

### Major indices movements

Major indices	Clsq	1d (%)	3m (%)	6m (%)
BSE Sensex	10,528	(7.1)	(21.8)	(33.4)
Nifty	3,280	(6.7)	(19.0)	(31.4)
Dow	8,451	(1.5)	(23.9)	(31.4)
Nikkei	8,276	(9.6)	(36.5)	(37.9)
Hang Seng	14,838	0.3	(33.1)	(39.9)
Brasil Bovespa	35,610	(4.0)	(40.8)	(43.1)
Mexico Bolsa	19,905	(2.0)	(27.9)	(36.4)

### Turnover

Value Traded (Rs bn)	10 Oct 2008	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	51.1	(0.5)	118.7	32.6
Cash NSE	147.4	15.0	284.8	74.9
<b>Total</b>	<b>198.5</b>			
Del.(%)	48.00			
F&O	482.8	(16.3)	1105.6	143.8
<b>Total Trade</b>	<b>681.3</b>			

### Fund Activity

Net Inflows (Rs bn)	Purch	Sales	Net	YTD
<b>8 Oct 08</b>				
FII's	30.2	(38.6)	(8.5)	233.3
Domestic Funds	7.0	(8.2)	(1.2)	102.3
<b>10 Oct 08</b>				
Cash Provisional			(2.7)	
F&O - Index	31.3	(31.1)	0.2	(27.6)
F&O - Stock	12.6	(11.2)	1.4	(11.6)

### Advances/declines BSECash

10 Oct 2008	A	B1	B2	Total
Advance	17	246	82	345
Decline	188	1400	368	1956

### Commodity Prices

Commodity	13 Oct 2008	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	80.6	3.8	(44.4)	(26.8)
Copper(usd/t)	4,790	(9.9)	(41.8)	(44.5)
Aluminum H.G.(usd/t)	2,215	(3.9)	(32.7)	(28.1)
Zinc(usd/t)	1,450	(3.1)	(27.1)	(38.2)

### Debt/Forex Mkt

Re/USD	48.46	0.0	(13.1)	(21.3)
10 yr Gsec Yield	7.78	(3.5)	(16.6)	(2.3)
Crude (USD/Bbl)	80.6	3.8	(44.4)	(26.8)

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## News clippings

- **Tata Steel** is likely to start construction of its Rs 15,400 crore, 6 million tonnes (MT) steel plant at Kalinganagar in Jajpur district of Orissa in three months. The company already received possession of 800 ha of land out of 1,360 ha required for the project, and are expecting to get the remaining land in the next two months.
- **Maruti Suzuki India** has increased production of Alto, Zen Estilo, WagonR and Swift by about 6,000 units in September after continuously reducing in the previous four months.
- **Era Infra Engineering Ltd** has bagged a contract for Construction of Sarita Vihar Depot cum Workshop in-between Madanpur Khadar & Aaligaon on Mathura Road for Central Secretarial - Badarpur Corridor of Phase-II of Delhi MRTS by Delhi Metro Rail Corporation Ltd. (DMRC) valuing Rs 41.78 Crores approximately.
- **Zee Group** launched its Tamil satellite channel "Zee Tamizh". The channel, the group's third venture in the southern states after Telugu and Kannada ones, was aimed at exploiting the 'biggest' market in South India.
- **Satyam Computers** has no plans to recast its recruitment targets, despite a financial crisis in one of its key markets - the US. The company will recruit 14,000-15,000 people this year.
- **S.Kumars Nationwide Ltd** has finalized the purchase of Leggiuno S.p.A, a leading Italian High Value Shirting Fabrics enterprise. This acquisition is a pivotal step, one that immediately propels the company as a key global player in the much sought after & highly profitable super premium and luxury High Value Shirting Fabrics segment.
- The Finance Ministry (MoF) has asked the Department of Telecom (DOT) to speed up 3G spectrum auction process, so that operators can roll out services as early as possible, and avoid introducing new clauses in the guidelines, which can cause further delays.

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## Research views

### Industrial production growth falls to 1.3% in August

The index of industrial production (IIP) grew by mere 1.3% in August 2008, way below market expectation of 6%. The muted growth was led by poor performance of manufacturing and electricity, which grew by just 1.1% and 0.8% respectively in August. However mining did relatively well at 4.0%.

The muted growth in the manufacturing was led by negative growth in Wool, Silk and Man-made Fibre Textiles (-14.9%), Metal Products and Parts (-12.3%) and Rubber, Plastic, Petroleum and Coal Products (-8.4%). However the industries which recorded higher growth were Transport Equipment and Parts (11.2%), Food Products (8.9%) and Basic Metal and Alloy Industries (8.0%)

Capital goods and intermediates did not perform well during the month. The capital goods reported a sedate growth of 2.3%, while Intermediates goods degrew by 6.2% during the month.

### Index of Industrial Production

% yoy change	Aug-08	Aug-07	Jul-08	YTD FY09	YTDFY08
IIP	1.3	10.9	7.4	4.9	10.0
General					
Mfg	1.1	10.7	8.0	5.2	10.6
Mining	4.0	14.7	3.0	4.1	4.9
Electricity	0.8	9.2	4.5	8.3	2.3
Use based					
Cap goods	2.3	30.8	20.4	9.2	20.1
Consumer goods	5.1	0.0	8.5	7.8	6.7
Durable	5.1	-6.2	13.3		
Non-durable	5.0	2.4	6.9	8.6	10.0
Basic goods	3.9	12.7	5.4	3.8	9.9
Intermediates	-6.2	13.8	2.7	0.7	9.9

Reco	CMP	TP
BUY	552	900

Y/e Mar	FY08E	FY09E	FY10E
Net income (Rsm)	43,810	60,099	76,682
PPP (Rsm)	22,260	30,549	37,920
PAT (Rsm)	10,710	12,980	18,791
FDPER (x)	18.6	15.4	10.6
P/ ABV (x)	2.3	2.0	1.7
RoE (%)	17.6	13.9	17.6

## Research views

### Axis Bank Q2FY09 result estimates

We are expecting Axis Bank to report a net profit of Rs3.4bn for Q2FY09. The NII (net of amortisation) is expected to grow by 41% to at Rs8.2bn and total net income to grow by 43.4% at Rs13.9bn. The operating profit is likely to grow by 65.7% yoy to Rs7.6bn.

