

The India Infoline Weekly Wrap

Stock Idea of the Week

8th October, 2007

3i Infotech Ltd

Buy
CMP Rs149

Outstanding performance differentiates 3i

3i Infotech clearly stands out in a sector engulfed with multiple concerns of rupee appreciation, US sub-prime mortgage crisis, salary inflation, rising attrition and commoditizing business models. Where the sector players are reporting slow revenue growth, declining profitability and opting for drastic guidance cuts, 3i has outperformed the sector. For instance; 3i has reported a robust 19% revenue and 17% earnings CAGR over 1QFY07- 1QFY08 with stability in profit margins. More importantly, company has maintained FY08 guidance at Rs1,000-1,100cr in revenues (53-68% yoy growth) and Rs145-155cr in profits (39-48% yoy growth).

Shareholding Pattern

As on 30 th June 2007	Holding (%)	No. of Shares (in Lacs)
Promoters	41.2	258.1
Foreign	3.8	25.2
Institutions	23.4	134.8
Public & Others	31.6	201.5

Robust business model

Qualitatively, what differentiates 3i from peers and therefore becomes more advantageous amidst aforementioned concerns, is its non-linear revenue model with products contributing 50% of sales, lower US exposure at 25%, miniscule net dollar earnings (not more than 5% of revenues) due to high dollar costs, superior growth visibility with order book at 3x 1QFY08 revenues, well thought and executed inorganic growth strategy, controlled attrition at 15-17% and capable management.

Best buy in mid-cap IT space

We expect company to clock a sector-leading 40% + revenue CAGR and 30%+ earnings CAGR over FY07-10. Assuming 100% conversion of all pending FCCBs, we estimate an EPS of Rs9.8 in FY08 and Rs12.4 in FY09. Given the superior growth prospects, distinct business model and relatively higher resilience to current sector concerns; 3i deserves a premium valuation. We assign a P/E multiple of 18x (0.6x FY07-10 earnings CAGR) to FY09E EPS to arrive at our one-year target price of Rs222. With more than 50% upside, the company is our best mid-cap IT pick. Immediate triggers for the stock could be utilization of Rs400cr cash for acquisitions,

Financials

(Rs cr)	FY06	FY07	FY08E	FY09E
Revenues	418	655	1,197	1,574
yoy growth (%)	44.5	56.8	82.7	31.4
Operating Profit	86	159	272	338
OPM (%)	20.5	24.2	22.7	21.5
PAT	57	104	165	213
yoy growth (%)	78.8	80.7	59.0	28.8
EPS (Rs)	5.4	9.2	9.6	12.4
P/E (x)	27.3	16.1	15.4	12.0
P/BV (x)	2.1	1.7	1.9	1.7
EV/EBITDA (x)	10.0	8.7	8.7	6.6
ROE (%)	15.6	20.9	12.4	14.3
ROCE (%)	9.6	11.8	14.5	15.8

Source: Company, India Infoline Research

any reduction in stake by parent ICICI Bank and positive news flow surrounding takeover of the company.

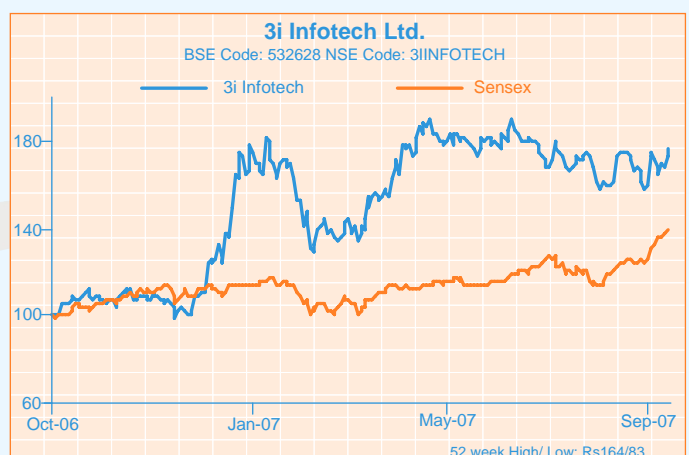
Our latest interaction instills further confidence

Recent interaction with the company has re-affirmed our belief of company's lower vulnerability to developments in US and movements in the Re/\$ rate. 3i is not witnessing any slowdown amongst clients and in any geography and continues to remain confident about achieving the stated guidance for the year. Combined order book (products + services) is growing at 10% qoq.

