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Updates

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Technology: Recent developments at a few engineering colleges can have negative implications for frontline IT companies

News Roundup

Corporate

- Sterlite Industries is set to list its \$2 billion (Rs 8,000 crore) American Depository Shares (ADS) issue, the largest by any Indian company, with the New York Stock Exchange by the middle of this month. *(BS)*
- The Bombay High Court division bench rejected Reliance Energy's (REL) plea challenging the state government's decision to disqualify the company led consortium from bidding for the Rs 40bn Sewri-Nahav Sheva Sea Link Project also known as the Mumbai Trans Harbour Link (MTHL). *(BS)*
- As many as nine investors are currently in talks with Reliance Communications (RCOM), the country's second-largest wireless service provider, for picking up a minority stake in its telecom infrastructure business. RCOM is currently in the process of spinning off its telecom infrastructure into a separate company — Reliance Telecom Infrastructure Limited (RTIL). *(ET)*
- To mobilise funds for its recently announced acquisition of US-based CII Carbon, LLC, Hyderabad-based Rain Calcining Ltd will adopt a debt-cum-equity route. *(BL)*
- Petroleo Brasileiro S.A. (Petrobras) — will now get participating interest in exploration blocks of ONGC in India and ONGC, in turn will get to participate in oil blocks being explored by Petrobras in Brazil. ONGC's deepwater blocks, where Petrobras could hold stake include those in the Krishna-Godavari Basin, off Andhra Pradesh coast, and the Mahanadi Basin off Orissa coast. Petrobras has offered 25-30 per cent stake to ONGC in three exploration blocks and, in return, ONGC. *(BL)*

Economic and political

- The government is considering allowing cheaper imports or getting state-owned canalising agencies to import palm, soy, rapeseed and mustard oil through the year as part of its extended inflation-management strategy. The State Trading Corporation, MMTC, and Nafed may be asked to import 1 million tonnes of these oils from Indonesia, Malaysia, Argentina and Brazil and process them as marketable pouches. *(BS)*
- The seven-member Deepak Parekh Committee on infrastructure financing has suggested that India should allow holding companies to raise foreign direct investment (FDI) through the automatic route, refinance rupee loans and relax cost ceilings for external debt, in its final report submitted last week. *(BS)*
- India Infrastructure Finance, the state-owned lender that set up a fund with Blackstone Group LP and Citigroup Inc, plans to borrow \$500 million from a group of banks in its first overseas loan. *(BS)*

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change, %			
	4-Jun	1-day	1-mo	3-mo
Sensex	14,496	(0.5)	4.0	16.8
Nifty	4,267	(0.7)	3.6	19.3
Global/Regional indices				
Dow Jones	13,676	0.1	3.1	13.5
Nasdaq Composite	2,618	0.2	1.8	11.9
FTSE	6,664	(0.2)	0.9	10.0
Nikkie	18,064	0.5	3.8	8.5
Hang Seng	20,751	0.1	(0.4)	11.2
KOSPI	1,741	0.2	11.1	26.5
Value traded - India				
		Moving avg, Rs bn		
	4-Jun	1-mo	3-mo	
Cash (NSE+BSE)	124.2	141.6	126.9	
Derivatives (NSE)	287.3	292.1	325.3	
Deri. open interest	542.1	478.4	530.1	

Forex/money market

	Change, basis points			
	4-Jun	1-day	1-mo	3-mo
Rs/US\$	40.5	-	(34)	(416)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.1	2	(2)	17

Net investment (US\$m)

	1-Jun	MTD	CYTD
FIs	119	1,257	40
MFs	25	241	(303)

Top movers -3mo basis

Best performers	Change, %			
	4-Jun	1-day	1-mo	3-mo
Balaji Telefilms	215	(2.8)	30.1	94.7
Reliance Cap	981	1.0	31.9	72.1
Tata Tea	913	(4.2)	20.2	62.2
GESCO	299	2.4	16.6	50.0
SBI	1,407	2.1	24.6	46.2
Worst performers				
Bajaj Auto	2,219	(0.7)	(13.6)	(9.6)
Infosys	1,916	(1.2)	(7.5)	(4.5)
Arvind Mills	46	(0.5)	(0.2)	0.7
Raymond	318	(0.1)	(8.7)	(4.4)
Tata Motors	711	(4.8)	(2.9)	(3.4)

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Technology

Sector coverage view Attractive

Company	Rating	Price, Rs	
		4-Jun	Target
TCS	IL	1,209	1,300
Wipro	OP	534	655
Infosys	OP	1,916	2,300
Satyam Comp	IL	467	510
HCL Tech	IL	340	360
i-flex solutions	U	2,199	1,675
Patni	OP	539	530
Hexaware	IL	155	195
Polaris Softwa	U	160	150
Tech Mahindra	IL	1,507	1,850
Mphasis BFL	IL	306	320
iGate Global	U	356	325
MindTree	IL	770	750

Reducing EPS estimates on the back of revision in our Re/ US\$ assumption

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- **Changing our Re/US\$ assumption to 42 for FY2008, 42 for FY2009 and 41 for FY2010 from 43.5 earlier**
- **Reducing FY2008 EPS estimates by 2-4%, target prices by 5-8%**

We are reducing our FY2008, FY2009 and FY2010 estimates on the back of revision in our Re/ US\$ assumption. Based on our economist's view, we are changing our Re/ US\$ realization assumption to 42 for FY2008, 42 for FY2009 and 41 for FY2010. Our EPS reduction range for various companies works out to 2-4% for FY2008, 2.5-3.5% for FY2009 and 3-6% for FY2010. We reduce our target prices for Infosys to Rs2,300 (down 8%), Wipro to Rs655 (down 8%), Satyam to Rs510 (down 5%) and TCS by to Rs1,300 (down 7%). Frontline IT stocks have corrected by 5-20% in the last two months and factor in part of the concerns. We maintain our attractive coverage view on the sector noting that core business metrics (ex-currency) remain buoyant and most of the negative news is already in the price. Infosys and Wipro are our top picks. Assuming a scenario Re/US\$ rate of 40 for the next three years, the distressed valuations work out to Rs2,080 for Infosys, Rs600 for Wipro, Rs1,175 for TCS and Rs465 for Satyam.

