

**June 26, 2006**
**FOR PRIVATE CIRCULATION**
**Equity**

	25 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	10,413	0.1	(3.7)	(4.9)
Nifty	3,050	0.2	(5.0)	(7.0)
Banking	4,436	(0.3)	(11.1)	(15.7)
IT	2,434	(0.0)	(3.3)	(6.7)
Healthcare	3,205	0.8	(8.5)	(13.4)
FMCG	1,868	0.1	(7.9)	(11.2)
PSU	5,033	0.6	(8.1)	(15.6)
CNX Midcap	4,006	0.8	(10.1)	(14.2)
<b>World indices (23 June 06)</b>				
Nasdaq	2,121	(0.1)	(4.0)	(8.3)
Nikkei	15,124	(0.1)	(6.1)	(9.4)
Hangseng	15,809	(0.1)	(1.0)	0.1

**Value traded (Rs cr)**

	25 Jun 06	% Chg - 1 Day
Cash BSE	3,225	1.7
Cash NSE	6,477	0.0
Derivatives	4,004.9	(83.8)

**Net inflows (Rs cr)**

	22 Jun 06	% Chg	MTD	YTD
FII	(202.6)	(321.2)	1,829	11,892
Mutual Fund	83.3	15.0	(2,055)	11,838

**FII open interest (Rs cr)**

	22 Jun 06	% Chg
FII Index Futures	9,598	(2.8)
FII Index Options	3,257	9.9
FII Stock Futures	9,383	3.7
FII Stock Options	112	2.6

**Advances/Declines (BSE)**

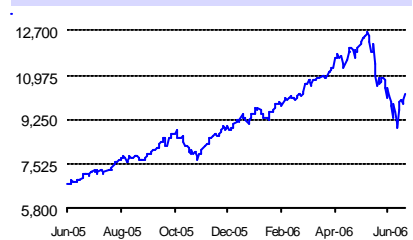
	25 Jun 06	A	B1	B2	Total	% Total
Advances	125	431	459	1015	70	
Declines	71	191	154	416	28	
Unchanged	1	12	16	29	2	

**Commodity**

	22 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	70.8	(0.1)	(0.8)	10.1
Gold (US\$/OZ)	583.1	0.4	(10.6)	4.3
Silver (US\$/OZ)	10.3	0.9	(18.7)	(3.5)

**Debt/forex market**

	23 Jun 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.14	7.96	7.61	N.A.
Re/US\$	46.12	46.14	45.90	44.67

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- The Indian economy is likely to grow at the average rate of 5.9% every year between 2006 and 2020 and would contribute 12.2% of the global economic growth in the next 15 years, according to a survey by Economist Intelligence Unit. (ET)
- The average quantum of rainfall has been well below expected till date. The inadequate rainfall is mainly on account of the lack of progress of the southwest monsoon winds. The actual amount of rainfall in the week ended June 21 was around 19 mm, about 51% lower than average. (ET)
- Indian exporters have reported a relatively hassle-free experience in banking transactions and reduction in transaction costs, due to a slew of measures taken by the RBI to reform processes and liberalize foreign exchange management. (BS)
- The government is looking to create a spectrum management fund for funding new initiatives in niche areas. The task for making recommendations to create such a fund was assigned to working group on the telecom sector for the Eleventh Plan (2007-12). (FE)

**CORPORATE NEWS**

- **Mittal** and **Arcelor** are to sign papers shortly agreeing to an in-principle merger of Mittal and Arcelor. The merged company is to be called Arcelor Mittal and the deal was arrived at following Mittal Steel hiking the offer price for each Arcelor share to 43 euros. (BS)
- **Tata Coffee**, a 51% owned subsidiary of **Tata Tea**, announced it had acquired the US-based **Eight O'Clock Coffee Company (EOC)**, from **Gryphon Investors** for Rs 10.15 bn (\$220 mn). The acquisition will be financed through a combination of equity and non-recourse debt. (ET)
- Some of the power generated from **RIL's** 'captive power plant' may end up being sold commercially to other units within the Haryana SEZ, a clear violation of the non-competing clause with Anil Ambani's **Reliance-ADAG Group**. (ET)
- **M&M** will set up a greenfield facility that can involve an investment of up to Rs 20 bn. The company is currently scouting for a location to set up the new facility. (BS)
- **Bharti** plans to spend \$100 mn (Rs 4.5 bn) in the horticulture sector over the next five years as part of its agri-business foray. The investment would involve acquiring farmlands, setting up R&D base and other basic infrastructural facilities like cold storage for developing the base for a sizeable horticulture business. (ET)
- The **Anil Dhirubhai Ambani Group (ADAG)** on Sunday said it received the Bombay High Court's approval for the scheme of amalgamation of **Reliance Energy Ventures** with **Reliance Energy** and **Reliance Capital Ventures** with **Reliance Capital**. (BL)
- **Pratibha Industries Ltd** has secured the Rs 2-bn Navi Mumbai Municipal Corporation (NMMC) water project that involves providing, laying and commissioning of drinking water pipelines from Kalamboli to Digha in Navi Mumbai. (BL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

