



Economy News

- ▶ Officials coordinating next month's visit to India by US President Barack Obama have been told to rule out a big-ticket signing ceremony for two defence safeguards agreements that Washington has pressed for. Senior defence ministry sources told Business Standard that Defence Minister A K Antony, during his visit to Washington last month, bluntly told US Defence Secretary Robert Gates that India would not sign the agreements, which Washington calls the "foundation" for transferring high-tech communications equipment to India. (ET)
- ▶ State-run power financier Rural Electrification Corporation (REC) plans to raise funds through issuance of deep discount bonds in the current financial year, besides raising Rs 10 -15 bn through infrastructure bonds. The company plans to issue 10-year deep discount bonds, also known as zero coupon bonds, in the last quarter of 2010-11. (BS)
- ▶ Life insurance companies are likely to invest Rs 40 bn in the Coal India Ltd initial public offering (IPO) — India's largest ever — which opens on Monday. (BS)

Corporate News

- ▶ Players such as **Whirlpool India**, TTK Prestige, Bajaj Electricals and VIP Industries are some that have lined up new product offerings. Whirlpool is launching a 180-litre refrigerator and three models of a new semi-automatic washing machine. Bajaj Electricals has entered the water purifiers segment. A plastic pressure cooker that can be used in a microwave oven is the planned offering from TTK Prestige while the moulded luggage manufacturer VIP Industries has plans to launch three models of soft luggage for the premium business traveller. These would fill the shelves of showrooms across the country ahead of Diwali. (BL)
- ▶ Denim and yarn manufacturer **Suryalakshmi Cotton Mills Ltd** plans to expand its spinning capacity by setting up a new ultra-modern unit with a capacity of 50,000 spindles with an outlay of Rs 1.65 bn. The project to come up in Andhra Pradesh will have initial capacity of 25,000 spindles in phase one of the project. The plant is expected to be commissioned by March 2012. (BL)
- ▶ **Dr Reddy's Laboratories** has announced that it will launch Lansoprazole delayed-release capsules (15 mg and 30 mg), a bioequivalent generic version of Prevacid delayed-release capsules, in the US market. The Food and Drug Administration (FDA) approved Dr Reddy's ANDA for Lansoprazole delayed-release capsules on October 15. (BL)
- ▶ The Gujarat Chief Minister, Mr Narendra Modi, on Sunday inaugurated the Godrej Garden City, a residential township being developed by **Godrej Properties Ltd** here, as the first major project of its kind in the State. The Godrej Garden City, spread over 250 acres, is located within the Ahmedabad Municipal Corporation limits, and will house over 13,000 apartments and villas, 40 acres of scenic landscaping and open areas, and commercial spaces. (BL)
- ▶ State-owned **Oil and Natural Gas Corp (ONGC)** has kicked off a Rs.8800 bn redevelopment of the southern part of its Mumbai High fields, using a cost-effective technology to maintain output from the prime western offshore fields. (BS)
- ▶ Fearing that it may not meet the target of adding 62,000 Megawatt (Mw) electricity in the current Five- Year Plan, the power ministry has asked **NHPC** to speed up execution of various projects and has offered help remove impediments, if any. The power ministry is conducting review meetings with company officials asking for reasons for delay in execution of its hydro power projects mainly — 800-Mw Parbati-II (Himachal Pradesh), and 2,000-MW Lower Subansiri (Arunachal Pradesh). (BS)
- ▶ Three leading US based private equity firms – Carlyle, KKR and Warburg Pincus are likely to acquire an effective 15-18% stake in **Hero Honda Motors**, as part of a two-legged transaction that could see Japan's Honda completely exit the country's largest motorcycle company. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, Tol: Times of India, BSE = Bombay Stock Exchange

Equity

	15 Oct 10	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	20,125	(1.8)	2.7	12.1
NIFTY Index	6,063	(1.9)	3.0	12.4
BANKEX Index	14,049	(1.9)	2.2	23.3
BSET Index	6,075	(3.3)	4.0	11.3
BSETCG INDEX	15,905	(1.3)	2.5	6.0
BSEOIL INDEX	10,693	(1.4)	(0.4)	1.6
CNXMcap Index	9,347	(1.5)	2.0	11.3
BSESMCAP INDEX	10,630	(0.7)	3.8	12.6
World Indices				
Dow Jones	11,063	(0.3)	4.3	9.6
Nasdaq	2,469	1.4	6.6	13.3
FTSE	5,703	(0.4)	3.5	10.6
Nikkei	9,500	(0.9)	(0.8)	1.5
Hangseng	23,758	(0.4)	7.8	17.0

