investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
HLL	24-Nov-05	172	**211**	280
ICICI Bank	23-Dec-03	284	**890**	1,240
JP Associates	30-Dec-03	125	**591**	850
Maruti	23-Dec-03	360	**762**	1,050
Sun Pharma	24-Dec-03	302	**1,113**	1,341

Sharekhan Special

Q4FY2007 Capital Goods earnings preview

The Working Group on Power for the 11th Five-Year Plan has envisaged an addition of around 69,000 megawatt (MW) of power generation capacity during the plan period (FY2007-12) and an additional capacity of 86,500MW during the 12th Five-Year Plan. Looking at the current status of the 10th Five-Year Plan's (FY2002-07) capacity addition programme, these targets looks quite aggressive since the government had planned a capacity addition of 41,110MW during the 10th Plan period whereas the actual achievement is likely to be around 25,000MW (only 61% of the target). Out of this about 17,995MW of capacity had already been commissioned till December 31, 2006. However the fact that a total of 31,345MW of capacity is already under construction gives the panel's plan a lot of credibility.

Capacity addition plan during 11th Plan (FY2007-2012)

Sector	Hydro	Thermal	Nuclear	Total
Central	9685	23810	3160	36655
State	2637	20352	0	22989
Private	3263	5962	0	9225
All-India	15585	50124	3160	68869

Status of project awards for 11th Plan

Sector	Hydro	Thermal	Nuclear	Total
Projects under construction	11,931	16,254	3,160	31345
Committed projects	3,654	33,870	0	37524
All-India	15585	50124	3160	68869

Capacity addition plan during 12th Plan (FY2012-2017)

Type	Total (MW)
Hydro	30,000
Thermal	44,500
Nuclear	12,000
Total	86,500

Looking at the huge power generation capacity addition programme of the government (totaling to around 155,000MW in the next ten years), the order flow momentum for the capital goods companies engaged in the power sector, such as Bharat Heavy Electricals Ltd (BHEL), Crompton Greaves, Bharat Bijlee, Indo Tech Transformers, KEI Industries and Genus Overseas, is expected to be robust. Going by the recently announced provisional results of BHEL, wherein its order flow for the full year ended March 2007 registered an increase of 88% to Rs35,633 crore and the order backlog stood at an all-time high of Rs55,000 crore, the time ahead for power ancillary companies appears even more promising.

BHEL

BHEL has recently announced its results, wherein its top line for the full year grew by 29% to Rs18,700 crore and the bottom line registered a growth of 42% to Rs2,385 crore. The numbers are in line with our expectations. The order inflow grew by a superb 88% to Rs35,633 crore and the order backlog stood at Rs55,000 crore. The company has also unveiled its long-term plan wherein it proposes to achieve a $10-billion turnover by FY2011-12.

Quarterly estimates Rs (cr)

Company	Net sales			Net profit		
	Q4FY07E	% yoy chg	% qoq chg	Q4FY07E	% yoy chg	% qoq chg
BHEL	6842.5	24.1	57.7	1125.0	29.6	68.5
Crompton Greaves	1098.6	27.3	24.4	57.3	2.2	26.2
Thermax	716.3	38.0	20.4	64.9	69.3	23.2
KEI Inds	235.0	121.3	143.3	13.5	63.1	22.5
Bharat Bijlee	114.9	11.2	4.7	14.6	28.4	6.2
Genus Overseas	140.0	23.9	56.4	9.0	128.2	44.0
WS Industries	45.4	17.6	13.1	2.8	101.7	29.3
Indo Tech Transformers	50.0	58.8	11.0	7.8	95.2	6.5
International Combustion	23.6	13.1	20.7	2.6	38.1	33.1
Ratnamani Metals	160.0	81.3	-17.3	13.0	3.0	-40.0

Crompton Greaves

For Q4FY2007, we expect a 24.4% growth in the stand-alone top line; the bottom line is expected to grow at a lower 2.2% due to a higher tax rate. The consolidated order book stands at around Rs4,500 crore. The acquisition of Ganz Transelektro became effective from October 2006. This acquisition provides Crompton Greaves with 765kv transformers and gas-insulated switchgear capacity.

Thermax

We expect a 38% top line growth in Q4 for Thermax on the back of a strong order book of Rs3,024 crore at the end of Q3. The bottom line is expected to grow at around 69% as the effective tax rate was higher in Q4FY2006 at 41.3% vis-à-vis 33% expected in this quarter. The business environment for Thermax continues to improve due to the continuous power shortage faced by the industries.

KEI Industries

We expect a robust top line growth of around 121% in Q4 for KEI Industries. However due to the rising interest and financial costs we expect the bottom line to grow at around 63% in Q4.

Genus Overseas

For Q4FY2007, we expect a 24% growth in the top line of Genus Overseas. The bottom line is expected to grow at around 128% as the company has been executing orders with higher margins. The bottom line would see a good growth also due to the better pricing of its products as the demand for electronic meters is on the rise. The current order book of the company stands at around Rs500 crore, which is around 1.3x its FY2007E sales and provides high revenue visibility.

Indo Tech Transformers

We expect another robust quarter from Indo Tech Transformers. The top line is expected to grow at around 59% as the company operates at the higher capacity. The bottom line is expected to grow at around 95% due to better pricing to its products and operating leverage.

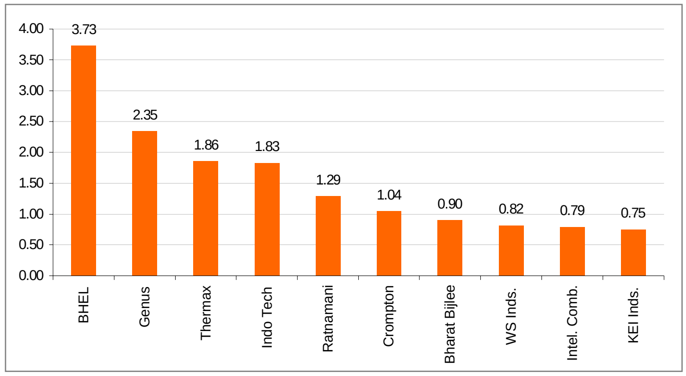
International Combustion

For Q4FY2007, we expect a 13% growth in the top line. The bottom line is expected to grow at around 38% as the operating profit margin is expected to improve by about 360 basis points due to operating leverage. The current order book of the company stands at around Rs53 crore.

Ratnamani Metals

The top line of Ratnamani Metals is expected to grow at around 81% to Rs160 crore in Q4 as the demand outlook for the pipes remains strong. However due to a rise in raw material prices and rising interest cost the bottom line is expected to grow at a lower rate of around 3% to Rs13 crore.