Rs mn	Q2FY09	Q2FY08	Q1FY08	% yoy change	% qoq change
NII	8,297	5,887	8,104	41.0	2.4
Pre-provision profit	7,672	4,629	8,023	65.7	-4.4
Net profit	3,444	2,278	3,301	51.2	4.3

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10<sup>th</sup> October 2008

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We expect cement companies under our coverage to report a topline growth of 8.2% yoy for Q2FY09E. Madras Cement, Shree Cement and Orient Paper have reported a healthy 21%, 19% and 15% yoy increase in dispatches whereas ACC, Ambuja Cement and Grasim have witnessed a muted growth of 2 to 5% yoy. The international coal prices (even after correcting from its top of USD194) have increased from USD141 in Q1FY2009 to around USD168 in Q2FY2009. These and other cost pressures will have its bearing on EBITDA margins of cement companies under our coverage and we expect the same to fall by a huge 700 bps yoy. We expect India cement, Madras cement and Ambuja cement to witness a steep drop in EBITDA margins as they are heavily dependent on imported coal, Grasim's EBITDA margin is expected to face further pressure on account of high cost pressure (sulphur and pulp prices) and lower demand in its VSF vertical. Overall we expect the cement companies to report 15% decline in their EBITDA, even after an 8.2% yoy increase in topline. Rising interest costs and higher depreciation on account of capacity additions will weigh down the PAT margins. Overall cement companies under our coverage are expected to report a 22% yoy decline in their bottomline. We had recommended REDUCE/NEUTRAL rating on most of cement stocks as the industry is set to add close to 70 million tonnes of new capacity over the next two year which we believe will snatch away the pricing power from cement producers. High cost push pressures and inability to pass on the same will severely impact margins of cement companies. Also with current credit crunch likely to dry up liquidity, the impact on infrastructure projects particularly on funding arrangements is expected to lead to some delays in execution. Consequently cement consumption demand from infrastructure sector is expected to moderate a bit. Similar impact can also be expected on housing and industry demand. Hence there are concerns on expected demand growth of 8-9% for the sector, apart from apprehension of oversupply. We maintain our NEUTRAL stance on the sector; however we are likely to downgrade our rating and earnings on some cement stocks.

### Emkay cement universe - Sept quarter earnings estimates

(Rs mn)	Sales			EBIDTA			EBIDTA %			PAT		
	Q2FY09E	Q2FY08	YOYE	Q2FY09E	Q2FY08	YOYE	Q2FY09E	Q2FY08	YOYE	Q2FY09E	Q2FY08	YOYE
ACC	17275	16788	2.9%	3539	4485	-21.1%	20.5%	26.7%	-6.2%	2236	2885	-22.5%
Ambuja	14456	13000	11.2%	3801	4332	-12.3%	26.3%	33.3%	-7.0%	2360	3133	-24.7%
Grasim	24611	25192	-2.3%	6338	8050	-21.3%	25.8%	32.0%	-6.2%	3989	4998	-20.2%
Ultratech	13959	11734	19.0%	3333	3296	1.1%	23.9%	28.1%	-4.2%	1816	1859	-2.3%
India Cement	8964	7612	17.8%	2980	3318	-10.2%	33.2%	43.6%	-10.3%	1650	2471	-33.2%
Madras	6278	5002	25.5%	2006	2146	-6.5%	32.0%	42.9%	-10.9%	1008	1209	-16.6%
Shree Cement	5796	4664	24.3%	1695	2012	-15.8%	29.2%	43.1%	-13.9%	886	1062	-16.6%
JK	3373	3564	-5.4%	699	1004	-30.4%	20.7%	28.2%	-7.4%	360	727	-50.5%
OP	3283	3025	8.5%	734	891	-17.6%	22.4%	29.5%	-7.1%	424	584	-27.4%
<b>Total</b>	<b>97995</b>	<b>90581</b>	<b>8.2%</b>	<b>25125</b>	<b>29534</b>	<b>-14.9%</b>	<b>25.6%</b>	<b>32.6%</b>	<b>-7.0%</b>	<b>14729</b>	<b>18928</b>	<b>-22.2%</b>

## Cement Dispatches

(mn tonnes)	Q2FY09	Q2FY08	(yoy %)
ACC	4.91	4.68	5%
Ambuja Cement	4.01	3.83	5%
Grasim Industries	3.70	3.63	2%
Ultratech Cement	3.93	3.57	10%
Shree Cements	1.64	1.43	15%
Madras cement	1.60	1.32	21%
India cement	2.49	2.31	8%
JK Cement	0.90	0.91	-1%
Orient Paper	0.69	0.58	19%
<b>Total</b>	<b>23.87</b>	<b>22.26</b>	<b>7%</b>

## Cement Consumption and cement prices

Cement consumption during the quarter ended Sept 2008 has grown 6.05% yoy as compared to 6.15% June 2008 quarter. All India cement prices during the quarter improved by Rs1 per bag as compared to price in June 2008 quarter and stood at Rs242 per bag. On a yoy basis the price improved 3.3%, as compared to 6.9% improvement witnessed in June 2008 quarter. This clearly shows sharp deceleration in price growth in the sector

## Cement companies in Emkay coverage expected report 8.2% topline growth in Sep Quarter

We expect the cement companies under our coverage to report a 8.2% yoy increase in revenues in Sept quarter. We expect the large cap cement companies (ACC, Ambuja, Grasim and Ultratech) to report a topline growth of 5.4% yoy. The topline growth is muted even after 3.3% yoy improvement in realisation as Q22008 has numbers of ACC concrete business & Shri Digvijay Cement for Grasim.

