

June 22, 2007

FOR PRIVATE CIRCULATION

**Equity**

	21 June 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	14,499	0.6	0.3	9.0
Nifty	4,267	0.4	(0.3)	10.1
Banking	7,828	0.5	2.2	14.7
IT	3,709	0.2	(0.5)	1.9
Healthcare	3,810	0.2	0.9	7.2
FMCG	1,818	0.3	(5.3)	6.3
PSU	6,729	0.8	(0.6)	14.0
CNX Midcap	5,822	0.9	3.5	20.4
<b>World indices</b>				
Nasdaq	2,617.0	0.7	1.1	6.7
Nikkei	18,240	0.2	2.6	4.2
Hangseng	21,955	1.2	5.4	11.6

**Value traded (Rs cr)**

	21 June 07	% Chg - 1 Day
Cash BSE	5,118	4.5
Cash NSE	10,388	4.1
Derivatives	41,682.5	(0.1)

**Net inflows (Rs cr)**

	20 June 07	% Chg	MTD	YTD
FII - 19 Jun	653	2,360	444	17,711
Mutual Fund	149	540	104	(372)

**FII open interest (Rs cr)**

	20 June 07	% chg
FII Index Futures	20,135	3.7
FII Index Options	7,685	0.2
FII Stock Futures	22,666	2.4
FII Stock Options	82	(10.2)

**Advances/Declines (BSE)**

	21 June 07	A	B1	B2	Total	% Total
Advances	117	398	523	1,038	54	
Declines	92	318	406	816	43	
Unchanged	2	21	37	60	3	

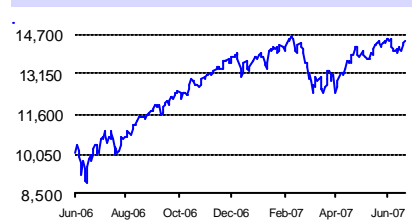
**Commodity**

	21 June 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	68.6	(0.1)	5.5	11.1
Gold (US\$/OZ)	652.0	(0.4)	(1.1)	(1.8)
Silver (US\$/OZ)	13.1	(0.6)	1.0	(2.6)

**Debt/forex market**

	21 June 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.18	8.18	8.16	8.00
Re/US\$	40.7	40.7	40.7	43.4

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- The Government is formulating a new policy on franchisee arrangements between Indian companies and overseas partners with the aim of plugging 'loopholes' in the country's FDI regime. The proposed policy may hamper franchisee arrangements in the case of sectors which do not permit foreign investment through the automatic route. (ET)
- The proposed regulatory Central Drug Administration is set to take one step closer to being eventually established, with Parliament expected to take up the amendment of the Drugs and Cosmetics Act 1940, in the monsoon session in July. (BL)
- Negotiations among four key World Trade Organisation governments over a new global agreement have collapsed, with India and Brazil blaming it on US and European unwillingness to cut farm aid and import duties on commodities. (BS)
- The Government plans to further liberalize the FDI regime by exempting several sectors from the mandatory requirements under Press Note 1. Advertising, hospitality, franchisee operations and several other services could be kept out of the purview of PN 1. (ET)
- Inflation is likely to stabilize between 4.4% and 4.6% in this month. RBI has targeted inflation to remain in the range of 4-4.5% for 2007-08. The impact of the base effect is expected to continue for the whole of June. (ET)

