

March 16, 2007
FOR PRIVATE CIRCULATION
Equity

	15 Mar 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	12,544	0.1	(12.6)	(7.9)
Nifty	3,644	0.1	(12.1)	(6.3)
Banking	6,191	(1.2)	(13.8)	(11.5)
IT	3,473	1.0	(11.5)	(3.5)
Healthcare	3,477	0.5	(8.6)	(6.1)
FMCG	1,642	1.7	(13.2)	(15.9)
PSU	5,499	0.1	(11.1)	(7.9)
CNX Midcap	4,634	0.2	(11.7)	(7.5)
World indices				
Nasdaq	2,378.7	0.3	(4.7)	(3.2)
Nikkei	16,860	1.1	(6.5)	(1.2)
Hangseng	18,969	0.7	(7.7)	(0.6)

Value traded (Rs cr)

	15 Mar 07	% Chg - 1 Day
Cash BSE	3,685	(11.7)
Cash NSE	7,777	(10.3)
Derivatives	26,716	(16.5)

Net inflows (Rs cr)

	14 Mar 07	% Chg	MTD	YTD
FII	(861)	925	(1,142)	4,613
Mutual Fund	38	(384)	(988)	(2,642)

FII open interest (Rs cr)

	14 Mar 07	% chg
FII Index Futures	14,574	1.2
FII Index Options	8,546	0.5
FII Stock Futures	15,511	1.2
FII Stock Options	50	6.5

Advances/Declines (BSE)

	15 Mar 07	A	B1	B2	Total	% Total
Advances	122	417	488	1,027	57	
Declines	94	272	363	729	40	
Unchanged	1	14	34	49	3	

Commodity

	15 Mar 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	57.2	(0.6)	(3.7)	(9.8)
Gold (US\$/OZ)	646.6	0.3	(3.4)	5.1
Silver (US\$/OZ)	13.0	1.2	(7.0)	1.0

Debt/forex market

	15 Mar 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	8.03	8.00	8.06	7.65
Re/US\$	44.20	44.25	44.10	44.50

Sensex


Source: Bloomberg

ECONOMY NEWS

- Air travel during off-peak hours may become cheaper, as the Government plans to slash airport charges during these hours. The move to double peak period charges has been shelved, thus preventing a fare hike. (ET)
- The Indian Private Ports and Terminals Association has suggested that tariff should be the bidding criterion for port sector projects while revenue sharing between private port operator and the Government should be fixed. (ET)
- The approach paper to the 11th Five Year plan, as approved by the National Development Council, targets about 10% growth by the end of the Plan in 2011-12 fiscal. It has set the growth target for the next Plan period (2007-08 to 2011-12) at 9% annually. (ET)
- The Government has said it is planning to appoint a coal regulator to ensure efficiency in the sector. The Coal Ministry is currently in the process of commissioning a study for introduction of a coal regulator. (BS)
- The Reserve Bank of India has asked banks not to sanction loans for acquisition of or investments in small savings instruments, including Kisan Vikas Patras, as these loans do not confirm to the objectives of small savings scheme. (BL)

CORPORATE NEWS

- **Suzlon Energy** may revise its offer to buy out German wind-turbine builder REpower Systems, following the counter offer of €140 per share made by Areva. (ET)
- The Power Ministry has consulted the Law Ministry for its opinion on the award of the 4,000-MW **Sasan Power Project** to the Globeleq-Lanco combine. (ET)
- **ICICI Bank** may sell its entire 8% stake in NCDEX to the Atlanta-based Intercontinental Exchange Inc, which owns the New York Board of Trade (NYBoT). (BL)
- **Maruti Udyog** has hiked prices of all its models on account of increased cess announced in the Union Budget 2007-08. The hike ranges between Rs.258 and Rs.1,017 (ex-showroom-Delhi prices) and is effective across the country. (BL)
- **Reliance Industries** will induct a strategic partner in its overseas oil and gas projects, which are being spun off into a new entity. Sources said RIL is to divest 20-25% in the Dubai-based Reliance Exploration and Production DMCC, the holding company for RIL's foreign oil and gas projects. (BS)
- **BPCL** is planning to spend Rs.3.9 bn to upgrade its refinery at Mumbai to produce Euro-IV standard petrol and diesel. (BS)
- **L&T** and its international consortium partners of Paul Wurth Itali have bagged an EPC package, valued over Rs.14 bn, for the expansion of Vizag Steel Plant of Rashtriya Ispat Nigam. (ET)
- **Praj Industries** has got a €11.502 mn (close to Rs.650 mn) contract for the second phase of a wheat-and beet-based bio-ethanol plant for Biowanze, a subsidiary of CropEnergies (a Suedzucker Group company). (ET)
- Vodafone has formally announced that it had reached an agreement with the Essar group for management and operational control of **Hutch Essar**. Hutch will now be renamed Vodafone Essar. (ET)