## EBIDTA margins to decline by 700bps

On the back of increase in coal prices and freight cost, we expect a 700 bps decline in EBIDTA margin of cement companies under our coverage. We expect India cement, Madras cement and Ambuja cement to witness a steep drop in EBITDA margins as they are heavily dependent on imported coal, prices of which have increased from USD141 in Q1FY2009 to around USD168 in Q2FY2009. Grasim also is expected to report a 620 bps decline in its EBIDTA margins as the VSF division not only faces extremely high cost pressure on account of rise in Sulphur and pulp prices but also pressure on VSF realisation on account of slower demand growth. Overall we expect the cement companies to report a huge 15% decline in their EBITDA even after an 8.2% increase in topline.

## Net profit to decline by 22.5% yoy

The pressure on PAT margins is expected to continue on the back of rising interest cost and higher depreciation on account of capacity additions. Overall cement companies under our coverage are expected to report a 22.2% yoy decline in their bottomline. The decline in net profit was 11.1% in June 2008 quarter. Among the large caps companies, Ambuja cement is expected to report the sharpest decline of 24.7% in its pre-exceptional net profit. Even Grasim is expected to report a decline of 20.2% in its net profit on the back of sharp decline in profitability of VSF division while the decline for ACC is estimated at 22.5%.

### Emkay's View

We had recommended REDUCE/NEUTRAL rating on most of cement stocks as the industry is set to add close to 70 million tonnes of new capacity over the next two year which we believe will snatch away the pricing power from cement producers. High cost push pressures and inability to pass on the same will severely impact margins of cement companies. Also with current credit crunch likely to dry up liquidity, the impact on infrastructure projects particularly on funding arrangements is expected to lead to some delays in execution. Consequently cement consumption demand from infrastructure sector is expected to moderate a bit. Similar impact can also be expected on housing and industry demand. Hence there are concerns on expected demand growth of 8-9% for the sector, apart from apprehension of oversupply. We maintain our NEUTRAL stance on the sector; however we are likely to downgrade our rating and earnings on some cement stocks.

## Valuation Matrix

	Sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs)		PE (x)		EV/EBITDA (x)		ROCE (%)		ROE (%)	
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
ACC	74,554	81,891	18,496	16,120	11,601	9,337	61.8	49.7	9.2	11.5	5.4	6.5	27.9	20.0	25.2	17.3
Ambuja Cements	65,040	73,491	18,391	17,973	11,268	10,385	7.4	6.8	9.8	10.6	6.0	6.1	27.8	19.1	18.6	12.9
Grasim Industries	171,052	191,521	49,992	54,177	25,073	28,450	273.5	310.4	5.8	5.1	3.6	2.7	24.9	24.5	21.2	19.6
India Cements	38,178	42,694	12,095	12,111	6,346	6,216	22.5	22.1	4.5	4.6	3.7	3.5	18.8	16.9	17.8	15.2
JK Cements	15,513	22,653	3,398	4,679	1,844	2,260	26.4	32.3	3.1	2.5	4.9	3.1	14.9	16.3	16.3	17.1
Madras Cements	26,458	31,262	8,761	9,143	4,402	4,839	18.5	20.3	5.2	4.8	4.0	3.2	23.7	23.2	38.3	30.9
Orient Paper	13,969	18,204	3,342	4,240	1,913	2,449	9.9	12.7	2.3	1.8	1.9	0.9	41.6	41.4	33.6	31.7
Shree Cements	24,328	26,469	9,847	9,706	4,317	4,589	123.9	131.7	3.9	3.7	1.0	0.1	30.3	30.1	38.8	30.5
Ultratech Cement	64,453	66,767	18,744	17,268	10,196	8,981	81.4	71.7	5.9	6.7	3.7	3.4	33.3	25.0	31.9	21.8

## Cautiousness reflects in guidance reset

10<sup>th</sup> October'2008**HOLD**

Price	Target Price
<b>Rs1,227</b>	<b>Rs 1,443</b>

Sensex	10,528
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**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(30)	(32)	(14)	(38)
Rel. to Sensex	(3)	(10)	29	11

Source: Capitaline

**Stock Details**

Sector	IT Services
Reuters	INFY.BO
Bloomberg	INFO@IN
Equity Capital(Rs mn)	2863
Face Value(Rs)	5
52 Week H/L	2,140/1,040
Market Cap(Rs bn//US\$ mn)	702/14,531
Daily Avg Volume (No of shares)	2318040
Daily Avg Turnover (US\$)	76.8

**Shareholding Pattern (%)**(30<sup>th</sup> June'08)

Promoters	16.5
FII/NRI	53.3
Institutions	7.9
Private Corp.	3.1
Public	19.2

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**Q2FY09 Results; Impressive performance despite macro weakness**

Infosys Technologies reported US\$ revenues of US\$ 1216 mn (+5.5% QoQ), Rs 54.2 bn (+11.2% QoQ) slightly ahead of expectations driven by currency weakness. EBITDA margins improved impressively by ~260 bps sequentially V/s our expectations of only 170 bps increase. Net profits at Rs 14.3 bn (+10% QoQ) were in line with our estimates driven by lower than expected other income. **Operating metrics performance remained impressive with revenues from North America/ Europe grew sequentially by 3.5%/8.4% while revenues from even troubled financial services vertical were up by ~2% QoQ.** Volume growth at 6.5% QoQ was in line though **YoY volume growth was lowest ever** while blended pricing dipped marginally by 0.3% QoQ helped by ~13% growth in package implementation revenues. Net addition for the quarter was 5,927. **Infy maintained its gross annual hiring target of 25,000 for FY09 and expects to make gross additions of 4,500 for Q3FY09.**