Company evolution has been commendable

In the last five years, company has reduced its dependence on services business from 94% to 49% being driven by its strategy of having a 50:50 mix between products and services. The significant shift towards products has been led by increased acceptance of company's solutions worldwide and inorganic additions to the product portfolio.

Share Price Chart



Source: Company, Bloomberg, India Infoline Research

Dark Horse

Ennore Foundries Ltd

Buy
CMP Rs237

Ennore Foundries Limited (EFL) incorporated in 1959 is a part of Hinduja Group. The company manufactures grey iron and aluminum gravity die, casting for automobile, industrial engine, power generator, tractors and has a manufacturing unit at Ennore and Ducktron in Hyderabad. EFL, the largest automotive jobbing foundry in India, satisfies the needs of major automobile OEM'S.

Shareholding Pattern

As on 30 th June 2007	Holding (%)	No. of Shares (in Lacs)
Promoter	21.2	34.2
Foreign promoter	59.1	96.3
Institution	2.8	4.8
Public & others	16.9	27.5

EFL focuses on the high-end products like the cylinder heads and blocks and medium end casting which have high operating margins. The company is setting up a Rs150cr unit at Sriperumbudur with an initial capacity of 50,000tonne. This Greenfield site near Chennai is expected to start its commercial production in the current quarter and will expand the company's total production to 125,000tonne.

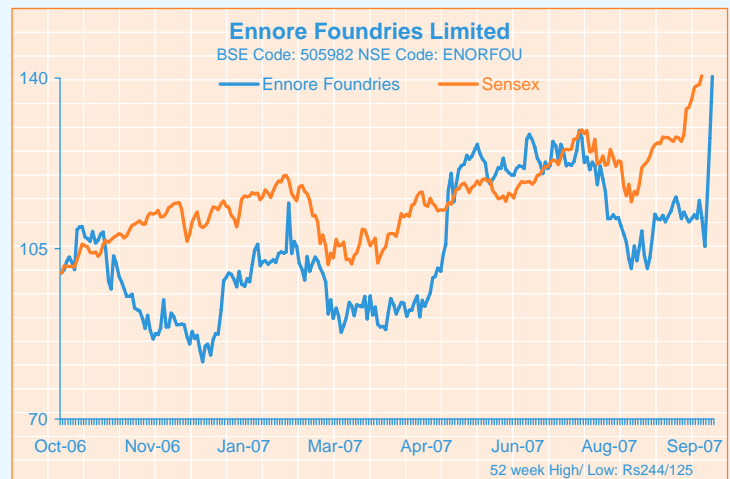
The management is planning to export 40% of the total production to US and European markets. Further it expects company's top line to grow by 20% in FY08 through the enhancement of the production capacity. During Q1FY08, its topline grew 27% yoy to Rs105cr, EBITDA margin expanded by 230bps yoy to 10.4%, boosting the net profit by 143% yoy.

Financials

(Rs cr)	FY05	FY06	FY07
Net sales	261	385	462
Operating Performance	20.6	30.2	38.0
OPM (%)	7.9	7.8	8.2
PAT	13.1	14.0	16.2
Equity	6.8	16.3	16.3
EPS (Rs)	19.3	6.4	6.8

At the current market price of Rs237, the stock trades at 22.2x its FY07 earning. We expect the operating profit margins to expand to 15% in FY09 from current 8%, on the back of capacity expansion, automation and lower labour cost.

Share Price Chart



Source: BSE

Heard it on the grapevine

HCC to raise Rs200-250cr via private placement.

Futura Polyesters is in the news with the possibility of announcement of right issues.

DLF in talks with private equity firms for raising Rs2,000cr to fund an overseas acquisitions. The acquisitions may be announced in the coming weeks.

Reliance Industries may join GAIL and HPCL to set up a mega 1 mtpa petrochemical complex in Vishakapatnam.

Parsvnath Developers in talks with global financial investors for divesting equity in its SEZ projects.

