@emkayglobal.com  
+91-22-6612124166121241

- **Revenue at Rs10.8bn (+11.6% yoy), EBITDA at Rs3.1bn (+6.1% yoy) with EBITDA margin at 28.5% (-147bps yoy). PAT stood at Rs2.1bn (-6.3% yoy)**
- **Advt. growth of 17.4% yoy was better than expected while domestic subscription growth of 2.2% yoy was 5% lower than expectation, due to accounting changes**
- **Subscription revenue growth in FY15E to be muted on account of 1) delayed consumer billing in Phase I&II and 2) delay in implementation of digitization in Phase III and IV**
- **Strong advt. growth in FY15E would offset muted subscription growth. Next leg of subscription revenue growth is expected in FY16E. Retain BUY with PT of Rs325**

### Advt. revenue outperforms, lower costs led to EBITDA beat

- Revenue at Rs10.8bn grew 11.6% yoy (est. of 13.2%), driven by 17.4% yoy growth in advt. revenue. Subscription revenue growth was weaker than expected at Rs4.4bn, growing mere 4.4% yoy.
- EBITDA at Rs3.1bn grew 6.1% yoy, on account of lower programming and content cost. Total expenditure increased 14% yoy while ex-sports opex increased 22% yoy due investments new channel launch of Zindagi and fresh content hours. Sports EBITDA remained positive for second consecutive quarter at Rs12mn v/s Rs351mn in Q4FY14, due to lower opex as there was no India cricket series.
- PAT declined 6.3% yoy to Rs2.1bn, due to higher depreciation and lower other income. Additional depreciation of Rs71mn was on account of change in policy as per new companies act. Other income stood at Rs390mn vs Rs722mn in Q1FY14.
- Ex-sports EBITDA at Rs3.1bn grew 2.3% yoy with EBITDA margin at 31.2% (-394bps yoy), due to investments in content and new channel launch.

### Strong ad growth driven by sustained viewership market share

Zee again out performed the industry on ad revenue front with a growth of 17.4% yoy as compared to the industry average of ~13%. Non-Sports ad revenue growth was >20% yoy, driven by sustained market share across its bouquet of channels and 17% yoy market share gain in Marathi channel. Further, the ad growth was also supplemented by a rate hike for all the contracts signed during the quarter.

### Domestic subscription revenue growth to remain muted

Domestic subscription revenue was impacted on account of accounting changes done post split of Media-Pro. Revenue from partner channels (Turner and Zee Media corporation) is excluded from Q1FY15. The company expects subscription revenue growth to be sub-par in FY15E as digitization in Phase III & IV is likely to get delayed.

### Outlook- To remain in investment phase during FY15E

Zee's strategy to invest in content and launch of new channel will further strengthen the bouquet and in our view it is positive in the long run. Success of 'Zindagi' would play a crucial role in driving both ad and subscription revenue going forward. However, subscription revenue growth in FY15E is expected to remain muted given the delays in digitization of Phase III and IV and delayed consumer billing in Phase I & II.

### Financial Snapshot (Consolidated)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY13A	36,996	9,543	25.8	7,196	7.5	22.2	19.6	39.3	28.3	7.2
FY14A	44,217	12,043	27.2	8,921	9.3	24.0	20.6	31.7	22.3	6.0
FY15E	49,237	13,076	26.6	9,236	9.6	3.5	18.8	30.6	20.6	5.5
FY16E	56,769	16,420	28.9	11,593	12.1	25.5	21.2	24.4	16.2	4.8