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

RESULT UPDATE

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R SYSTEMS INTERNATIONAL LTD (Rs.136, CY08 PE: 7x, BUY)

R Systems' results for Q4FY06 were below our estimates. While rupee appreciation and the seasonal factor (lower number of working days in October–December quarter) impacted the performance, profits were impacted more due to several one-time items, change in ownership in one of the clients and scale up issues in another client.

Apart from these, on the operational front, the company has continued to penetrate its top clients deeper and has also added new accounts. The integration with WebConverse has been smooth and according to schedule. We expect the benefits arising from cross selling of services to accrue over future quarters. The addition of a major client due to the acquisition is expected to lend further stability and sustainability to the revenue stream.

While RS has as its customers start ups and software tool development companies, it also serves a set of large customers like GE, Motorola, Virgin, UK, Siemens, Open Solutions, InstallShield, TMA Resources, etc.

Penetration of the Indus suite of products into the telecom vertical is a positive and should open up avenues for revenue growth in non-BFSI, service related verticals.

Consistently high growth in outsourced and offshored product development services along with longstanding relationships with large corporations, make us optimistic on the future growth prospects of RS. Recent entry into the US for Indus suite of products and potential acquisitions may provide further upsides.

We have reduced our CY07 earnings estimates to take into account the continuing scale up issues in a Government client. We expect revenues and profits to grow about 30% in CY07. For CY08, we expect revenues and profits to grow 23% and 39%, respectively. At 7x CY08E earnings, we maintain our **BUY** with a DCF-based one-year price target of Rs.213. At our target price, our CY08E earnings will be discounted by 11x. In the short term, we expect the price to remain range bound due to the continuing impact in one of its accounts in Q1CY07.

We maintain our BUY recommendation on R Systems with a price target of Rs.213

Q4FY06 revenues					
Rs mn	Q3CY06	Q4FY06	QoQ (%)	Q4CY05	YoY (%)
Income	542.5	560.2	3.3	396.3	41.4
Expenditure	471.1	521.0		326.1	
EBDITA	71.4	39.2	-45.1	70.2	-44.2
Depreciation	14.2	21.2		12.4	
EBIT	57.2	18.0		57.8	
Interest	0.4	0.5		1.5	
Other income	14.3	17.1		0.6	
EO items	0.0	-64.0		0.0	
PBT	71.0	-29.5	-141.5	56.9	-151.8
Tax	13.0	36.1		9.2	
PAT	58.1	-65.6	-213.0	47.7	-237.6
EPS (Rs)	4.3	-4.8		3.5	
Margins (%)					
EBDITA	13.2	7.0		17.7	
EBIT	10.5	3.2		14.6	
PAT	10.7	-11.7		12.0	

Source: Company

The main takeaways are as under:

Revenues

- Revenues grew 3% QoQ, lower as compared to most peers. We believe that volumes grew 6% on a QoQ basis. However, the stronger rupee impacted the revenue growth. The volume growth would have been higher but for issues in two of its accounts.
- The company had to contend with changes in the scope of one of the projects for the Department of Social Justice. On the other hand, change in ownership of one of its other clients, led to loss of billable man-days in Q4CY07. This project, however, has restarted under the client's new ownership.
- Due to scale issues, offshore revenues formed marginally lower proportion of revenues during the quarter at about 61.87% of revenues.
- The company has renewed its contract with GE. While volume growth is expected to happen, there have been no increases in realizations from GE.
- On the other hand, the company has been able to get rate increases of about five per man-hour from other clients.
- The company added seven new accounts during the quarter and now has three Fortune 100 companies as its Top 3 clients, providing adequate revenue growth visibility.
- License revenues grew from Rs.4 mn in the previous quarter to Rs.9 mn. In the products business, a leading telecom company selected the Indus Collections product to manage their collections process. This is expected to open up a new revenue line for R Systems.
- Also, a leading BPO company in the collections industry selected Indus Collections product to manage its collections process.
- These, we believe, will open up new avenues of growth for the company's products business.