Hedging important for near term; cannot help in the long term. Companies with hedges in excess of foreign denominated net monetary assets would be partly able to mitigate impact of rupee appreciation (though gains would be booked at the other income line) for FY2008. We expect HCLT (US\$900 mn hedges) and Satyam (US\$650 mn) to report significant forex gains. We also expect moderate gains for Infosys and TCS.

Impact on EBITDA and EPS on account of rupee appreciation. A 1% rupee appreciation impacts EBITDA margins by 30 bps and EPS by 1.5-2%. We are factoring in a Re/US\$ rate of 42 for FY2008, 42 for FY2009 and 41 for FY2010. We are assuming near term savings from pricing improvement (0.5%-1% increase) and operational efficiencies to partially mitigate some of this impact. Our net EPS reduction for various companies works out in the range of 2-4% for FY2008

Scenario-EPS and fair value at various exchange rates. Assuming a scenario rate of 41 for FY2008 and FY2009, our EPS estimates decline stands at 2.5-5% and 2-5.2% respectively. The target price at these ranges stands reduced by 2.3%-4.3%. We do not assume any additional improvement in pricing or other efficiency gains to offset the impact of this in our model.

Infosys and Wipro present reasonable upside even considering DCF based fair value at Re/ US\$ rate of 41 and 40

Current assumptions	EPS			EPS CAGR (%)	DCF value (Rs)	Implied P/E (X)			CMP (Rs)	Downside/upside (%)
	2008E	2009E	2010E			2008	2009	2010		
Re/ US\$ rate	42.0	42.0	41.0							
Infosys	83.8	103.4	110.0	18.0	2,300	27.5	22.2	20.9	1,916	20.0
TCS	51.8	62.9	68.2	17.3	1,300	25.1	20.7	19.1	1,209	7.5
Wipro	24.3	30.4	33.4	18.2	655	26.9	21.5	19.6	534	22.7
Satyam	26.4	32.0	33.5	16.0	510	19.3	15.9	15.2	467	9.1
HCL Technologies	18.1	22.1	23.2	9.7	360	19.8	16.3	15.5	340	5.8
Re/ US\$ rate = 41										
Infosys	80.2	98.9	110.0	18.0	2,200	27.4	22.2	20.0	1,916	14.8
TCS	49.7	60.0	68.2	17.3	1,250	25.1	20.8	18.3	1,209	3.4
Wipro	23.2	28.8	33.4	18.1	640	27.6	22.2	19.2	534	19.9
Satyam	25.7	30.5	33.5	16.0	490	19.1	16.1	14.6	467	4.8
HCL Technologies	17.7	21.7	23.2	9.6	350	19.8	16.1	15.1	340	2.9
Re/ US\$ rate = 40										
Infosys	77.9	94.6	104.7	16.0	2,080	26.7	22.0	19.9	1,916	8.5
TCS	48.0	57.2	64.9	15.4	1,175	24.5	20.6	18.1	1,209	(2.8)
Wipro	22.3	27.3	31.5	15.9	600	26.9	22.0	19.0	534	12.4
Satyam	24.9	28.9	31.7	14.0	465	18.7	16.1	14.7	467	(0.5)
HCL Technologies	17.2	21.2	22.3	8.3	330	19.1	15.6	14.8	340	(3.0)

Note:

(a) Valuations assuming no changes other than the Re/ US\$ rate

Source: Kotak Institutional Equities estimates

Discussion on key stocks

Infosys Technologies: Infosys had guided for an EPS of 80.3-81.6 for FY2008 assuming a Re/US\$ rate of 43.1. The company has not factored any pricing improvements from 4QFY07 levels. We revise our Re/ US\$ rate to 42, 42 and 41 for FY2008, FY2009 and FY2010 respectively from 43 earlier. We revise downwards our EPS estimate to Rs83.8 for FY2008 from Rs86, Rs103.4 for FY2009 from Rs106.8 and Rs110 from Rs112.9. Note that we have factored forex gain of Rs400 mn for FY2008. Infosys had hedges of US\$475 mn as at end March 2007, which the company subsequently increased to US\$1 bn. We reduce our end-March 2009 DCF based target price to Rs2,300 from Rs2,500 earlier. We maintain our Outperform rating on the stock.