**US\$ guidance reset lower than our expectations**

Infosys management reduced its annual revenue growth expectations from 19-21% YoY increase to 13-15.1% YoY increase, much lower than our expectations from the company of reducing annual revenue growth guidance to 17.5-19.5%. Further the company has guided for revenues of US\$ 1175 -1215 mn for Q3FY09. The company is guiding for flat revenues during Q3FY09 and Q4FY09 at the upper end of the guidance and a decline at the lower end of the guidance. INR based revenue guidance was tweaked to Rs 21.3-21.7 bn (+27.7-30.2% YoY) from 27.5-29.5% increase. **INR based earnings guidance was maintained at Rs 101.06 with company citing worrisome economic environment for reduction in US\$ outlook despite comments like 'Infosys has seen no impact of meltdown till now', 'Our business is doing quite well', 'pricing has been stable' etc.**

**In our view a historically conservative management might have thought it prudent to bring down investor expectations in the current uncertain times. However we believe investors would be unwilling to give any benefit of doubt given the macro weakness and thus would view the guidance cut as a big negative.**

**Stock lacks immediate upside triggers given negative news flow**

We believe that Infy's stock lacks any immediate upside triggers given continuous negative news flow of fall of several financial institutions across both US and Europe and the fears of a prolonged recession thereby impacting technology spends from verticals other than financial services. We believe that although off shoring would benefit in the longer run, the negative news flow could delay decision making for technology spends thereby impacting growth for at least the next 2-3 quarters.

**Reduce estimates; Maintain 'HOLD' with a revised target of Rs 1443**

We have reduced our FY09 and FY10 US\$ revenue estimates to 15.1% and 11.2% respectively and build in some form of pick up during FY11 (we base our INR based estimates at Rs 46/\$ for 2HFY09 and Rs 45 for FY10 respectively) to build in macro demand weakness now. We expect Infosys to report earnings of Rs 100 in FY09 and Rs 107 in FY10 respectively. Post the reduction in estimates we expect Infosys to report revenue, EBITDA and net profit CAGR of 18%, 16.6% and 13.1% over FY08-11E **(though wish to highlight that we build enough prudence in these estimates and thus see no downside to these estimates).** We believe that although stock price could remain depressed near term driven by negative news flow, **valuations might have corrected significantly for a company with free cash flow at ~20% of revenues.** We maintain 'HOLD' with a revised price target of Rs 1443, based on 13x 1 year rolling forward P/E multiple.



In Rs mn	Q2FY09	Q1FY09	QoQ (%)	Q2FY08	YoY (%)
<b>Net sales</b>	<b>54180</b>	<b>48540</b>	<b>11.6%</b>	<b>41060</b>	<b>32.0%</b>
Operating expenses	36240	33750		28,220	
<b>EBITDA</b>	<b>17,940</b>	<b>14,790</b>	<b>21.3%</b>	<b>12,840</b>	<b>39.7%</b>
Margins (%)	33.1	30.5		31.3	
Depreciation	1770	1690		1,440	
<b>EBIT</b>	<b>16,170</b>	<b>13,100</b>	<b>23.4%</b>	<b>11,400</b>	<b>41.8%</b>
Margins (%)	29.8	27.0		27.8	
Other income	660	1170		1,540	
Pre-tax profit	16,830	14,270		12,940	
Tax provided	2510	1250		1,940	
Profit after tax	14,320	13,020		11,000	
<b>Emkay Net profit</b>	<b>14320</b>	<b>13020</b>	<b>10.0%</b>	<b>12,540</b>	<b>14.2%</b>
EPS, Rs	25.0	22.7		21.9	

Source: Company, Emkay Research

*In our view, a historically conservative management has been prudent in lowering investor expectations in uncertain times.*

Revenues	Q1FY09	Q2FY09	Q3FY09	Q4FY09	FY09
(At lower end)	1155	1216	1175	1174	4720
QoQ increase		5.3%	-3.4%	-0.1%	
(At upper end)	1155	1216	1220	1219	4810
QoQ increase		5.3%	0.3%	-0.1%	

Source: Company, Emkay Research

*YoY volume growth slipped to lowest ever in company's history.*

	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
Company wide QoQ volume growth	6.8%	7.3%	5.1%	7.8%	1.7%	5.7%
Company wide YoY volume growth	35%	31%	25.2%	30.0%	23.8%	21.9%
Onsite QoQ volume growth	7.1%	8.2%	5.9%	8.8%	2.0%	6.2%
Offshore QoQ volume growth	6.2%	4.8%	3.1%	4.8%	1.0%	4.1%

Source: Company, Emkay Research

*Manufacturing vertical continued its strong performance with 15% QoQ growth. Revenues from the troubled financial services also were up by 1.9% sequentially.*

	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
BFSI, %	36.1	36.5	36.8	33.9	34.5	33.4
BFSI (in US\$ mn)	335.0	373.0	398.9	387.1	398.4	406.1
QoQ growth, %	4.9	11.3	6.9	-3.0	2.9	1.9
Manufacturing, %	13.6	13.9	14.6	16.4	18.4	20.1
Manufacturing (in US\$ mn)	126.2	142.1	158.3	187.3	212.5	244.4
QoQ growth, %	13.4	12.6	11.4	18.3	13.5	15.0
Telecom, %	22	20.6	21.1	22.5	19.7	19
Telecom (in US\$ mn)	204	211	229	257	228	231
QoQ growth, %	8.0	3.1	8.6	12.3	-11.5	2.0

