

Software - Q4 FY09

There were no major surprises in Q4 FY09 results of the software sector with most companies delivering performance on expected lines. Though the numbers look dejecting per se, expectations before the start of the results season were lowered in-line with sharp deterioration in business conditions during the quarter. The only thing that surprised us a bit was the inconsistent trend in pricing across the sector with few companies reporting a sequential improvement. Infosys FY10 guidance came on expected lines while its Q1 FY10 outlook disappointed. Since Infosys results, there has been a sharp rally in IT stocks based on hopes of material revival in operating environment in H2 FY10 which we think is premature. The recent run-up has taken prices beyond fundamentals which remains grim in the short-term. We remain negative on the sector with SELL rating on Wipro, Infosys, TCS and Infotech.

Organic revenue decline in-line; inorganic boost for some

Aggregate dollar revenues of our universe comprising six companies declined by 2.6% qoq in Q4 FY09. More importantly, the sequential fall in organic revenues was steep at 6% reflecting an extremely tough business environment. Tech Mahindra (8.8%), TCS (7.8%) and Wipro (6.3%) posted severe qoq decline in their organic revenues. Full-quarter contribution of acquisitions pushed sequential dollar growth of HCL (Axon), TCS (CGS) and Wipro (CITOS) by 15%+, 4-5% and 1.8% respectively.

Strong display of resilience at the operating level

Despite twin headwinds of lower volumes and pricing pressures, OPM of our universe contracted only marginally by 30bps qoq to 25.9%. The outperformance at the operating level was led by Wipro, TCS, HCL Tech and Infotech. These companies managed to either improve their margin materially or offset majority of the headwinds. Key margin levers were offshore shift and SG&A leverage.

Net profit decline of 4% qoq was lower than expectations

Net profit decline at 4% qoq for the universe was lower than our expectations and was mainly aided by strong performance at the operating level. Net profit growth in case of some companies was hindered by a sharp increase in depreciation and interest expenses.

More pain in store

There was an evident deterioration in management commentary which was reflected in weak Q1 FY10 guidance issued by companies. Infosys and Wipro expect a decline of 3.7-5.4% and 2-3.5% respectively in their dollar revenues in Q1 FY10. In view of waning business visibility, companies preferred to keep headcount under check through performance based lay-offs and minimal addition.

Q4 FY09 Results

(Rs m)	Revenues	qoq (%)	OPM (%)	qoq chg (bps)	PAT*	qoq (%)
Infosys	56,350	(2.6)	33.6	(150)	15,980	1.2
TCS	71,718	(1.4)	26.2	(60)	13,143	(2.8)
Wipro	65,280	(1.1)	21.4	220	10,100	0.6
HCL Tech	28,615	15.9	21.3	(50)	2,179	(41.6)
Tech M	10,513	(7.1)	24.7	(340)	2,055	(7.8)
Infotech	2,350	1.0	21.7	230	185	26.9
Total	234,826	(0.0)	25.9	(30)	43,642	(4.0)

Source: Company, India Infoline Research * Pre-exceptional PAT

Telecom - Q4 FY09

Q4 FY09 performance reflected continued deterioration in operating metrics such as ARPU and MOU with Rcom again faring worse vis-a-vis peers like Bharti and Idea. Sequential revenue growth came in lower than expected for Rcom but Bharti and Idea reported in-line. Idea, similar to Q3 FY09, saw the highest topline growth amongst the three operators. OPM improved qoq for Rcom and Idea as control over SG&A and staff costs cushioned higher network spend. Bharti PAT growth trailed revenue rise on the back of higher tax rate.

Bharti is expected to maintain its wireless leadership position (24% subscriber and 32% revenue market share). However, the announcement of maiden dividend of 20% and decline in capex intensity suggests the company may not be able to repeat an impressive PAT CAGR (~57%) seen over past 3 years. We downgrade the stock to Market Performer and retain BUY on Rcom.

Bharti, Idea report in-line revenues

Bharti and Idea saw revenue growth of ~6% and 7.5% qoq respectively in Q4 FY09, in-line with our expectations. Idea subscriber additions increased 22.1% qoq, as user base expanded in new circles like Mumbai and Bihar. Rcom topline growth was below estimate on weak wireless showing. However, its global business managed to grow at a robust 12% qoq, driven by data segment.