Value traded (Rs cr)

	15 Oct 10	% Chg - Day
Cash BSE	4,729	(25.6)
Cash NSE	16,030	(13.5)
Derivatives	137,903	(1.0)

Net inflows (Rs cr)

	14 Oct 10	% Chg	MTD	YTD
FII	2,894	(6.6)	17,453	105,737
Mutual Fund	(399)	13.4	(3,661)	(26,417)

FII open interest (Rs cr)

	14 Oct 10	% Chg
FII Index Futures	15,753	(2.9)
FII Index Options	63,327	1.4
FII Stock Futures	44,313	(1.2)
FII Stock Options	1,316	(1.9)

Advances / Declines (BSE)

	15 Oct 10	A	B	S	Total	% total
Advances	23	588	131	742	29	
Declines	182	1270	271	1,723	68	
Unchanged	1	72	14	87	3	

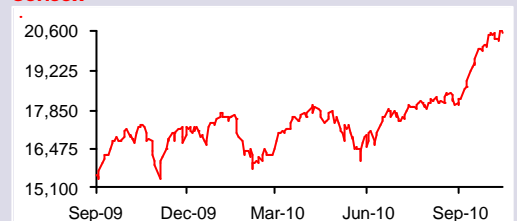
Commodity

	15 Oct 10	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	81.0	(0.3)	10.0	6.6
Gold (US\$/OZ)	1,371.0	(0.3)	6.4	14.2
Silver (US\$/OZ)	24.3	(0.7)	14.2	33.8

Debt / forex market

	15 Oct 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	N/A	N/A	N/A	N/A
Re/US\$	44.11	44.12	46.36	46.61

Sensex



RESULT UPDATE**Dipen Shah**dipen.shah@kotak.com
+91 22 6621 6301**INFOSYS TECHNOLOGIES LTD****PRICE: Rs.3076****TARGET PRICE: Rs.3454****RECOMMENDATION: BUY****FY12E P/E: 21.3x**

Infosys' operating profits were in line with our estimates. Higher - than - expected revenue growth was partially off-set by slightly lower-than-expected margins. Forex gains (v/s losses expected by us) helped PAT beat our expectations despite higher tax provision. The consistent strength in volumes (7.2% QoQ) is re-assuring. Billing rate increase (on-site) came as a pleasant surprise. Mix change and an increase in proportion of non-linear revenues likely led to this increase, we opine. While attrition has reduced on a QoQ basis, Infosys has had to respond to pressures by giving promotions to about 12000 people in October.

We opine that, while revenue growth has returned, so has the pressure on employee costs. We believe that, larger companies including Infosys will be able to respond to the resultant pressure on margins better than most of the smaller peers. Infosys has been able to increase revenue productivity and has several other levers (including growth) to restrict impact on margins.

Infosys has raised the revenue and EPS growth guidance for FY11 in USD terms, though rupee based EPS guidance is unchanged due to the rupee appreciation. We make changes to FY11E earnings and introduce FY12E earnings. Our FY12E EPS stands at Rs.145 (rupee - USD exchange rate at 45). Our DCF - based target stands at Rs.3454. At our TP, our FY12E earnings will be discounted about 24x, which is at the mid-point of the valuation range during the previous upturn.

Infosys is benefiting from the positive change in client sentiments and the presence of various margin levers, we opine. Infosys' long term strategy is geared towards providing services through new engagement models. We remain optimistic on the company's future prospects, led by a strong management team and maintain BUY, purely based on FY12E earnings.

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	227,420	274,797	331,549
Growth (%)	4.8	20.8	20.7
EBITDA	78,610	81,515	97,805
EBITDA margin (%)	34.6	29.7	29.5
Net profit	62,190	68,808	82,676
Net cash (debt)	105,560	131,747	169,101
EPS (Rs)	108.9	120.4	144.7
Growth (%)	5.6	10.6	20.2
CEPS	124.8	120.4	144.7
DPS (Rs)	25.0	40.0	35.0
ROE (%)	30.1	27.2	59.8
ROCE (%)	38.3	36.6	80.8
EV/Sales (x)	7.7	6.4	5.3
EV/EBITDA (x)	22.4	21.6	18.0
P/E (x)	28.3	25.6	21.3
P/Cash Earnings	24.7	25.6	21.3
P/BV (x)	7.6	6.4	5.3