Margins

- R System's EBIDTA and net margins came down during the quarter. The company incurred several extraordinary expenses during the quarter, which impacted profitability.
- R Systems changed its assumptions for actuarial valuation of gratuity and leave encashment (impact of Rs.15.3 mn), changed the accounting policy for transaction expenses relating to WebConverse (Rs.3.8 mn), paid prior year professional fees, provided for doubtful debts (Rs.35mn) and provided for deferred tax asset in the US subsidiary (Rs.23 mn).
- Apart from these, the rupee appreciation, losses in ECnet and the seasonality factor impacted profits to the extent of about Rs.32 mn.
- Also, the revenue loss due to issues in two contracts impacted the profitability. The delays in the Department of Social Services contract are likely to be resolved by March 2007. Hence, these are expected to impact margins in Q1CY07. Moreover, salary increases (15% offshore and 5% on-site) are expected to impact margins.

Integration of WebConverse

- The integration of WebConverse is along expected lines. WebConverse has brought with it several clients, one of which is Good Technologies, which has been acquired by Motorola. R Systems has employed about 110 employees (80 in the US and 30 in Noida) for this customer. It has now become the second largest customer for RS, after GE. This relationship is expected to scale up fast in the coming quarters.
- We believe R Systems will benefit from this acquisition by way of access to large clients and expansion of services range. Shifting of work offshore should allow improvement in margins of that company. Also, the earn outs will, most probably, be paid out of the earnings of that company.

MoU with Aisel Corporation, Japan

- R Systems entered into an understanding with Aisel to form a strategic alliance and target customers in the Japanese market. This is just at an initial stages and formalization of this alliance is expected to take place some time.
- Under the terms of the understanding, R Systems will allot 5% of its equity to Aisel, which in turn will give a 15% stake in Aisel to R Systems. Aisel plans to go public in CY08.
- The strategic intent behind this is to create a beach head in Japan, which will allow R Systems to cross sell its iPLM and Indus offerings to several large multinational Japanese companies.
- R Systems is currently offering EcNet services to companies like Pioneer, Sharp and Panasonic but outside Japan.
- On the other hand, Aisel is looking at offshore capabilities in the embedded systems space in which it is operating. It has forecasted demand for additional 100 such engineers in the next calendar.
- Two techno-commercial people from R Systems have already started contacting clients and benefits are expected to start from Q3CY07 onwards.

Future prospects					
Rs mn	CY06\$	CY07E	YoY (%)	CY08E	YoY (%)
Income	2039.5	2648.1	29.8	3256.6	23.0
Expenditure	1815.5	2367.4		2849.5	
EBDITA	224.1	280.7	25.3	407.1	45.0
Depreciation	59.1	102.5		130.3	
EBIT	165.0	178.2		276.8	
Interest	3.9	2.0		0.0	
Other income	42.4	45.0		40.0	
E O items	-64.0	0.0		0.0	
PBT	139.5	221.2	58.6	316.8	43.2
Tax	61.1	34.8		57.0	
PAT	78.4	186.4	137.9	259.8	39.4
Shares (mn)	13.5	13.5		13.5	
EPS (Rs)	5.8	13.8		19.2	
Margins (%)					
EBDITA	11.0	10.6		12.5	
EBIT	8.1	6.7		8.5	
PAT	3.8	7.0		8.0	