Source: Company, Emkay Research

## Our revised earnings estimates

( All fig in Rs mn except EPS)	FY09E			FY10E		
	Old	New	% change	Old	New	% change
Revenues	211923	214704	1.3%	255864	240364	-6.1%
EBITDA	67807	67979	0.3%	81297	73769	-9.3%
Net profits	58692	57203	-2.5%	67301	61179	-9.1%
EPS	102.6	100.0	-2.5%	117.3	107.0	-9.1%

Source: Emkay Research

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY07	FY08	FY09E	FY10E
<b>Net Sales</b>	138,930	166,920	214,704	240,364
Growth (%)		20	29	12
<b>Total Expenditure</b>	(95,020)	(114,540)	(146,725)	(166,595)
Growth (%)		21	28	14
<b>EBIDTA</b>	43,910	52,380	67,979	73,769
Growth (%)		19	30	9
<b>EBIDTA %</b>	31.6	31.4	31.7	30.7
Other Income	3,760	7,040	5,584	8,771
Depreciation	(5,140)	(5,980)	(7,286)	(7,932)
<b>EBIT</b>	<b>42,530</b>	<b>53,440</b>	<b>66,277</b>	<b>74,608</b>
Interest				
<b>EBT</b>	<b>42,530</b>	<b>53,440</b>	<b>66,277</b>	<b>74,608</b>
Tax	(3,860)	(6,850)	(9,074)	(13,429)
<b>EAT</b>	<b>38,560</b>	<b>46,590</b>	<b>57,203</b>	<b>61,179</b>
Growth (%)		21	23	7
<b>EAT (%)</b>	<b>27.8</b>	<b>27.9</b>	<b>26.6</b>	<b>25.5</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY07	FY08	FY09E	FY10E
Equity share capital	2,860	2,860	2,860	2,860
Reserves & surplus	109,690	135,090	171,995	211,702
Minority Interest	40	-	-	-
<b>Networth</b>	<b>112,590</b>	<b>137,950</b>	<b>174,855</b>	<b>214,561</b>
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>112,590</b>	<b>137,950</b>	<b>174,855</b>	<b>214,562</b>
Goodwill				
Gross Block	46,420	54,390	70,852	79,320
Less: Depreciation	18,360	19,860	27,146	35,078
<b>Net block</b>	<b>28,060</b>	<b>34,530</b>	<b>43,706</b>	<b>44,242</b>
<b>Capital WIP</b>	<b>9,650</b>	<b>13,240</b>	<b>18,000</b>	<b>20,000</b>
<b>Investment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Current Assets</b>	<b>95,460</b>	<b>130,900</b>	<b>165,418</b>	<b>208,986</b>
Inventories	-	-	-	-
Sundry debtors	24,360	32,970	41,176	44,780
Cash & bank balance	58,710	69,500	90,947	127,773
Loans & advances	12,140	27,710	31,764	34,902
Other current assets	250	720	1,530	1,530
<b>Current Liab &amp; Prov</b>	<b>21,500</b>	<b>41,910</b>	<b>53,529</b>	<b>59,926</b>
Current liabilities	14,690	19,120	24,117	27,000
Provisions	6,810	22,790	29,411	32,927
<b>Net current assets</b>	<b>73,960</b>	<b>88,990</b>	<b>111,889</b>	<b>149,059</b>
<b>Misc exps</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax</b>	<b>920</b>	<b>1,190</b>	<b>1,260</b>	<b>1,260</b>
<b>Total Assets</b>	<b>112,590</b>	<b>137,950</b>	<b>174,855</b>	<b>214,562</b>

Cash Flow	FY07	FY08	FY09E	FY10E
Net Profit after Tax	38,560	46,590	57,203	61,179
Add : Depreciation	5,140	5,980	7,286	7,932
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>(33,830)</b>	<b>(14,560)</b>	<b>(22,089)</b>	<b>(37,171)</b>
<b>Operational Cash Flows</b>	<b>23,000</b>	<b>43,531</b>	<b>57,057</b>	<b>59,223</b>
<b>Capital expenditure</b>	<b>(20,590)</b>	<b>(16,040)</b>	<b>(21,222)</b>	<b>(10,468)</b>
Investments	14,600	(940)	(1,620)	-
<b>Investing Cash Flows</b>	<b>(5,990)</b>	<b>(16,980)</b>	<b>(22,842)</b>	<b>(10,468)</b>
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
dividend paid	(7,510)	(22,251)	(20,077)	(21,472)
Issue of shares	15,670	6,530	7,309	9,543
Share Premium		10	-	-
<b>Financing Cash Flows</b>	<b>7,410</b>	<b>(15,761)</b>	<b>(12,768)</b>	<b>(11,929)</b>
changes in cash	<b>24,420</b>	<b>10,790</b>	<b>21,447</b>	<b>36,827</b>
Opening balance	<b>34,290</b>	<b>58,710</b>	<b>69,500</b>	<b>90,947</b>
<b>Closing balance</b>	<b>58,710</b>	<b>69,500</b>	<b>90,947</b>	<b>127,773</b>

Key ratios	FY07	FY08	FY09E	FY10E
EPS (Rs)	67.6	81.3	99.7	106.7
CEPS (Rs)	76.7	91.7	112.4	120.5
Book Value Per Share (Rs)	197.5	240.6	304.9	374.1
Dividend Per Share (Rs)	11.4	33.2	29.9	32.0
<b>Valuations Ratios (x)</b>				
PER	18.1	15.1	12.3	11.5
P/CEPS	24.5	20.5	16.7	15.6
P/BV	6.2	5.1	4.0	3.3
EV/EBIDTA	24.9	20.7	15.6	13.9
EV/Sales	7.9	6.5	4.9	4.3
M-Cap/sales	7.7	6.4	5.0	4.5
<b>Profitability Ratios (%)</b>				
RoCE	37.3	34.0	32.5	29.7
RoNW	42.2	37.2	36.6	31.4
EBITDA Margin	31.6	31.4	31.7	30.7
EBIT Margins	30.6	32.0	30.9	31.0
Net Profit Margin	27.8	27.9	26.6	25.5