Source: Company, Kotak Securities - Private Client Research

2QFY11 results - a mixed bag

(Rs mn)	1QFY11	2QFY11	% Chg	2QFY10	% Chg
Turnover	61,980	69,470	12.1	55,850	24.4
Expenditure	42,380	48,490		36,520	
EBIDTA	19,600	20,980	7.0	19,330	8.5
Depreciation	2,050	0		2,320	
EBIT	17,550	20,980	19.5	17,010	23.3
Other Income	2,390	2,670		2,360	
PBT	19,940	23,650	18.6	19,370	22.1
Tax	5,060	6,280		3,970	
PAT	14,880	17,370	16.7	15,400	12.8
PAT after EO items	14,880	17,370		15,400	
EPS (Rs)	26.0	30.4		27.0	
Margins					
EBIDTA (%)	31.6	30.2		34.6	
EBIT (%)	28.3	30.2		30.5	
Net Profit (%)	24.0	25.0		27.6	

Source : Company

Revenues grew by 9% on CC basis, volumes by 7.2%

- The company continued with the high volume growth which it had reported in 1Q.
- Volumes grew by 7.2% on top of a 6.9% rise reported in the previous quarter. This was re-assuring.
- In fact, this is the fourth successive quarter of more than 5% QoQ volume growth.
- The high volume growth was the major reason for the 9% CC revenue growth.

Macro scene improved

- Volumes grew as the company penetrated deeper into the existing clients. Clients, in turn, released more orders during the quarter, engaging Infosys for diverse services.
- The growth was led by the Top clients of Infosys. Revenues from the Top 10 clients grew by 12.1% QoQ v/s 9.3% for the balance.
- According to the management, clients have started spending more on discretionary spends, while increasing outsourcing with a view to bring in cost efficiencies.
- This is positively impacting companies like Infosys. The company has seen revenues in Consulting / package implementation and Systems Integration segments growing at a faster pace.
- Infosys continued to win large deals and closed 9 of them during the quarter. In 1Q, it had closed only a couple of them. A few of them had total contract value of more than \$100mn and a couple of them were more than \$200mn.
- More importantly, Infosys has closed 8 - 9 large transformational deals.
- An increase in proportion of transformational deals is very critical to Infosys' attempts to increase non-linear revenues, moving up the value chain and protecting margins.

Revenue growth- vertical wise

(Rs mns)	1QFY11	2QFY11	QoQ (%)	2QFY10	YoY (%)
Manufacturing	12,086	13,130	8.6	10,779	21.8
As a % of revenues	20	19		19	
BFSI	22,375	24,592	9.9	18,710	31.4
As a % of revenues	36	35		34	
Telecom	8,739	9,240	5.7	9,048	2.1
As a % of revenues	14	13		16	
Retail	8,181	10,004	22.3	7,875	27.0
As a % of revenues	13	14		14	
Energy & Utilities	3,719	4,377	17.7	3,295	32.8
As a % of revenues	6	6		6	
Transportation & Logistics	1,116	1,250	12.1	1,285	-2.7
As a % of revenues	2	2		2	
Services	2,975	3,612	21.4	2,793	29.4
As a % of revenues	5	5		5	
Others	2,789	3,265	17.1	2,066	58.0
As a % of revenues	5	5		4	
Total revenues	61,980	69,470	12.1	55,850	24.4

Source : Company

- Infosys added 27 new clients during the quarter. Infosys is now looking at garnering a larger share of the Fortune 2000 accounts, globally.
- Infosys currently services about 140 Fortune 500 clients and added 3 new Fortune 500 accounts in 2QFY11, according to the management.

Europe revenues up significantly

- Another encouraging feature of the results was the steep 20% sequential growth in revenues from Europe..
- Though currency fluctuations did help, the CC revenue growth was also at 15.6%.
- According to the management, verticals like retail, manufacturing, Insurance, Utilities and CPG helped revenue growth.
- Also, the management indicated that, the clients in countries like Germany, France, etc had started spending on IT and this is positive.

Geographic growth

(Rs mn)	1QFY11	2QFY11	QoQ (%)	2QFY10	YoY (%)
North America	41,713	45,711	9.6	35,404	29.1
Europe	12,582	15,144	20.4	13,516	12.0
India	1,054	1,459	38.5	492	196.2
Rest of World	6,632	7,155	7.9	5,308	34.8

Source : Company

Average realizations - surprising rise

- Average on-site realizations rose by 3.1% on a sequential basis, whereas off-shore realizations were higher by about 0.2%. On a blended basis also, they rose by about 3.2%. This came as a surprise.
- We understand that, this increase came about due to a change in mix of revenues. The proportion of consulting and package implementation as well as SI revenues grew during the quarter.
- We are also of the opinion that, increased proportion of non-linear revenues and transformational deals helped increase average billing rates.
- According to the management, unit realizations have remained stable and are expected to remain stable in 2HFY11 also.
- However, on a CC basis, average realizations rose by 2.5% with off-shore realizations actually witnessing a decline, in our view, because of mix change and some probable volume discounts.

