

| | |
|--------|--------|
| Sensex | 16,921 |
| Nifty | 4,941 |

Information Technology

Neutral

Sector summary

The second quarter has historically been a stronger quarter for the Indian IT companies. Q2FY08 results will however be quite crucial in terms of setting the direction of IT stocks given the turmoil in the US credit markets and the Rupee appreciation. TCS and Infosys will post better numbers than Wipro, HCL Tech and Satyam because the latter group will have salary hikes in Q2FY08.

Key highlights of the results:

- Apprehensions of US economy slowdown:** we believe that Indian IT companies are better placed than in 2000 to take a potential slowdown in the US markets. Their client concentration, geography concentration, service offerings and domain dependence is more diversified compared to 6 years ago. Moreover, a major portion of their revenues now comes from non-discretionary IT spending unlike in the past. Nevertheless, some slowdown in the growth cannot be ruled out.
- INR Appreciation** The Rupee has appreciated by 1.6% vis-à-vis the US\$, 1.93% vis-à-vis GBP and has depreciated 1.64% vis-à-vis Euro since the beginning of this quarter. The appreciating INR will dampen margins, but the QoQ impact will be lower than in Q1FY08.
- EBIDTA margin:** Satyam, Wipro and HCL Tech have their yearly wage hikes in Q2FY08. This will dampen their EBIDTA margins. TCS, Infosys will see their EBIDTA margins expand. Higher billing rates and higher utilizations will help the companies to partially offset the negative impact due to the Rupee appreciation.
- Sector Outlook:** Our outlook on the sector is cautious largely because of the Rupee appreciation. Volume growth is a positive, but with supply side pressures rising, is unlikely to lead to a substantial margin expansion. Our **Neutral** rating is purely because valuations are at the lower end of their trading range and there could be a rebound on any positive news flow.

Our top picks are:

- TCS
- Satyam

Harshad Deshpande
 harshad.deshpande@religare.in
 +91 22 6655 0116

Valuation summary

| Company | Price (Rs) | Rating | Target Price (Rs) | Mkt Cap (Rs bn) | Sales | | EBITDA | | Adj PAT | | Adj EPS | | FY08E | | FY09E | |
|--------------|---------------|------------|-------------------------|--------------------|----------------|-------------|---------------|-------------|---------------|-------------|-----------|-------------|------------|-------------|------------|-------------|
| | | | | | Q2FY08E | YoY/ QoQ | Q2FY08E | YoY/ QoQ | Q2FY08E | YoY/ QoQ | Q2FY08E | YoY/ QoQ | Adj EPS | P/E | Adj EPS | P/E |
| | | | | | (Rs mn) | (%) | (Rs mn) | (%) | (Rs mn) | (%) | (Rs) | (%) | (Rs) | (x) | (Rs) | (x) |
| Infosys | 1824 | Accumulate | 2,154 | 1,042 | 39,945 | 15.8 | 12,412 | 11.9 | 10,657 | 14.7 | 18.5 | 13.2 | 78.7 | 23.2 | 97.7 | 18.7 |
| | | | | | | 5.9 | | 14.5 | | 3.2 | | 2.8 | | | | |
| TCS | 1041 | Accumulate | 1,410 | 1,019 | 56,355 | 25.7 | 15,372 | 25.0 | 12,601 | 27.1 | 12.9 | 27.1 | 51.2 | 20.3 | 63.4 | 16.4 |
| | | | | | | 8.3 | | 15.9 | | 6.3 | | 6.3 | | | | |
| Wipro | 455 | Reduce | 571 | 663 | 46,106 | 28.8 | 9,075 | 6.6 | 7,256 | 3.6 | 5.00 | 3.3 | 23.7 | 19.1 | 29.8 | 15.3 |
| | | | | | | 7.8 | | 5.0 | | 0.0 | | -0.2 | | | | |
| Satyam | 431 | Accumulate | 580 | 288 | 19,562 | 22.1 | 4,099 | 13.1 | 3,589 | 12.2 | 5.23 | 10.1 | 23.4 | 18.4 | 28.6 | 15.1 |
| | | | | | | 6.9 | | -0.1 | | -5.1 | | -0.1 | | | | |
| HCLTech* | 297 | Accumulate | 346 | 197 | 18,066 | 31.0 | 3,685 | 23.3 | 2,657 | 15.5 | 3.9 | 14.0 | 18.7 | 15.9 | 22.2 | 13.4 |
| | | | | | | 12.1 | | 6.1 | | -43.1 | | -43.3 | | | | |
| Total | | | | 3,210 | 180,035 | 24.2 | 44,643 | 15.9 | 36,760 | 15.9 | 45 | 15.2 | 196 | 20.2 | 242 | 16.2 |
| | | | | | | 7.8 | | 10.7 | | -3.0 | | -4.2 | | | | |

Source: Religare Institutional Equity Research, Bloomberg. * HCL Tech is June year ending company. The QoQ decline in HCLTech Adj. PAT and EPS numbers is due to high other income in Q4FY07. HCL Tech numbers are for Q1FY08.

| Key data | | | |
|---------------------------------|-----------------------|------------------|--------------|
| Sector | IT | | |
| Market Cap | Rs1042bn / US\$26.2bn | | |
| 52 Wk H/L (Rs) | 2439/1745.15 | | |
| Avg. daily vol. (6 month) | 1,854,183 | | |
| BSE Code | 500209 | | |
| NSE Code | INFOSYSTCH | | |
| Bloomberg | INFO IN | | |
| Reuters | INFY.BO | | |
| Sensex | 16,921 | | |
| Nifty | 4,941 | | |
| Shareholding pattern (%) | | | |
| | 31-Mar-07 | 30-Jun-07 | |
| FII's NRI, ADR/GDR | 54.9 | 54.1 | |
| MFs and institutions | 6.3 | 7.0 | |
| Promoters | 16.5 | 16.5 | |
| Others | 22.3 | 22.4 | |
| Absolute returns (%) | | | |
| | 1mth | 3mth | 12mth |
| Infosys | 0.1 | (5.1) | (0.4) |
| Sensex | 17.3 | 16.7 | 37.3 |
| BSE IT | 2.1 | (6.2) | 2.5 |

Infosys Technologies Ltd.

Accumulate
Current Price: Rs1,824 Target price: Rs2,154

Quarterly Performance

| | FY07 | | | | FY08 | | (Rs mn) | |
|-------------------------|---------------|--------------|--------------|--------------|---------------|---------------|----------------|----------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | FY07 | FY08E |
| Net Sales | 30,150 | 34510 | 36550 | 37720 | 37,730 | 39,945 | 138,930 | 167,135 |
| Change QoQ (%) | | 14.5 | 5.9 | 3.2 | 0.0 | 5.9 | - | - |
| Change YoY (%) | 45.5 | 50.4 | 44.4 | 43.8 | 25.1 | 15.8 | 45.9 | 20.3 |
| Total Expenditure | 21260 | 23420 | 24590 | 25750 | 26,890 | 27,534 | 95,020 | 115,098 |
| EBITDA | 8,890 | 11090 | 11960 | 11970 | 10840 | 12412 | 43,910 | 52,037 |
| EBITDA margin (%) | 29.5 | 32.1 | 32.7 | 31.7 | 28.7 | 31.1 | 31.6 | 31.1 |
| Change QoQ (%) | | 24.7 | 7.8 | 0.1 | -9.4 | 14.5 | | 18.5 |
| Change YoY (%) | 33.9 | 51.1 | 38.9 | 43.7 | 21.9 | 11.9 | 42.1 | 18.5 |
| Depreciation | 1060 | 1220 | 1410 | 1450 | 1060 | 1220 | 5,140 | 6,412 |
| EBIT | 7,830 | 9870 | 10550 | 10520 | 9780 | 11192 | 38,770 | 45,625 |
| EBIT margin (%) | 26.0 | 28.6 | 28.9 | 27.9 | 25.9 | 28.0 | 27.9 | 27.3 |
| Other Income | 1310 | 660 | 590 | 1180 | 2530 | 1216.06875 | 3,720 | 6,178 |
| Interest exp/(inc) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PBT | 9,140 | 10530 | 11140 | 11700 | 12310 | 12408 | 42,530 | 51,803 |
| Tax | 1,060 | 1230 | 1300 | 270 | 1140 | 1430 | 3,860 | 5,845 |
| Effective tax rate (%) | 11.6 | 11.7 | 11.7 | 2.3 | 9.3 | 11.5 | 9.1 | 11.3 |
| Extraordinary exp/(Inc) | 60 | 0 | 0 | 0 | 0 | 0 | 60 | 0 |
| PAT | 8,000 | 9290 | 9830 | 11440 | 10790 | 10657 | 38,560 | 45,859 |
| PAT margin (%) | 26.5 | 26.9 | 26.9 | 30.3 | 28.6 | 26.7 | 27.8 | 27.4 |
| Change QoQ (%) | | 16.1 | 5.8 | 16.4 | -5.7 | -1.2 | - | - |
| Change YoY (%) | 50.4 | 53.3 | 51.5 | 70.0 | 34.9 | 14.7 | 56.9 | 18.9 |
| Adjusted PAT | 7947 | 9290 | 9830 | 10229 | 10329 | 10657 | 37,378 | 45,406 |
| Adj PAT margin (%) | 26.4 | 26.9 | 26.9 | 27.1 | 27.4 | 26.7 | 26.9 | 27.2 |
| Change QoQ (%) | | 16.9 | 5.8 | 4.1 | 1.0 | 3.2 | - | - |
| Change YoY (%) | 49.4 | 53.3 | 51.5 | 52.0 | 30.0 | 14.7 | 52.1 | 21.5 |
| EPS Basic reported | 14.47 | 16.75 | 17.65 | 20.33 | 18.89 | 18.59 | 69.2 | 80.0 |
| Adj EPS diluted | 14.04 | 16.36 | 17.25 | 17.86 | 18.02 | 18.52 | 65.7 | 78.7 |

Financial highlights

- **Net Sales** for the Q2FY08 will rise by 5.9% QoQ and 15.8% YoY. This will primarily driven by volume growth, supported by improvement in the utilization and billing rates.
- **EBITDA** will increase by 14.5% QoQ and 11.9% YoY. The EBITDA margin for Q2FY08 will rise to 31.1% after. Q1FY08 EBITDA margins were lower due to salary hikes. Although INR appreciation would have some negative impact on the margins, improvement in the billing rates, utilization improvements should partially cover up the losses. The YoY growth looks dampened primarily because of the US\$ rate differences.
- **Adj. PAT** will decline QoQ by 1.2% and increase by 14.7% YoY. Higher other income because of forex gains/ higher yields on the investments and tax write back in Q1FY08 makes Q2FY08 sequential growth in the Adj. PAT look negative.