13<sup>th</sup> October 2008

## Infy lowers the bar, CTSH hangs on

## Event Details:

Co. Name	Rating	CMP	TP
Infosys	Hold	1227	1443
TCS*	Hold	523	1034
Satyam*	Accumulate	250	483
HCL Tech*	Accumulate	171	297
Mphasis*	BUY	132	315
Tech M*	BUY	396	990

\*Ratings, TP could be under review with quarterly results

(%)	1M	3M	6M	12M
<b>Infosys</b>				
Absolute	(30)	(32)	(14)	(38)
Rel. to Sensex	(3)	(10)	29	11
<b>TCS</b>				
Absolute	(39)	(40)	(42)	(51)
Rel. to Sensex	(14)	(20)	(14)	(13)
<b>Satyam</b>				
Absolute	(41)	(48)	(42)	(44)
Rel. to Sensex	(18)	(31)	(13)	(0)
<b>HCLT</b>				
Absolute	(31)	(31)	(26)	(45)
Rel. to Sensex	(4)	(9)	12	(2)
<b>Mphasis</b>				
Absolute	(46)	(37)	(38)	(55)
Rel. to Sensex	(25)	(17)	(6)	(20)
<b>Tech Mahindra</b>				
Absolute	(50)	(47)	(52)	(74)
Rel. to Sensex	(31)	(30)	(28)	(53)

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After Infosys lowered its annual revenue growth guidance by ~600 bps from 19-21% to ~13-15% V/s ours as well street expectations of a more modest cut of only 200-250 bps, CTSH issued a press release reaffirming its September'08 quarter guidance as well as annual FY08 guidance. We note that CTSH had already lowered its annual revenue growth guidance earlier in the year from 'at least 38%' to ~31.5% YoY growth. Further we wish to highlight that CTSH follows a Calendar Financial year and thus could see lower risk to FY08 numbers given any out performance on September'08 results could lower the expected run rate for sequential growth in December'08 quarter. **(albeit we believe that consensus FY09 revenue growth for CTSH, currently at ~23% might be lowered given the events that have unfolded over the last 1 month or so)**

## What do we make of Infy results???

We note that Infosys September'08 performance was rock solid (for a detailed perspective on the results please refer to our note: Infosys Q2FY09 Result Update: Cautiousness reflects in guidance reset dated October 10'08) with notable margin expansion (margins expanded by ~260 bps QoQ V/s our expectations of only ~170 bps), up tick in pricing (onsite pricing up by 0.6% QoQ while offshore pricing up by 0.1%), headcount addition during the quarter remaining largely on track with expectations with co also maintaining its annual hiring target of 25,000 and expecting to hire ~ 4,500 freshers during the December'08 quarter alone and good performance on DSO (down to 60 days from 64 days at the end of Q1FY09). We also highlight the negatives in the results in the form of edgy performance at top clients (revenues from the top client grew by a modest 1.3% sequentially during the quarter and top 10 clients remained under pressure for the 2<sup>nd</sup> consecutive quarter) as well as the no of US\$ 1 mn+ clients remaining unchanged at 325, similar to Q1FY09 level.

Further to complement the surprising larger than expected cut in annual guidance, Infosys management during the investor call remained positive on business prospects saying that it has not seen 'any significant impact in terms of any major project delays/deferrals', 'September month being very good in terms of both new project wins / project ramp ups despite the worsening news flow' and indicating that a large part of the increase in no of active clients came in from the troubled financial services.

## Our view: Demand visibility beyond December'08 remains low

The recent news flow /events in the Banking and Financial services sector in our view could lead to structural changes in the financial services world such as lesser number of financial firms to service (driven by either consolidation or fall of some big fat names), a rigorous ROI focused approach on IT spending (could be potentially negative near term as decision making might continue to take long), several regulatory changes which might be a booster in terms of business (however for such business opportunity to unfold, dust needs to settle down first of all).

We maintain that the main issue for Indian IT Service companies remains the low visibility beyond December'08 as deal discussions continue to linger on with client indecisiveness also stemming from continuous news on worsening prospects (something similar to CY08 budgeting cycle when budgets took longer to close/finalize). We believe that Indian IT vendors enter CY09 budgeting cycle more precariously placed than ever. In our view it is this haziness on demand outlook that could keep stock price performance for the Indian IT companies under pressure over at least the next 6 months.

## No Buy rated stocks in our large cap universe now, though depressed valuations could make the case compelling soon

Although we have not had any BUY ratings in our large cap IT services universe since our downgrade on the sector in May'08, we believe that valuations have depressed enough which could make the case compelling on accumulating these stocks soon. We do not rule out that Infosys might retest its lows once again (On October 20'08, Infy stock hit 52 week low at Rs 1040 before recovering to close at Rs 1227), but believe that investors might need to focus on free cash flow generation for these stocks (Infy generated US\$ 551 mn free cash post investment at ~22% of H1FY09 revenues, Infy's FCF has grown at 44% V/s revenue growth of only ~22% in H1FY09) for these companies soon.