Margins rise but marginally lower v/s our estimates

- Infosys reported a 190bps improvement in EBIT margins to 30.2%. In 1QFY11, margins had fallen by a similar margin.
- The depreciation in rupee, rise in revenue productivity and increase in utilization rates resulted in this improvement.
- However, the improvement fell marginally short of our estimates.
- We believe that, with a revival in demand, the pressure on employee costs has also gone up and is expected to persist.
- We opine that, large companies like Infosys will be in a better position to deal with these pressures because of the various levers including volume growth. Smaller companies may find it difficult to sustain and protect margins in case pressures on employee costs persist in future quarters.

Employee additions and promotions

- Infosys added 7646 employees on a net basis, which was very much in line with our expectations.
- Infosys has now set a target of adding 40000 employees on a gross basis in FY11 (36000, earlier).
- Attrition fell during the quarter in absolute numbers during the quarter to about 4100 v/s 5300 in the previous quarter.
- Infosys has announced promotions for about 12000 employees WEF October 2010.
- This is expected to lead to higher employee costs and may keep margins subdued in 3QFY11.

Forex gains and tax

- Infosys had a marginal forex gain during the quarter. This is as compared to a Rs.910mn loss expected by us.
- The company likely had a lower than expected translation loss.
- The company had hedges of only about \$645mn v/s more than \$700mn as at 1QFY11 end.
- Company provided for tax at a higher rate of 26.6% during the quarter.
- According to the management, increased profitability in on site operations and a larger proportion of revenues (about 85%) under tax cover led to this increase.

FY11 guidance - solid volume growth expected

- Infosys has guided to a 24% - 25% (19% - 22%) revenue growth in FY11 in USD terms. This is expected to be largely led by volumes with average realizations assumed to be almost at FY10 levels. Realisations in 2H are expected to be at 2QFY11 levels.
- The volume growth guidance is above our estimates and reflects the optimism about business flows going ahead.
- In INR terms, the company expects revenues to grow by about 18.5% - 19.4%.
- The EPS in INR terms is expected to be Rs.115 - Rs.117 (Rs.112 - Rs.117), indicating a 5% - 7% growth. The EPS guidance remains largely unchanged because of the appreciation of the rupee at the end of 2QFY11.
- The guided growth for EPS is lower than the revenue growth and we believe that, this reflects the impact of currencies (1.3% impact on net margins) and also the higher tax rate for the fiscal (1.3% impact on net margins).
- The quarterly guidance in USD terms implies a 1.5% revenue growth in 4Q, which is attributed to the uncertainty on the budgets for the next year, in the backdrop of an uncertain economic environment.
- In case the macro scene remains benign, there could be an upward bias to the guidance.

We tweak our earnings estimates

- We have made necessary changes to our earnings estimates for FY11, based on the improved macro scenario.
- We expect volumes to grow by 25% YoY FY11. Average realizations are expected to be marginally higher than 2QFY11 levels. We have assumed the rupee at Rs.45 per USD by FY11 end.
- EBIT margins are expected to be marginally lower in FY11 due to the expected rupee appreciation and salary hikes.
- The revenue growth (pyramid effect), better employee utilization levels and other cost initiatives are expected to restrict the impact to about 95bps.
- After considering higher tax rates (26% for FY11), PAT is expected to rise to about Rs.68.8bn in FY11, an EPS of Rs.120 (Rs.122 earlier).
- We introduce our FY12 earnings estimates.
- We have assumed a volume growth of 20% for FY12 accounting for a higher base and a still uncertain global economy. Average realizations are expected to be slightly higher v/s FY11.
- EBIT margins are expected to be lower on the back of rupee appreciation (assumed at Rs.45 per USD) and salary increments.
- After accounting for about 26% tax rate, PAT is expected to grow by about 20% to Rs.82.68bn, translating into an EPS of Rs.145.

Valuations

We maintain BUY on Infosys Technologies with a price target of Rs.3454

- We now value the stock based on FY12 estimates.
- Our DCF based fair price target works out to Rs.3454.
- At our target price, Infosys will quote at about 24x FY12 estimated earnings, which is at the mid-point of the valuation range enjoyed by Infosys in the previous upturn.