Order book to sales



Source: Sharekhan Research

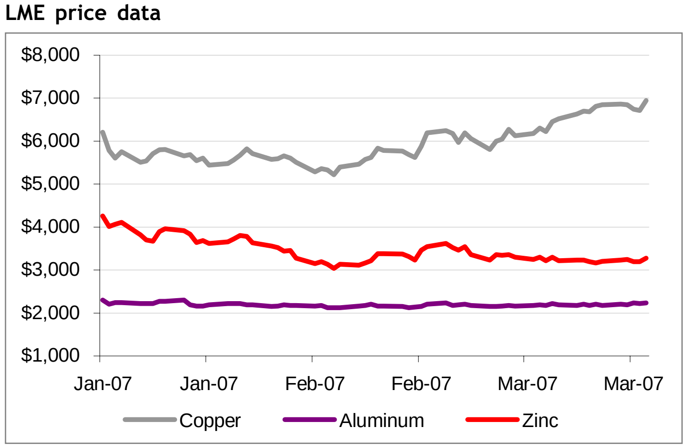
Rising interest rates...could this be a dampener?

In the short term...yes. In the medium to long term...no. Going by the consensus, the interest rates look to be near their peak and may start coming down by the second half of FY2008. Hence we don't expect interest rates to put the breaks on the power generation capacity addition programme or on the industrial capital expenditure (capex) programme. Also, most of the companies under our coverage are either debt-free or have minimal debt, thus we don't see much impact of the rise in the interest rates on their profitability.

Margins...a mixed bag

The metal prices have remained stable during the January-March quarter. However since February the copper prices have firmed up and these days most of the projects are backed by a raw material price escalation clause. Hence we believe this should enable the companies to protect their margins at the earnings before interest, depreciation, tax and amortisation level. But the inability to pass on the impact of the rising interest rates could play spoilsport at the net margin levels. Then again, considering the fact that the interest rates are near their peak and the power ancillary companies have better bargaining power, we expect the companies to pass on the impact of the rising

LME price data



Source: Sharekhan Research

interest rates.

Boom time for capital goods companies

Huge investments planned by the Government of India in power generation, transmission and distribution sectors will keep the momentum going for the power equipment companies. As per the report of the Working Group on Power for the 11th Five-Year Plan, the government plans to spend around Rs1,031,600 crore on all the three sectors of the power sector.

Years of under-investment and high capacity utilisation across sectors have put India Inc on a capex spree. The robust economic growth, fuelled by India's integration into the global economy and the increasing domestic consumption, has led to strong capital investment across sectors. With 50% of the capex typically going towards plant & machinery, the order book of some engineering players like Thermax will swell significantly going forward. A strong demand is emerging from the domestic as well as overseas markets across sectors. With most of the Indian companies operating at their rated capacities, the capacity constraint is hampering their ability to meet the increasing demand. This has triggered fresh capacity additions across the manufacturing and service industries.

We expect another robust quarter for capital goods companies and remain bullish on companies like BHEL, Crompton Greaves, Thermax, Genus Overseas and Indo Tech transformers.

Variance to our estimates

We expect some negatives to our implied estimates for Q4 from companies like KEI Industries and International Combustion due to rising cost pressures. We also feel that companies like Indo Tech transformers and Genus Overseas may surprise on the upside vis-à-vis our estimates.

Company	Net sales (Q4FY07)			Net profit (Q4FY07)		
	Implied	Expected	% chg	Implied	Expected	% chg
BHEL	8068.0	6842.5	-17.9	1152.3	1125.0	-2.4
Crompton Greaves	1098.6	1098.6	0.0	57.3	57.3	0.0
Thermax	716.3	716.3	0.0	64.9	64.9	0.0
KEI Inds	206.5	235.0	12.1	16.5	13.5	-22.0
Bharat Bijlee	114.9	114.9	0.0	14.6	14.6	0.0
Genus Overseas	132.5	140.0	5.3	8.0	9.0	11.7
WS Industries	45.4	45.4	0.0	2.8	2.8	0.0
Indo Tech Transformers	42.0	50.0	16.0	5.2	7.8	32.3
International Comb	26.0	23.6	-10.1	3.3	3.0	-9.3
Ratnamani Metals	151.4	160.0	5.4	12.9	13.0	0.8

The author doesn't hold any investment in any of the companies mentioned in the article.

Tata Consultancy Services

Evergreen

Stock Update

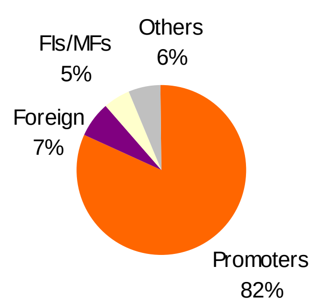
Disappointing performance

Buy; CMP: Rs1,250

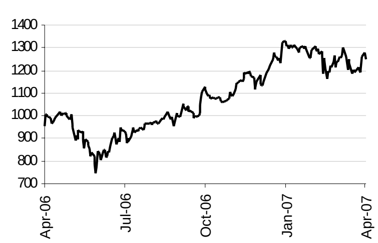
Company details

Price target:	Rs1,508
Market cap:	Rs122,325 cr
52 week high/low:	Rs1,360/765
NSE volume: (No of shares)	7.6 lakh
BSE code:	532540
NSE code:	TCS
Sharekhan code:	TCSCONS
Free float: (No of shares)	18.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.6	-3.4	13.8	43.8
Relative to Sensex	-6.2	-0.7	7.0	16.1

Result highlights

- Tata Consultancy Services (TCS) has reported a growth of 5.9% quarter on quarter (qoq) and 38.2% year on year (yoy) in its consolidated revenues to Rs5,146.4 crore during Q4FY2007. The sequential revenue growth was largely driven by a 6.42% growth in the volumes and a cummulative growth of 1.33% in the billing rates (0.89%) and employee productivity (0.44%). On the other hand, the appreciation of the rupee adversely affected the revenue growth by 1.87% sequentially.
- The earnings before interest and tax (EBIT) margin declined by 47 basis points to 25.6% sequentially, largely due to the adverse impact of the rupee's appreciation.
- The other income stood at Rs89.8 crore and included a one-time extraordinary income of Rs66.3 crore from the sale of the stake in Sitel. Excluding the one-time income (adjusted for tax), the consolidated earnings have grown at a disappointing rate of 1.1% qoq to Rs1,116.8 crore, which is much lower than the consensus estimate of around Rs1,185 crore.
- In terms of the outlook, the company doesn't give any specific growth guidance. However, it has indicated that the demand environment continues to be robust and the gross employee addition would be higher than 32,462 reported in FY2007 (12,000 campus offers have been made). The TCS management also expects to maintain the margins around the level of 25% reported in FY2007, in spite of the aggressive salary hikes in FY2008 (13-15% for the offshore employees and 3-5% for the onsite employees).