Company	No. Of Shares (In lacs)	% Change In price
Ambuja Cement	13.37	-11.8
Infosys Tech	26.56	-2.2
ICICI Bank	140.61	-19.7
Axis Bank	19.71	-14.2
Rcom	59.34	-21.0

**Nifty movers**

Top Gainers	Price	Index Points
SBI	1352.50	3.5
Ranbaxy	293.25	0.9
BPCL	339.45	-0.2
Powr Grid	89.70	-0.4
Maruti	679.70	-0.4

**Losers**

Reliance ind	1527.60	-28.6
Rcom	238.50	-20.5
ONGC	916.30	-16.4
ICICI Bank	363.65	-16.3
NPTC	165.25	-14.1

**Index- volatility**

Indices	Sensex	Nifty
High	10904	3502
Low	10239	3198
Close	10527	3279
Volatility (in %)	665	304
	6.10	8.68

**Dealer Comments**

**Market Summary:** The markets opened the session on a huge negative note with 700 odd points downward gap on the back of extremely negative cues from the global markets amid fears of a significant slowdown in the global economy and fears of extreme liquidity crunch hitting the global markets. Stock markets across the globe fell like a pack of cards as sell off in every markets despite worldwide central bank measure to stave off crisis by giving banking bailout packages, injection of enough liquidity and interest rate cuts failed to quell investors anxiety. Even the Indian markets got battered from opening with extremely bad IIP nos for August 2008 at just 1.3% and showed no respite till the close ignoring lower inflation data, softening of crude oil prices and a big CRR cut of 150 bps failed to boost market sentiments. The markets were very near to hitting the 10% lower circuit filter almost twice in the session but pulled back off those lows. The day's fall was mainly led heavy, persistent and unabated selling in Realty, Bankex, Capital Goods, Oil & Gas and Metal stocks. Even the midcap and Smallcap stocks were not spared from the carnage as is evident from the overall market breadth which was extremely negative and was at - 6x. During the day Sensex and Nifty both hit its new 2008 lows of 10240 and 3200 respectively. Finally sensex closed a whopping 800 points or 7.07% lower to settle at 10528 levels while Nifty lost 234 points or 6.65% lower to settle at 3280 levels. On a weekly basis both the indices gave its worst performance with Sensex down 1950 points or 15.5% and Nifty down 550 points or 14% while Sensex has corrected almost 50% from its peak so far. Even the world indices saw its worst weekly performance with Asian markets dropping 15-25%, US dropping 15-17% and Europe falling 13-15% respectively. Among the sectoral indices all of them ended deep in the red with Realty, Consumer Durables, Metal, Capital Goods, Bankex, Oil & Gas, Auto and PSU under performing the most. Among the index heavy weights, which gained the most were SBI, Ranbaxy, BPCL, Power Grid and Maruti while Reliance Ind, Rel Comm, ONGC, ICICI Bank and NTPC were weak and ended as losers. Going ahead our markets will continue to remain weak to subdued taking cues from the global markets amid fears of further selling by FII's will continue to weigh on our bourses. A sense of acute risk aversion has set in across the investor fraternity as a result of global financial sector crisis.

The overall traded volumes were quite lower compared to earlier day by almost 10% and were at Rs 681 bn. Delivery-based volumes were at 48% the total turnover.

Among the institutional activities FII's were net sellers to the tune of Rs 8.47 bn while Domestic Funds were net sellers to the tune of Rs 1.19 bn respectively in the cash segment on 8<sup>th</sup> October 2008. While on 10<sup>th</sup> October 2008 FII's sold shares worth Rs. 25.14 bn in cash segment (provisional) and in the F&O segment bought Futures and Options worth Rs. 1.62 bn whereas Domestic Funds bought shares worth Rs. 17.45 bn (provisional).

**Movement of indices**

Indices	Previous close	This week	% chg
Sensex	12,526	10,527	-15.96
Nifty	3818	3279	-14.12
S&P CNX 500	2984	2507	-15.99
BSE 500	4,771	3,934	-17.54
BSE Mid-Cap	4,677	3,676	-21.40
BSE Small-Cap	5,465	4,355	-20.31
BSE Auto	3,654	3,255	-10.92
BSE Health	3,663	3,213	-12.29
BSE FMCG	2,180	1,860	-14.68
BSE IT	3,110	2,584	-16.91
BSE PSU	6,171	5,535	-10.31
BSE Bankex	6,428	5,319	-17.25
BSE Oil & Gas	8,426	7,272	-13.70
BSE Metals	8,417	6,542	-22.28
BSE Cons Dur	2,887	2,139	-25.91
BSE Cap Good	10,238	7,983	-22.03
BSE Realty	3,329	2,523	-24.21
BSE Power	2,227	1,855	-16.70

**Levels to watch**

	Sensex	Nifty
Week High	12284	3820
Week Low	10239	3198
34 DMA	13466	4031
55 DMA	13848	4146
Swing High	13203	4000
Swing Low	10239	3198

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**Technical Comments**



**Outlook for next week**

Last week, also the Bears hold their grip and huge broad based selling lead Nifty to continue its southbound journey. On Monday it broke its support of 3715 and continued its downside journey. On Wednesday it tested our mentioned target of 3430 and made a low of 3329, but again on Friday huge selling was witnessed which lead Nifty to further fell sharply and it broke its Wednesday low of 3329 and made a low of 3198. But thereafter Nifty took support and recovered some of its losses and finally closed at 3279 with a loss of 14.12% on w-o-w basis. In sectoral indices, BSE Cons Dur index (-25.91%) followed by BSE Realty index (-24.21%) and BSE Metals index (-22.28%) and BSE Cap Good index (-22.03%) were the top-losers on w-o-w basis, while other indices also closed negative on w-o-w basis. Nifty is still looking weak and Bears will still continue to prevail in the coming days, thus we maintain our short-term downside target of 2930. Now in the immediate term Nifty is having resistance at 3550 and for short-term it is having resistance in the range of 3750 to 3800.

**Today's Strategy:**

For Today Nifty has resistance in the range of 3364 to 3396 and it has support in the range of 3209 to 3198 levels.

**Sectoral Speak**

Continuing its southbound journey the **BSE Metal** index tested our mentioned target of 7284 on Wednesday and further continued it's southbound and on Friday it further fell sharply and made a low of 6464. Finally this index closed at 6542 with a loss of 22.28% on w-o-w basis. This index is still looking weak and now it has support at 6425 levels and if it starts trading below this level then it can test 5364 levels.