**CORPORATE NEWS**

- The Bombay High Court has said that **Reliance Industries** cannot sell the gas to be produced from one of its prime blocks in the Krishna-Godavari basin to any third party other than Anil Ambani's **Reliance Natural Resources** and NTPC. (ET)
- **L&T** has said it has won a \$94.95 mn contract for the construction of two ships from BigLift Shipping of Netherlands. Production of the ships is scheduled to commence in June 2008 and the vessels will be delivered by March 2010. (ET)
- Lakshmi Mittal's proposal to buy 49% stake in the Bhatinda refinery being planned by **HPCL** has been cleared by the Cabinet. The move is expected to pave the way for raising the FDI cap in all Government-owned refineries to 49% from the current 26%. (BS)
- **Tata Steel's** proposed acquisition of Vietnam-based Vinausteel and Structural Steel Engineering has taken a new turn with rival suitor, Prudential Vietnam Securities Investment Fund Management Company, launching an all-cash unsolicited takeover for parent, Vietnam Industrial Investments. (BS)
- The **Videocon group** is planning to foray into port development. Videocon has firmed up plans to develop a minor port in Alewadi in Thane for Rs.16 bn. Sources said Videocon was in talks with the Maharashtra government in this regard. (BS)
- The **Deccan Aviation** board will take a decision on which promoter should sell stake in case the open offer by UB Holdings fails to mop up the required 20% stake. (BS)
- **Glenmark Pharmaceuticals** has announced that it had received a tentative approval to market a generic version of Novartis' blockbuster antifungal drug Lamisil (250mg tablets) in the US. Lamisil is known by its generic name terbinafine. (ET)
- **Essar Global** has said it has completed the acquisition of Canadian steel maker Algoma Steel Inc for \$1.85 bn Canadian (over Rs.70.71 bn), that will bring new dimension to its marketing operations in North America. (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

### MANAGEMENT MEET UPDATE

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**We recommend a BUY on Infosys with a revised price target of Rs.2246**

## INFOSYS TECHNOLOGIES LTD.

**PRICE : Rs.1957**

**TARGET PRICE : Rs.2246**

**RECOMMENDATION : BUY**

**FY08E PE : 24x**

### Key takeaways

- The revenue growth drivers remain intact. No change in clients' spending trends
- Potential for deeper penetration into existing clients and verticals exists
- Customers remain amenable to billing rate increases. This is in line with higher value provided or increase in costs
- Rupee appreciation to hit margins, especially in Q1FY07 — levers like increased productivity, higher realizations, higher profitability in subsidiaries and cost control initiatives expected to play out over the fiscal
- Making changes in earnings estimates to accommodate the changed foreign exchange rate scenario.
- After assuming average rupee — US dollar rate at Rs.42 for FY08, the revised FY08 EPS estimate stands at Rs.80.
- Revised price target works out to Rs.2246, which provides a 15% upside from the current levels.
- We believe the recent under-performance discounts the potential impact of the recent appreciation in the rupee v/s the US dollar and maintain a **BUY**.
- A further appreciation in the rupee from current levels is the risk to our call. The stock may remain range bound till the rupee starts depreciating against the US\$.

### Volume growth drivers intact

- Our talk with the Infosys management suggests the drivers for volume growth are very much intact. The company indicated that enough scope exists for Infosys to penetrate deeper into its existing clients and get a larger share of their overall IT spend.
- In terms of verticals and service lines, while the company has covered almost the entire spectrum, it has just scratched the surface in verticals like healthcare, insurance, transportation, utilities, retail, etc and in service lines like consulting, systems integration, testing, engineering services, etc.
- Thus, we believe Infosys will be able to maintain a high level of volume growth in the foreseeable future, except in case of a sharp deceleration/recession in major economies.

### Billing rates inch up

- The management re-iterated that new clients continue to come in at 3-4% higher rates and existing clients are also giving 2-3% hikes at the time of renegotiations.
- Infosys has been able to get price hikes due to the increased value provided by it as well as the rising costs faced by the company.
- The company is not approaching clients for price hikes on the basis of the rupee appreciation and does not expect any such price hikes.
- We believe that building in exchange-related escalation clauses, if any, will take time and would be difficult.

### Margins under pressure...

- With the rupee appreciating by about 6% since the beginning of Q1FY08, EBIDTA margins are under pressure. In our estimate, for every 1% appreciation in the rupee v/s the US dollar, EBIDTA margins will be impacted to the extent of about 30–40 bps.
- This appreciation in the rupee, salary hikes and higher visa charges are expected to impact the margins in Q1FY08.
- While higher salary and visa charges have already been accounted for by us, the rupee is expected to further impact margins in Q1FY08, at least.