Result table (consolidated US GAAP) Rs (cr)

Particulars	Q4FY07	Q3FY07	Q4FY06	% qoq chg	% yoy chg
Revenue	5146.4	4860.5	3723.0	5.9	38.2
Development cost	2717.7	2575.8	2044.4	5.5	32.9
Gross profit	2428.8	2284.7	1678.6	6.3	44.7
SG&A expenses	972.0	909.4	695.6	6.9	39.7
Operating profit	1456.8	1375.3	982.9	5.9	48.2
Depreciation	139.5	108.0	86.5	29.2	61.3
EBIT	1317.3	1267.3	896.4	3.9	46.9
Other income	89.8	30.0	(4.0)	199.5	-
Profit before tax	1407.1	1297.3	892.4	8.5	57.7
Tax	218.8	182.8	89.6	19.7	144.2
PAT	1188.3	1114.5	802.8	6.6	48.0
Affiliates earnings	0.4	1.7	3.3	(79.0)	(89.1)
Minority interest	15.8	11.5	10.3	37.8	53.3
RPAT	**1172.8**	**1104.7**	**795.8**	**6.2**	**47.4**
Adj PAT*	1116.8	1104.7	795.8	1.1	40.3
Equity capital	97.9	97.9	97.9		
EPS(Rs)	12.0	11.3	8.1		
Margins (%)					
GPM	47.2	47.0	45.1		
OPM	28.3	28.3	26.4		
EBIT	25.6	26.1	24.1		
NPM	22.4	22.6	21.4		

* Adjusted for one-time items

- The key operational highlights for Q4 are: an addition of 43 clients; a healthy sequential growth of 9.3% in revenues from the Top 10 clients; the attrition rate in the information technology service sector at a comfortable level of 10.6%; closure of two large deals worth over $50 million each and one deal of $35 million; and a healthy pipeline of large deals. On the flip side, there has been a slowdown in the sequential growth of revenues from the banking, financial services and insurance (BFSI) and manufacturing industry verticals.
- Given the lower than expected performance and the steep appreciation in the rupee, we have revised down our FY2008 earnings estimate by 0.5% and have also introduced the FY2009 estimates. We maintain the Buy call on the stock with a price target of Rs1,508 (around 23x FY2009 earnings per share).

Revenue growth in line with expectations

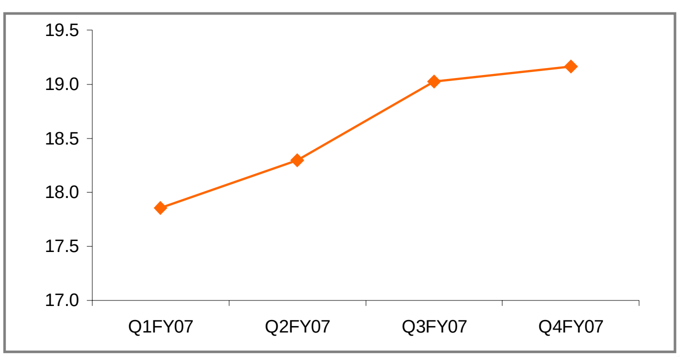
The sequential revenue growth of 7.8% in dollar terms was largely in line with the expectations and was driven by the 6.4% sequential growth in the volumes. TCS has been able to show a fairly consistent growth in the volumes over the past few quarters and the slight dip in Q4 can be attributed to the seasonal weakness.

Fairly consistent growth in volumes

(% chg qoq)	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Volume (International business)	8.1	11.3	7.9	5.2
Volume (overall)	8.1	8.4	7.9	6.4
Billing rate/productivity	0.0	0.0	3.0	1.3
Revenue ($)	8.1	8.4	10.9	7.8
Forex impact	3.2	(0.2)	(2.5)	(1.9)
Revenue (Rs)	11.3	8.2	8.4	5.9

Apart from this, the uptick in the billing rates and the overall productivity gains have enabled the company to mitigate the adverse impact of the over 300-basis-point shift towards offshore revenues (which contributed 40.5% of the revenues as compared with 37.4% in FY2006). This is clearly reflected in the healthy growth in the average revenue per employee over the past four quarters.

Average revenue per employee ($'000)



On the flip side, the revenues from the BFSI industry domain (that contributed around 42% of the revenues in FY2007) showed a tepid sequential growth of 0.5% in Q4, similar to the trend reported by Infosys Technologies. This could be concerning given the backdrop of reports related to the sub-prime lending mess resulting in a distinct slowdown in the banking and financial service sector in the USA. However, the management of TCS has also assured that the demand from the BFSI vertical continues to be strong and Q4 was just an aberration. The company is also quite positive about the demand environment and hasn't indicated any signs of a possible slowdown in the volumes.

Margins guided to remain flat in FY2008

Another encouraging sign was the guidance indicating that the EBIT margin would be maintained around the 25% level reported in FY2007. The company would be able to absorb the adverse impact of the salary hikes (an impact of around 250 basis points) and possible appreciation of the rupee by using various margin levers, viz better performance of subsidiaries and margins in large deals (especially the Pearl deal which is expected to show considerable improvement in profitability in FY2008); scope for further shift towards offshore revenues (enough scope with offshore contributing to only 40.5% in FY2007); improvement in realisations and productivity gains in fixed priced projects; better employee utilisation and available leverage in the selling, general and administration cost as a percentage of sales.

Earning estimates

We have revised downwards our FY2008 earnings estimate by 0.5% to factor in the appreciation of the rupee (Rs42.5 assumed) and introduced the FY2009 earnings estimate (with an exchange rate assumption of Rs42).

Valuation

At the current market price the stock trades at 23.4x FY2008 and 19.1x FY2009 estimated earnings. We maintain our Buy call on the stock with a price target of Rs1,508.

Key financials

Particulars	FY06	FY07	FY08E	FY09E
Net revenue (Rs cr)	13245.0	18633.0	24289.0	30366.0
Net profit (Rs cr)	2911.0	4132.0	5219.0	6393.0
Number of shares (cr)	97.9	97.9	97.9	97.9
EPS (Rs)	29.7	42.2	53.3	65.3
% y-o-y chg	*21.3*	*41.9*	*26.3*	*22.5*
PER (x)	42.0	29.6	23.4	19.1
OPM (%)	25.7	24.9	24.6	24.2
RONW (%)	49.4	45.2	39.1	34.1
ROCE (%)	40.1	39.5	36.3	32.9

The author doesn't hold any investment in any of the companies mentioned in the article.