Last week on Wednesday the, **BSE Oil & Gas** index tested our mentioned target of 7636 and continued its downside journey and on Friday it further fell sharply and made a low of 7115. Finally this index closed at 7272 with a loss of 13.70% on w-o-w basis. This index is still looking weak and now it can test 6964 levels.

As expected last week the **BSE Realty** index opened on a negative note and continued its southbound journey and on Wednesday it tested our first mentioned target of 2788, but the journey did not stop over there and on Friday it made a low of 2490. Finally this index closed at 2523 with a loss of 24.21% on w-o-w basis. This index is still looking weak and in the coming days we may witness further downside in this index and it can test 2294 levels.

Continuous selling in **BSE Cap Good** index further lead this index to continue its southbound journey and Tuesday it broke its July low of 9481 and on Friday further fell sharply and it made a low of 7824. Finally this index closed at 7983 with a loss of 22.03% on w-o-w. This index is still not showing any strength and we maintain our downside target of 7766.

As expected the **BSE Bankex** index tested our mentioned target of 5662 on Wednesday and further continued its downside journey and on Friday huge selling was witnessed which lead this index to fell sharply and it broke its July low of 5354 and made a low of 5046. Finally this index closed at 5319 with a loss of 17.25%. As this index closed below its July low of 5354, it is still looking weak and now it can test 4156.

Continuing its southbound journey the **BSE Auto** index on Friday broke its support of 3332 and fell sharply. It made a low of 3182 and finally this index closed at 3255 with a loss of 10.92% on w-o-w basis. As this index had closed below its previous low of 3332, thus in the coming days we may witness further downside in this index and it can test 2938 levels.

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**Nifty**

	03.10.08	10.10.08	Chg	% Chg
Spot	3824.55	3278.5	-546.05	-14.28
Oct Fut	3853	3303.3	-549.7	-14.27
Nov Fut	3861	3305.25	-555.75	-14.39

**Nifty Cost of Carry**

	03.10.08		10.10.08	
	Basis	COC %	Basis	COC %
Oct Fut	28.5	10.4	24.8	14.5

**Nifty open interest**

	No of Shares ('000)			
	03.10.08	10.10.08	Chg	%Chg
Oct Fut	29889	31932	2043	6.84
Nov Fut	802	1883	1081	134.79
Total	30975	34203	3228	10.42

**Nifty put call ratio**

	No of Shares ('000)			
	03.10.08	10.10.08	Chg	%Chg
Call OI	37498	48068	10570	28.19
Put OI	33893	35034	1141	3.37
PCR	0.9	0.73	-0.17	

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**Derivative Comments****Market Activity**

This week Nifty opened negative; and thereafter it traded with a strong negative bias throughout the week to give a weekly close at 3818.30 with a loss of 166.95 points (4.19%) from its previous weeks close. Major Gainers for the week were Ranbaxy, National Aluminium, GTL, Union Bank and Oriental Bank. Losers were Monnet Ispat, Core Projects Skumars, Welspun Gujarat and HDIL

FII's remained net Sellers in Index futures to the tune of 60975 contracts and have added 62605 contracts in OI. They remained net Buyers in Index options to the tune of 17121 contracts and the OI has increased by 152985 contracts. In stock futures however they were net Sellers to the tune of 61225 contracts and have added 49453 contracts in OI.

**Market Outlook:**

The Oct futures cost of carry for the Nifty stood at a Positive 14.53 % against a Positive 10.44 % for the last week. Nifty Oct Futures traded at a Premium of 20 - 25 Points. The IV of Nifty steadily increased this week from 39 - 40% and finally touching 67 - 68 %. These levels of IV are uncomfortably high and hence traders could witness very high amount of volatility in the coming days. On a week on week basis Nifty added 32.28 lac shares (10.42%) in Open Interest. This is short OI Build up.

**Open Interest (OI) Analysis:**

Short OI was seen in Corp Bank (21%), GAIL(74%), GVKPIL(38%), HCLTech(34%), Hindalco(42%), Hindu Lever(28%), IB Real(24%), India Info(20%), ONGC(40%), RPower(23%) and Wipro(24%). Hence we would advise clients to avoid going long on these stocks.

**Put Call Ratio Analysis:**

The Put Call Ratio of Nifty WoW decreased further from 0.90 to 0.73. On w-o-w basis Nifty Call options added 105.7 Lakh shares (28.2%) and Put options added 11.4 Lakh shares (3.36%) in OI.

On Friday on the calls side incrementally maximum OI was added at strike 3600(7.79L) followed by strike 3400(6.65L) and 3500(6.46L). On the Puts Front significant OI addition was seen at 3300 Strike which added (13.44L) shares and which also happens to the last available strike on the Nifty.

**Cost of Carry (CoC):**

**Turned Positive:** Bank of India, Sail and Satyam.

**Turned Negative:** HDFC Bank, Hindalco, Infosys, LT, RCOM and Tech M.

**FII's Weekly Derivative Statistics 08.10.08**

	Buy		Sell		Open Interest as on 08.10.08		Open Interest as on 01.10.08		Change in FII's Open Interest (W-o-W)	
	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.
Index Futures	417722	7497.08	478697	8613.29	566476	9991.95	503871	9968.52	62605	23.43
Index Options	175248	3268.6	158127	2985	1099161	19262.5	946176	18639.66	152985	622.84
Stock Futures	197166	2910.57	258391	3576.75	1008762	13675.43	959309	14692.25	49453	-1016.82
Stock Options	3813	56.49	2823	39.51	54598	845.02	52214	912.14	2384	-67.12
TOTAL	793949	13732.74	898038	15214.55	2728997	43774.9	2461570	44212.57	267427	-437.67

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