Infosys: Key changes to our FY2008-FY2010 estimates

Rs mn	New			Old			Change (%)		
	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E
Revenues	180,064	232,106	279,413	183,765	236,719	297,130	(2.0)	(1.9)	(6.0)
EBITDA	55,434	70,445	81,482	57,065	72,412	89,454	(2.9)	(2.7)	(8.9)
Depreciation	(6,161)	(7,896)	(10,272)	(6,161)	(7,897)	(10,277)	-	(0.0)	(0.0)
EBIT	49,273	62,550	71,210	50,904	64,516	79,177	(3.2)	(3.0)	(10.1)
Net Profit	48,141	59,447	63,210	49,416	61,382	64,906	(2.6)	(3.2)	(2.6)
Net Income (after minorities)	48,079	59,367	63,141	49,350	61,298	64,821	(2.6)	(3.1)	(2.6)
EPS (Rs/ share)	83.8	103.4	110.0	86.0	106.8	112.9	(2.6)	(3.1)	(2.6)
Volume Growth (%)	33.3	27.6	21.6	33.3	27.6	21.6			
Billing Rates (US\$/ manmonth)									
Onsite	11,847	11,934	12,083	11,803	11,886	12,005	0.4	0.4	0.6
Offshore	4,885	4,977	5,040	4,881	4,967	5,017	0.1	0.2	0.4
Margins (%)									
EBITDA	30.8	30.4	29.2	31.1	30.6	30.1			
EBIT	27.4	26.9	25.5	27.7	27.3	26.6			
Rs/ US\$ rate	42.0	42.0	41.0	43.0	43.0	43.9	(2.2)	(2.2)	(6.4)

Note: Tax rate for FY2010 revised from 24% earlier to 18.5%

Source: Kotak Institutional Equities estimates

Wipro: We are reducing our FY2008 EPS estimate by 3.5% to Rs24.3, FY2009 estimate by 3.3% to Rs30.4 and FY2010 estimates by 5.3% to Rs33.4. We believe that Wipro is the best positioned to mitigate pressure on operating margin through levers such as improvement in utilization rates (at a historic low of 68% presently), correction in bulge at the mid-management level (45% of employees are in the 0-3 years experience range, lowest among peers), pricing improvement and further improvement in profitability of acquired entities. Wipro's hedge as at end March 2007 was US\$600 mn, lower than peers. Accordingly, we do not factor any hedging gains for Wipro for FY2008. We reduce our end-March 2009 DCF based target price to Rs655 from Rs710 earlier. Maintain Outperform rating.

Wipro: Key changes to our FY2008-FY2010 estimates

Rs mn	New			Old			Change (%)		
	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E
Revenues	188,927	243,353	287,173	191,807	246,674	300,439	(1.5)	(1.3)	(4.4)
Revenues (IT services + BPO)	139,022	182,813	219,597	141,901	186,134	232,862	(2.0)	(1.8)	(5.7)
EBITDA	42,780	54,830	63,511	44,181	56,358	69,337	(3.2)	(2.7)	(8.4)
Depreciation	(4,868)	(6,067)	(7,322)	(4,878)	(6,097)	(7,390)	(0.2)	(0.5)	(0.9)
EBIT	37,913	48,763	56,189	39,303	50,262	61,947	(3.5)	(3.0)	(9.3)
Net Profit	35,153	44,106	48,439	36,450	45,599	51,155	(3.6)	(3.3)	(5.3)
Net Income (after minorities)	35,504	44,381	48,755	36,800	45,874	51,471	(3.5)	(3.3)	(5.3)
EPS (Rs/ share)	24.3	30.4	33.4	25.2	31.4	35.3	(3.5)	(3.3)	(5.3)
Volume Growth (%)	32.6	31.9	21.9	32.6	31.9	21.9			
Billing Rates (US\$/ manmonth)									
Onsite	11,846	11,853	12,121	11,800	11,794	12,015	0.4	0.5	0.9
Offshore	4,468	4,456	4,546	4,450	4,434	4,506	0.4	0.5	0.9
Margins (%) - Global IT only									
EBITDA	26.8	26.1	25.4	27.2	26.3	26.3			
EBIT	24.0	23.4	22.7	24.5	23.7	23.7			
Rs/ US\$ rate	42.0	42.0	41.0	43.0	43.0	43.9	(2.3)	(2.1)	(6.5)

Note: Tax rate for FY2010 revised from 23.3% earlier to 20.3%

Source: Kotak Institutional Equities estimates

Tata Consultancy Services: We are reducing our FY2008 EPS estimate by 1.7% to Rs51.8, FY2009 estimate by 2.5% to Rs62.9 and FY2010 estimate by 6.1% to Rs68.2. TCS' hedge as at end March 2007 was US\$1.4 bn, higher than net non rupee denominated monetary assets. We model forex gain of Rs1 bn for FY2008. We reduce our end-March 2009 DCF based target price to Rs1,300 from Rs1,400 earlier. Maintain In-line rating

TCS: Key changes to our FY2008-FY2010 estimates

Rs mn	New			Old			Change (%)		
	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E
Revenues	233,171	294,402	350,852	237,836	299,533	373,056	(2.0)	(1.7)	(6.0)
EBITDA	62,174	76,391	88,785	63,889	78,154	98,217	(2.7)	(2.3)	(9.6)
Depreciation	(5,048)	(6,033)	(7,293)	(5,074)	(6,102)	(7,455)	(0.5)	(1.1)	(2.2)
EBIT	57,126	70,358	81,492	58,815	72,053	90,762	(2.9)	(2.4)	(10.2)
Net Profit	51,270	62,141	67,315	52,167	63,736	71,679	(1.7)	(2.5)	(6.1)
Net Income (after minorities)	50,740	61,554	66,741	51,624	63,135	71,066	(1.7)	(2.5)	(6.1)
EPS (Rs/ share)	51.8	62.9	68.2	52.8	64.5	72.6	(1.7)	(2.5)	(6.1)
Volume Growth (%)	35.1	26.8	20.7	35.1	26.8	20.7			
Billing Rates (US\$/ manmonth)									
Onsite	10,977	11,106	11,302	10,929	11,051	11,246	0.4	0.5	0.5
Offshore	3,802	3,847	3,915	3,785	3,828	3,895	0.4	0.5	0.5
Margins (%)									
EBITDA	26.7	25.9	25.3	26.9	26.1	26.3			
EBIT	24.5	23.9	23.2	24.7	24.1	24.3			
Rs/ US\$ rate	42.0	42.0	41.0	43.0	43.0	43.9	(2.3)	(2.2)	(6.5)