UTI Bank

Emerging Star

Stock Update

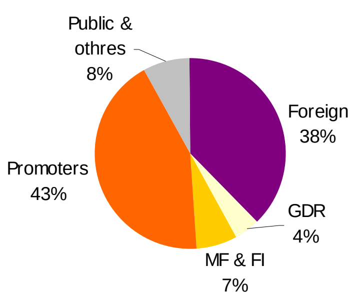
Robust growth continues

Buy; CMP: Rs465

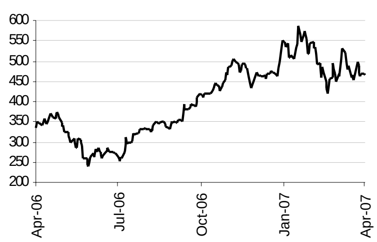
Company details

Price target:	Rs575
Market cap:	Rs13,088 cr
52 week high/low:	Rs615/222
NSE volume: (No of shares)	7.0 lakh
BSE code:	532215
NSE code:	UTIBANK
Sharekhan code:	UTIBANK
Free float: (No of shares)	14.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.6	-14.9	11.8	48.6
Relative to Sensex	-5.2	-12.6	5.1	19.9

Result highlights

- UTI Bank's Q4FY2007 profit after tax (PAT) was better than our expectations at Rs211.9 crore, up 39.6% year on year (yoy) compared to our estimate of Rs186.2 crore mainly due to a higher than expected net income and lower operating expenses during the quarter.
- The net interest income (NII) was up by 48.4% to Rs464.2 crore compared to our estimate of Rs435.9 crore. UTI Bank's reported net interest margins (NIMs) expanded by 10 basis points yoy and by 6 basis points quarter on quarter (qoq). However the same included a one-time cash reserve ratio (CRR) interest of around Rs22 crore received during the quarter otherwise the NIMs would have had a downward bias on a quarter-on-quarter (q-o-q) basis.
- The non-interest income was up 32% yoy and 8% qoq to Rs301.1 crore and the fee income growth remained robust at 58.8% yoy and 29% qoq. However the treasury income declined by 34.3% yoy and 46% qoq.
- The operating expenses grew in line with the overall business growth; however the provisions were up 56.3% yoy and 40% qoq mainly due to the increased provisioning requirement on the standard assets for Rs68.1 crore, which is a one-off item.
- Although UTI Bank has grown at a robust pace in the last couple of years there are no visible signs in the deterioration of its asset quality yet. The net non-performing asset (NPA) level (as a percentage of its net customer assets) improved to 0.61% from 0.68% in Q3FY2007.
- Currently the bank's capital adequacy ratio (CAR) is at 11.57% with Tier-I at 6.42%. The bank has also aggressively raised its hybrid capital and has left itself

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy chng	% qoq chng	FY07	FY06	% yoy chng
Net interest income	**464.2**	**312.9**	**48.4**	**12**	**1,567.1**	**1,078.2**	**45.3**
Non-interest income	**301.1**	**228.1**	**32.0**	**8**	**1,010.1**	**729.6**	**38.4**
Treasury income	43.2	65.7	-34.3	-46	185.7	216.7	-14.3
Fee income	257.9	162.4	58.8	29	824.4	512.9	60.7
Net income	765.3	540.9	41.5	10	2,577.2	1,807.9	42.6
Operating expenses	343.0	242.9	41.2	2	1,214.6	814.1	49.2
Operating profit	**422.3**	**298.1**	**41.7**	**18**	**1,362.6**	**993.8**	**37.1**
Core operating profit (excluding treasury)	**379.1**	**232.4**	**63.2**	**36**	**1,176.9**	**777.1**	**51.4**
Provisions & contingencies	106.5	68.2	56.3	40	366.4	262.5	39.6
PBT	315.8	229.9	37.4	12	996.2	731.3	36.2
Provision for taxes	103.9	78.2	32.9	6	337.2	246.2	37.0
Net profit	**211.9**	**151.7**	**39.6**	**15**	**659.0**	**485.1**	**35.9**

very little headroom to grow its balance sheet. The bank plans to come out with a follow-on offer in FY2008 to boost its CAR. We have factored in an equity dilution of 3.6 crore shares (12.8%) of the pre-issue equity capital at an issue price of Rs500 per share.

- The bank opened 80 new branches during the quarter. Its deposits grew by 46.5% to Rs58,785.6 crore of which savings and current deposits grew by 50.3% and 41.8% respectively. The current and savings account (CASA) ratio remained stable on a year-on-year (y-o-y) basis but improved on a q-o-q basis to 40% from 37.1% reported in Q3FY2007 mainly due to an increase in the current account deposits, which as a proportion of deposits increased from 16.6% in Q3FY2007 to 19.2% in Q4FY2007. Advances reported a strong growth of 65.3% to Rs36,876 crore of which the retail advances were up by 37.6% to Rs8,928 crore. However on a q-o-q basis the retail advances have declined by 2.7% mainly due to a sell down in the personal loan portfolio.
- The actual PAT for FY2007 was 4% above our estimates at Rs659 crore and we have upgraded our FY2008 numbers by 4.8% to Rs851.1 crore mainly on account of lower operating expenses estimated for FY2008. At the current market price of Rs465 the stock is quoting at 17.4x its FY2008E earnings per share (EPS), 8.5x its FY2008E pre-provisioning profits (PPP) and 2.5x its FY2008E book value (BV). We feel the dilution would be book value accretive and maintain our Buy recommendation on the stock with a price target of Rs575.

NII reports a strong growth of 48.4% driven by asset growth

UTI Bank reported a strong 48.4% y-o-y growth in its NII mainly on the back of a robust y-o-y asset growth of 47.3% led by a 65.3% growth in the advances (corporate advances were up 72.2% yoy and the retail advances were up 37.6% yoy) and investments which grew by 37.9%. Excluding the one-time CRR interest of Rs22 crore received during the quarter the y-o-y growth stands at 41.4%. The reported NIMs have improved by 10 basis points on a y-o-y basis and 6 basis points on a q-o-q basis to 3.06%. However excluding the CRR interest the NIMs would have a downward bias on a q-o-q basis.

On a y-o-y basis the CASA ratio has remained stable at 40%; however we have witnessed some improvement on a q-o-q basis from 37.1% in Q3FY2007. The improvement was due to higher current account deposits, which increased to 19% of the total deposits from 16.6% of the total deposits in Q3FY2007. Although the CASA ratio improved, the cost of funds has increased by 39 basis points on a q-o-q basis, which shows that pressure on the margins could be expected going forward.

Personal loans decline substantially on a sequential basis

Although the bank's total advances have increased by 14% qoq its retail advances have declined by 2.7% mainly due to a 60% q-o-q decline in its personal loan portfolio to Rs982 crore from Rs2,478 crore in Q3FY2007. The bank sold off a large chunk of the same portfolio during the quarter, which could have been prompted by liquidity or capital adequacy requirements. As a result of the same the personal loan portfolio as a percentage of its retail portfolio has come down from 27% in Q3FY2007 to 11% in Q4FY2007. Since the yields on the personal loans are higher than the other asset classes we feel the absence of the interest income on such a substantial amount of personal loans restricted further improvement in the overall yields on its assets.