### ... levers to restrict impact exist

- Infosys has several levers, which can be deployed during the course of the fiscal to restrict the impact of rupee appreciation on the margins viz. better capacity utilization (73% excluding trainees, currently), billing rate hikes, improved profitability in subsidiaries (Infosys Consulting and China operations), cost containment, etc.
- We expect Infosys to vigorously pursue these levers in its bid to restrict the impact on margins arising out of rupee appreciation.
- Consequently, we expect EBIDTA margins to decline about 100 bps in FY08, despite our assumption of an average rupee–US dollar exchange rate of about Rs.42 in FY08 v/s about Rs.45 per US dollar in FY07.

### Making changes to our FY08 earnings estimates

- We have made suitable changes to our FY08 earnings estimates to include our changed assumptions of the rupee, revenue growth and the extent of exercise of various levers of margin improvement.
- After accounting for these, we arrive at an EPS of Rs.80 in FY08.

### Valuation & recommendation

- The target price stands modified accordingly to Rs.2246. Our earlier EPS estimate was Rs.83.7 with the corresponding price target of Rs.2345.
- In our opinion, the only negative impacting the company is the exchange rate. We are positive on other aspects like volume growth, billing rates and presence of levers for restricting margin impact.
- We expect the rupee to depreciate from the current levels and average about Rs.42 per US dollar for FY08.
- Based on this, we believe the stock offers decent upside from current levels and maintain our **BUY** but with a reduced price target of Rs.2246.

<b>Key financials</b>					
<b>(Rs mn)</b>	<b>FY06</b>	<b>FY07E</b>	<b>% Chg</b>	<b>FY08E</b>	<b>% Chg</b>
<b>Turnover</b>	<b>95,215</b>	<b>138,925</b>	<b>45.9</b>	<b>176,322</b>	<b>26.9</b>
Expenditure	64,298	95,015		122,315	
<b>EBIDTA</b>	<b>30,917</b>	<b>43,909</b>	<b>42.0</b>	<b>54,007</b>	<b>23.0</b>
Depreciation	4,371	5,140		6,050	
<b>EBIT</b>	<b>26,546</b>	<b>38,769</b>	<b>46.0</b>	<b>47,957</b>	<b>23.7</b>
Other Income	1,386	3,730		5,000	
<b>PBT</b>	<b>27,932</b>	<b>42,499</b>	<b>52.2</b>	<b>52,957</b>	<b>24.6</b>
Tax	3,132	3,860		7,149	
Minority interest	200	100		0	
<b>PAT</b>	<b>24,600</b>	<b>38,540</b>	<b>56.7</b>	<b>45,808</b>	<b>18.9</b>
Provisions	1	0		0	
PAT after provisions	24,600	38,540		45,808	
<b>EPS (Rs)</b>	<b>89.1</b>	<b>67.5</b>		<b>80.2</b>	
EBIDTA (%)	32.5	31.6		30.6	
EBIT (%)	27.9	27.9		27.2	
Net Profit (%)	25.8	27.7		26.0	