Note: Tax rate for FY2010 revised from 23.6% earlier to 20.4%

Source: Kotak Institutional Equities estimates

Satyam Computer Services: We are reducing our FY2008 EPS estimate by 1.8% to Rs26.4, FY2009 estimate by 2.9% to Rs32 and FY2010 estimate by 3.9% to Rs33.5. We note that Satyam guidance for FY2008 is based on Re/US\$ rate of 42.25 as against Rs43.1 for Infosys. However Satyam has factored 3% pricing improvement in its guidance, which Infosys has not. Satyam has relatively fewer levers to offset the impact of rupee appreciation; its utilization rates at 78% are close to peak and SG&A aggressively optimized. Satyam's hedge as at end March 2007 stands at US\$453 mn, which the company subsequently increased to US\$650 mn. We model forex gain of Rs350 mn for Satyam in FY2008. We reduce our end-March 2009 DCF based target price to Rs510 from Rs535 earlier. Maintain In-line rating

Satyam: Key changes to our FY2008-FY2010 estimates

Rs mn	New			Old			Change (%)		
	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E
Revenues	82,227	107,351	127,371	83,833	109,284	132,706	(1.9)	(1.8)	(4.0)
EBITDA	19,123	24,475	27,933	19,714	25,147	30,091	(3.0)	(2.7)	(7.2)
Depreciation	(1,669)	(2,104)	(2,577)	(1,669)	(2,104)	(2,577)	-	-	-
EBIT	17,454	22,371	25,356	18,045	23,043	27,514	(3.3)	(2.9)	(7.8)
Net Profit	17,715	21,487	22,485	18,044	22,128	23,391	(1.8)	(2.9)	(3.9)
Net Income (after minorities)	17,715	21,487	22,485	18,044	22,128	23,391	(1.8)	(2.9)	(3.9)
EPS (Rs/ share)	26.4	32.0	33.5	26.9	33.0	34.9	(1.8)	(2.9)	(3.9)
Volume Growth (%)	32.7	29.2	20.2	32.7	29.2	20.2			
Billing Rates (US\$/ manmonth)									
Onsite	9,108	9,200	9,246	9,062	9,145	9,191	0.5	0.6	0.6
Offshore	3,753	3,790	3,809	3,739	3,775	3,794	0.4	0.4	0.4
Margins (%)									
EBITDA	23.3	22.8	21.9	23.5	23.0	22.7			
EBIT	21.2	20.8	19.9	21.5	21.1	20.7			
Rs/ US\$ rate	42.0	42.0	41.0	43.0	43.0	43.9	(2.4)	(2.3)	(6.5)

Note: Tax rate for FY2010 revised from 23.4% earlier to 20.7%

Source: Kotak Institutional Equities estimates

HCL Technologies: We increase our FY2007 EPS estimate by 9.4% to Rs17.6. HCLT had hedges of US\$900 mn as at end-March 2007, significantly ahead of the net monetary forex assets. We model forex gain of Rs1.2 bn for Jun '07 quarter. We reduce our EPS estimate for FY2008 by 3.2% to Rs18.1 and for FY2009 by 3.9% to Rs22.1. We roll forward our DCF based target price for HCLT to Jun' 09 DCF values; our revised target price if now Rs360. Maintain In-line rating.

HCLT: Key changes to our FY2007-FY2009 estimates

Rs mn	New			Old			Change (%)		
	FY2007E	FY2008E	FY2009E	FY2007E	FY2008E	FY2009E	FY2007E	FY2008E	FY2009E
Revenues	59,992	76,842	97,577	60,762	78,672	99,900	(1.3)	(2.3)	(2.3)
EBITDA	12,809	15,974	19,942	13,010	16,687	21,201	(1.5)	(4.3)	(5.9)
Depreciation	(2,523)	(3,169)	(3,812)	(2,557)	(3,245)	(3,903)	(1.3)	(2.3)	(2.3)
EBIT	10,285	12,805	16,129	10,453	13,442	17,298	(1.6)	(4.7)	(6.8)
Net Profit	12,063	12,607	15,387	11,024	13,020	16,007	9.4	(3.2)	(3.9)
Net Income (after minorities)	12,063	12,607	15,387	11,024	13,020	16,007	9.4	(3.2)	(3.9)
EPS (Rs/ share)	17.6	18.1	22.1	16.1	18.7	23.0	9.4	(3.2)	(3.9)
Volume Growth (%)	40.3	28.9	23.4	40.3	28.9	23.4			
Billing Rates (US\$/ manmonth)									
Onsite	10,150	10,440	12,350	10,091	10,392	12,316	0.6	0.5	0.3
Offshore	3,480	3,565	4,240	3,460	3,548	4,205	0.6	0.5	0.8
Margins (%)									
EBITDA	21.4	20.8	20.4	21.4	21.2	21.2			
EBIT	17.1	16.7	16.5	17.2	17.1	17.3			
Rs/ US\$ rate	42.8	42.0	42.0	43.0	43.0	43.0	(0.5)	(2.3)	(2.3)