## Exhibit 1: Quarterly financials

Rs mn	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	YoY (%)	QoQ (%)	YTD'15	YTD'14	YoY (%)
Ad revenue	5,301	5,833	6,843	5,824	6,221	17.4	6.8	6,221	5,301	17.4
Subscription Revenue	4,241	4,581	4,565	4,635	4,428	4.4	(4.5)	4,428	4,241	4.4
Others	191	599	476	1,129	208	9.0	(81.6)	208	191	9.0
<b>Net Sales</b>	<b>9,733</b>	<b>11,013</b>	<b>11,884</b>	<b>11,588</b>	<b>10,857</b>	<b>11.6</b>	<b>(6.3)</b>	<b>10,857</b>	<b>9,733</b>	<b>11.6</b>
Programming Cost	4,108	5,041	6,095	5,444	4,340	5.7	(20.3)	4,340	4,108	5.7
<i>as % of sales</i>	<i>42.2</i>	<i>45.8</i>	<i>51.3</i>	<i>47.0</i>	<i>40.0</i>			<i>40.0</i>	<i>42.2</i>	
Employee Expenses	956	992	959	998	1,117	16.8	11.9	1,117	956	16.8
<i>as % of sales</i>	<i>9.8</i>	<i>9.0</i>	<i>8.1</i>	<i>8.6</i>	<i>10.3</i>			<i>10.3</i>	<i>9.8</i>	
Admin and Other expense	1,754	1,875	1,923	2,030	2,308	31.6	13.7	2,308	1,754	31.6
<i>as % of sales</i>	<i>18.0</i>	<i>17.0</i>	<i>16.2</i>	<i>17.5</i>	<i>21.3</i>			<i>21.3</i>	<i>18.0</i>	
Total operating expenditure	6818	7908	8976	8472	7765	13.9	(8.3)	7765	6818	13.9
<b>EBITDA</b>	<b>2915</b>	<b>3105</b>	<b>2907</b>	<b>3116</b>	<b>3092</b>	<b>6.1</b>	<b>(0.8)</b>	<b>3,092</b>	<b>2,915</b>	<b>6.1</b>
Depreciation	87	91	135	189	196	126.0	3.4	196	87	126.0
EBIT	2828	3014	2773	2927	2896	2.4	(1.0)	2896	2828	2.4
Other Income	722	549	380	155	390	(46.0)	150.6	390	722	(46.0)
Interest	22	34	32	70	22			22	22	-
Exceptional Item	0	0	0	0	0			0	0	
PBT	3528	3529	3121	3012	3264	(7.5)	8.4	3264	3528	(7.5)
Tax	1,289	1,166	985	850	1,164	(9.8)	36.9	1,164	1,289	(9.8)
<b>PAT before MI</b>	<b>2239</b>	<b>2363</b>	<b>2136</b>	<b>2162</b>	<b>2100</b>	<b>(6.2)</b>	<b>(2.8)</b>	<b>2100</b>	<b>2239</b>	<b>(6.2)</b>
MI	-8	0	0	-14	-5	(31.2)	(62.4)	-5	-8	(31.2)
<b>PAT after MI</b>	<b>2246</b>	<b>2363</b>	<b>2136</b>	<b>2176</b>	<b>2106</b>	<b>(6.3)</b>	<b>(3.2)</b>	<b>2106</b>	<b>2246</b>	<b>(6.3)</b>

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	30.0	28.2	24.5	26.9	28.5	(147)	159	28.5	30.0	(147)	
EBIT	29.1	27.4	23.3	25.3	26.7	(239)	142	26.7	29.1	(239)	
EBT	36.3	32.0	26.3	26.0	30.1	(619)	407	30.1	36.3	(619)	
PAT	23.0	21.5	18.0	18.7	19.3	(366)	69	19.3	23.0	(366)	
Effective Tax rate	36.5	33.0	31.6	28.2	35.6	(90)	742	35.6	36.5	(90)	

Sports	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	YoY (%)	QoQ (%)	YTD'15	YTD'14	YoY (%)
Revenue	1,159	1,558	1,915	1,959	976	(16)	(50)	976	1,159	(16)
Opex	1,254	1,749	2,956	1,608	964	(23)	(40)	964	1,254	(23)
EBITDA	(95)	(191)	(1,041)	351	12	(113)	(97)	12	(95)	(113)
Ex-Sports Financials										
Revenue	8,574	9,455	9,969	9,629	9,881	15	3	9,881	8,574	15
Opex	5,564	6,159	6,020	6,864	6,801	22	(1)	6,801	5,564	22
EBITDA	3,010	3,296	3,948	2,765	3,080	2	11	3,080	3,010	2
EBITDA %	35.1	34.9	39.6	28.7	31.2	(394)	246	31.2	35.1	(394)