Yield analysis

In %	Q4FY2007	Q4FY2006	Q3FY2007
Yield on assets	8.98	8.04	8.53
Cost of funds (reported)	5.92	5.08	5.53
NIM (reported)	3.06	2.96	3.00

Fee income categories

Rs (crore)	Q4FY07	Q4FY06	% yoy chng	% qoq chng
Corporate banking	64.0	43.0	48.8	23.1
Business banking	39.0	35.0	11.4	14.7
Capital markets	40.0	14.0	185.7	81.8
Retail banking	96.0	57.0	68.4	26.3

Strong growth in fee income continues

The fee income grew by a robust 58.8% yoy and 29% qoq in line with the growth in the overall advances, which grew by 65%. All the segments continued to report a healthy fee income growth. We expect UTI Bank's fee income to grow at a compounded annual growth rate of 45% over FY2006-08E, in line with the growth in its various business segments.

Operating expenses grew in line with overall asset growth

The y-o-y growth in the operating expenses at 41.2% to Rs343 crore was in line with the overall business growth. However the staff expenses declined by 22% on a q-o-q basis, which could have been due to a one-time component present in the last quarter. Employee additions have kept the staff expenses elevated while the network expansion continues to drive the other expenses component. However, the cost to income ratio moderated down to 45% from 48% recorded in Q3FY2007 as the revenues started flowing in from the expansion undertaken in the previous quarters.

Particulars	Q4FY2007	% yoy chng	% qoq chng
Staff expenses	88.9	42.4	-22
Others	254.1	40.8	14
Operating expenses	343.0	41.2	2

Branch network	Q4FY06	Q3FY07	Q2FY07	Q1FY07	Q4FY06
Branches	561	481	469	463	373
ATMs	2341	2126	2,021	1,959	1,737.00

Asset quality shows consistent improvement

Although UTI Bank has grown at a robust pace in the last couple of years there are no visible signs in the deterioration of its asset quality yet. The net NPA level (as a percentage of its net customer assets) improved to 0.61% from 0.68% in Q3FY2007. In absolute terms also the net NPAs have remained stable on a q-o-q basis at Rs266 crore while the gross NPAs have declined to Rs418.7 crore from Rs472.3 crore in Q3FY2007. Although the bank's asset quality remains healthy its provision coverage excluding write offs remains low at 36.4%, which could be a concern if the deterioration in the asset quality is sudden and significant.

The bank is planning for a follow-on offer

Currently the bank's capital adequacy ratio (CAR) is at 11.57% with Tier-I at 6.42%. The bank has also aggressively raised its hybrid capital and has left itself very little headroom to grow its balance sheet. It plans to come out with a follow-on offer in FY2008 to boost its CAR. We have factored in an equity dilution of 3.6 crore shares (12.8%) of the pre-issue equity capital at an issue price of Rs500 per share, which would help the bank to raise Rs1,800 crore and improve the Tier-I ratio to above 8%. The book value per share would increase by almost Rs40 per share post-dilution from our previous pre-issue estimates.

Valuations

The actual PAT for FY2007 was 4% above our estimates at Rs659 crore and we have upgraded our FY2008 numbers by 4.8% to Rs851.1 crore mainly on account of the lower operating expenses estimated for FY2008. At the current market price of Rs465 the stock is quoting at 17.4x its FY2008E EPS, 8.5x its FY2008E PPP and 2.5x its FY2008E BV. We feel the dilution would be book value accretive and maintain our Buy recommendation on the stock with a price target of Rs575.

Key financials

Year to 31 March	FY04	FY05	FY06	FY07	FY08E
Net profit (Rs cr)	279.8	334.6	485.1	659.0	851.1
Shares in issue (cr)	23.2	27.4	27.9	28.2	31.8
EPS (Rs)	12.1	12.2	17.4	23.4	26.8
EPS growth (%)	18.6	1.1	42.4	34.4	14.5
PE (x)	38.5	38.1	26.7	19.9	17.4
P/PPP (x)	15.7	22.5	13.0	9.6	8.5
Book value (Rs/share)	49.1	88.0	103.1	120.2	183.9
P/BV (x)	9.5	5.3	4.5	3.9	2.5
Adj book value	44.2	80.0	95.3	112.3	175.6
P/ABV (x)	10.5	5.8	4.9	4.1	2.6
RONW (%)	28.4	17.8	18.2	21.0	17.6

The author doesn't hold any investment in any of the companies mentioned in the article.

HCL Technologies

Apple Green

Stock Update

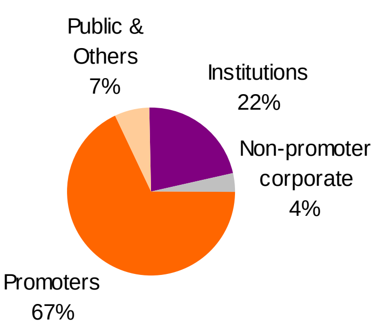
Q3FY2007—first cut analysis

Buy; CMP: Rs301

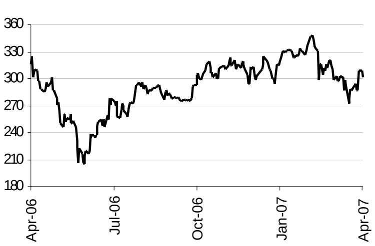
Company details

Price target:	Rs410
Market cap:	Rs19,625 cr
52 week high/low:	Rs358/271
NSE volume: (No of shares)	5.0 lakh
BSE code:	532281
NSE code:	HCLTECH
Sharekhan code:	HCLTECH
Free float: (No of shares)	10.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.3	-2.8	7.7	8.1
Relative to Sensex	-6.4	-0.1	1.2	-12.7

Result highlight

- HCL Technologies has reported a revenue growth of 7.6% quarter on quarter (qoq) and 39% year on year (yoy) to Rs1,577.1 crore for the third quarter ended March 2007. This is the third consecutive quarter of close to double-digit sequential growth in the revenues (in dollar terms) and far ahead of the street expectations. The sequential growth was contributed by a 16.4% growth in the business process outsourcing (BPO) revenues. On the other hand, the infrastructure management service (IMS) and software services businesses grew at a relatively lower rate of 6.4% and 6.5% respectively, on a sequential basis.
- The earnings before interest, tax, depreciation and amortisation (EBITDA) margins improved by 115 basis points to 23.3% on a sequential basis, despite the adverse impact of the steep appreciation of the rupee (1.6% appreciation in the average realised exchange rate against the US dollar). The sequential improvement in the margins was largely aided by the cumulative impact of better realisations (including non-effort-based gains from the output-based priced projects), higher utilisation (especially in the BPO business) and a 70-basis-point saving in the selling, general and administration (SG&A) cost as a percentage of sales.
- In terms of the segments, the EBITDA margins of all the three business lines improved on a sequential basis. The BPO business reported a second consecutive quarter of robust improvement in its margins, up by 360 basis points to 26.5%. The software services and IMS businesses reported an 85-basis-point and a 13-basis-point improvement respectively.