Source: Kotak Institutional Equities estimates

Kotak estimates versus company guidance for Infosys and Satyam

	1QFY08		FY2008	
	Guidance	Kotak estimate	Guidance	Kotak estimate
Infosys				
Revenues (US\$ mn)	908	924	4,016	4,282
Revenues (Rs mn)	39,130	37,847	173,100	180,064
EPS (Rs)	17.84	17.43	81.60	83.80
Satyam				
Revenues (Rs mn)	18,100	17,948	79,117	82,227
EPS (Rs)	5.98	5.99	25.70	26.40

Note:

(a) Infosys guidance is based on a Re/ US\$ rate of 43.1

(b) Satyam guidance is based on a Re/ US\$ rate of 42.25

Source: Companies, Kotak Institutional Equities estimates

Currency hedges of the top Indian IT companies as on March 31, 2007

mn	US\$	Euro	Pound Sterling	Total (a)	Remarks
Infosys (b)	377	26	30	471	
Wipro	600			600	Between 44 and 45.77
Satyam	453			453	
TCS	1,135	107	78	1,431	
HCL Tech	900			900	

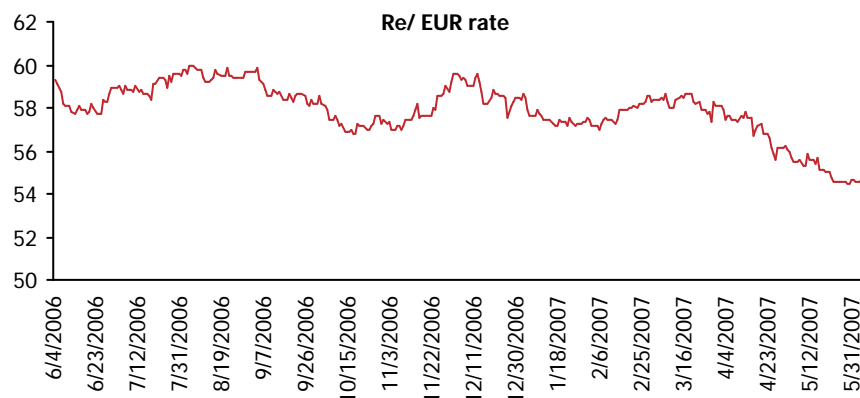
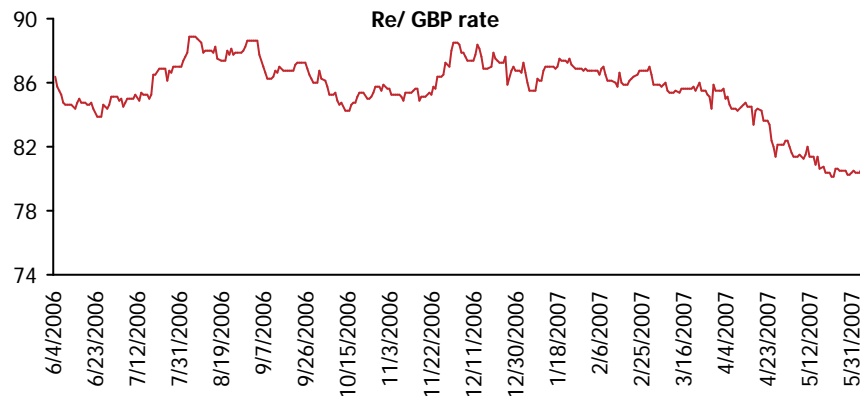
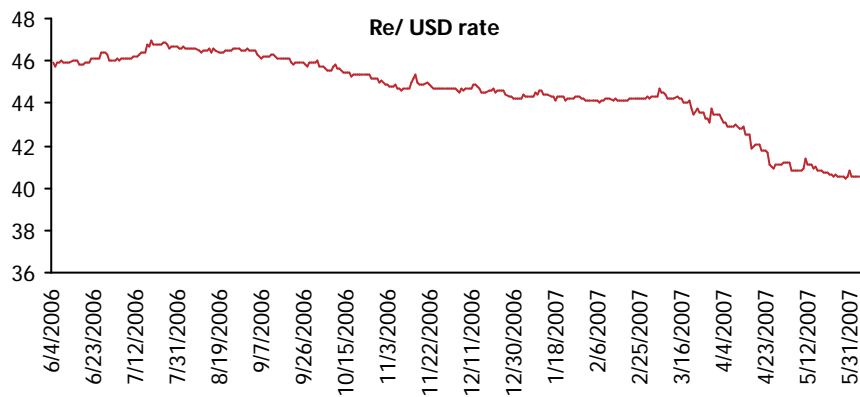
Note:

(a) Computed at cross-currency rates as on Mar 31, 2007

(b) Infosys and Satyam currently have hedges of US\$1 bn and US\$650 mn respectively

Source: Companies, Kotak Institutional Equities

Rupee has appreciated against US\$, GBP, and Euro over the past few months



Source: Bloomberg

Infosys Technologies: Consolidated Indian GAAP income statement, March fiscal year-ends