Source: Company, Emkay Research

### Strong ad growth, driven by sustained viewership market share

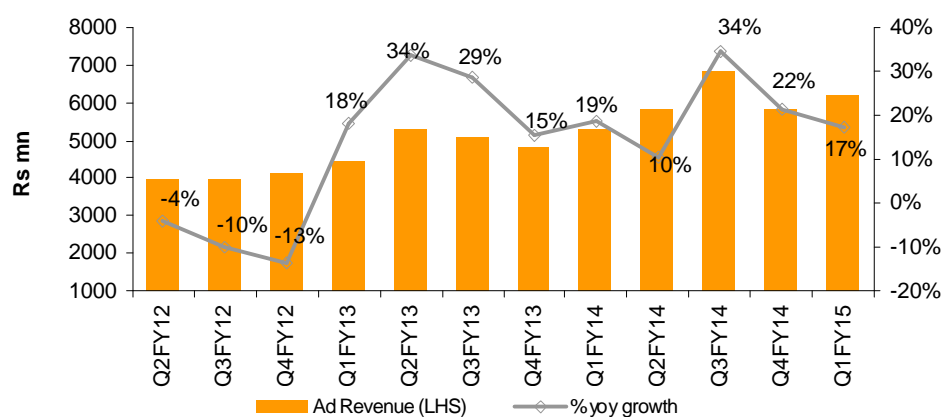
Zee again out performed the industry on ad revenue front with a growth of 17.4% yoy as compared to the industry average of ~13%. Non-Sports ad revenue growth was >20% yoy, driven by sustained market share across its bouquet of channels and 17% yoy market share gain in Marathi channel. Increase in programming hours of Zindagi, Hindi GEC and Tamil channel in FY15 should augur well for ad revenue growth coupled with increase in content hours in other regional channels which is already done.

**Exhibit 2: Market share trend across the major channels**

Channels	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Zee TV	19%	19%	18%	17%	19%	17%	17%
Zee Cinema	32%	35%	38%	35%	36%	33%	35%
Zee Marathi	34%	35%	35%	42%	47%	48%	52%
Zee Telugu	20%	19%	20%	19%	20%	21%	20%
Zee Kannada	18%	18%	14%	14%	15%	14%	12%
Zee Bangla	38%	41%	39%	38%	38%	37%	37%

Source: Company, Emkay Research

**Exhibit 3: Ad revenue growth trend**



Source: Company, Emkay Research

### Domestic subscription revenue growth to remain muted in FY15E

Subscription revenue growth was weaker than expected at 4.4% yoy to Rs4.4bn. Domestic subscription grew by only 2.2% yoy to Rs3.2bn while International grew 10.8% yoy led by INR depreciation. The company does not expect subscription revenues to rise substantially as implementation of Phase III & IV is likely to get delayed. Further, digital cable operators have not undertaken any ARPU hikes during the year which would not provide any incremental benefit. However, we continue to remain positive on the digitization led subscription revenue benefits that would be seen over the next three years.

**Exhibit 4: Subscription revenue**

	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Domestic Subscription Revenue	2,223	2,973	2,505	2,808	2,961	3,374	3,168	3,350	3,322	3,344	3,238
yoy growth	23.0%	47.0%	20.7%	43.9%	33.2%	13.5%	26.5%	19.3%	12.2%	-0.9%	2.2%
International Subscription Revenue	1,038	1,049	1,137	1,141	1,136	1,172	1,073	1,231	1,243	1,292	1,189
yoy growth	2.6%	-3.2%	16.5%	19.0%	9.4%	11.7%	-5.6%	7.9%	9.4%	10.2%	10.8%
<b>Total Subscription</b>	<b>3,262</b>	<b>4,022</b>	<b>3,641</b>	<b>3,950</b>	<b>4,098</b>	<b>4,546</b>	<b>4,241</b>	<b>4,581</b>	<b>4,565</b>	<b>4,635</b>	<b>4,428</b>
yoy growth	15.7%	29.4%	19.3%	35.7%	25.6%	13.0%	16.5%	16.0%	11.4%	2.0%	4.4%