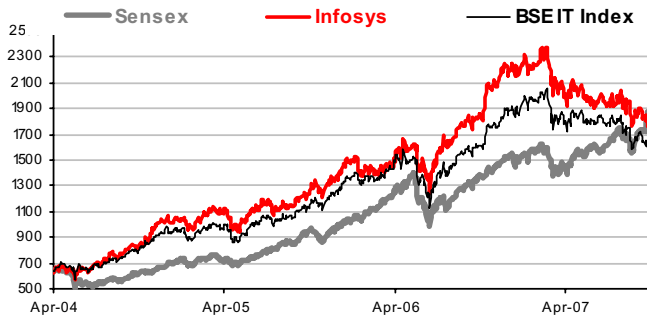
Valuations and Recommendation

Infosys is currently trading at the lower end of its historical trading range. Any positive surprises from volume growth and/ or improvement in utilization rates can lead to a bounce in the stock. Hence we maintain our **Accumulate** rating.

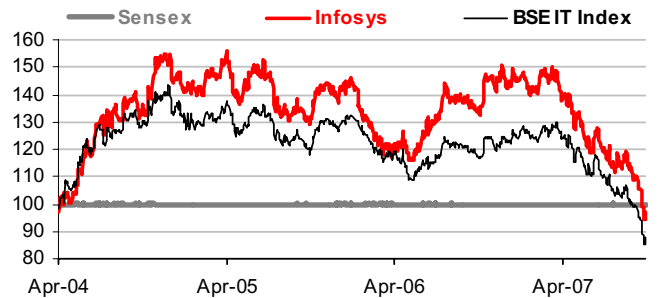
Stock performance

Infosys

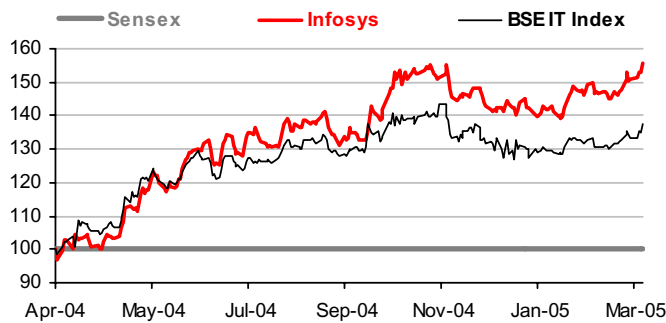
Absolute Perf. From Apr 04



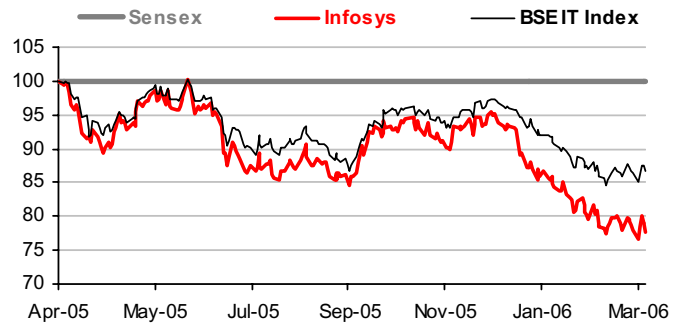
Relative Perf. From Apr 04



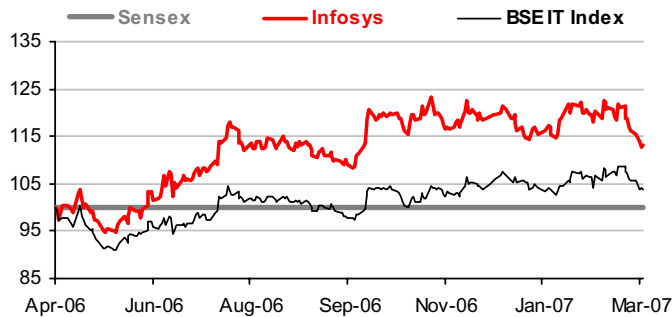
Relative Perf. From Apr 04 to Mar 05



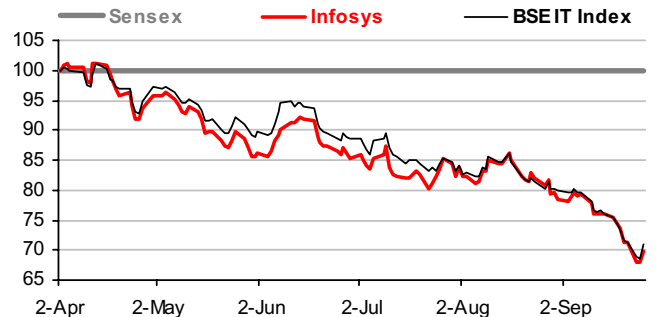
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

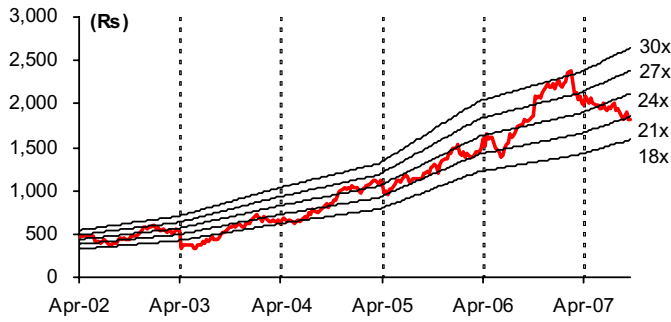


Source: Bloomberg, Religare Institutional Equity Research

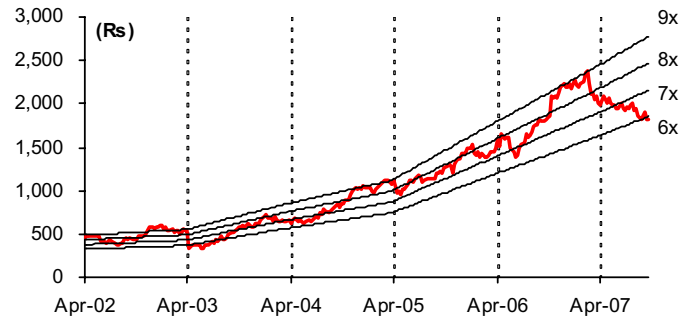
12 month forward rolling band charts

Infosys

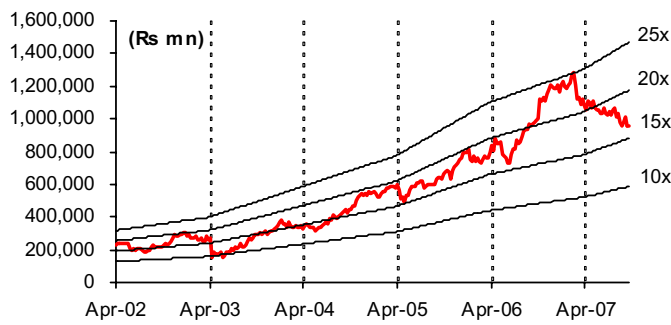
P/E Band



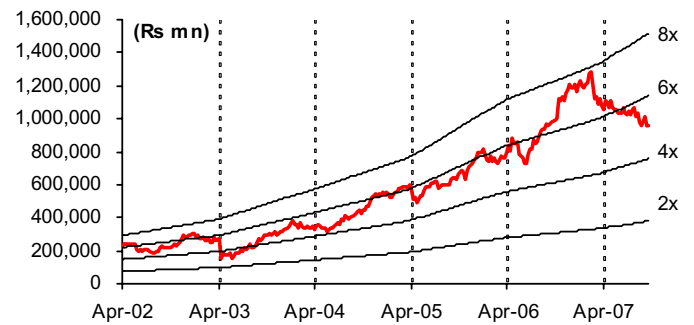
P/BV Band



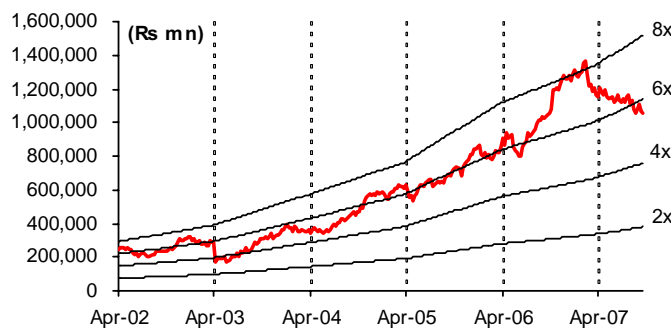
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Infosys Technologies Ltd. Financials- Indian GAAP