\$ - Includes WebConverse WEF Q3CY06; Source: Company, Kotak PCG estimates

- We have made changes to our CY07 estimates to accommodate the impact of the delays in project completions in Q1CY07 and also the higher tax impact due to imposition of minimum alternate tax (MAT).
- We expect revenues and profits for CY07 to grow to Rs.2.65 bn and Rs.186 mn, respectively. For CY08E, we expect revenues to grow to Rs.3.26 bn with net profit expected to grow to Rs.260 mn.
- We expect EBIDTA margins to be low in Q1CY07 because of the impact of delayed projects. However, we expect the same to improve gradually through CY08.
- This leads us to an EPS of Rs.14 in CY07 and Rs.19 in CY08.
- We have arrived at a price target of Rs.213 based on the DCF analysis, at which levels our CY08 earnings will be discounted by about 11x.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
15-Mar	Aarvee Den E	Shree Dhoot Tdg and Agenc	S	119,339	103.23
15-Mar	Axon Infotec	Alliance Intermediateries	B	4,076	269.00
15-Mar	Bihar Tubes	Mudra Securities	B	20,000	118.00
15-Mar	Emmso Intern	Honey Consultancy Ser. P.	S	30,190	74.21
15-Mar	Epic Energy	Search Finvest Pvt Ltd	B	25,000	87.60
15-Mar	Indcap Finan	Kavita Aggarwal	S	26,000	26.99
15-Mar	Madhav Mar G	Sudhir Kumar Jhunjunwala	B	150,000	95.00
15-Mar	Madhav Mar G	Jain Orna Pvt Ltd	S	148,299	95.00
15-Mar	Mah Ind Leas	Imtiyaz I Desai	B	50,000	96.90
15-Mar	Maharashtra	Search Finvest Pvt Ltd	B	56,868	104.30
15-Mar	Mefcom Agr I	Master Finlease Ltd	B	50,000	72.25
15-Mar	Mefcom Agr I	Avisha Credit Capital Ltd	B	30,000	72.18
15-Mar	Mefcom Agr I	Vora Financial Services Ltd	S	40,100	70.25
15-Mar	Mefcom Agr I	JMP Securities Pvt. Ltd.	S	27,200	70.25
15-Mar	Mohit Indust	Shah Manish Ratilal	S	30,000	31.13
15-Mar	Nippo Batt	Sarla Devi	B	83,036	318.14
15-Mar	Nippo Batt	R P Khaitan	B	45,720	319.10
15-Mar	Nippo Batt	Salora Finance Ltd	S	25,548	318.00
15-Mar	Nippo Batt	Sab Electronics Limited	S	41,220	319.00
15-Mar	Nippo Batt	Gopalkumar Jiwrajka	S	46,184	318.00
15-Mar	Osian Lpg Bo	Vijay Laxmi Sachdeva	S	78,770	14.10
15-Mar	Pudumje Agro	MSPL Limited	S	21,618	27.92
15-Mar	Real Strip L	Leena Sashikantbhai Shah	B	23,000	40.90
15-Mar	Real Strip L	Sashikant Dhirajlal Shah	S	19,000	41.01
15-Mar	Sudal Indust	Bina A Chauhan	B	25,000	20.50
15-Mar	Sumeet Indus	Cosmo Corporater Services	B	128,671	27.51
15-Mar	Tripex Over	Imtiyaz I Desai	B	95,000	59.99
15-Mar	Tripex Over	Global Film And Bord Cast	B	45,000	64.00
15-Mar	Usher Agro	Hemchand Chaturbhujdas Ga	B	681,093	17.02
15-Mar	Usher Agro	Rashel Agrotech Ltd.	B	100,000	17.64
15-Mar	Var Polytex	UTI Bank Limited	S	71,000	105.10
15-Mar	Venus Remeds	Morgan Stanley and Co Int	B	83,130	409.98
15-Mar	Venus Remeds	Franklin Templeton Mutual	S	95,123	411.96
15-Mar	Vimal Oil Fo	Atul I Bora	S	35,000	41.11

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Infosys Tech	2,079	2.9	6.6	2.1
TCS	1,234	1.7	4.1	1.0
ITC	147	3.1	3.3	8.0
Losers				
Reliance Com	390	(2.0)	(3.3)	6.5
SBI	922	(2.7)	(2.7)	1.8
HDFC	1,513	(2.8)	(2.2)	0.6

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
16-Mar	Raj Television Network, Page Industries listing on BSE & NSE; Maharashtra Seamless, United Phosphorus, Aventis Pharma, Merck to announce interim dividend, India Infoline organizes a seminar on Stock Markets.
17-Mar	Asahi India Glass, Bank of Baroda, Shipping Corp, Torrent Pharma to announce interim dividend
20-23 Mar	Public offer of ICRA Ltd opens
20-Mar	Nestle India to announce earnings and dividend; Wire & Wireless to consider rights offer
21-Mar	Mahindra & Mahindra, Ashok Leyland to announce interim dividend
22-Mar	Pfizer to announce earnings
23-Mar	Wipro to announce interim dividend
29-Mar	Ranbaxy Laboratories to announce earnings and dividend

Source: Bloomberg

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