Rs mn	2006	2007	2008E	2009E	2010E
Income From Software Development					
Overseas	93,542	136,732	177,338	229,257	276,265
Domestic	1,668	2,198	2,726	2,849	3,147
Revenues	95,210	138,930	180,064	232,106	279,413
Software Development Costs	(50,654)	(74,580)	(99,194)	(128,975)	(158,391)
Gross profit	44,556	64,350	80,870	103,132	121,022
Selling and marketing exp	(6,005)	(9,290)	(11,333)	(14,876)	(18,027)
Administration exp	(7,639)	(11,150)	(14,103)	(17,810)	(21,513)
Total SG&A Expenses	(13,643)	(20,440)	(25,436)	(32,687)	(39,540)
EBITDA	30,912	43,910	55,434	70,445	81,482
Depreciation	(4,371)	(5,140)	(6,161)	(7,896)	(10,272)
EBIT	26,541	38,770	49,273	62,550	71,210
Interest	—	—	—	—	—
Other Income	1,380	3,750	5,150	5,805	7,859
Profit Before Tax	27,921	42,520	54,424	68,355	79,069
Provision for Tax	(3,132)	(5,100)	(6,283)	(8,908)	(15,859)
Net Profit	24,790	37,420	48,141	59,447	63,210
Minority Interest	(210)	(110)	(62)	(79)	(69)
Net Income	24,580	37,310	48,079	59,367	63,141
Extraordinaries	—	1,250	—	—	—
Net Profit- Reported	24,580	38,560	48,079	59,367	63,141
EPS (Rs/ share)	45.0	67.0	83.8	103.4	110.0
No of shares outstanding (mn)	550.2	562.8	574.0	574.0	574.0
Margins (%)					
Gross Profit margin	46.8	46.3	44.9	44.4	43.3
EBITDA Margin	32.5	31.6	30.8	30.4	29.2
EBIT Margin	27.9	27.9	27.4	26.9	25.5
NPM	26.0	26.9	26.7	25.6	22.6
Growth Rates (%)					
Revenues	33.5	45.9	29.6	28.9	20.4
Gross Profit	32.4	44.4	25.7	27.5	17.3
EBITDA	32.4	42.0	26.2	27.1	15.7
EBIT	29.6	46.1	27.1	26.9	13.8
Net Profit	34.3	50.9	28.7	23.5	6.3
Net Income	33.1	51.8	28.9	23.5	6.4

Source: Company data, Kotak Institutional Equities.

Wipro: Profit & loss statement (Consolidated US GAAP), March fiscal year-ends

Rs mn	2006	2007	2008E	2009E	2010E
Revenues					
<i>Global IT Services & Products</i>					
- Services	80,698	110,922	139,022	182,813	219,597
- Products	28	—	—	—	—
<i>India & AsiaPac IT Services & Products</i>					
- Services	6,097	8,369	10,455	12,277	13,259
- Products	10,380	15,520	19,754	24,095	25,541
<i>Consumer Care and Lighting</i>	5,625	7,559	9,583	11,021	12,343
<i>Others</i>	3,279	7,063	10,113	13,147	16,434
Revenues	106,107	149,431	188,927	243,353	287,173
Cost of revenues	(71,779)	(102,483)	(129,707)	(167,619)	(199,828)
Gross profit	34,328	46,949	59,220	75,733	87,346
Selling and marketing exp	(11,992)	(16,719)	(21,307)	(26,970)	(31,157)
EBIT (before amortization)	22,336	30,230	37,913	48,763	56,189
Exchange Gain/ (losses)	(288)	(0)	91	—	—
Amortization of Goodwill & Intangible Assets	(64)	(269)	(258)	(258)	—
EBIT (after amortization)	21,984	29,961	37,746	48,505	56,189
Other Income, net	1,276	2,667	3,435	3,446	4,617
PBT- before extraordinary items	23,260	32,628	41,181	51,952	60,806
Gain/(loss) on sale of stock of affiliate	—	—	—	—	—
PBT	23,260	32,628	41,181	51,952	60,806
Income Taxes	(3,264)	(4,423)	(6,028)	(7,845)	(12,367)
Income before share of equity in affiliates	19,995	28,205	35,153	44,106	48,439
Equity in earnings of affiliate	288	318	350	275	316
Income from continuing operations	20,282	28,523	35,504	44,381	48,755
EPS (Rs/ share)					
	14.2	20.3	24.3	30.4	33.4
No of shares outstanding (mn)	1,425.8	1,444.5	1,459.0	1,459.0	1,459.0
EPS (before amortization of intangibles)	14.3	19.9	24.5	30.6	33.4
Margins (%)					
Gross Profit margin	32.4	31.4	31.3	31.1	30.4
EBITDA Margin	24.0	22.9	22.6	22.5	22.1
EBIT Margin	20.7	20.0	20.0	19.9	19.6
NPM	19.1	19.1	18.8	18.2	17.0
Growth Rates (%)					
Revenues	30.4	40.8	26.4	28.8	18.0
Gross Profit	25.7	36.8	26.1	27.9	15.3
EBIT (before amortization & exchange gains)	23.5	35.3	25.4	28.6	15.2
EBIT (after amortization & exchange gains)	23.1	36.3	26.0	28.5	15.8
Income before affiliates earnings	26.9	41.1	24.6	25.5	9.8
Income from continuing operations	28.1	40.6	24.5	25.0	9.9

Source: Company data, Kotak Institutional Equities.