| Income statement | | | | | |
|--------------------------------------|---------|--------|---------|---------|---------|
| | (Rs mn) | | | | |
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| Net Sales | 71,297 | 95,210 | 138,930 | 167,135 | 212,305 |
| EBITDA | 23,350 | 30,910 | 43,910 | 52,037 | 65,435 |
| EBITDA margin (%) | 32.8 | 32.5 | 31.6 | 31.1 | 30.8 |
| Depreciation | 2,869 | 4,370 | 5,140 | 6,412 | 7,542 |
| EBIT | 20,481 | 26,540 | 38,770 | 45,625 | 57,893 |
| Other income | 1,240 | 1,390 | 3,720 | 6,178 | 7,026 |
| Interest exp/ (inc) | 0 | 0 | 0 | 0 | 0 |
| PBT | 22,171 | 27,920 | 42,530 | 51,803 | 64,919 |
| PBT margin (%) | 31.1 | 29.3 | 30.6 | 31.0 | 30.6 |
| Cos share in JV | | | | | |
| Taxes | 3,256 | 3,130 | 3,860 | 5,845 | 7,660 |
| Minority interest | 0 | 210 | 110 | 100 | 125 |
| PAT (Reported) | 18,915 | 24,580 | 38,560 | 45,859 | 57,134 |
| PAT margin (%) | 26.5 | 25.8 | 27.8 | 27.4 | 26.9 |
| Less: Extra ordinary income / Others | 450 | 0 | 60 | 0 | 0 |
| Adj PAT | 18,531 | 24,580 | 37,378 | 45,406 | 57,134 |
| Adj PAT margin (%) | 26.0 | 25.8 | 26.9 | 27.2 | 26.9 |

Quarterly – Financials

| Quarterly – Financials | | | | | |
|--------------------------|---------|--------|--------|--------|--------|
| | (Rs mn) | | | | |
| (Rs mn) | Q1FY07 | Q2FY07 | Q3FY07 | Q4FY07 | Q1FY08 |
| Net Sales | 30,150 | 34,510 | 36,550 | 37,720 | 37,730 |
| Change (%) | 45.5 | 50.4 | 44.4 | 43.8 | 25.1 |
| EBITDA | 8,890 | 11,090 | 11,960 | 11,970 | 10,840 |
| Change (%) | 33.9 | 51.1 | 38.9 | 43.7 | 21.9 |
| Margin (%) | 29.5 | 32.1 | 32.7 | 31.7 | 28.7 |
| PAT | 8,000 | 9,290 | 9,830 | 11,440 | 10,790 |
| PAT adjusted | 7,947 | 9,290 | 9,830 | 10,229 | 10,329 |
| Change (%) | 49.4 | 53.3 | 51.5 | 52.0 | 30.0 |
| Margin (%) | 26.4 | 26.9 | 26.9 | 27.1 | 27.4 |
| EPS Basic adjusted (Rs) | 14.4 | 16.7 | 17.6 | 18.2 | 18.1 |
| EPS diluted adjusted(Rs) | 14.0 | 16.4 | 17.3 | 17.9 | 18.0 |

Ratios

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|---------------------------|------|------|------|-------|-------|
| Growth | | | | | |
| Net sales (%) | 46.9 | 33.5 | 45.9 | 20.3 | 27.0 |
| EBITDA (%) | 46.5 | 32.4 | 42.1 | 18.5 | 25.7 |
| PAT adjusted (%) | 49.0 | 32.6 | 52.1 | 21.5 | 25.8 |
| EPS Basic adjusted (%) | 47.4 | 30.4 | 49.1 | 18.0 | 24.3 |
| EPS diluted adj(%) | 46.5 | 27.5 | 54.8 | 17.4 | 22.9 |
| EPS Consl and diluted (%) | 46.5 | 27.5 | 54.8 | 17.4 | 22.9 |

Valuations

| | | | | | |
|---------------|------|------|------|------|------|
| P/E (x) | 53.2 | 41.7 | 26.9 | 23.2 | 18.7 |
| Price/BV (x) | 19.2 | 14.7 | 9.2 | 6.8 | 5.3 |
| EV/EBITDA (x) | 42.6 | 32.2 | 22.7 | 19.1 | 15.2 |
| EV/Sales (x) | 14.0 | 10.4 | 7.2 | 6.0 | 4.7 |

Profitability

| | | | | | |
|--------------------|-------|------|------|------|------|
| EBITDA margin (%) | 32.8 | 32.5 | 31.6 | 31.1 | 30.8 |
| Adj PAT margin (%) | 26.0 | 25.8 | 26.9 | 27.2 | 26.9 |
| RoE (%) | 43.7 | 40.3 | 41.0 | 33.8 | 31.9 |
| RoCE (%) | 42.8 | 40.1 | 41.0 | 33.9 | 31.9 |
| RoIC (%) | 111.7 | 89.3 | 87.5 | 67.7 | 65.6 |

B/S ratios

| | | | | | |
|-----------------|------|------|------|------|------|
| Inventory days | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Creditor days | 23.2 | 19.2 | 16.5 | 15.8 | 14.7 |
| Debtors days | 50.5 | 56.2 | 53.1 | 53.2 | 47.5 |
| Net debt/equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Balance sheet

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|--|---------------|---------------|----------------|----------------|----------------|
| Liabilities | | | | | |
| Equity share capital | 1,353 | 1,380 | 2,860 | 2,943 | 2,978 |
| Total Res. & Surplus | 50,898 | 68,280 | 109,690 | 152,888 | 199,950 |
| Total Shareholders' funds | 52,251 | 69,660 | 112,550 | 155,831 | 202,928 |
| Convertible debt | 0 | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Total loans | 0 | 0 | 0 | 0 | 0 |
| Deferred tax lia. (net) & Min. Interest | 493 | 30 | (880) | (780) | (655) |
| Total liabilities | 52,744 | 69,690 | 111,670 | 155,050 | 202,273 |
| Assets | | | | | |
| Net fixed assets & Others | 12,565 | 16,550 | 28,060 | 43,648 | 60,106 |
| Capital WIP & Others | 3,177 | 5,710 | 9,650 | 9,650 | 9,650 |
| Total non-current assets | 15,742 | 22,260 | 37,710 | 53,298 | 69,756 |
| Inv - non current | 20 | 20 | 0 | 0 | 0 |
| Current assets | | | | | |
| Inventories | 0 | 0 | 0 | 0 | 0 |
| Sundry debtors | 13,220 | 16,080 | 24,360 | 24,325 | 30,899 |
| Cash & cash equivalents | 27,846 | 41,820 | 58,960 | 88,151 | 113,539 |
| Cash | 15,756 | 34,290 | 58,710 | 87,901 | 113,289 |
| Liquid investments | 12,090 | 7,530 | 250 | 250 | 250 |
| Other current assets | 10,244 | 12,970 | 12,140 | 13,977 | 16,920 |
| Total current assets | 51,310 | 70,870 | 95,460 | 126,453 | 161,358 |
| Total current liabilities | 6,560 | 9,340 | 14,690 | 15,123 | 16,559 |
| Total provisions | 7,765 | 14,120 | 6,810 | 9,579 | 12,282 |
| Net current assets | 36,985 | 47,410 | 73,960 | 101,752 | 132,517 |
| Misc. expenditure | 0 | 0 | 0 | 0 | 0 |
| Total assets | 52,744 | 69,690 | 111,670 | 155,050 | 202,273 |

Cash flow

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------------------|----------------|----------------|---------------|----------------|-----------------|
| Cash from operations | | | | | |
| PBT | 22,171 | 27,920 | 42,530 | 51,803 | 64,919 |
| Tax paid | 3,256 | 3,130 | 3,860 | 5,845 | 7,660 |
| Dep & amortization | 2,869 | 4,370 | 5,140 | 6,412 | 7,542 |
| Working capital changes | 13,095 | (3,549) | 9,410 | (1,399) | 5,377 |
| Others | (659) | (1,398) | (60) | (0) | 0 |
| Net cash from operations | 8,030 | 31,311 | 34,340 | 53,769 | 59,424 |
| Cash from investments | | | | | |
| Capital expenditure | 7,633 | 9,490 | 20,530 | 22,000 | 24,000 |
| Sale/purchase of inv & others | 2,653 | (4,558) | (7,300) | 0 | 0 |
| Net cash from investments | 10,286 | 4,932 | 13,230 | 22,000 | 24,000 |
| Cash from financing | | | | | |
| Issue of shares & share premium | 4,317 | 6,276 | 10,820 | 8,387 | 3,535 |
| Dividend paid | 3,520 | 14,120 | 7,510 | 10,965 | 13,571 |
| Debt change | 0 | 0 | 0 | 0 | 0 |
| Others | | | | | |
| Net cash from financing | 797 | (7,844) | 3,310 | (2,578) | (10,036) |
| Net change in cash | (1,459) | 18,534 | 24,420 | 29,191 | 25,388 |

Per share data

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------------|------|-------|-------|-------|-------|
| EPS Adj. | 33.6 | 43.8 | 65.7 | 78.7 | 97.7 |
| EPS Basic Wtd. | 34.5 | 45.0 | 67.1 | 79.2 | 98.4 |
| EPS Consl & dil adj. | 34.5 | 45.1 | 67.7 | 80.6 | 99.0 |
| CEPS | 38.8 | 51.5 | 74.7 | 89.9 | 110.6 |
| Book value | 94.8 | 124.0 | 197.7 | 270.3 | 347.1 |
| Dividend | 11.2 | 44.1 | 22.8 | 15.7 | 19.5 |
| O/s shares.-actual (mn) | 537 | 546 | 557 | 573 | 580 |
| O/s shares.-diluted (mn) | 551 | 562 | 569 | 577 | 585 |
| O/s shs wtd / diluted (mn) | 537 | 545 | 552 | 564 | 577 |