Government may relax ECB norms for **infrastructure sector**.

DLF to invest Rs2,500cr to set up destination malls in Tier-II and Tier-III cities.

L&T to foray into power sector through its subsidiary L&T Power Projects Ltd.

McDonald's India plans to invest Rs300cr to improve productivity of food processing plants.

TCG Lifesciences, engaged in Biotechnology business plans to come up with IPO for 95lakh Equity shares.

US PE major **Goldman Sachs** to invest Rs800cr in **Indiabulls Real Estate Ltd.**

Patel Engineering is likely to bag a big order in the coming weeks.

Pharma Stocks are likely to witness funds buying as many of the big fund houses are coming up with NFO of dedicated pharma funds.

Mirc Electronics Ltd plans to foray into premium category of Liquid crystal display tv.

Mahindra International Limited a subsidiary of **Mahindra & Mahindra Group** is in a race to buy a strategic stake in Delhi based Eicher Motors.

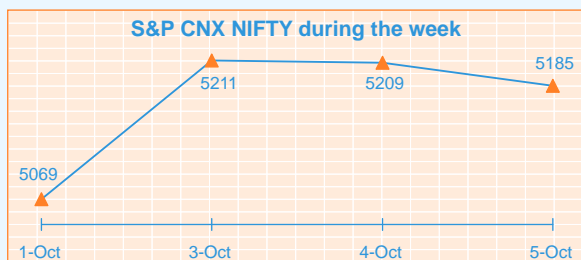
International Financial Corporation (IFC) set to pick up 4-5% in Karnataka Bank.

Reliance Power plans to offer 5% to an overseas power utility or a private equity fund in addition to selling 10% through an IPO.

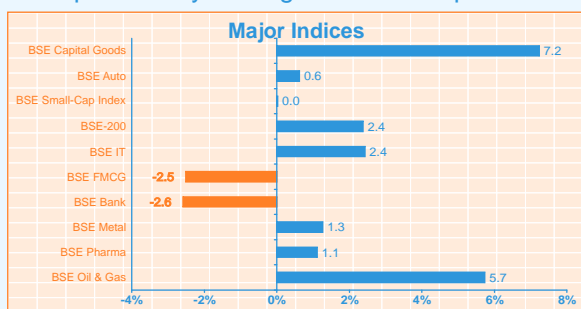
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Market Overview

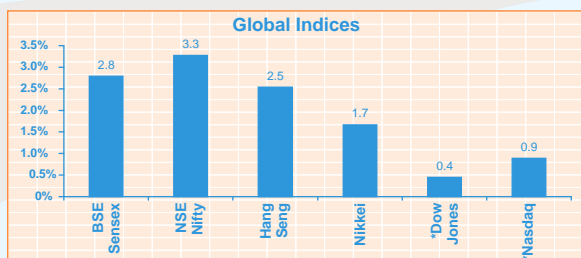
The markets continued last two week's momentum and came within kissing distance of striking 18k but volatility and sharp intra-day gyrations made the task tougher for bulls. The bulls have had a fantastic time so far on dalal street, in the wake of the Fed better than expected rate cuts and un-abated FII's inflows into the Indian equity markets. However, choppiness and sharp swings around these levels is expected ahead of the quarterly results. Finally, the BSE 30-share Sensex closed the week at 17,773, up by over 2.8% or 482 points and NSE Nifty added 3% or 165 points to close at 5,186.



In a broad based rally, Capital Goods, Oil & Gas, IT, Metal, Pharma and Power stocks led from the front. Banking stocks cooled off on back of profit booking after a spectacular run up in last few months. Capital Goods stocks were among the major gainers with BSE Capital Goods Index advancing by over 7%. BHEL and L&T surged sharply over the week on expectations that the companies may win large orders in the power sector.



Global markets also had a volatile week with US stocks dropping the most in a week on Wednesday, led by technology companies. Micron Technology posted its steepest drop in a year after the largest US memory-chip maker reported a third straight quarterly loss. Among the Asian markets, Hang Seng Index despite a highly volatile week managed to notch up gains of over 2.5% on back of surge in oil and gold counters. While Nikkei Index closed the week with gains of 1.7%.