Result table Rs (cr)

Particulars	Q3FY07	Q3FY06	Q2FY07	% yoy	% qoq
Net sales	**1577.1**	**1121.9**	**1465.1**	**40.6**	**7.6**
Direct costs	973.8	697.9	910.7	39.5	6.9
Gross profit	603.3	424.0	554.4	42.3	8.8
SG&A	236.6	174.3	230.3	35.7	2.7
EBITDA	366.7	249.7	324.0	46.8	13.2
Depreciation	65.9	53.0	62.3	24.2	5.7
EBIT	300.9	196.7	261.7	52.9	15.0
Forex gain/(loss)	41.8	-1.3	34.7	-	-
Other income	19.7	26.8	13.4	-26.5	47.0
PBT	362.4	222.2	309.8	63.0	17.0
Tax provision	28.3	27.7	20.6	2.2	37.4
PAT	334.1	194.5	289.2	71.7	15.5
Share from equity investment	0.3	0.6	0.7	-50.0	-57.1
Minority interest	2.0	1.1	2.3	81.8	-13.0
Net profit	**331.8**	**192.8**	**286.2**	**72.0**	**15.9**
Equity capital (diluted)	137.4	135.6	136.7		
EPS (Rs)	4.8	2.8	4.2		
Margin (%)					
GPM	38.3	37.8	37.8		
OPM	23.3	22.3	22.1		
NPM	21.0	17.2	19.5		

- The earnings grew at a robust rate of 15.9% qoq and 72.1% yoy to Rs331.8 crore (ahead of our expectations of Rs290 crore and the consensus estimates of a flat or negative growth sequentially, especially after the higher base resulting from the robust performance in the previous two quarters). The growth in the earnings was also aided by the foreign exchange (forex) gains of Rs41.8 crore on the open forward contracts, up from Rs34.7 crore reported in Q2FY2007.
- In terms of the operational highlights, the ramp-up in the large deals is beginning to make a material impact on the overall performance. Moreover, the company continues to bag new multi-million, multi-year, multi-services deals and has announced six new deals in Q3--five in the range of $25-50 million each and one over $50 million.
- Given the company's higher-than-expected performance for the past three consecutive quarters and the continued traction in the intake of large deals, we would upgrade our estimates for FY2007 and FY2008 and introduce FY2009 estimates in the detailed result analysis report. At the current market price the stock trades at 18x FY2007 and 14.5x FY2008 estimated earnings. We maintain our Buy recommendation on the stock with a price target of Rs410.

Segmental results Rs (cr)

Particulars	Q3FY07	Q3FY06	Q2FY07	% yoy	% qoq
Revenue					
Software services	1142.1	834.8	1073.9	36.8	6.4
BPO	216.4	156.4	185.9	38.3	16.4
IMS	218.6	130.7	205.3	67.3	6.5
Total revenues	1577.1	1121.9	1465.1	40.6	7.6
EBITDA					
Software services	270.8	196.0	245.5	38.2	10.3
- margins (%)	*23.7*	*23.5*	*22.9*		
BPO	57.4	33.6	42.6	70.6	34.7
- margins (%)	*26.5*	*21.5*	*22.9*		
IMS	38.5	20.1	35.9	91.5	7.2
- margins (%)	*17.6*	*15.4*	*17.5*		
Total EBITDA	366.7	249.7	324.0	46.8	13.2
- margins (%)	*23.3*	*22.3*	*22.1*		
EBIT					
Software services	231.9	165.4	209.7	40.2	10.6
- margins (%)	*20.3*	*19.8*	*19.5*		
BPO	42.6	21.2	27.6	100.5	54.6
- margins (%)	*19.7*	*13.6*	*14.8*		
IMS	26.3	10.1	24.5	160.4	7.4
- margins (%)	*12.0*	*7.7*	*11.9*		
Total EBIT	300.8	196.7	261.7	52.9	14.9
- margins (%)	*19.1*	*17.5*	*17.9*		

The author doesn't hold any investment in any of the companies mentioned in the article.

Industry Update

Mutual Fund

Equity AUMs rise in line with market movement

Industry news

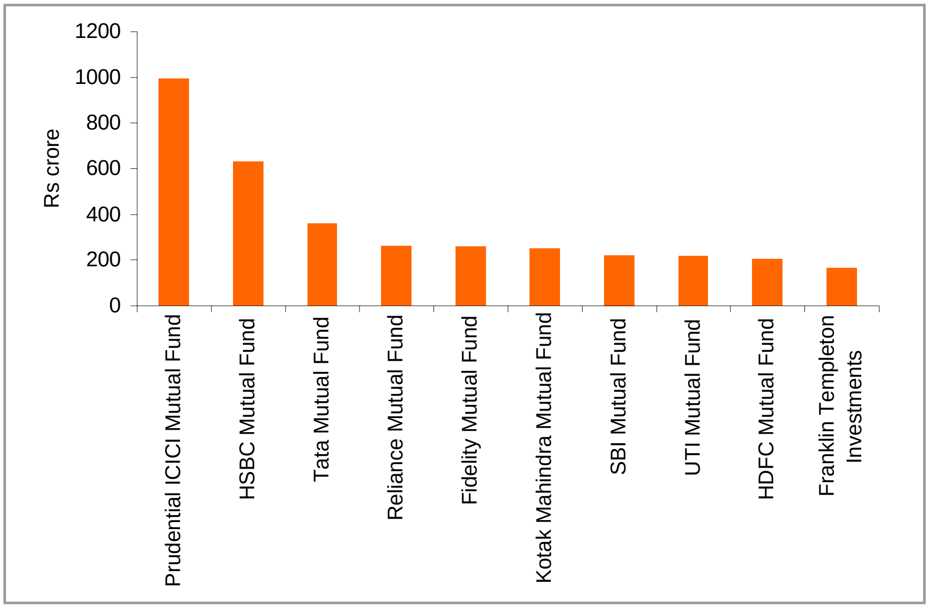
- **MFs can park only 15% of corpus in bank deposits:** The Securities and Exchange Board of India has ruled that mutual funds (MFs) cannot park more than 15% of their net assets in short-term deposits of banks. Also, an individual scheme cannot park more than 10% of its net assets in short-term deposit(s) with any one scheduled commercial bank including the bank's subsidiaries. These regulations are aimed at preventing passive investing by fund managers to take advantage of the high interest rates available from bank deposits.
- **Hathway buys 39% in ING Vysya MF:** Hathway Investments, a company owned by the Rajan Raheja group, has bought out ING Vysya Bank's entire 39% stake in ING Vysya Mutual Fund for an undisclosed sum. Following the deal, ING will hold a 42.5% stake in the fund (to be renamed ING Mutual Fund), Hathway will own a 39% stake and the existing Indian shareholder—Kirti Equities—will retain an 18.5% stake.
- **UTI AMC appoints Anoop Bhaskar as Head-Equity:** Anoop Bhaskar has been appointed as the Head-Equity of UTI Asset Management Company (AMC). He will be in charge of fund management of the equity schemes of UTI AMC aggregating to approximately Rs13,500 crore. Mr Bhaskar is an MBA and has been associated with fund management and research of equity products for the last 14 years. Before joining UTI AMC he was the overall in-charge of all equity products at Sundaram Asset Management, Chennai.
- **Reliance Mutual Fund gets back the crown:** The battle for the leadership position in the MF industry continued in March, with Reliance MF snatching back the crown it had ceded to Prudential ICICI MF in the previous month. Reliance MF's assets under management (AUM) as of March 31, 2007 stood at Rs46,307 crore, while Prudential ICICI MF was a distant second at Rs37,870 crore.
- **Prudential ICICI MF is now ICICI Prudential MF:** Prudential ICICI MF will be called ICICI Prudential Mutual Fund, reflecting the change in the shareholding pattern of ICICI Bank and Prudential Plc in the AMC and the trust company. The names of schemes too will reflect the change with the prefix "ICICI Prudential" appearing before the specific scheme name.