Key data

| | |
|---------------------------|-----------------------|
| Sector | IT |
| Market Cap | Rs1018bn / US\$25.6bn |
| 52 Wk H/L (Rs) | 1399/978 |
| Avg. daily vol. (6 month) | 1,334,867 |

| | |
|-----------|--------|
| BSE Code | 532540 |
| NSE Code | TCS |
| Bloomberg | TCS IN |
| Reuters | TCS.BO |

| | |
|--------|--------|
| Sensex | 16,921 |
| Nifty | 4,941 |

Shareholding pattern (%)

| | 31-Mar-07 | 30-Jun-07 |
|----------------------|-----------|-----------|
| FII's NRI, ADR/GDR | 7.1 | 7.7 |
| MFs and institutions | 4.9 | 5.6 |
| Promoters | 81.7 | 80.1 |
| Others | 6.4 | 6.6 |

Absolute returns (%)

| | 1mth | 3mth | 12mth |
|---------|------|-------|-------|
| TCS LTd | 2.4 | (7.3) | (0.3) |
| Sensex | 17.3 | 16.7 | 37.3 |
| BSE IT | 2.1 | (6.2) | 2.5 |

TCS Ltd.

Accumulate
Current Price: Rs1,041 Target price: Rs1,410
Quarterly Performance

(Rs mn)

| | FY07 | | | | FY08 | | FY07 | FY08E |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | | |
| Net Sales | 41,443 | 44,822 | 48,605 | 51,464 | 52,028 | 56,355 | 186,332 | 231,687 |
| Change QoQ % | | 8.2 | 8.4 | 5.9 | 1.1 | 8.3 | - | - |
| Change YoY % | 53.0 | 51.9 | 40.8 | 38.2 | 25.5 | 25.7 | 40.7 | 24.3 |
| Total Expenditure | 31,316 | 32,528 | 34,852 | 36,896 | 38,764 | 40,983 | 135,592 | 168,840 |
| EBITDA | 10,128 | 12,294 | 13,752 | 14,568 | 13,264 | 15,372 | 50,740 | 62,847 |
| EBITDA Margin (%) | 24.4 | 27.4 | 28.3 | 28.3 | 25.5 | 27.3 | 27.2% | 27.1% |
| Change QoQ (%) | | 21.4 | 11.9 | 5.9 | -8.9 | 15.9 | - | - |
| Change YoY % | 27.3 | 43.2 | 40.8 | 48.2 | 31.0 | 25.0 | 38.1 | 23.9 |
| Depreciation | 863 | 958 | 1,080 | 1,395 | 1,265 | 1,260 | 4,296 | 5,038 |
| EBIT | 9,265 | 11,336 | 12,673 | 13,173 | 11,999 | 14,113 | 46,444 | 57,809 |
| EBIT margin (%) | 22.4 | 25.3 | 26.1 | 25.6 | 23.1 | 25.0 | 24.9 | 25.0 |
| Other Income/(expenses), Net | 668 | 77 | 300 | 898 | 1,516 | 680 | 1,944 | 1,090 |
| PBT | 9,932 | 11,414 | 12,972 | 14,070 | 13,516 | 14,793 | 48,389 | 58,899 |
| Tax | 1,238 | 1,447 | 1,828 | 2,188 | 1,523 | 2,041 | 6,701 | 8,125 |
| Effective tax rate (%) | 12.5 | 12.7 | 14.1 | 15.6 | 11.3 | 13.8 | 13.8 | 13.8 |
| Extraordinary exp/(Inc) | | | | | | | | |
| PAT | 8,626 | 9,915 | 11,047 | 11,728 | 11,855 | 12,601 | 41,315 | 50,149 |
| PAT margin (%) | 20.8 | 22.1 | 22.7 | 22.8 | 22.8 | 22.4 | 22.2 | 21.6 |
| Change QoQ (%) | | 14.9 | 11.4 | 6.2 | 1.1 | 6.3 | - | - |
| Change YoY (%) | 39.4 | 47.3 | 47.3 | 47.4 | 37.4 | 27.1 | 43.3 | 21.4 |
| Adjusted PAT | 8,626 | 9,915 | 11,047 | 11,728 | 11,855 | 12,601 | 40,817 | 50,149 |
| Adj PAT margin (%) | 20.8 | 22.1 | 22.7 | 22.8 | 22.8 | 22.4 | 21.9 | 21.6 |
| Change QoQ (%) | | 14.9 | 11.4 | 6.2 | 1.1 | 6.3 | - | 22.9 |
| Change YoY (%) | 39.4 | 47.3 | 47.3 | 47.4 | 37.4 | 27.1 | 41.6 | 22.9 |
| EPS | 8.81 | 10.1 | 11.3 | 12.0 | 12.1 | 12.9 | 41.7 | 51.2 |
| Adj EPS | 8.81 | 10.1 | 11.3 | 12.0 | 12.1 | 12.9 | 41.7 | 51.2 |

Financial highlights

- **Net Sales** for the Q2FY08 will rise by 8.3% QoQ and 25.7% YoY. The growth will primarily be driven by volume growth and improvements in billing rates. The negative impact due to ~1.7% appreciation in the INR may be offset due to improved billing rates and greater than expected volume growth.
- **EBITDA** for the quarter will increase by 15.9% QoQ and 25% YoY. The EBITDA margin for the Q2FY08 will be 27.3% up from 25.5% in the last quarter. The lower margins in the last quarter were due to the annual salary hikes offered.
- **Adj. PAT** will grow by 6.3% QoQ and 27.1% YoY.

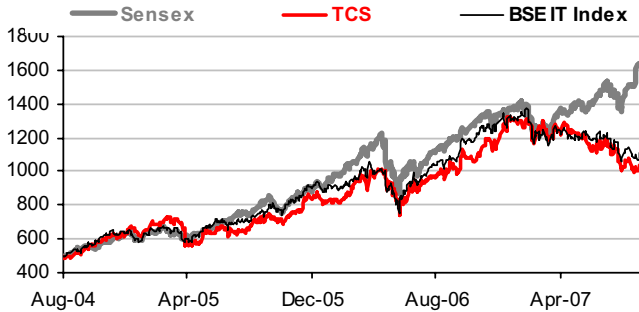
Valuations and Recommendation

TCS is currently trading at lower end of its trading range. Given our concerns over the Rupee appreciation, we are downgrading our call on TCS from Buy to **Accumulate**. We prefer TCS over Infosys because of its better geography mix, lower attrition rates and higher proportion of Fixed Price projects which gives them much room to manage its costs.

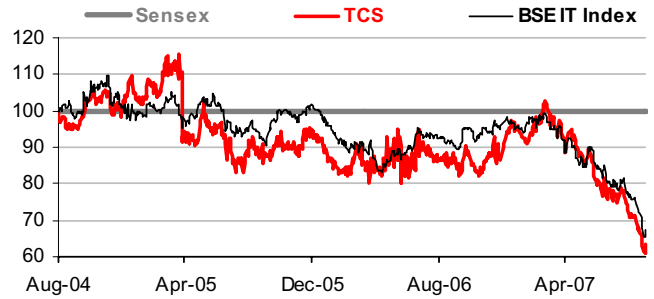
Stock performance

TCS

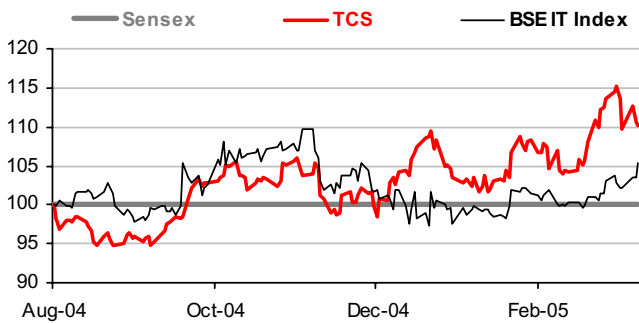
Absolute Perf. From Aug 04



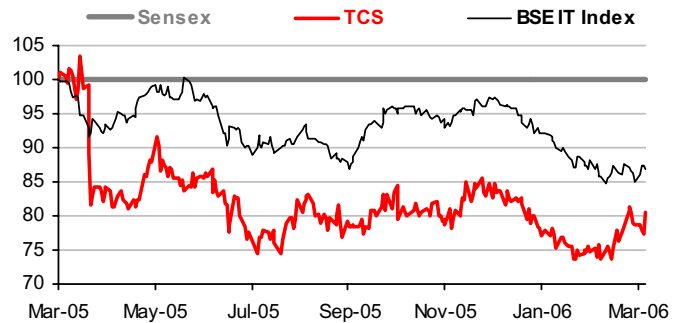
Relative Perf. From Aug 04



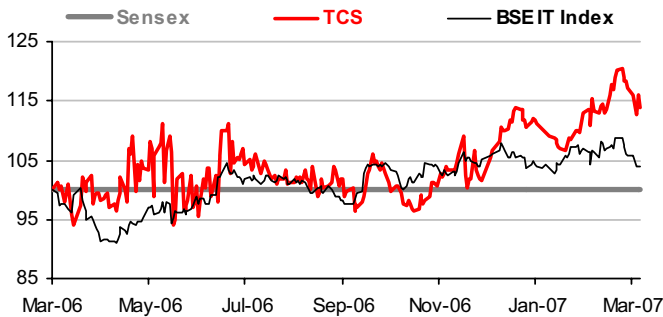
Relative Perf. From Aug 04 to Mar 05



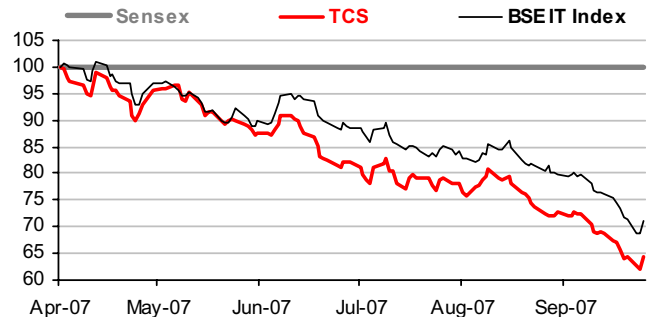
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