Concerns and risks

- A sharp appreciation in the rupee against various currencies will impact our earnings estimates.
- Delay in the economic recovery of major user economies will likely impact future revenue growth of the company.

Analyst holding: 50 shares

RESULT UPDATE**Ritwik Rai**ritwik.raai@kotak.com
+91 22 6621 6310**UTV SOFTWARE****PRICE: Rs.504**
TARGET PRICE: Rs.458**RECOMMENDATION: REDUCE**
FY11E P/E: 15.0x**Summary table - Consolidated**

(Rs mn)	FY10	FY11E	FY12E
Sales	6640.4	10402.4	12377.1
Growth (%)	9.5	56.7	19.0
EBITDA	241.2	1791.0	2437.2
EBITDA margin (%)	3.6	17.2	19.7
Net profit	533.0	1370.4	1681.7
Net Debt	8715.1	4920.6	3323.1
EPS (Rs)	13.1	33.7	41.4
Growth (%)	49.9	157.1	22.7
CEPS	14.6	36.1	44.1
DPS (Rs)	0.0	0.0	1.0
ROE (%)	4.9	13.5	12.6
ROCE (%)	3.3	9.3	10.6
EV/Sales (x)	4.4	2.4	1.9
EV/EBITDA (x)	121.2	14.2	9.8
P/E (x)	38.5	15.0	12.2
P/Cash Earnings	34.5	14.0	11.5
P/BV (x)	2.7	1.6	1.4

Source: Company, Kotak Securities - Private Client Research

- ❑ UTV Software's 2QFY10 results are a disappointment on the top line, primarily on account of decline in interactive and games segment. Due to higher margins, lower interest expenses and lower provisioning for tax, the company has reported PAT of Rs 402mn, in line with our estimates.
- ❑ Movies business continues to be strong, slate for remaining FY11 encouraging. Broadcasting, although not a significant contributor to profits is coming into its own as a segment, contributing 34% to 2QFY11 revenues.
- ❑ Adverse market reaction to the result reflects failure to see growth drivers for the company in absence of incremental gains in games segment - such gains are likely to be lumpy in nature, resulting from MG deals on some of the company's IPs. This appears to be a valid fear, given that substantial scale in movies has been achieved, and future growth should be driven by broadcasting/ games.
- ❑ Games segment continues to be a likely upside trigger/ concern issue for the stock. It also exposes the stock to a high degree of earnings risk, given embedded expectations of strong growth in the remainder of FY11/FY12 from this segment.
- ❑ We raise EBITDA and PAT estimates to account for higher margins in movies, continued expectation of benefits from likely MG deals, and sharply lower tax assumptions.
- ❑ PER cheap on account of high expectations, tax benefits: While UTV's management continues to be optimistic on games, we are wary of providing a strong multiple to the stock, on account of low visibility from the vertical, and tax benefits, which we assume are non-recurring post FY12.
- ❑ Given impact of tax benefits on current year earnings, as well as high debt on the company's balance sheet, we believe it is fair to value the stock on an EV/ EBITDA basis. We value UTV Software at 9x FY12E EV/ EBITDA, arriving at a price target of Rs 458 (prior price target - Rs 480). We downgrade the stock to REDUCE.

Discussion of Results

UTV Software Ltd. (henceforth UTV) reported 2QFY10 results. Revenues, at Rs.2.39 bn were flat q/q. The company has reported PAT in line with our expectations, primarily on account of higher margins, and low provision for tax (continued benefits from carried forward losses of subsidiary companies).

Movies continued to be the driver of the company's revenue and profit in 2QFY10, although revenues from movies remained flat y/y. Key contributors to revenues include four of UTV's movies that were released in 2QFY10, including I Hate Luv Storys, Udaan, Peepli Live, and We Are Family. The company also booked satellite revenues relating with last quarter's release Rajneeti and syndication revenues on other movies.

Due to similarities in revenue streams, the company has reduced its number of reportable segments to three (from five earlier). Apart from movies, the company would be reporting "broadcasting" (adds broadcasting and television segments that were reported in the past) and "games and interactive" (adds "interactive" and "new media" as reported in the past) as the three reportable segments

Broadcasting has continued to show strong traction, growing 60% y/y, and 13% q/q. The segment has benefited from strength in UTV's channel GRPs as well as continued strength in the company's airtime sales related with programming for Sun TV Network.

Games and interactive, as a segment continues to be the disappointment and trigger in UTV results. Although the segment has broken even this quarter, it remains a minor contributor to the topline of the company while consuming significant portion of the capital employed.