Highlights

- The AUM for equity funds rose by 1.3% to Rs139,147 crore in March 2007. The rise in the AUM was more or less in line with the market movement of 1%.
- Fund managers made purchases worth Rs494 crore and turned net buyers to the tune of Rs5.8 crore during the month.
- Net inflows into equity MFs improved to Rs4,442 crore in March 2007. The relatively higher amounts mobilised by the new schemes coupled with the lower redemption volumes caused the improvement in the fund flow in March 2007.
- MFs are sitting on Rs13,079 crore of cash that is waiting to be deployed in the market. Of this, Rs10,175 crore lies with the existing MFs while the remaining Rs2,904 crore has been mobilised through new fund offerings (NFOs).
- Amongst all sector funds, pharma funds have generated the highest returns in March 2007. Pharma and banking funds have outperformed the Sensex, whereas funds in the auto, fast moving consumer goods (FMCG) and technology sectors have underperformed the Sensex.
- MFs have slashed their exposure to tobacco, auto and cement companies, and have bought stocks in the steel, banking and pharmaceutical sectors.

- **Major movers for March 2007**

The AUM of equity MFs rose by 1.3% from Rs137,412 crore in February 2007 to Rs139,147 crore in March 2007. The rise in the AUMs was more or less in line with the market movement. The AUM of the equity-diversified funds rose by 2.4%, whereas that of the tax planning and sector funds increased by 12.3% and 2.6% respectively. On the other hand, the AUM of index funds declined by 32%.



Prudential ICICI MF saw the largest rise of Rs994 crore in its AUM. This massive rise was largely due to the launch of Prudential ICICI Fusion Fund - Series II, which garnered over Rs1,000 crore. HSBC MF and Tata MF followed Prudential MF and recorded increases of Rs631 crore and Rs359 crore respectively in their equity AUM. On the other hand, Benchmark MF and Birla MF were the top losers. Benchmark MF reported a reduction of over Rs1,100 crore in its equity AUM, largely due to a sharp fall in the AUM of its Bank BeES fund.

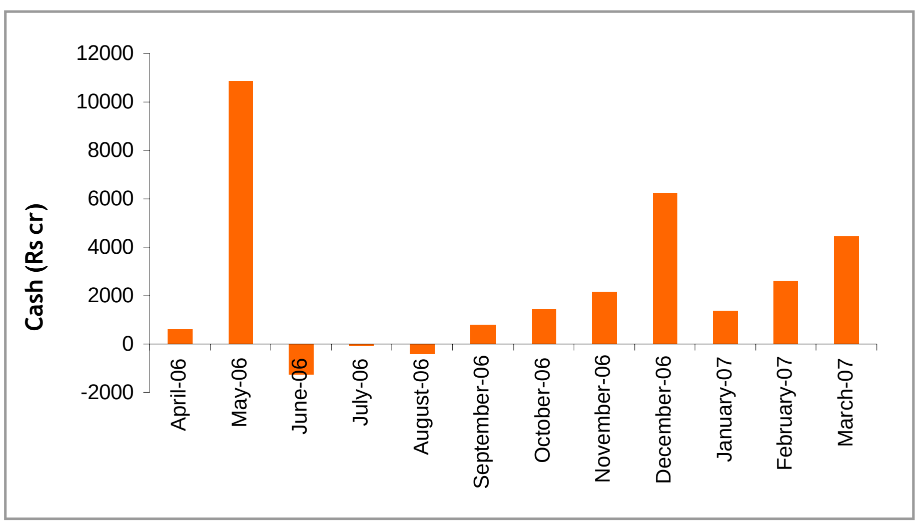
- **Stock market activities for mutual funds**

Mutual funds turned net sellers of equities in March 2007.

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
Mar-07	494.54	488.71	5.83

Equity fund flow

Fund flows into the equity MFs improved in March 2007, with the equity MFs registering a net inflow of Rs4,442 crore in March 2007 as compared with Rs2,612 crore in February 2007. The sharp improvement in the fund flows is mainly attributed to the significantly higher amounts mobilised through the NFOs. Fund flows into NFOs (Rs2,904 crore) almost trebled in March 2007. The NFO collections include the amounts raised by HSBC Unique Opportunities Fund, Prudential ICICI Fusion Series II Fund, Kotak Emerging Equity Fund, Principal Long-term Equity Fund, JM Equity Tax saver Fund, Standard Chartered Tax Saver Fund, UTI Long-term Advantage Fund, Taurus Infra TIPS Fund and Optimix RetireInvest Fund. The same, however, do not include the collections made by Lotus India Contra Fund, Lotus India Midcap Fund, DBS Chola Hedged Equity Fund and Optimix Multi Manager Equity Fund. These funds were launched in March 2007 but did not close in the month, as the allotment of the units for these funds has not been completed. The collections made by these funds (approximately Rs300 crore) will be reflected in the next month's fund flow figures.