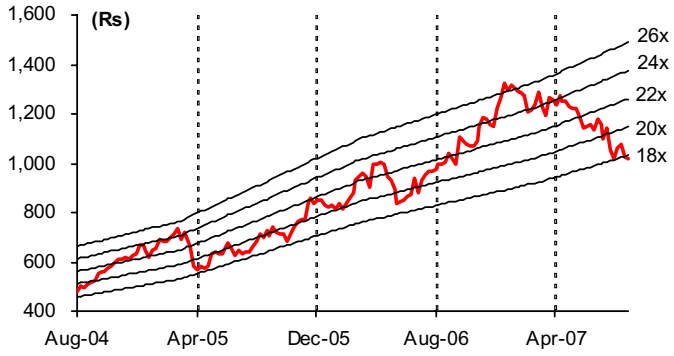


Source: Bloomberg, Religare Institutional Equity Research

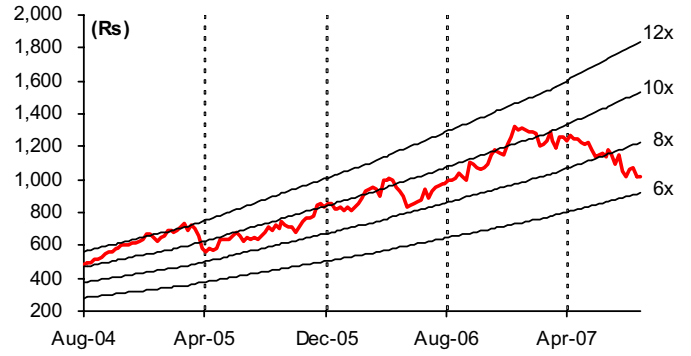
12 month forward rolling band charts

TCS

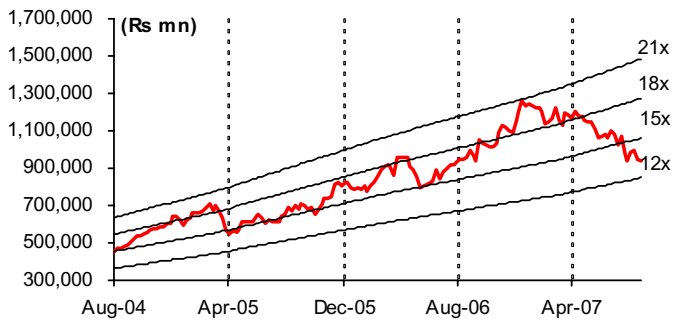
P/E Band



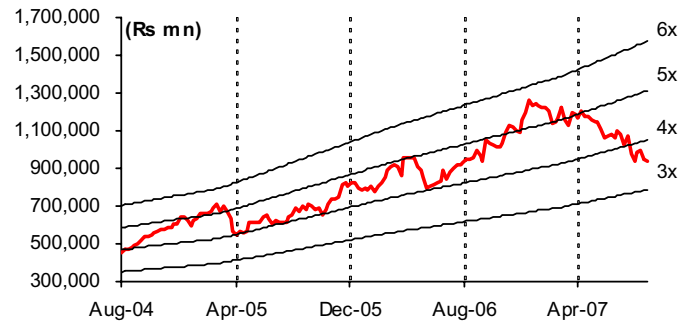
P/BV Band



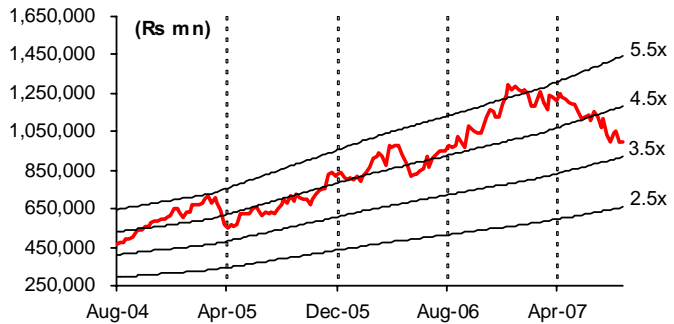
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



TCS Ltd. Financials- US GAAP

| Income statement | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | (Rs mn) | | | | |
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| Net Sales | 106,394 | 132,455 | 186,332 | 231,687 | 293,446 |
| EBITDA | 25,712 | 36,748 | 50,740 | 62,847 | 78,644 |
| EBITDA margin (%) | 24.2 | 27.7 | 27.2 | 27.1 | 26.8 |
| Depreciation | 1,724 | 2,855 | 4,296 | 5,038 | 7,684 |
| EBIT | 23,988 | 33,894 | 46,444 | 57,809 | 70,960 |
| Other income | 948 | 279 | 1,602 | 1,813 | 2,479 |
| Interest exp/ (inc) | 157 | 89 | 237 | 723 | 723 |
| PBT | 24,779 | 34,084 | 47,810 | 58,899 | 72,716 |
| PBT margin (%) | 23.3 | 25.7 | 25.7 | 25.4 | 24.8 |
| Cos share in JV | | | | | |
| Taxes | 4,799 | 4,989 | 6,701 | 8,125 | 10,069 |
| Extra ord exp/ Minority Interest | (1,371) | 0 | 0 | 0 | 0 |
| PAT (Reported) | 21,276 | 28,831 | 40,737 | 50,149 | 62,022 |
| PAT margin (%) | 20.0 | 21.8 | 21.9 | 21.6 | 21.1 |
| Less: Extra ordinary income / Others | | | | | |
| Adj PAT | 20,157 | 28,831 | 40,817 | 50,149 | 62,022 |
| Adj PAT margin (%) | 18.9 | 21.8 | 21.9 | 21.6 | 21.1 |

| Quarterly – Financials | | | | | |
|-------------------------------|----------------|---------------|---------------|---------------|---------------|
| | (Rs mn) | | | | |
| (Rs mn) | Q1FY07 | Q2FY7 | Q3FY07 | Q4FY07 | Q1FY08 |
| Net Sales | 41,443 | 44,822 | 48,605 | 51,464 | 52,028 |
| Change (%) | 53.0 | 51.9 | 40.8 | 38.2 | 25.5 |
| EBITDA | 10,128 | 12,294 | 13,752 | 14,568 | 13,264 |
| Change (%) | 27.3 | 43.2 | 40.8 | 48.2 | 31.0 |
| Margin (%) | 24.4 | 27.4 | 28.3 | 28.3 | 25.5 |
| PAT | 8,626 | 9,915 | 11,047 | 11,728 | 11,855 |
| PAT adjusted | 8,626 | 9,915 | 11,047 | 11,728 | 11,855 |
| Change (%) | 39.4 | 47.3 | 47.3 | 47.4 | 37.4 |
| Margin (%) | 20.8 | 22.1 | 22.7 | 22.8 | 22.8 |
| EPS Basic & diluted adj (Rs) | 8.8 | 10.1 | 11.3 | 12.0 | 12.1 |
| EPS Basic & diluted adj (Rs) | 8.8 | 10.1 | 11.3 | 12.0 | 12.1 |

Ratios

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|------------------------------|-------------|-------------|-------------|--------------|--------------|
| Growth | | | | | |
| Net sales (%) | 49.4 | 24.5 | 40.7 | 24.3 | 26.7 |
| EBITDA (%) | 33.0 | 42.9 | 38.1 | 23.9 | 25.1 |
| PAT adjusted (%) | 31.9 | 43.0 | 41.6 | 22.9 | 23.7 |
| EPS Basic & diluted Adj. (%) | 0.0 | 37.5 | 41.6 | 22.8 | 23.7 |
| EPS diluted (%) | - | - | - | - | - |
| EPS Consl and diluted (%) | - | - | - | - | - |

Valuations

| | | | | | |
|---------------|-------|-------|-------|------|------|
| P/E (x) | 48.6 | 35.3 | 25.0 | 20.3 | 16.4 |
| Price/BV (x) | 27.77 | 17.44 | 11.36 | 8.08 | 5.88 |
| EV/EBITDA (x) | 38.9 | 27.2 | 19.7 | 15.9 | 12.7 |
| EV/Sales (x) | 9.4 | 7.6 | 5.4 | 4.3 | 3.4 |

Profitability

| | | | | | |
|--------------------|------|------|------|------|------|
| EBITDA margin (%) | 24.2 | 27.7 | 27.2 | 27.1 | 26.8 |
| Adj PAT margin (%) | 18.9 | 21.8 | 21.9 | 21.6 | 21.1 |
| RoE (%) | 67.4 | 56.8 | 51.4 | 43.7 | 39.5 |
| RoCE (%) | 70.5 | 53.7 | 49.2 | 41.3 | 37.9 |
| RoIC (%) | 79.6 | 71.6 | 64.0 | 63.6 | 65.3 |