Source: Company, Emkay Research

### Sports EBITDA positive but anticipate losses in FY15

Sports segment revenues were at Rs976mn, declining 16%yoy on account of no India cricket series. Sports EBITDA remained positive for second consecutive quarter at Rs12mn v/s Rs351mn in Q4FY14 and a loss of Rs95mn in Q1FY14. As per management, Sports losses in FY15E would remain at similar levels of FY14 (Rs976mn). Management expects higher investments in non India cricket series to be accelerated, which would keep losses similar to last fiscal.

#### Exhibit 5: Sports financial metrics

Sports	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Revenue	901	1,279	992	1,818	1,078	1,072	1,159	1,558	1,915	1,959	976
Opex	1001	1,867	1202	1,987	1,164	1,477	1,254	1,749	2,956	1,608	964
<b>EBITDA</b>	<b>-100</b>	<b>-588</b>	<b>-210</b>	<b>-169</b>	<b>-86</b>	<b>-405</b>	<b>-95</b>	<b>-191</b>	<b>-1041</b>	<b>351</b>	<b>12</b>

Source: .Company, Emkay Research

### Revision in estimates

Our revenue and EBITDA estimate for FY15E largely remain unchanged while profitability is impacted due to additional depreciation charge on account of change in policy as per new companies act.

#### Exhibit 6: Revision in estimates

Particulars	FY15E		
	Old	New	% Change
Revenue	49,057	49,237	0.4%
EBITDA	13,120	13,076	-0.3%
EBITDA Margin %	26.7	26.6	-19 bps
PAT	9555	9236	-3.3%
EPS	10.0	9.6	-3.3%

Source: Company, Emkay Research

## Con-call highlights

- **Subscription Revenue:** Subscription was lower on account of accounting changes done post split of Media-Pro. Revenues from partner channels has been excluded from Q1FY15, proportionately costs were also lower by same amount. In our view partner channels would include Turner channels and News channels, which are not directly part of Zee entertainment bouquet. Adjustment in subscription revenue pertaining to change in accounting would continue in next three quarters as well. As per management, subscription revenue growth would remain muted in FY15E.
- Subscription revenue to remain muted as majority of Phase I and II benefits are already in the numbers. The company expects the benefits of phase III & IV to flow in the next financial year as the digitization would get delayed as per their estimates. Further, cable operators have not undertaken any ARPU hikes during the year which would not provide any incremental benefit.
- **Advt. Revenues:** Ad revenue for the company continues to be robust as it outperformed the industry growth of 13% in Q1FY15. Non-sports ad revenue growth was >20% yoy, driven by sustained market share in flagship channels market share gains in Zee Marathi (gained 17% yoy). During the quarter ad revenue growth was supported by Telecom, automobiles, retail and e-commerce companies. Luxury goods, BFSI, education remained sluggish. The company undertook an ad rate hike for all the contracts signed during the quarter
- **New channel launch:** Positive feedback on Zindagi launch augurs well for Zee. The company cannot broadcast Pakistani movies on Zindagi due to CBFC (Central board for film certification) regulations. As and when the regulations are relaxed, it would be a big positive for Zindagi in terms of incremental content.
- The company also plans to increase the programming hours of Zindagi, Hindi GEC and Tamil channel in FY15. Increase in content hours in other regional channels is already done.
- Management expects margins to remain under pressure due to 1) marketing and placement expenses for Zindagi are expected to continue and 2) increase in programming hours across its bouquet especially the launch of new shows on its Hindi GECs. Nevertheless, management expects EBITDA margin to be better than its earlier guidance of 24-25% for FY15E.
- Sports losses would remain in the similar to last fiscal (Rs976mn). Management expects higher investments in non India cricket series to be accelerated, which would keep losses similar to last fiscal.
- Tax rate in Q1FY15 was 35.6%, for FY15E it is expected at 34%.
- Cash and cash equivalents at the end of Q1FY15 stood at Rs14.4bn vs Rs13.9bn in the last quarter.