Operating metrics further decline; Rcom MOU disappoints

Minutes of Usage (MOU) maintained their downward trend of past three quarters, especially for Bharti and Idea as a large proportion of incremental users accrue from rural areas. Rcom MOU dropped the most at 9.3% qoq, despite the offer of free minutes as part of its GSM launch in 14 circles during the quarter. Consequently, its ARPU declined 10.8%, more than double that of Idea.

Idea profit growth was above estimate on better-than-expected margin while Rcom witnessed 3.1% sequential rise in PAT mainly due to higher net interest and other income.

Downgrade Bharti to MP; Retain BUY on Rcom

Bharti is likely to maintain its leadership position with impressive return ratios (RoE, RoCE) in excess of 20% over next two years. But with the announcement of maiden dividend of 20% and decline in capex intensity, we believe the company is unlikely to repeat an impressive PAT CAGR of 57% seen over past three years. Downgrade the stock to Market Performer and retain our BUY rating on Rcom.

Q4 FY09 Results

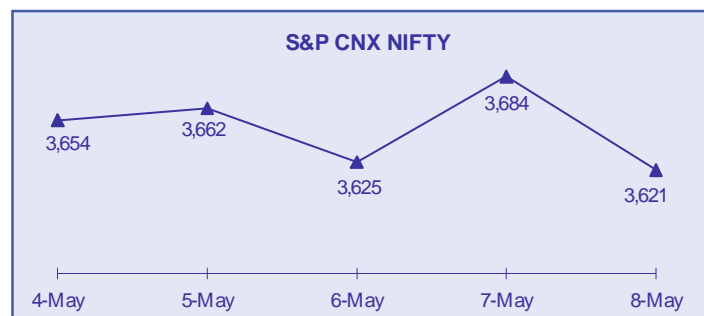
(Rs m)	Revenues	qoq (%)	OPM (%)	qoq chg (bps)	PAT	qoq (%)
Bharti	102,551	6.1	39.3	(76)	20,477	3.6
Rcom	57,978	2.2	38.2	49	14,544	3.1
Idea	29,365	7.5	27.6	209	2,743	25.0

Source: Company, India Infoline Research

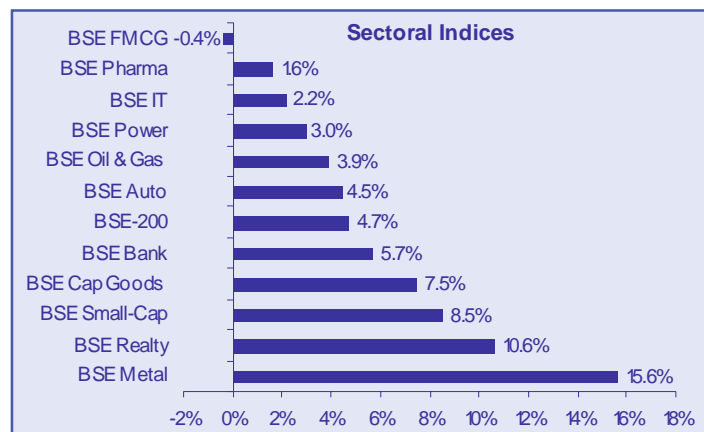
India Infoline Weekly Wrap

Market review

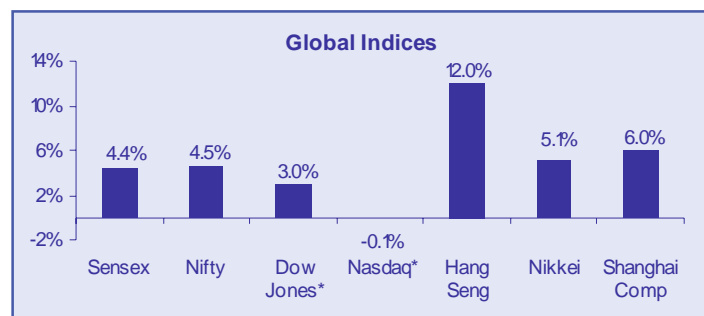
The BSE Sensex breached the 12k levels for the first time since October 2008 and registered its ninth consecutive weekly gains. However, the advance was restricted as market players were not willing to take undue risks ahead of the national election results on May 16. Also, positive trend across global markets helped maintain the momentum of the past two months. Finally, the Sensex rose 4.4% to close at 11,876 and the NSE Nifty added 4.5% to shut shop at 3,620.