Source: Company, Kotak Securities - Private Client Research

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
21-Jun	Asian Elect	Arising Partners Asia Pte Ltd	B	204,913	804.90
21-Jun	Asian Elect	MNR Engineers P.Ltd	S	210,000	805.05
21-Jun	Baba Arts	Sarla Bhushan Shroff	B	59,452	62.19
21-Jun	Commit Cap S	Priyanka Marriage Trust	S	25,700	11.60
21-Jun	Expo Ga Cont	Jitendra J.Shah HUF	B	45,000	12.34
21-Jun	Expo Ga Cont	Nirupama A Mehta	S	50,204	12.03
21-Jun	Fag Bearing	Merrill Lynch Capital Markets			
		Espana S.A. S.V.	S	100,000	637.01
21-Jun	Foundry Fuel	Integra International Pvt Ltd	B	55,201	5.34
21-Jun	Foundry Fuel	The Hoogly Mills Co.Ltd	S	55,000	5.34
21-Jun	Glory Poly	Sharda Jain	B	100,000	51.54
21-Jun	Glory Poly	Nilesh V Soni	S	138,273	51.88
21-Jun	Heritage Fo	Emerging Mkts South Asian Stars	S	72,514	250.00
21-Jun	IKF Techno	Lotus Global Investments Ltd Ac GDR	S	2,500,000	8.34
21-Jun	Jbm Auto	Melchior Indian Opportunities Fund	S	50,000	80.93
21-Jun	Kadamb Const	Kehems Consultants Pvt Ltd	B	15,000	20.87
21-Jun	Kadamb Const	K K Patel Finance Ltd	S	15,000	20.10
21-Jun	Kirlosar Pn	Franklin Templeton Investment			
		Franklin India Smaller Compan	B	296,756	510.00
21-Jun	Kirlosar Pn	Franklin Templeton India Smaller Co	B	69,239	510.00
21-Jun	Kirlosar Pn	Mundhwa Investments Ltd	S	297,975	510.00
21-Jun	Kirlosar Pn	Reliance Capital Aml Ac PMS	S	175,000	512.69
21-Jun	Logix Micro	Passport India Investments Mauritius	B	120,000	275.59
21-Jun	Mah Ind Leas	Rina Ashishbhai Shah	B	21,000	45.79
21-Jun	Mah Ind Leas	Sejal Gopalbhai Shah	S	49,532	45.85
21-Jun	Martin Burn	Ramshree Financial Serv Pvt Ltd	S	40,000	151.60
21-Jun	Modipon Ltd	Mavi Investment Fund Ltd	B	48,450	77.00
21-Jun	Modipon Ltd	Lotus Global Investments Limited	B	99,295	78.11
21-Jun	Modipon Ltd	Ohm Stock Broker Pvt. Ltd.	S	151,200	77.76
21-Jun	Novgol Petr	Kajal M Shah	S	35,000	6.45
21-Jun	Nutraplus Pr	Sitabaiagarwal	B	25,000	8.37
21-Jun	Nutraplus Pr	Vishal Agarwal	B	28,139	8.32
21-Jun	Om Met Infra	Goldman Sachs Investment			
		Mauritius I Limited Ac Short Term	B	500,000	61.00
21-Jun	Patel Airtem	Harshadbhai Kapure	B	72,621	43.50
21-Jun	Patel Airtem	Chirag Raval	S	95,075	43.61
21-Jun	Rama Pul Pap	Ajay Bhagwandas Karani	B	42,000	59.30
21-Jun	Rasoi Ltd	Manu Stock Broking Pvt Ltd	S	9,967	220.25
21-Jun	Rasoi Ltd	ASL Vyapar Pvt Ltd	S	10,000	220.25
21-Jun	Sav Infocom	Western India Steel Co. Pvt. Ltd.	B	144,000	10.41
21-Jun	Sav Infocom	Mina Parikh	B	633,300	10.41
21-Jun	Sav Infocom	Bharat Parikh	B	648,300	10.41
21-Jun	Sav Infocom	Savant India Institute of Tech.Pvt.Ltd.	S	1,440,600	10.41
21-Jun	Shamke Multi	Anoop Jain HUF	B	100,000	4.24
21-Jun	Shree Ashta	Manoj Daga	B	68,449	252.54
21-Jun	Super Crop S	Hardik M Mithani	B	50,000	6.15

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
BHEL	1,483	4.0	5.5	1.1
Reliance Com	517	2.2	4.4	4.8
L&T	2,105	3.9	4.3	2.0
<b>Losers</b>				
ONGC	914.5	(0.9)	-3.4	1.0
Bharti Airtel	816.3	(1.1)	-3.2	0.9
Sterlite Ind	598.0	(1.8)	(1.2)	2.1

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
22-Jun	Amara Raja Batteries to announce earnings and dividend; Infosys Technologies holds share holders meeting in Bangalore
25-Jun	Annual General Meeting of SBI; ONGC to announce earnings; Everonn Systems India holds press conference to announce IPO
26-Jun	Apollo Hospitals enterprise to announce earnings and dividend
28-Jun	Pfizer to announce 2nd quarter earnings; Sun TV to announce earnings and dividend
29-Jun	TCS holds annual shareholders meeting
30-Jun	Tata Tele Services, Colgate Palmolive to announce earnings and dividend; Tata Coffee and Castrol India earnings expected

Source: Bloomberg

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