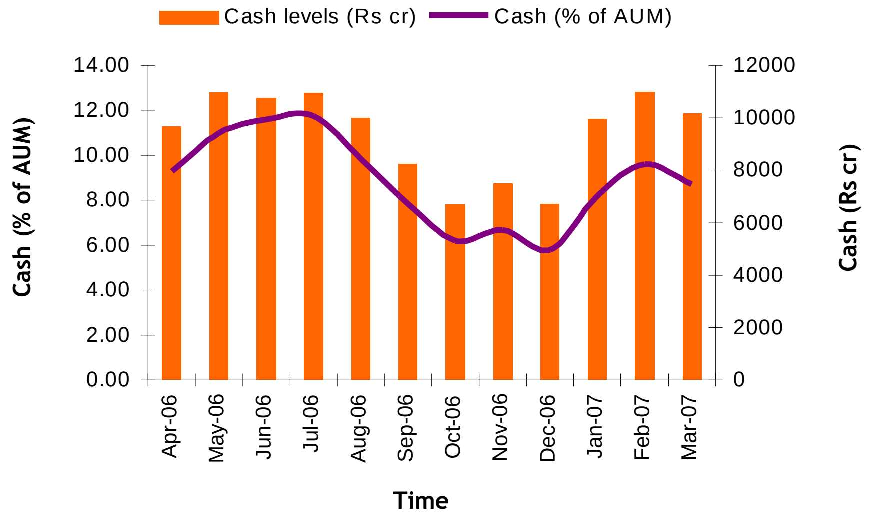


Cash levels

Liquidity

The absolute cash levels for all equity funds launched before March 2007 decreased marginally from Rs11,013 crore in February 2007 to Rs10,175 crore in March 2007. The cash as a percentage of the total corpus also followed a similar trend, declining from 9.6% of the total corpus in February 2007 to 8.7% in March 2007. The decline in the cash levels was on account of fund houses making value purchases as the market began to gather some stability and direction towards the end of the month.

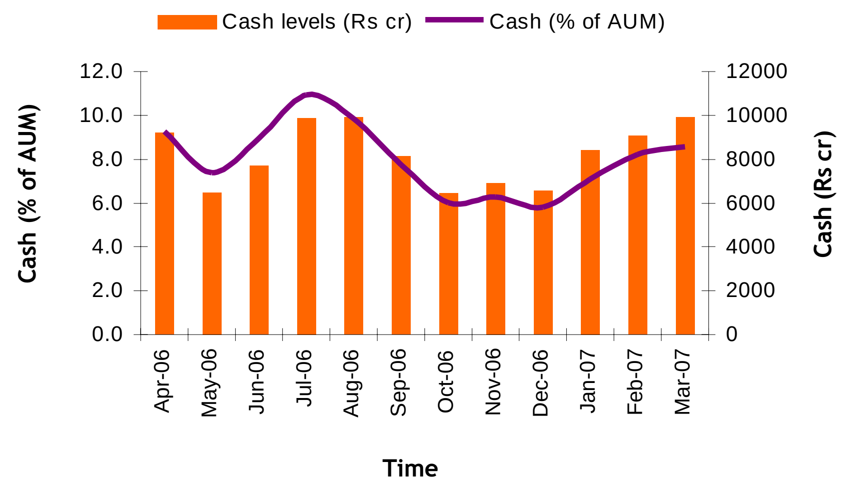
However the total cash sitting with the MFs, including the cash mobilised through the recently launched NFOs, stands at a healthy Rs13,079 crore. Flush with cash, MFs are well placed to maintain the buying interest and propel the market forward.



Note: Includes all equity funds in the industry launched before March 2007

Sentiments

Cash levels for all funds more than three months old have remained flat at 8.4% of total corpus during March 2006. This implies that fund houses have adopted a "wait and watch" policy before they resume buying in order for the market to achieve greater stability and discipline.



Note: Includes all equity funds in the industry with a NAV track record of three months+.

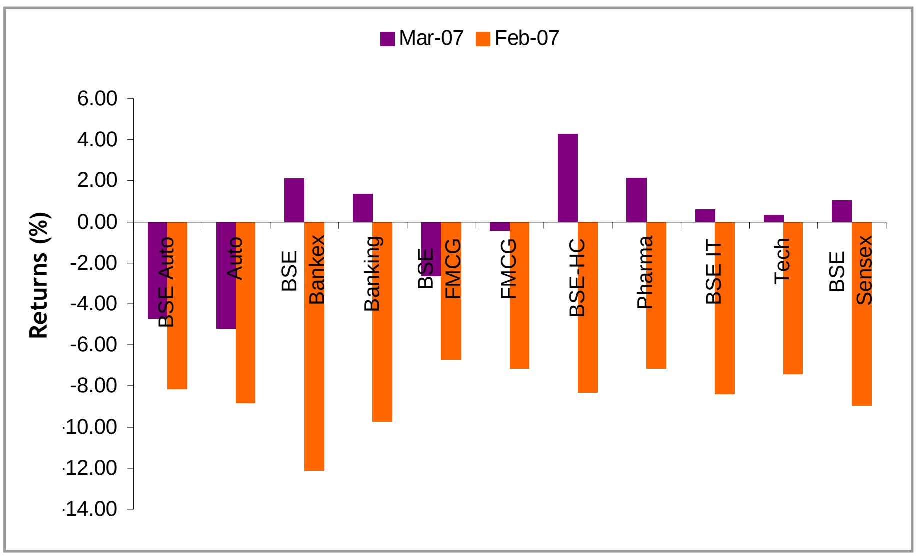
Sector allocation

Major shifts in the sector allocation for the equity-diversified category are as under:

Sector name	March 2007		February 2007		%
	Amount (Rs cr)	% of net assets	Amount (Rs cr)	% of net assets	chg
Increase in exposure					
Steel	4080.97	4.23	3122.17	3.60	0.62
Banks	8162.99	8.45	6897.54	7.96	0.49
Diversified	11979.71	12.41	10393.40	12.00	0.41
Pharmaceuticals	5264.68	5.45	4381.58	5.06	0.39
Telecom	5664.07	5.87	4755.04	5.49	0.38
Oil & gas, petroleum & refinery	3771.32	3.91	3225.29	3.72	0.18
Decrease in exposure					
Miscellaneous	4334.50	4.49	4760.64	5.50	-1.01
Tobacco & pan masala	1386.76	1.44	1620.55	1.87	-0.43
Auto & auto ancillaries	6777.34	7.02	6358.54	7.34	-0.32
Cement	1615.61	1.67	1673.79	1.93	-0.26
Housing & construction	3632.74	3.76	3429.44	3.96	-0.20
Mining & minerals	510.49	0.53	590.47	0.68	-0.15

Performance of sector funds

All fund categories have improved their performance in March 2007, in line with the rebound in the equity markets. Pharma and banking funds have outperformed the Sensex, whereas funds in the auto, FMCG and technology sectors have underperformed the Sensex. Additionally, funds in the FMCG, sector have outperformed the BSE FMCG Index, whereas the funds in the auto, banking, pharma and technology sectors have underperformed their respective benchmark indices (the BSE Auto Index, the BSE Bankex, the BSE Healthcare Index and the BSE IT Index respectively) in March 2007. Pharma funds gave the highest returns in March 2007, followed by banking and technology funds.



Disclaimer: mutual fund investments are subject to market risk. Please read the offer document carefully before investing. Past performance may or may not be sustained in the future.

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Lever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Cipla
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Overseas Electronics
Hexaware Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
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