The firm trend in metal prices on the LME and strong volume growth reported by Tata Steel and SAIL for April aided the surge in metal stocks. Expectations of safeguard duty on imported steel products also lifted steel stocks. Real Estate stocks continued their upward journey on hope of a pick-up in housing demand. Capital goods stocks joined the rally after India's PMI index expanded for the first time in 5 months in April.



Asian equity indices climbed, as financial stocks led from the front amid growing optimism that the US banks' health was not as bad as had been anticipated. The US regulators said 10 of the 19 banks that participated in the stress tests needed additional capital of US\$75bn. The sentiment was also boosted by reports that job losses in the US will slow in April.



*As per previous close

FII & MF activity

Date	(Rs cr)	
	FII Net Investment	MF Net Investment
28-Apr	(174)	(373)
29-Apr	345	21
4-May	1,491	379
5-May	695	(37)
6-May	688	-
Total 2009	3,487	(305)

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Hindalco	68	27.1	Jindal Saw	262	24.6
Tata Steel	282	18.6	Gammon India	93	22.5
L&T	991	12.7	Indiabulls Fin	138	22.4
Reliance Infra	769	10.6	Hind Zinc	583	21.3
Tata Motors	269	10.2	Guj State Petro	48	20.6

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
ACC	603	(7.7)	BF Utilities	509	(13.6)
HUL	233	(0.7)	HPCL	246	(10.6)
ITC	188	(0.4)	Federal Bank	172	(8.1)
BHEL	1,648	(0.3)	BPCL	358	(7.5)
NTPC	190	(0.2)	Educomp	2,311	(6.6)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
4-May	Lotus Global	Autolite India	S	1.0	22
4-May	Reliance Cap	Strides Arcolab	B	2.7	99
5-May	BNP Paribas	Arvind Ltd	S	15.5	19
5-May	Robeco Capital	Core Project	S	5.2	102
6-May	Fidelity Invest	MIC Electronics	B	10.3	29

Insider trades

Company	Name	B/S	Qty ('000)
PBA Infra	Ramlal Wadhawan	B	28.7
Dolphine Offshore	Kirpal Singh	B	1.1
KNR Const	K. Narasimha	B	16.5
Ruchi Soya	Nitesh Shahra	B	92.5

Book closures and record dates

Company	Date	Purpose
Hydrabad Ind	18-Jul-09	100% dividend
JSW Steel	01-Jul-09	10% dividend
Lanco Ind	22-Aug-09	10% dividend

India Infoline Weekly Wrap

Technical ideas

Sesa Goa **BUY**
CMP Rs131



On the daily chart, the stock has formed a bullish price channel. In the above pattern, the stock moves up and is bound by an upper and lower trend line. The upper trend line marks resistance and the lower trend line resembles support. As shown in the above chart, the lower support line was formed from second week of March '09. Subsequent lows in the March-end and April confirmed the support line.

The upper resistance line is drawn from February '09 onwards. Since then, the stock has been moving back and forth between the two parallel lines as shown in the above chart. On Friday, the stock rallied by over 3% confirming the bullish set up. We expect the stock to break past the critical resistance levels of Rs135-136.

Volumes were initially low but have picked up. A break above resistance is likely to lead to acceleration in the stock price. **The other supportive technical oscillators are positive and the upmove may extend to the levels of Rs150 and Rs155. We recommend traders to buy the stock in the range of Rs127-133 with a stop loss of Rs118 on all long positions.**

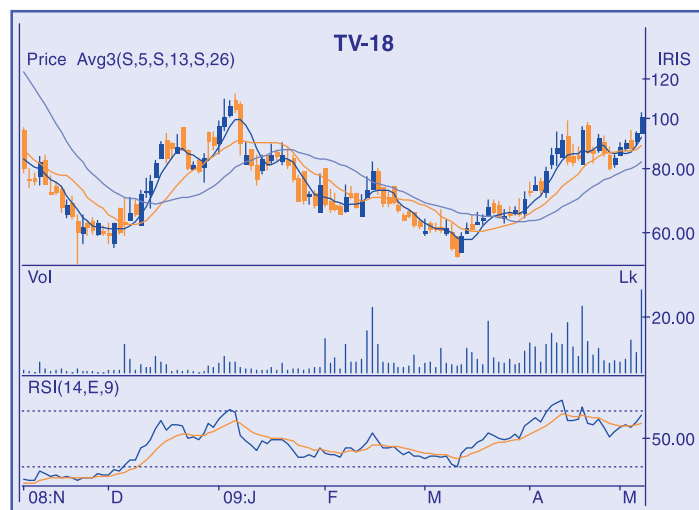
Positive open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
Neyveli Lignite	10.4	54.3	115.3
Bombay Dyeing	5.8	42.6	15.7
Tata Tea	1.9	39.3	1.6
Dish TV	7.6	31.5	320.9
TV-18	7.8	29.3	31.0