## Key Financials (Consolidated)

## Income Statement

Y/E Mar (Rsmn)	FY13A	FY14A	FY15E	FY16E
<b>Net Sales</b>	<b>36,996</b>	<b>44,217</b>	<b>49,237</b>	<b>56,769</b>
Growth (%)	21.7	19.5	11.4	15.3
<b>Expenditure</b>	<b>27,453</b>	<b>32,174</b>	<b>36,161</b>	<b>40,349</b>
Programming & Other Cost	17,401	20,688	23,227	26,227
Employee Exp	3,491	3,905	4,497	4,939
SG&A Exp	6,561	7,581	8,436	9,184
<b>EBITDA</b>	<b>9,543</b>	<b>12,043</b>	<b>13,076</b>	<b>16,420</b>
Growth (%)	29.0	26.2	8.6	25.6
<b>EBITDA margin (%)</b>	<b>25.8</b>	<b>27.2</b>	<b>26.6</b>	<b>28.9</b>
Depreciation	399	501	771	691
<b>EBIT</b>	<b>9,144</b>	<b>11,542</b>	<b>12,305</b>	<b>15,729</b>
<b>EBIT margin (%)</b>	<b>24.7</b>	<b>26.1</b>	<b>25.0</b>	<b>27.7</b>
Other Income	1,461	1,807	1,700	1,850
Interest expenses	86	158	52	40
<b>PBT</b>	<b>10,519</b>	<b>13,191</b>	<b>13,953</b>	<b>17,539</b>
<b>Tax</b>	<b>3,337</b>	<b>4,291</b>	<b>4,744</b>	<b>5,963</b>
Effective tax rate (%)	31.7	32.5	34.0	34.0
<b>Adjusted PAT</b>	<b>7,182</b>	<b>8,900</b>	<b>9,209</b>	<b>11,576</b>
Growth (%)	21.6	23.9	3.5	25.7
<b>Net Margin (%)</b>	<b>19.4</b>	<b>20.1</b>	<b>18.7</b>	<b>20.4</b>
(Profit)/loss from JVs/Ass/MI	24	19	27	18
<b>Adj. PAT After JVs/Ass/MI</b>	<b>7,196</b>	<b>8,921</b>	<b>9,236</b>	<b>11,593</b>
E/O items	0	0	0	0
<b>Reported PAT</b>	<b>7,196</b>	<b>8,921</b>	<b>9,236</b>	<b>11,593</b>
<b>PAT after MI</b>	<b>7,196</b>	<b>8,921</b>	<b>9,236</b>	<b>11,593</b>
Growth (%)	22.2	24.0	3.5	25.5

## Cash Flow

Y/E Mar (Rsmn)	FY13A	FY14A	FY15E	FY16E
<b>PBT (Ex-Other income)</b>	<b>9,058</b>	<b>11,384</b>	<b>12,253</b>	<b>15,689</b>
Depreciation	399	501	771	691
Interest Provided	86	158	52	40
Other Non-Cash items	0	0	0	0
Chg in working cap	-2,306	-5,833	-3,819	-3,622
Tax paid	-3,337	-4,291	-4,744	-5,963
<b>Operating Cashflow</b>	<b>5,305</b>	<b>3,627</b>	<b>6,159</b>	<b>8,662</b>
Capital expenditure	-974	-2,256	-668	-1,000
<b>Free Cash Flow</b>	<b>4,331</b>	<b>1,371</b>	<b>5,491</b>	<b>7,662</b>
Other income	1,461	1,807	1,700	1,850
Investments	83	-374	-500	-500
<b>Investing Cashflow</b>	<b>570</b>	<b>-823</b>	<b>532</b>	<b>350</b>
Equity Capital Raised	-5	20,176	0	0
Loans Taken / (Repaid)	5	0	0	0
Interest Paid	-86	-158	-52	-40
Dividend paid (incl tax)	-2,245	-2,247	-2,246	-2,808
Income from investments	0	0	0	0
Others	1,773	-14,931	673	1,996
<b>Financing Cashflow</b>	<b>-558</b>	<b>2,840</b>	<b>-1,625</b>	<b>-852</b>
<b>Net chg in cash</b>	<b>5,317</b>	<b>5,645</b>	<b>5,066</b>	<b>8,160</b>
Opening cash position	3,284	5,317	5,645	5,066
<b>Closing cash position</b>	<b>5,317</b>	<b>5,645</b>	<b>5,066</b>	<b>8,160</b>