TCS: Consolidated income statement (US GAAP), March fiscal year-ends

Rs mn	2006	2007	2008E	2009E	2010E
Revenues	132,455	186,334	233,171	294,402	350,852
Cost of revenues	(71,720)	(104,126)	(131,265)	(166,913)	(201,142)
Gross profit	60,735	82,207	101,906	127,489	149,710
Selling, marketing, general & administrative expenses	(26,422)	(35,333)	(44,781)	(57,130)	(68,218)
Research and development	(419)	(433)	—	—	—
EBIT (before amortization)	33,894	46,442	57,126	70,358	81,492
Other Income, net	190	1,943	2,675	2,130	3,062
Income before taxes and minority interest	34,084	48,385	59,801	72,489	84,555
Income Taxes	(4,989)	(6,700)	(8,531)	(10,348)	(17,240)
Income before share of equity in affiliates	29,095	41,685	51,270	62,141	67,315
Equity in earnings of affiliate	16	44	4	4	4
Minority Interest	(279)	(417)	(534)	(591)	(577)
Income from continuing operations	28,831	41,312	50,740	61,554	66,741
Extraordinary items	—	—	—	—	—
Net Profit- Reported	28,831	41,312	50,740	61,554	66,741
EPS (Rs/ share)	29.5	42.2	51.8	62.9	68.2
No of shares outstanding (mn)	978.6	978.6	978.6	978.6	978.6
Margins (%)					
Gross Profit margin	45.9	44.1	43.7	43.3	42.7
EBITDA Margin	27.7	27.2	26.7	25.9	25.3
EBIT Margin	25.6	24.9	24.5	23.9	23.2
NPM	21.8	22.2	21.8	20.9	19.0
Growth Rates (%)					
Revenues	36.2	40.7	25.1	26.3	19.2
Gross Profit	34.8	35.4	24.0	25.1	17.4
EBIT	25.9	37.0	23.0	23.2	15.8
Income before taxes	23.1	42.0	23.6	21.2	16.6
Income before affiliates earnings	23.2	43.3	23.0	21.2	8.3
Income from continuing operations	22.4	43.3	22.8	21.3	8.4

Source: Company data, Kotak Institutional Equities.

Satyam: Consolidated Indian GAAP income statement, March fiscal year-ends

Rs mn	2006	2007	2008E	2009E	2010E
Overseas	45,967	61,881	80,566	105,372	125,225
Domestic	1,959	2,970	1,660	1,978	2,146
Revenues	47,926	64,851	82,227	107,351	127,371
Personel Expenses	(28,053)	(38,602)	(49,801)	(65,045)	(80,043)
Administrative Expenses	(8,212)	(10,872)	(13,302)	(17,830)	(19,395)
Total Operating Expenses	(36,265)	(49,474)	(63,103)	(82,875)	(99,438)
Operating Profits	11,661	15,377	19,123	24,475	27,933
Depreciation	(1,373)	(1,484)	(1,669)	(2,104)	(2,577)
EBIT	10,289	13,893	17,454	22,371	25,356
Interest	(55)	(159)	—	—	—
Other Income	1,168	1,833	2,714	2,474	2,988
Profit Before Tax	11,401	15,566	20,168	24,846	28,343
Provision for Tax	(1,509)	(1,520)	(2,454)	(3,359)	(5,858)
Net Profit	9,892	14,046	17,715	21,487	22,485
Share of loss in associate company	(73)	1	—	—	—
Net Income	9,819	14,047	17,715	21,487	22,485
Extraordinaries	1,598	—	—	—	—
Net Profit- Reported	11,417	14,047	17,715	21,487	22,485
EPS (Rs/ share)	15.1	21.4	26.4	32.0	33.5
No of shares outstanding (mn)	648.9	655.0	671.0	671.0	671.0
Margins (%)					
EBITDA Margin	24.3	23.7	23.3	22.8	21.9
EBIT Margin	21.5	21.4	21.2	20.8	19.9
NPM	20.2	21.1	20.9	19.6	17.2
Growth Rates (%)					
Revenues	36.1	35.3	26.8	30.6	18.6
EBITDA	34.3	31.9	24.4	28.0	14.1
EBIT	36.7	35.0	25.6	28.2	13.3
Net Profit	37.2	42.0	26.1	21.3	4.6

Source: Company data, Kotak Institutional Equities.

HCL Technologies: Profit and loss statement, June fiscal year-ends

Rs mn	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Revenues	33,700	44,002	59,992	76,842	97,577
RSU expenses		279	637	706	706
Direct Costs	21,166	27,576	37,409	48,527	62,335
Gross Profit	12,534	16,147	21,946	27,610	34,536
SG&A	4,810	6,577	9,138	11,636	14,594
EBIDTA (excl other income)	7,723	9,570	12,809	15,974	19,942
Depreciation	1,555	2,032	2,523	3,169	3,812
EBIT	6,168	7,538	10,285	12,805	16,129
Interest income/(Expenses)	991	578	2,810	1,212	1,678
Earnings Before Tax	7,159	8,116	13,096	14,018	17,807
Tax	674	626	989	1,402	2,416
Income bef share of equity investees	6,485	7,490	12,107	12,616	15,391
Share of income (loss) of equity investees	(27)	—	—	(9)	(4)
Minority Interest	442	16	44	—	—
Net Income	6,016	7,473	12,063	12,607	15,387
Less: Stock sales incentive	—	—	—	—	—
Net Income after stock sales incentive	6,016	7,473	12,063	12,607	15,387
Less: Extraordinary items	—	(1,290)	—	—	—
Net Income	6,016	6,183	12,063	12,607	15,387
EPS (Rs.) fully diluted	9.5	11.4	17.6	18.1	22.1
Margins (%)					
Gross Profit Margin	37.2	36.7	36.6	35.9	35.4
Operating margin	22.9	21.7	21.4	20.8	20.4
EBIT margin	18.3	17.1	17.1	16.7	16.5
Net Profit	19.2	17.0	20.2	16.4	15.8
Net Income margin	17.9	17.0	20.1	16.4	15.8
Growth (%)					
Revenue Growth	28.9	30.6	36.3	28.1	27.0
Gross Profit	32.7	28.8	35.9	25.8	25.1
EBITDA	39.4	23.9	33.8	24.7	24.8
EBIT	40.7	22.2	36.5	24.5	26.0
Net Profit	8.6	15.5	61.6	4.2	22.0
Net Income	14.3	24.2	61.4	4.5	22.0

Source: Company data, Kotak Institutional Equities.