Operating Income and capital employed

(Rs mn)	2QFY11	2QFY10	1QFY11
- o/w Television	49.3	-139.5	6
- o/w Movies	446.0	299.1	522
- o/w Games	52.5	69.9	-42
- o/w New Media			2
- o/w Broadcasting			38
Capital Employed	19,178	22,629	18,713
Television	4,938	4,560	349
Movies	5,685	9,691	5,459
Games	6,559	4,763	5,559
New Media			257
Broadcasting			4461
Unallocable	1995.28	3616.04	2629

Source: Company

Quarterly Financials

(Rs mn)	2QFY11	2QFY10	1QFY11
Revenues:			
- o/w Television	815	244	242
- o/w Movies	1,207	1,310	1108
- o/w Games	357	577	122
- o/w New Media		22	53
- o/w Broadcasting		265	481
- Less: Inter-Segment Revenues	-1	-73	-14
Other Operating Revenues	21	31.5	90
Total Operating Revenues	2,399	2,377	2082
Expenditure	1,940	2,176	1597
Direct Cost	1,503	1,768	1223
Personnel Cost	189	161	186
Other Expenses	247	247	189
EBITDA	459	200	485
Margin (%)	19	8	23
Depreciation	21	19.6	19
EBIT	438	181	466
Add: Other Income	16.0	14.0	0
Less: Interest Expenses (Net)	43	119	63
PBT	411	76	403
Tax Expense	0	-27.3	1
PAT	411	103	402
Minority Interest	10	20.5	-9
PAT After Minority Interest	402	83	412
Paid Up Equity Capital	406.3	342.0	406.0
EPS (Rs)	9.9	2.4	10.1

Source: Company; Note: As stated elsewhere in the report, the company's reportable segments have changed. Segments "new media" and "broadcasting" are now accounted for under the single head of "games and interactive"(Games above) and "television" respectively.

We note that the company has clarified that interest expenses related with movies and games are included in direct costs attributed, explaining the low interest expenses of the company. UTV Software has continued to benefit from losses carried forward by subsidiary companies. Management has guided for a single digit effective tax rate for FY11.

Outlook and Value Drivers

The movie slate of the company remains encouraging, with two big movies expected in the remainder of the year (Guzaarish and Tees Maar Khan). We believe that the company has developed a strong position in the movie production business and has the capability for continued growth with strong margins.

The broadcasting business of the company has stabilized, and contributes a significant amount to the revenues, bringing in diversity in the revenue stream. The management has re-iterated that it would expect 50% growth in y/y growth in FY12, leading to strong EBITDA margins (25-30%). In our view, this is doubtful. While we appreciate the creativity shown by UTV in developing such "mass specialty channels" and content therein, we remain cautious about competitive dynamics in the sector, and factor in 13% margin in FY12.

The games segment continues to show promise, but lack of monetization. The earnings release notes that El Shaddai unveiled itself at The Tokyo Game Show had won rave reviews, while True Games and India Games continue to perform to management expectations. However, it is the actual sale of the company's IPs/ entry of a strategic investor that will convince shareholders of the valuation that UTV's games segment can possibly demand.

Management expects that the games segment will benefit from MG deals with certain publishers that it continues to engage. The management continues to see games contribution to FY11 revenues over 20% (current quarter revenues - 15% of the revenue pie). Our estimates for FY11/FY12E Revenues include Rs 2.4 Bn/ Rs 3.0Bn contribution from games, and Rs 200 mn/ Rs 334mn EBITDA contribution from the same over the two years.

The revenues coming in from such MG deals, will include: a/ a one-time payoff to UTV for ownership of the IP, and b/ overflows from sales of the products after sales cross a certain threshold limit. Recurrence of revenues will then depend on the acceptability of the game, development of sequels, and other monetization. Although we understand that such an exploitation can be lucrative, we note that it also may be a one-off, that is, revenues may not recur at all (upon non-success of the game). As such, without any insight into the market and UTV's product, we are wary of making strong assumptions on sales, or providing strong multiple on the earnings generated by such sales.

Change in Estimates

We make changes to our estimates to account for: 1/ lower revenue expectations from games segment in FY11/FY12, 2/ higher margins on account of strong performance in movies, 3/ lower effective tax rates. We also account for a lower equity base following a discussion with the management, which has a positive impact on EPS. We now see FY11/ FY12 EPS at Rs 33.7/ Rs41.4.

Valuation

Given high debt on the company's balance sheet, as well as impact of low tax provisioning in the current year (likely also in FY12), we find it appropriate to value the company on an EV/ EBITDA basis.