## Balance Sheet

Y/E Mar (Rsmn)	FY13A	FY14A	FY15E	FY16E
Equity share capital	954	21,130	21,130	21,130
Reserves & surplus	38,162	26,247	29,913	37,439
<b>Net worth</b>	<b>39,116</b>	<b>47,377</b>	<b>51,043</b>	<b>58,568</b>
<b>Minority Interest</b>	<b>33</b>	<b>61</b>	<b>32</b>	<b>32</b>
Secured Loans	17	17	17	17
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>
Net deferred tax liability	-288	-298	-298	-298
<b>Total Liabilities</b>	<b>38,878</b>	<b>47,157</b>	<b>50,795</b>	<b>58,320</b>
Gross Block	12,306	13,546	14,214	15,214
Less: Depreciation	2,400	2,813	3,584	4,276
<b>Net block</b>	<b>9,906</b>	<b>10,733</b>	<b>10,630</b>	<b>10,939</b>
Capital work in progress	69	997	997	997
<b>Investment</b>	<b>7,916</b>	<b>8,290</b>	<b>8,790</b>	<b>9,290</b>
<b>Current Assets</b>	<b>32,565</b>	<b>40,000</b>	<b>45,755</b>	<b>54,276</b>
Inventories	8,745	11,736	14,545	16,771
Sundry debtors	9,890	10,281	12,651	13,789
Cash & bank balance	5,317	5,645	5,066	8,160
Loans & advances	7,949	11,095	12,108	13,961
Other current assets	664	1,243	1,384	1,596
<b>Current lia &amp; Prov</b>	<b>11,578</b>	<b>12,862</b>	<b>15,377</b>	<b>17,182</b>
Current liabilities	8,791	9,216	11,018	12,311
Provisions	2,787	3,646	4,359	4,871
<b>Net current assets</b>	<b>20,987</b>	<b>27,138</b>	<b>30,378</b>	<b>37,094</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>38,878</b>	<b>47,157</b>	<b>50,795</b>	<b>58,320</b>

## Key Ratios

Y/E Mar	FY13A	FY14A	FY15E	FY16E
<b>Profitability (%)</b>				
EBITDA Margin	25.8	27.2	26.6	28.9
Net Margin	19.4	20.1	18.7	20.4
ROCE	29.1	31.0	28.6	32.2
ROE	19.6	20.6	18.8	21.2
RoIC	38.0	39.9	36.1	41.5
<b>Per Share Data (Rs)</b>				
EPS	7.5	9.3	9.6	12.1
CEPS	7.9	9.8	10.4	12.8
BVPS	40.7	49.4	53.2	61.0
DPS	2.0	2.0	2.0	2.5
<b>Valuations (x)</b>				
PER	39.3	31.7	30.6	24.4
P/CEPS	37.3	30.0	28.3	23.0
P/BV	7.2	6.0	5.5	4.8
EV / Sales	7.3	6.1	5.5	4.7
EV / EBITDA	28.3	22.3	20.6	16.2
Dividend Yield (%)	0.7	0.7	0.7	0.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-0.3	-0.3	-0.3	-0.3
Net Debt/EBITDA	-1.4	-1.2	-1.1	-1.1
Working Cap Cycle (days)	154.6	177.4	187.6	186.0

**Emkay Global Financial Services Ltd.**

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: [www.emkayglobal.com](http://www.emkayglobal.com)

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