B/S ratios

| | | | | | |
|----------------------|------|------|------|------|------|
| Inventory days | 2 | 4 | 2 | 3 | 4 |
| Creditor days | 38 | 43 | 38 | 40 | 38 |
| Debtors days | 62 | 76 | 74 | 72 | 68 |
| Working Capital days | 49 | 56 | 60 | 59 | 56 |
| Debt/equity | 0.00 | 0.03 | 0.07 | 0.05 | 0.03 |

| Balance sheet | | | | | |
|----------------------------------|----------------|---------------|---------------|----------------|----------------|
| | (Rs mn) | | | | |
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| Liabilities | | | | | |
| Equity share capital | 480 | 489 | 979 | 979 | 979 |
| Total Res. & Surplus | 34,790 | 57,919 | 88,682 | 125,131 | 172,474 |
| Total Shareholders' funds | 35,270 | 58,408 | 89,661 | 126,109 | 173,452 |
| Convertible debt | | | | | |
| Others | 1,697 | 3,342 | 9,027 | 9,662 | 10,298 |
| Total loans | 1,697 | 3,342 | 9,027 | 9,662 | 10,298 |
| Deferred tax lia. (net) | 124 | 170 | 0 | 0 | 0 |
| Total liabilities | 37,090 | 61,920 | 98,688 | 135,771 | 183,750 |

| Assets | | | | | |
|----------------------------------|----------------|---------------|---------------|----------------|----------------|
| | (Rs mn) | | | | |
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| Assets | | | | | |
| 7,577 | | | | | |
| Net fixed assets | 10,944 | 21,061 | 29,752 | 37,329 | 48,174 |
| Capital WIP | 985 | 2,703 | 7,139 | 7,139 | 7,139 |
| Total non-current assets | 11,929 | 23,764 | 36,890 | 44,467 | 55,313 |
| Inv - non current | 3,694 | 5,357 | 6,418 | 6,418 | 6,418 |
| Current assets | | | | | |
| Inventories | 705 | 806 | 416 | 1,376 | 1,753 |
| Sundry debtors | 22,136 | 32,790 | 43,090 | 48,242 | 61,101 |
| Cash & cash equivalents | 7,347 | 10,870 | 24,779 | 52,859 | 79,450 |
| Cash | 2,778 | 3,965 | 12,291 | 40,372 | 66,963 |
| Liquid investments | 4,569 | 6,905 | 12,487 | 12,487 | 12,487 |
| Other current assets | 8,031 | 12,039 | 19,055 | 20,898 | 26,557 |
| Total current assets | 38,219 | 56,505 | 87,340 | 123,375 | 168,861 |
| Total current liabilities | 8,129 | 8,603 | 12,666 | 14,794 | 18,841 |
| Total provisions | 8,623 | 15,103 | 19,295 | 23,695 | 28,001 |
| Net current assets | 21,467 | 32,800 | 55,379 | 84,886 | 122,019 |
| Misc. expenditure | | | | | |
| Total assets | 37,090 | 61,920 | 98,688 | 135,771 | 183,750 |

Cash flow

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------------------|---------------|----------------|----------------|-----------------|-----------------|
| Cash from operations | | | | | |
| PBT | 26,102 | 34,084 | 48,389 | 58,899 | 72,716 |
| Tax paid | 4,799 | 4,989 | 6,701 | 8,125 | 10,069 |
| Dep & amortization | 1,724 | 2,855 | 4,296 | 5,038 | 7,684 |
| Working capital changes | 3,420 | 7,809 | 8,670 | 1,425 | 10,542 |
| Others | (7,650) | 2,890 | (3,351) | 11 | 11 |
| Net cash from operations | 11,956 | 27,030 | 33,963 | 54,398 | 59,799 |
| Cash from investments | | | | | |
| Capital expenditure | 6,810 | 17,044 | 14,139 | 12,616 | 18,529 |
| Sale/purchase of investments | 4,695 | 2,326 | 5,574 | 0 | 0 |
| Net cash from investments | 11,505 | 19,370 | 19,713 | 12,616 | 18,529 |
| Cash from financing | | | | | |
| Issue of shares & sh. premium | 4,587 | (6) | 0 | 0 | 0 |
| Dividends paid | 3,925 | 7,919 | 10,880 | 13,701 | 14,679 |
| Debt change | (69) | 1,486 | 4,536 | 0 | 0 |
| Others | 163 | (35) | 422 | 0 | 0 |
| Net cash from financing | 755 | (6,473) | (5,922) | (13,701) | (14,679) |
| Net change in cash | 1,207 | 1,187 | 8,326 | 28,081 | 26,591 |

Per share data

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------------------|-------------|-------------|-------------|--------------|--------------|
| EPS Basic & Diluted Adj. | 22.6 | 29.5 | 42.2 | 51.2 | 63.4 |
| EPS diluted - wtd | - | - | - | - | - |
| EPS Consl and diluted | - | - | - | - | - |
| CEPS | 23.3 | 32.4 | 46.1 | 56.4 | 71.2 |
| Book value | 37.5 | 59.7 | 91.6 | 128.8 | 177.2 |
| Dividend | 4.2 | 8.1 | 11.1 | 14.0 | 15.0 |
| O/s shares.-basic & diluted (mn) | 940.9 | 978.6 | 978.6 | 978.9 | 978.9 |
| O/s shs.-diluted (mn) | - | - | - | - | - |
| O/s shs wtd / diluted (mn) | - | - | - | - | - |

Key data

| | | | |
|---------------------------------|----------------------|------------------|--------------|
| Sector | IT | | |
| Market Cap | Rs663bn / US\$16.7bn | | |
| 52 Wk H/L (Rs) | 690/425 | | |
| Avg. daily vol. (6 month) | 1,390,230 | | |
| BSE Code | 507685 | | |
| NSE Code | WIPRO | | |
| Bloomberg | WPRO IN | | |
| Reuters | WIPR.BO | | |
| Sensex | 16,921 | | |
| Nifty | 4,941 | | |
| Shareholding pattern (%) | 31-Mar-07 | 30-Jun-07 | |
| FilIs NRI, ADR/GDR | 7.9 | 8.0 | |
| MFs and institutions | 2.0 | 1.8 | |
| Promoters | 79.6 | 79.6 | |
| Others | 10.6 | 10.6 | |
| Absolute returns (%) | 1mth | 3mth | 12mth |
| Wipro Ltd | (0.2) | (10.6) | (13.6) |
| Sensex | 17.3 | 16.7 | 37.3 |
| BSE IT | 2.1 | (6.2) | 2.5 |

Wipro Ltd.

Reduce
Current Price: Rs455
Target price: Rs571
Quarterly Performance

| | FY07 | | | | FY08 | | (Rs mn) | |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | FY07 | FY08E |
| Net Sales | 31,616 | 35,807 | 40,001 | 43,546 | 42,774 | 46,106 | 150,970 | 189,486 |
| Change % (QoQ) | | 13.3 | 11.7 | 8.9 | -1.8 | 7.8 | - | - |
| Change % (YoY) | 38.9 | 42.8 | 44.4 | 40.5 | 35.3 | 28.8 | 41.7 | 25.5 |
| Total Expenditure | 23,857 | 27,293 | 30,900 | 33,804 | 34,135 | 37,032 | 115,854 | 147,291 |
| EBITDA | 7,758 | 8,514 | 9,102 | 9,742 | 8,639 | 9,075 | 35,116 | 42,195 |
| EBITDA margin (%) | 24.5 | 23.8 | 22.8 | 22.4 | 20.2 | 19.7 | 23.3 | 22.3 |
| Change (%)QoQ | | 9.7 | 6.9 | 7.0 | -11.3 | 5.0 | - | - |
| Change (%)YoY | 40.9 | 41.8 | 30.7 | 31.5 | 11.4 | 17.0 | 35.7 | 20.2 |
| Depreciation | 895 | 983 | 1011 | 1091 | 1176 | 1337 | 3,979 | 5,186 |
| EBIT | 6,864 | 7,531 | 8,091 | 8,651 | 7,463 | 7,738 | 31,137 | 37,009 |
| EBIT margin (%) | 21.7 | 21.0 | 20.2 | 19.9 | 17.4 | 16.8 | 20.6 | 19.5 |
| Other Income | 318 | 463 | 550 | 645 | 829 | 725 | 1,975 | 3,004 |
| Interest exp/(inc) | 2 | 34 | 48 | 40 | 131 | 48 | 124 | 191 |
| PBT | 7,179 | 7,960 | 8,593 | 9,256 | 8,161 | 8,416 | 32,988 | 39,822 |
| Tax | 1,041 | 1,050 | 1,031 | 746 | 1,005 | 1,262 | 3,868 | 5,742 |
| Effective tax rate (%) | 14.5 | 13.2 | 12.0 | 8.1 | 12.3 | 0.0 | 11.5 | 14.4 |
| Extraordinary exp/(Inc) | | | | | | | | |
| PAT | 6,204 | 7,002 | 7,654 | 8,561 | 7,256 | 7,256 | 29,421 | 34,567 |
| PAT margin (%) | 19.6 | 19.6 | 19.1 | 19.7 | 17.0 | 15.7 | 19.5 | 18.2 |
| Change (%)QoQ | | 12.9 | 9.3 | 11.8 | -15.2 | 0.0 | - | - |
| Change (%)YoY | 44.9 | 46.5 | 40.8 | 38.6 | 17.0 | 3.6 | 42.3 | 17.5 |
| Adjusted PAT | 6,204 | 7,002 | 7,654 | 8,561 | 7,256 | 7,256 | 29,421 | 34,567 |
| Adj PAT margin (%) | 19.6 | 19.6 | 19.1 | 19.7 | 17.0 | 15.7 | 19.5 | 18.2 |
| Change (%) QoQ | | 12.9 | 9.3 | 11.8 | -15.2 | 0.0 | - | 17.5 |
| Change (%) YoY | 44.9 | 46.5 | 40.8 | 38.6 | 17.0 | 3.6 | 42.3 | 17.5 |
| EPS | 4.37 | 4.91 | 5.36 | 6.00 | 5.06 | 5.07 | 20.6 | 24.1 |
| Adj EPS | 4.30 | 4.84 | 5.28 | 5.94 | 5.01 | 5.00 | 20.4 | 23.8 |

Financial highlights

- **Net Sales** for Q2FY08 will rise by 7.8% QoQ and 28.8% YoY.
- **EBITDA** will grow 5% QoQ and 17% YoY. However, the EBITDA margins will decline to 19.7% from 20.2% in Q1FY08 due to salary hikes offered.
- **Adj. PAT** growth will be flat QoQ and 3.6% YoY. The QoQ growth will be muted due to higher other income gains and tax write back in Q1FY08. The YoY growth is also lower primarily due to the Rupee appreciation.