We recommend REDUCE on UTV Software with a price target of Rs.458

UTV trades at 9.8x FY12E EV/ EBITDA. Although not strict comparables, we note that media companies typically trade at ~10x EV/ EBITDA FY12E (ZEEL trades at EV/ EBITDA of 10.4x). We choose this as the benchmark for UTV's valuation.

Given: 1/ inherent risks in the movie business, the primary profit driver of the company, 2/ the company's broadcasting business is yet to contribute significantly to UTV's profits, 3/ the uncertainty surrounding the company's interactive and gaming revenues and the timing thereof, we believe UTV should trade at a 10% discount to the typical broadcasting/ print company until such a point where the creation and recurrence of revenues and profits from games is established.

We value the stock at 9x EV/ EBITDA, and arrive at a price target of Rs 458/ share. We downgrade the stock to **REDUCE**.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
15-Oct	Amar Remedies	Morgan Stanley Mauritius Co Ltd	B	254,587	129.5
15-Oct	Beryl Drugs	Abhirati Trading Private Ltd	S	67,000	38.0
15-Oct	Beryl Drugs	Meena Hareesh Mehta	S	30,000	36.7
15-Oct	Bharat Gears	Chander Kanta	S	33,072	99.7
15-Oct	Camson Bio	Shivanand Singh	S	100,000	175.0
15-Oct	Consolidated Sec	Consolidated Securities Limited	B	100,000	68.5
15-Oct	Dazzel Conf	Tej Kumar Kala	B	30,000	27.5
15-Oct	Dazzel Conf	Kamlesh Nagar	S	36,202	26.1
15-Oct	Dazzel Conf	Aanir Shares Services	S	32,800	26.0
15-Oct	Dhanprayog	Rashmi Rajiv Khaitan	B	1,200	34.4
15-Oct	Dhanprayog	Pratima Prakash Shah	S	1,200	34.4
15-Oct	Eldeco Hous	Sanjiv Dhiresbhai Shah	B	11,800	192.4
15-Oct	Eldeco Hous	Shah Manoramaben	S	12,000	192.4
15-Oct	Exelon Infra	Bala Rama Venkata Siva Naga S	S	31,000	30.1
15-Oct	Grabal Alok	Jamish Investment Pvt. Ltd.	B	250,000	48.0
15-Oct	Grabal Alok	Jermyn Capital Llc	S	250,000	48.0
15-Oct	IFL Promoters	Ajay Kumar Mahawar (Huf)	B	20,000	17.3
15-Oct	Indian Sucrose	Umllesh Yadav	B	634,993	25.2
15-Oct	Indian Sucrose	Deepak Yadav	S	634,993	25.2
15-Oct	Jaihind Syn	Pratixa Vinit Shah	B	53,285	33.8
15-Oct	Jaihind Syn	Radha Madhav Silk Mills Pvt Ltd	S	30,605	33.8
15-Oct	Karuturi Glob	Elia Construction Private Limited	B	2,520,990	35.8
15-Oct	Karuturi Glob	Ajit Kumar Jain	S	4,857,476	36.4
15-Oct	Kay Power	Kaushalaya Garg	B	300,000	23.0
15-Oct	Kay Power	Neha Khandelwal	B	148,515	24.5
15-Oct	Ken Fin Serv	Nitan Ramprakash Chhatwal	B	30,000	89.1
15-Oct	LGS Glob	Ashok Hargovindas Soni	S	131,794	66.4
15-Oct	LGS Glob	Bipin Jayant Thaker	S	177,348	69.2
15-Oct	Madhur Inds	Vimal Sarabhai Shah	S	21,248	42.7
15-Oct	Madhur Inds	Maheshbhai J Patel	S	25,000	42.7
15-Oct	Master	Bala Rama Venkata Siva Naga S	S	55,310	53.7
15-Oct	NCL Research	Silverpearl Trading Private Limited	S	19,000	180.0
15-Oct	Oregon Comm	Kaushik Jamnadas Shah	B	11,000	155.6
15-Oct	Oregon Comm	Krishnarjuna Rao Kakumanu	B	6,410	155.6
15-Oct	Oregon Comm	Shweta Dhiren Agrawal	S	10,000	155.6
15-Oct	Oregon Comm	Sanjay Jethalal Soni	S	5,527	155.6
15-Oct	Oregon Comm	Dhirenkumar Dharamdas Agarwal	S	15,000	155.6
15-Oct	Orissa Minerals	JMP Securities Pvt Ltd	S	4,487	53,534.9
15-Oct	Parenteral Drug	India Discovery Fund Limited	B	790,000	290.0
15-Oct	Parenteral Drug	Dhananjaya Money Mgmt	B	150,139	313.0
15-Oct	Parenteral Drug	II & Fs Financial Services Limited	B	155,000	290.0
15-Oct	Parenteral Drug	Mavi Investment Fund Limited	S	226,666	290.8
15-Oct	Parenteral Drug	Kadayam Ramnathan Bharat	S	200,000	290.6
15-Oct	Parichay Invest	Amitkumar Rameshchandra Rana	B	19,500	75.9
15-Oct	Parichay Invest	Miteshgiri Chandangiri Goswami	B	13,150	75.7
15-Oct	Parichay Invest	Arif Gulammustufa Shaikh	B	13,100	75.8
15-Oct	Parichay Invest	Dhirenkumar Dharamdas Agarwal	S	15,050	76.0
15-Oct	Pm Telelinnks	Jagdish Ramanlal Parel	S	100,000	33.5
15-Oct	Polypro Fibrils	Parul Jayesh Shah	B	29,335	26.8
15-Oct	Polypro Fibrils	Ajay Ravindra Shah	S	40,653	26.9
15-Oct	Quintegra Sol	Sainath Herbal Care Mktg Pvt Ltd	B	224,984	14.6