Technology

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		4-Jun	Target
TCS	IL	1,209	1,300
Wipro	OP	534	655
Infosys	OP	1,916	2,300
Satyam Comp	IL	467	510
HCL Tech	IL	340	360
i-flex solutions	U	2,199	1,675
Patni	OP	539	530
Hexaware	IL	155	195
Polaris Softwa	U	160	150
Tech Mahindra	IL	1,507	1,850
Mphasis BFL	IL	306	320
iGate Global	U	356	325
MindTree	IL	770	750

Recent developments at a few engineering colleges can have negative implications for frontline IT companies

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- **A couple of colleges put a cap on recruitment per company**
- **MNC's and Tier II companies may gain at the expense of TCS, Cognizant and Infosys**
- **No impact on this recruitment season, impact can be material in the next recruitment season**

Three premier engineering colleges in Tamil Nadu have put in place unique restrictions (a) SSN College of Engineering has put a cap on recruitment at 60 per company (b) Anna University, the largest technical university, is allowing students to take two offers—one from an IT company and another from a company in the core industry (though the recruitments from core companies are small) (c) Vellore Institute of Technology is according 'Dream status' to certain companies implying that the students can take offer from dream status company in addition to taking up a prior offer with another company. All these developments have negative implications for frontline Indian IT services as it would reduce the available pool of talent in a supply constrained environment. However these changes are by a small number of colleges; though we expect more campuses to adopt this strategy in the subsequent year (students given offers in the next year will join companies in FY2010). TCS, Cognizant and Infosys stand to lose the most if this trend is adopted; the near term impacted is limited

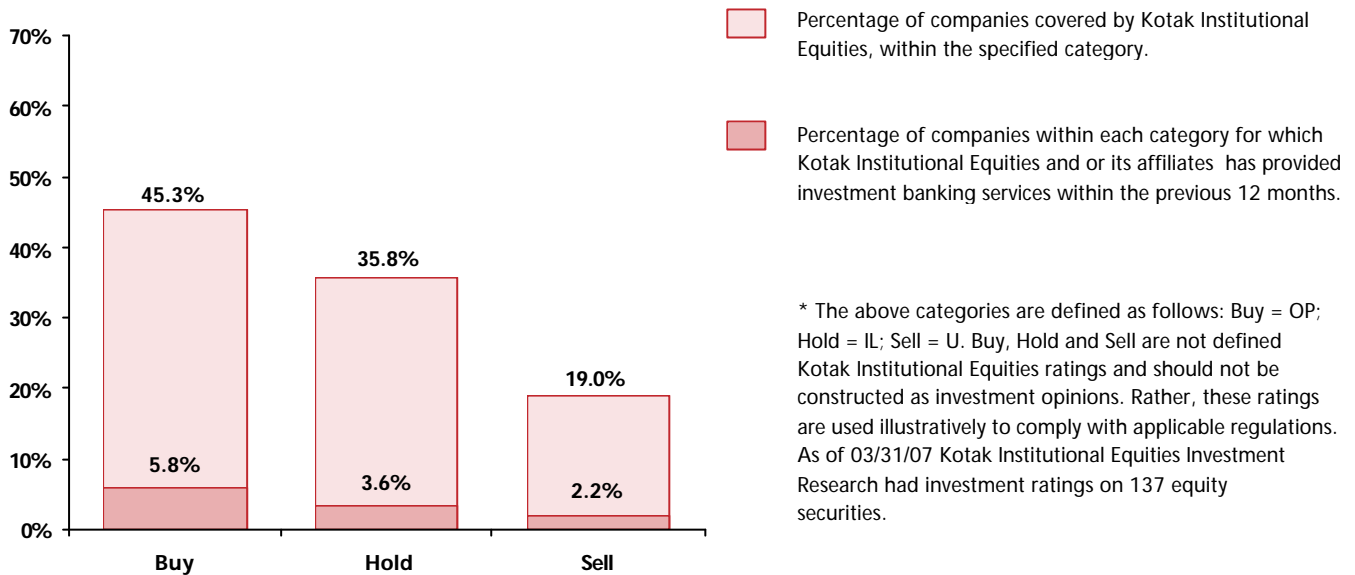
Rationale for above mentioned steps: We believe that changes are reflection of a tightening supply side environment. Increasingly, frontline IT companies such as TCS, Cognizant and Infosys recruit a significant portion of the available pool from top engineering campuses. To ensure that talent pool is dispersed among wider set of players and ensure availability of students for core industries, these artificial restrictions are being considered by institutes. This practice has been adopted by only a few colleges in Tamil Nadu, though we expect others to adopt this practice in subsequent years

Implications: We believe that if these practices are adopted on a wider scale, it can have the following implications (a) companies may have to visit more colleges to meet their recruitment requirements. This effectively implies visiting Tier III and Tier IV colleges. Given that quality of some of the existing colleges are not up to the mark, this prospect is less enticing (b) It offers a back door entry to MNCs and less established players at campuses such as Satyam, HCLT and Patni (c) investments in recruitment will likely go up and (d) it may bring to nought years of investments in relationships with placement officers at colleges

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Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 03/31/07 Kotak Institutional Equities Investment Research had investment ratings on 137 equity securities.

Source: Kotak Institutional Equities.

As of March 31, 2007

Ratings and other definitions/identifiers

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Definitions of ratings

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IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.

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Our target price are also on 12-month horizon basis.

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