## FROM OUR RESEARCH TEAM

### COMPANY UPDATE

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**We maintain our positive bias on the stock and recommend a BUY with a price target of Rs.306**

## ZENSAR TECHNOLOGIES LTD (Rs.196; FY07E PE: 8.8x, BUY)

We recently met with the management of Zensar. Our meeting reinforced our optimism on the long-term prospects of the company.

We believe the company's investments in new initiatives like the Solutions Blue Print (SBP), business intelligence and BPO have started yielding results. The company has been getting migration contracts based on the SBP framework and it is now targeting development projects also based on this methodology.

On the other hand, the company has good revenue visibility from its existing major clients. The management has indicated that it has visibility for more than 70% of its FY07 targeted revenues. This should allow the company to increase the stability and predictability of revenues in future.

The increasing contribution of offshore revenues, a growing proportion of high value-added businesses and improving profitability of the BPO business should help to restrict the impact of rising salaries and improve profitability.

We largely maintain our earnings estimates for Zensar. We expect profits to grow to Rs. 522 mn in FY07E and further to Rs. 651 mn in FY08E, resulting into earnings of Rs. 22.3 per share and Rs. 27.8 per share, respectively.

We have reduced our DCF backed price target from Rs. 339 to Rs. 306 mainly due to the higher volatility witnessed by the stock over the past one month (leading to higher beta). We maintain our positive bias on the stock and recommend a BUY with a price target of Rs. 306, a 56% upside from the current levels, over the next 12 months.

The main takeaways of the meeting are as under:

- The ITS division continues to do well, with the SBP business bringing in new clients.
- With SBP gaining acceptance, Zensar is looking to develop SBP into a global delivery platform. Towards this end, it plans to separate the development and migration part from the analysis and design functions. The clients and Zensar will separately perform these functions, providing better flexibility to the client.
- The first project with Nomura was finished in 4QFY06 and the company is initiating work on future projects with Nomura.
- The Fujitsu ODC relationship, started in the last quarter, is progressing along expected lines. Zensar has set up the dedicated facility to service Fujitsu's European customers. The employee strength on this project is expected to rise from 50 at the end of March 2006 to about 200 by September 2006.
- In addition to this, Zensar has 80 people working on other ongoing projects of Fujitsu.
- The business intelligence (BI) and data warehousing business also continues to do well with the company getting a major order recently for redesigning the entire BI architecture of the client.
- Zensar is now also increasingly engaging into consulting projects involving defining the offshoring roadmap for the client, actually helping it transfer projects and executing those projects.
- The APM SBU has added significant customers during the previous quarter in the form of a large automobile company, a UK-based utility company and a large European corporation. The scale up within these clients is along expected lines.
- The Oracle practice is expected to witness traction with the fusion program getting more crystallized into an integrated offering. The SAP offering also acquired initial customers during the previous quarter.

- Also, the company has strengthened its testing practice, which grew to over 55 practitioners in 4QFY06.
- Zensar has decent visibility in most of the existing large accounts. This stems from the annuity business and also new projects received by the company. For example, Zensar has recently received a new order from Cisco, an existing large client.
- The Fujitsu relationship is also growing at a fast clip as stated above and is expected to grow at a healthy pace.
- Zensar plans to hike salaries of its employees effective from July 2006. We expect the offshore and on-site salary increases to be about 15% and 4%, respectively.
- The BPO business has achieved net break even in May 2006, ahead of the targeted timeframe of 1QFY07 end.

#### Future prospects

(Rs mn)	FY06	FY07E	% YoY	FY08E	% YoY
<b>Income</b>	<b>4,289</b>	<b>5,522</b>	<b>28.8</b>	<b>6,778</b>	<b>22.8</b>
Expenditure	3,747	4,712		5,765	
<b>EBDITA</b>	<b>542</b>	<b>810</b>	<b>49.5</b>	<b>1,013</b>	<b>25.1</b>
Depreciation	155	199		243	
<b>EBIT</b>	<b>387</b>	<b>611</b>	<b>57.9</b>	<b>770</b>	<b>26.1</b>
Interest	16	12		10	
Other inc	46	46		70	
<b>PBT</b>	<b>417</b>	<b>645</b>	<b>54.7</b>	<b>830</b>	<b>28.6</b>
Tax	55	116		166	
Minority Interest	(5)	7		13	
<b>PAT</b>	<b>367</b>	<b>522</b>	<b>42.1</b>	<b>651</b>	<b>24.7</b>
E.O items	(28)	-		-	
EPS (Rs.)	15.7	22.3		27.8	
<b>Margins (%)</b>					
EBDITA	12.6	14.7		14.9	
EBIT	9.0	11.1		11.4	
Net Profit	8.6	9.5		9.6	