* US data from Thursday to Thursday

FII & MF Activity

(Rs in cr)

Date	FII Net Investment	MF Net Investment
27-Sep-07	2,433	93
28-Sep-07	3,493	31
1-Oct-07	2,196	(208)
3-Oct-07	3,162	(102)
Total 2007	61,583	2,706

BSE Sensex & BSE 200 Five Top Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Change	Company	CMP (Rs)	% Change
Reliance Energy	1,447	30.1	Adani Enterprise	706	43.1
NTPC	214	11.2	Jindal Steel	6,469	27.0
Tata Power	944	9.9	HCC	163	20.1
Larsen & Toubro	3,089	9.1	Sesa Goa	2,816	19.8
Cipla	189	7.2	AB Nuvo	1,680	17.2

BSE Sensex & BSE 200 Five Top Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Change	Company	CMP (Rs)	% Change
ITC	179	(3.1)	Jindal Saw	594	(12.1)
HDFC Bank	1,400	(2.2)	GSPL	61	(9.2)
Hero Honda	722	(2.1)	IFCI	85	(8.1)
HDFC	2,455	(1.1)	IDBI	141	(7.4)
SBI	1,863	(0.9)	TVS Motors	65	(6.8)

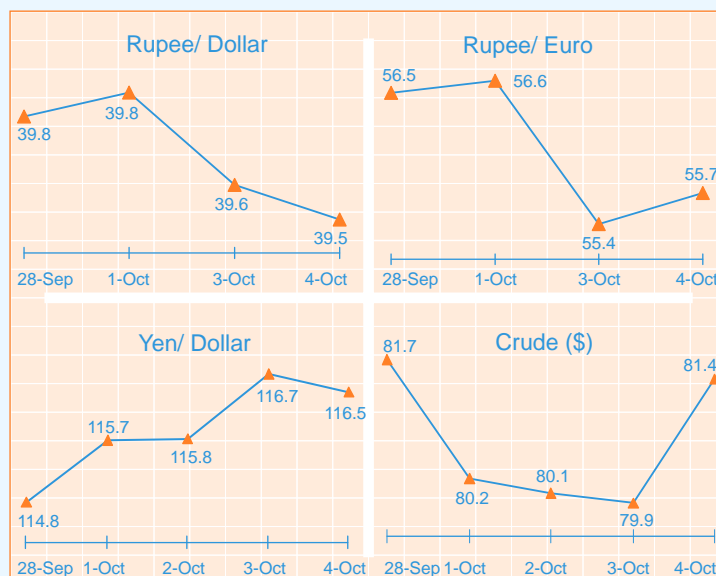
Corporate Action

Company	Record Date	Purpose
Ashapura Min.	19-Oct-07	Bonus Issue
Madras Cement	29-Oct-07	Interim Dividend
Ramco Industries	29-Oct-07	Interim Dividend
Sri Adhikari	01-Nov-07	Consolidation of Shares

Stocks in No Delivery Period

Company	From	To
Jai Corporation	05-Oct-07	11-Oct-07
Anant Raj Industries	08-Oct-07	12-Oct-07
Man Industries	09-Oct-07	15-Oct-07
Peninsula Land	16-Oct-07	22-Oct-07
West Coast Pap	26-Oct-07	01-Nov-07

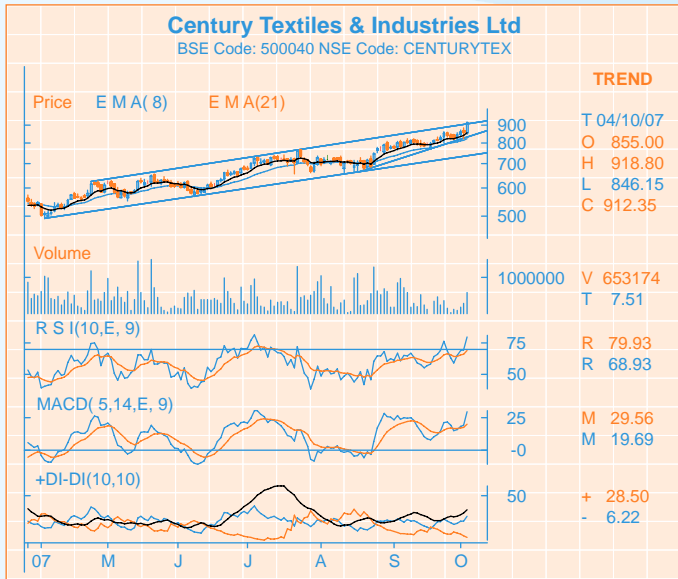
Currency and Crude Movements



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Technical Stock Ideas of the Week

Century Textiles **Accumulate**
CMP Rs912



Prices have rallied on a steady note from a low of Rs491 in April 2007 to touch a high of Rs919 in October 2007.