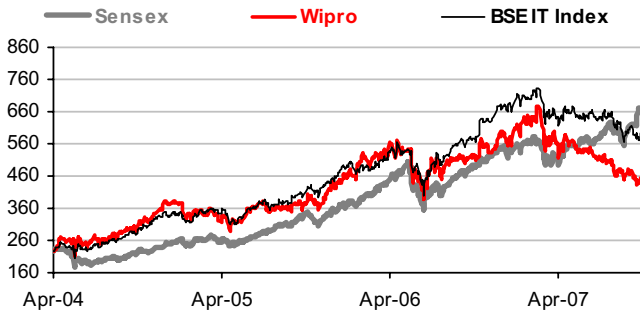
Valuations and Recommendation

Wipro is now trading at a multiple even below the lower end of its last 4 year trading range. On Wipro, apart from the Rupee appreciation, our additional concerns are billing rates and its attrition rates. Unless these show any improvements, Wipro will lag its peer group. We maintain our **Reduce** rating.

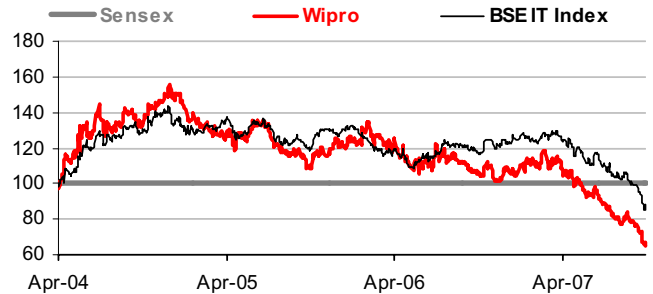
Stock performance

Wipro

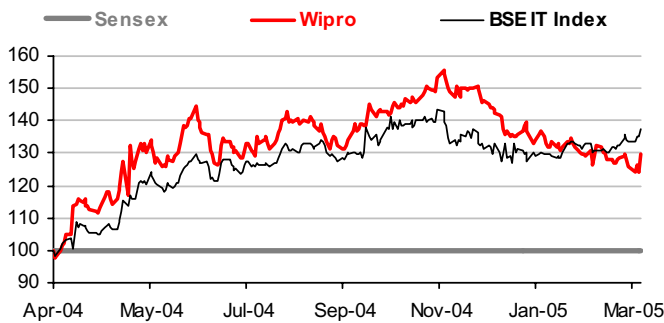
Absolute Perf. From Apr 04



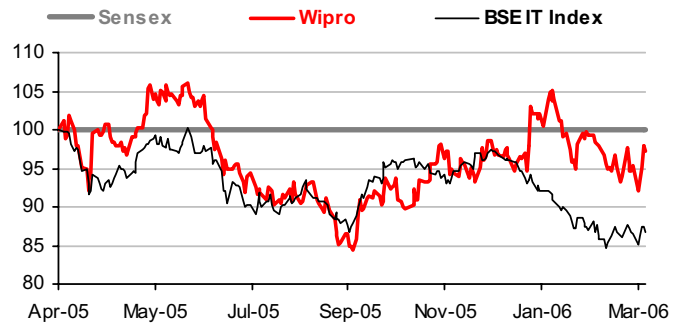
Relative Perf. From Apr 04



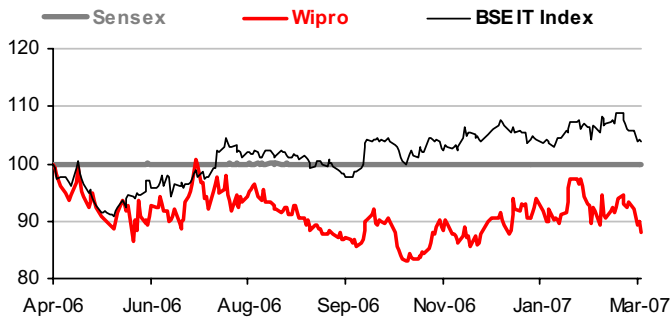
Relative Perf. From Apr 04 to Mar 05



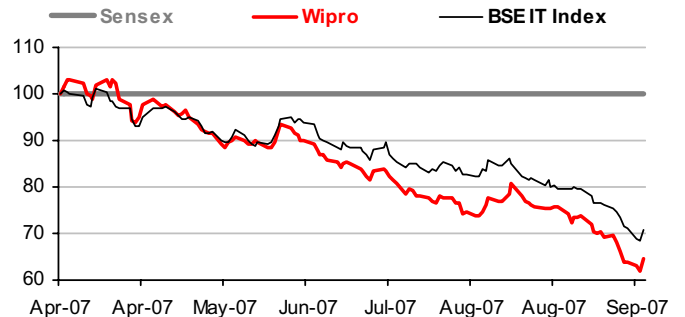
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

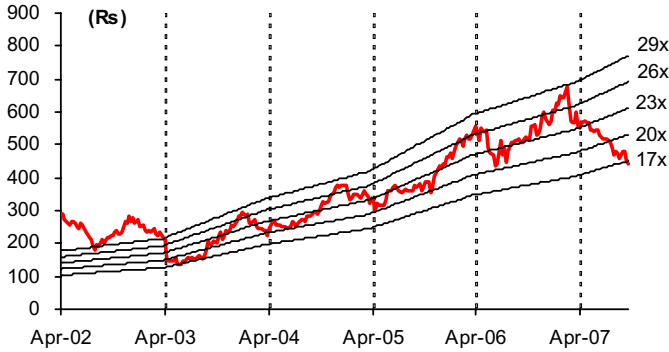


Source: Bloomberg, Religare Institutional Equity Research

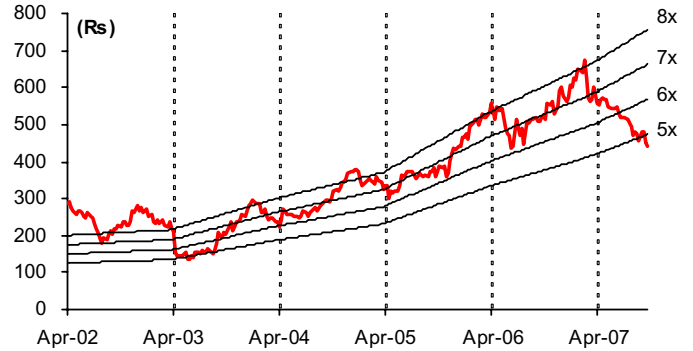
12 month forward rolling band charts

Wipro

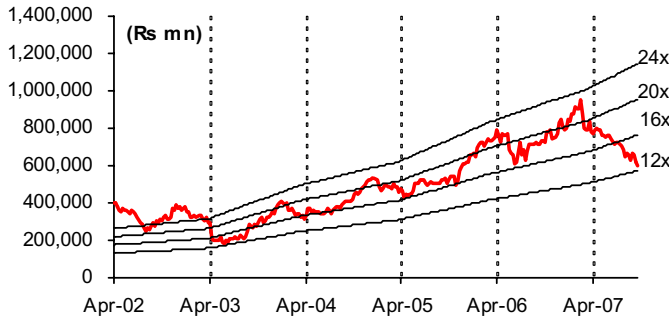
P/E Band



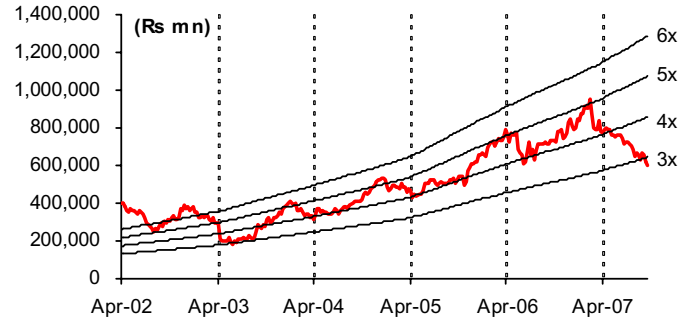
P/BV Band



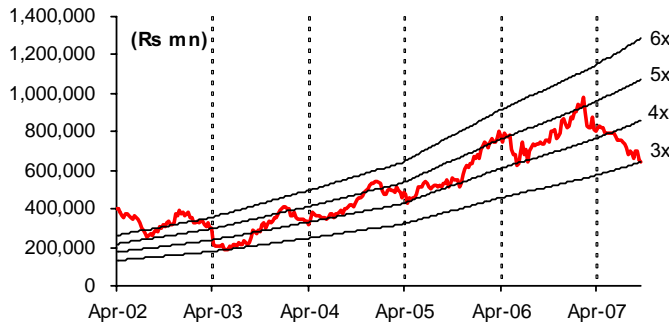
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Wipro Ltd. Financials-Indian GAAP