Source : Company, Kotak Securities - Private Client Research

- We have made marginal changes to our earnings estimates. We expect the company to achieve revenues of Rs. 5.52 bn in FY07E and Rs. 6.78 bn in FY08E.
- Margins are expected to improve on the back of higher offshore software services revenues (50% in FY08E as against 46% in FY06), improving profitability in the BPO business and increased contribution from higher value added businesses.
- PAT is expected to rise at a CAGR of 33% to Rs.651mn in FY08E, an EPS of Rs. 27.8.

## Bulk deals

Trade details of bulk deals					
Date	Scrp name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
23-Jun	Allcargo Glo	Sam Global Securities	B	155,499	649.38
23-Jun	Allcargo Glo	Amu Shares and Sec	B	108,569	645.99
23-Jun	Allcargo Glo	Sam Global Securities	S	155,499	649.39
23-Jun	Allcargo Glo	Amu Shares and Sec	S	108,569	647.11
23-Jun	Ankush Finst	Narottamka Commodities	B	80,751	1.59
23-Jun	Ankush Finst	Mahan Industries	S	80,751	1.59
23-Jun	Avantel Soft	Kotak Mahindra UK Ltd Ac	S	28,039	41.99
23-Jun	Carn Nut Ana	Goldman Sachs Investment	B	57,666	66.00
23-Jun	Carn Nut Ana	Lloyd George Investment	S	57,666	66.00
23-Jun	Esab India	Franklin India	B	100,000	355.00
23-Jun	Esab India	HDFC Prudence Fund	S	100,000	355.00
23-Jun	Kadamb Const	Eastwest Finvest India	B	13,000	30.95
23-Jun	Orient Bever	Akkineni Ramesh	S	15,354	7.84
23-Jun	Pankaj Polym	Polygon Solutions	B	102,762	6.92
23-Jun	Sandu Pharma	Narottamka Commodities	B	83,899	11.47
23-Jun	SBT Intern	S K Investment	B	100,000	44.25
23-Jun	Seasons Furn	Laxmikant Kabra HUF	B	26,125	9.24
23-Jun	SQL Star Int	Narottamka Commodities	B	106,985	29.10
23-Jun	SQL Star Int	Mahan Industries Ltd	S	78,351	29.10
23-Jun	Visu Intl	Excel Paints Private Ltd	B	86,370	16.58
23-Jun	Visu Intl	Lilac Farms Private Ltd	S	157,789	15.39
23-Jun	Worldw Le Ex	Samir Mukund Lal Shah	B	46,518	33.76
23-Jun	Worldw Le Ex	Samir Mukund Lal Shah	S	38,818	33.19

Source: BSE

## Forthcoming events

COMPANY/MARKET	
Date	Event
26-Jun	VSNL, ONGC, NIIT Technologies to announce earnings and dividend; TVS Motor to announce earnings; UBS AG to open India service centre at Hyderabad; Hero Honda, SIDBI Venture & Direct Logistics India holds press conference; Shirdi Industries holds press conference for IPO
27-Jun	Corporation Bank holds shareholders meeting; Reliance Industries holds annual shareholders meeting; Bata India to announce 2nd quarter earnings; Hinduja TMT, Jain Irrigation, Aurobindo Pharma to announce earnings and dividend
28-Jun	Trent Ltd to announce earnings and dividend; Pfizer to announce 2nd quarter earnings
29-Jun	Abbott India to announce 2nd quarter earnings; National Fertilizers to announce earnings and dividend
30-Jun	State Bank of India holds shareholders meeting; Bharat Electronics, Hinduja TMT, MTNL, Bharati Shipyard to announce earnings and dividend; Goetze India to consider Rights offer

Source: Bloomberg

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
ONGC	1,113.6	1.2	4.0	0.1
Tata Steel	532.4	3.9	2.3	1.7
SAIL	81.8	3.0	2.1	4.6
<b>Losers</b>				
Bharti Airtel	366.2	(1.2)	(1.7)	0.1
Reliance Ind	1,007.2	(0.5)	(1.4)	0.8
SBI	754.1	(1.1)	(1.0)	0.2

Source: Bloomberg

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