Prices have moved in a Channel formation since April 2007 till date. The same is clearly highlighted in the adjoining chart.

Prices look set to break out from the upper boundary of this Channelled upmove. Such a Breakout is a very Bullish signal and generally leads to smart gains within a short span of time.

The Daily Oscillators like the RSI, MACD and ADX are indicating strength and momentum in the upmove.

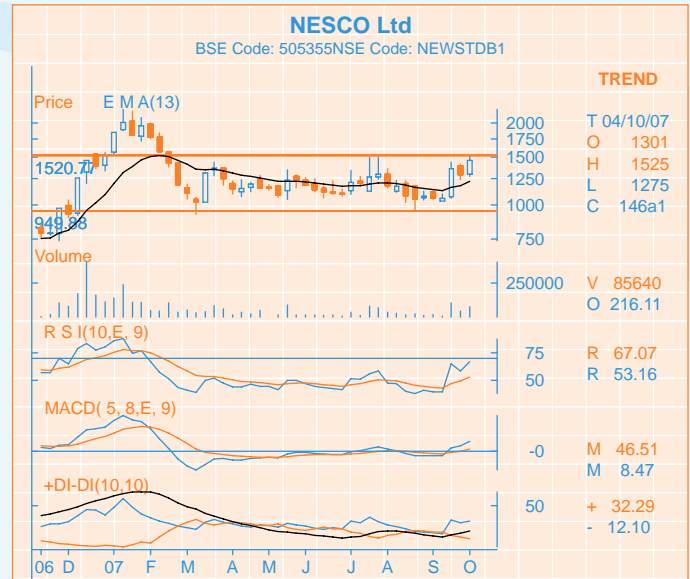
We believe that the stock is set to test price targets of Rs1,000 in a short span of time. Aggressive traders should buy the stock between Rs890-920 range with a stop loss of Rs878 for targets of Rs1,000.

Investors who missed out earlier can enter the stock at current levels and on declines to Rs870-880 range for targets of Rs1,200 in the coming weeks. Investors should follow a stop loss of Rs848 on all long positions.

Technically Strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (Lacs)	10 days Average Traded Qty (Lacs)
Dr Reddy's Labs	653	645	1.3	0.8
Corp Bank	395	382	0.3	0.2
Colgate	425	407	3.1	1.4
Dabur	107	107	7.1	5.0
VSNL	451	438	1.2	1.0

NESCO Ltd **Accumulate**
CMP Rs1,461



Prices have seen a sharp correction from a high of Rs2,250 in January 2007 to touch a low of Rs926 in March 2007.

The stock has been consolidating between the Rs950-1,525 range for the past seven months.

Prices look set to break out from this consolidation in the coming sessions. The medium term RSI is indicating strength in the recent upmove from a low of Rs1036 in early September. The Weekly MACD and the ADX are suggesting built up of momentum in the uptrend.

A sustained move past the Rs1,550 levels will see the stock gaining momentum and heading to short term targets of Rs1,800-1,850 followed by the all time highs of Rs2,250.

Keeping in mind the above mentioned technical evidences we recommend to buy the stock at current levels and add to positions on declines to Rs1,300-1,350 levels. Traders and Investors should look for the targets of Rs1,850 and Rs2,250. We recommend following a stop loss of Rs1,175 on all long positions.

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Technically Weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (Lacs)	10 days Average Traded Qty (Lacs)
M&M	752	763	3.2	2.1
Bombay Dyeing	657	680	1.4	1.0
Orchid Chem	219	221	2.5	2.0
Titan	1,459	1,469	0.6	0.5
Patni	458	462	1.3	2.5

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