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
15-Oct	Rama Pulp	Subhash Phootarmal Rathod	B	73,651	18.9
15-Oct	Rama Pulp	Baby Vijay Sharma	S	104,111	18.9
15-Oct	Ranklin Sol	Paresh Ramjibhai Chauhan	B	40,000	127.3
15-Oct	Ranklin Sol	Bala Rama Venkata Siva Naga S	S	32,570	127.3
15-Oct	Ranklin Sol	Eminence Capital Services	S	35,000	127.5
15-Oct	Ranklin Sol	Nitin Chadha	S	59,077	127.5
15-Oct	Ranklin Sol	Gopala Krishna Bonam	S	28,500	127.6
15-Oct	Reliance Chem	Tirath Pradyuman Parikh	B	34,980	118.4
15-Oct	Reliance Chem	Gyan Chand Mehta	S	18,476	117.2
15-Oct	Reliance Chem	Tirath Pradyuman Parikh	S	30,422	116.5
15-Oct	Rexnord Elect	Suraj Sreenath	S	46,679	16.2
15-Oct	RM Mohite	Shri Ganesh Seeds Private Ltd	S	101,000	240.0
15-Oct	Sanjivani Par	Sainath Herbal Care Mktg Pvt Ltd	B	32,746	65.7
15-Oct	Shree Nath Com	Mahendra Kumar Sharma	S	30,000	53.0
15-Oct	Shri Dinesh	Pravinchandra Morarji Vora	B	41,124	141.5
15-Oct	Systematix Corp	Mavi Investment Fund Limited	B	368,621	143.9
15-Oct	Systematix Corp	Kanishkdeep Stock Consultants Pvt Ltd	S	60,000	143.9
15-Oct	Systematix Corp	Madhukar Chimanlal Sheth	S	78,467	143.9
15-Oct	Systematix Corp	Altius Securities Trading Pvt Ltd	S	100,000	143.9
15-Oct	Temptation Food	Subhash Phootarmal Rathod	B	384,200	36.9
15-Oct	Temptation Food	Stellant Capital Advisory Ser Pvt Ltd	S	250,000	37.0
15-Oct	TPL Plastech	Kismat Tradeplace Private Limited	B	81,135	103.6
15-Oct	TPL Plastech	Ador Poly-Containers Limited	S	74,400	103.9
15-Oct	TVS Electronics	K Navarathanmal	B	111,289	38.5
15-Oct	Vakrangee Soft	Bluepearl Trading Company Pvt Ltd	B	175,000	270.2
15-Oct	Valuemart Info	Bela Properties Pvt Ltd	S	408,356	22.2
15-Oct	Vikram Thermo	Mohammad Ali Kalloo Khan	B	18,306	24.8
15-Oct	Welspun Invest	Mavi Investment Fund Limited	B	30,000	158.6
15-Oct	Welspun Invest	Sanjaykumar Jagdishprasad Poddar	S	30,000	158.6

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
NTPC	204	0.9	0.8	4.0
Dr Reddys	1,585	0.7	0.4	0.5
Cairn India	338	0.2	0.1	1.0
Losers				
Infosys Tech	3,076	(3.4)	(17.8)	3.2
Reliance Ind	1,040	(1.8)	(10.7)	2.7
SBI	3,166	(2.9)	(8.4)	1.4

Source: Bloomberg

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