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Guj Flouro	87	82	1.2	0.5
Divis Labs	942	892	3.9	2.4
CESC	260	247	3.8	1.5
MRPL	53	50	18.0	14.5
Patel Eng	186	177	3.1	2.8

TV-18 **BUY**
CMP Rs100



TV-18 has made higher tops and higher bottoms in last few trading sessions. It has risen steadily from the levels of Rs53.60 in the second week of March '09 to the current levels. On Friday, the stock confirmed a breakout after giving a close above its critical resistance zone of Rs99-100 (as seen above in the chart). In addition, the gain in the stock price from a low of Rs85 in the current week has been on back of increasing volumes, indicating strong buying at the support levels.

On Friday, the stock rallied by over 7% confirming the bullish set up. We continue to remain positive on the stock from technical perspective as the stock has managed to hold on to its short-term support trendline. Moreover, the stock has given a close above its key moving averages. The daily momentum oscillators i.e. RSI and MACD are suggesting strength in the upmove. **A move above Rs102, could see the stock attempting its previous 2009 high of Rs112. We recommend traders to buy the stock in range of Rs97-102 with strict stop loss of Rs90 for target of Rs112 and Rs118.**

Negative open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
Sun TV	(1.8)	26.4	2.7
United phos	(4.3)	16.7	0.3
Ambuja Cem	(5.0)	14.2	33.0
HPCL	(2.5)	14.2	8.3
HDFC Bank	(3.6)	12.6	42.3

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Union Bank	160	168	37.2	23.5
Bata	115	121	3.7	4.2
Cipla	226	236	15.9	22.7
Federal Bank	172	179	4.0	5.4
United Phos	118	123	9.9	13.6

India Infoline Weekly Wrap

Mutual fund round-up

India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on May 07, 2009							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
Birla Sun Life Frontline Equity	481	50.8	6.4	15.2	25.6	21.4	(24.1)	(3.4)	17.8	145.5
DSP BlackRock Top 100 Equity	1,231	60.2	3.5	10.2	19.6	15.7	(22.1)	0.1	14.1	163.9
HDFC Top 200	2,086	114.3	6.2	16.8	30.8	20.5	(20.5)	1.4	11.4	169.8
Reliance Vision	2,694	160.7	6.6	12.3	25.4	16.7	(27.7)	(13.7)	(6.6)	146.3
Sundaram BNP Paribas Taxsaver	620	27.9	6.0	15.5	21.6	10.8	(23.1)	1.0	1.6	124.3

Fund this week: DSP BlackRock Top 100 Equity Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Apoorva Shah	Equity	88.6
Latest NAV	Rs60.2	Debt	5.7
NAV 52 high/low	Rs78/46	Cash/call	5.7
Latest AUM	Rs1,231cr	Top 5 holdings (%)	
Type	Open-ended	Nifty	14.8
Class	Equity - Diversified	Infosys Technologies Ltd	5.6
Options	Growth & dividend	Bharti Airtel Ltd	5.2
Min investment	Rs5,000	State Bank of India	4.9
Entry load	2.25%<Rs5cr	Glaxo Smithkline Pharmaceuticals Ltd	4.6
Exit load	1%<Rs5cr<1yr	Top 3 sectors (%)	
Benchmark	BSE 100	Banks	15.2
No. of stocks	34	Oil & Gas, Petroleum & Refinery	10.9
Expense ratio	2.1%	Pharmaceutical	10.0

NFO update

Fund Name	Close	Type	Class
ICICI Pru Target Returns	14-May	OE	Equity - Div
Canara Robeco Dynamic Bond	20-May	OE	Debt - Short term

Dividend update

Mutual Fund	Dividend %	Record date	Class
Reliance FHF Plan C Sr II	100.0	11-May	Debt - FMP
ICICI Pru FMP Sr 41-19M P	100.0	11-May	Debt - FMP
HDFC Q Interval Plan C	100.0	11-May	Debt - Invnt

Commodity, debt and currency graphs



* As per previous close

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