| Income statement | | | | | | (Rs mn) |
|------------------------------------|--------|---------|---------|---------|---------|---------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E | |
| Net Sales | 81,920 | 106,541 | 150,970 | 189,486 | 239,624 | |
| EBITDA | 20,830 | 25,886 | 35,116 | 42,195 | 53,844 | |
| EBITDA margin (%) | 25.4 | 24.3 | 23.3 | 22.3 | 22.5 | |
| Depreciation | 1,572 | 1,954 | 2,456 | 3,096 | 3,979 | |
| EBIT | 19,258 | 23,932 | 32,659 | 39,099 | 49,865 | |
| Other income | 788 | 877 | 630 | 1,024 | 1,975 | |
| Interest exp/ (inc) | 30 | 35 | 56 | 35 | 124 | |
| PBT | 20,016 | 24,775 | 33,233 | 40,087 | 51,716 | |
| PBT margin (%) | 24.4 | 23.3 | 22.0 | 21.2 | 21.6 | |
| Cos share in JV | | | | | | |
| Taxes | 1,131 | 1,476 | 2,732 | 3,431 | 3,688 | |
| Extra ord exp/ Minority Interest | | | | | | |
| PAT (Reported) | 16,285 | 20,674 | 29,421 | 34,567 | 43,455 | |
| PAT margin (%) | 19.9 | 19.4 | 19.5 | 18.2 | 18.1 | |
| Less: Extraordinary Income /Others | | | | | | |
| Adj PAT | 16,285 | 20,674 | 29,421 | 34,567 | 43,455 | |
| Adj PAT margin (%) | 19.9 | 19.4 | 19.5 | 18.2 | 18.1 | |

| Quarterly – Financials | | | | | | (Rs mn) |
|---------------------------|--------|--------|--------|--------|--------|---------|
| (Rs mn) | Q1FY07 | Q2FY07 | Q3FY07 | Q4FY07 | Q1FY08 | |
| Net Sales | 31,616 | 35,807 | 40,001 | 43,546 | 42,774 | |
| Change (%) | 38.9 | 42.8 | 44.4 | 40.5 | 35.3 | |
| EBITDA | 7,758 | 8,514 | 9,102 | 9,742 | 8,639 | |
| Change (%) | 40.9 | 41.8 | 30.7 | 31.5 | 11.4 | |
| Margin (%) | 24.5 | 23.8 | 22.8 | 22.4 | 20.2 | |
| PAT | 6,204 | 7,002 | 7,654 | 8,561 | 7,256 | |
| PAT adjusted | 6,204 | 7,002 | 7,654 | 8,561 | 7,256 | |
| Change (%) | 44.9 | 46.5 | 40.8 | 38.6 | 17.0 | |
| Margin (%) | 19.6 | 19.6 | 19.1 | 19.7 | 17.0 | |
| EPS adjusted Basic (Rs) | 4.4 | 4.9 | 5.4 | 6.0 | 5.1 | |
| EPS adjusted diluted (Rs) | 4.3 | 4.8 | 5.3 | 5.9 | 5.0 | |

Ratios

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|--------------------------|------|------|------|-------|-------|
| Growth | | | | | |
| Net sales (%) | 39.2 | 30.1 | 41.7 | 25.5 | 26.5 |
| EBITDA (%) | 58.5 | 24.3 | 35.7 | 20.2 | 27.6 |
| PAT adjusted (%) | 57.9 | 26.9 | 42.3 | 17.5 | 25.7 |
| EPS adjusted Basic (%) | 57.4 | 25.6 | 40.3 | 16.8 | 24.4 |
| EPS adjusted diluted (%) | 56.2 | 24.9 | 41.0 | 16.6 | 24.4 |
| EPS Consolidated & dil | 56.2 | 24.9 | 41.0 | 16.6 | 24.4 |

Valuations

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|-----------------|------|------|------|-------|-------|
| P/E (x) | 39.2 | 31.4 | 22.3 | 19.1 | 15.4 |
| Price/BV (x) | 12.1 | 9.8 | 6.8 | 5.4 | 4.3 |
| EV/EBITDA (x) | 29.1 | 23.5 | 17.3 | 14.4 | 11.3 |
| EV/Sales (x) | 7.4 | 5.7 | 4.0 | 3.2 | 2.5 |

Profitability

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|--------------------|------|------|------|-------|-------|
| EBITDA margin (%) | 25.4 | 24.3 | 23.3 | 22.3 | 22.5 |
| Adj PAT margin (%) | 19.9 | 19.4 | 19.5 | 18.2 | 18.1 |
| RoE (%) | 36.0 | 34.8 | 36.3 | 31.8 | 31.4 |
| RoCE (%) | 35.9 | 34.7 | 35.7 | 30.9 | 30.7 |
| RoIC (%) | 76.3 | 74.8 | 73.8 | 59.9 | 58.8 |

B/S ratios

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------|------|------|------|-------|-------|
| Inventory days | 44 | 47 | 49 | 51 | 45 |
| Creditor days | 21 | 18 | 18 | 18 | 16 |
| Debtors days | 61 | 63 | 61 | 59 | 55 |
| Working Capital days | 39 | 43 | 37 | 35 | 35 |
| Net debt/equity | 0.02 | 0.01 | 0.03 | 0.04 | 0.03 |

| Balance sheet | | | | | | (Rs mn) |
|----------------------------------|---------------|---------------|---------------|----------------|----------------|---------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E | |
| Liabilities | | | | | | |
| Equity share capital | 1,407 | 2,852 | 2,918 | 2,935 | 2,965 | |
| Total Res. & Surplus | 51,407 | 63,201 | 93,042 | 118,402 | 152,562 | |
| Total Shareholders' funds | 52,814 | 66,052 | 95,960 | 121,337 | 155,527 | |
| Convertible debt | | | | | | |
| Others | 886 | 757 | 3,856 | 3,841 | 3,823 | |
| Total loans | 886 | 757 | 3,856 | 3,841 | 3,823 | |
| Deferred tax lia. (net) | (495) | (594) | (590) | (590) | (590) | |
| Total liabilities | 53,206 | 66,216 | 99,226 | 124,588 | 158,760 | |

Assets

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------------------|---------------|---------------|----------------|----------------|----------------|
| Net fixed assets | 16,611 | 15,434 | 27,771 | 37,124 | 49,178 |
| Capital WIP | 2,604 | 6,249 | 10,191 | 11,591 | 12,991 |
| Total non-current assets | 19,215 | 21,682 | 37,962 | 48,715 | 62,169 |
| Inv - non current | 708 | 982 | 1,043 | 1,043 | 1,043 |
| Current assets | | | | | |
| Inventories | 1,747 | 2,065 | 4,150 | 4,031 | 5,193 |
| Sundry debtors | 15,717 | 21,272 | 29,391 | 31,794 | 40,703 |
| Cash & cash equivalents | 28,510 | 38,688 | 52,028 | 66,048 | 82,995 |
| Cash | 5,714 | 8,858 | 19,822 | 33,842 | 50,789 |
| Liquid investments | 22,796 | 29,830 | 32,206 | 32,206 | 32,206 |
| Other current assets | 5,629 | 10,373 | 16,387 | 22,738 | 28,755 |
| Total current assets | 51,603 | 72,397 | 101,956 | 124,611 | 157,646 |
| Total current liabilities | 3,743 | 4,146 | 7,060 | 7,112 | 9,540 |
| Total provisions | 14,578 | 24,699 | 34,675 | 42,669 | 52,559 |
| Net current assets | 33,282 | 43,551 | 60,221 | 74,830 | 95,547 |
| Misc. expenditure | - | - | - | - | - |
| Total assets | 53,206 | 66,216 | 99,226 | 124,588 | 158,760 |

Cash flow

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------------------|----------------|----------------|---------------|----------------|----------------|
| Cash from operations | | | | | |
| PBT | 18,948 | 23,778 | 32,988 | 39,822 | 50,398 |
| Tax paid | 2,750 | 3,391 | 3,868 | 5,742 | 7,560 |
| Dep & amortization | 2,456 | 3,096 | 3,979 | 5,186 | 7,385 |
| Working capital changes | 3,481 | 92 | 3,329 | 589 | 3,771 |
| Others | (104) | (138) | 2,104 | (0) | 0 |
| Net cash from operations | 15,070 | 23,254 | 31,874 | 38,678 | 46,454 |
| Cash from investments | | | | | |
| Capital expenditure | 6,880 | 5,426 | 22,363 | 15,939 | 20,840 |
| Sale/purchase of investments | 4,446 | 7,307 | 2,437 | 0 | 0 |
| Net cash from investments | 11,326 | 12,733 | 24,799 | 15,939 | 20,840 |
| Cash from financing | | | | | |
| Issue of shares & sh. premium | 3,039 | 979 | 10,753 | 2,595 | 4,396 |
| Dividends paid | 3,972 | 8,129 | 9,965 | 11,299 | 13,045 |
| Debt change | (432) | 136 | 3,070 | 0 | 0 |
| Others | 93 | (364) | 33 | (15) | (18) |
| Net cash from financing | (1,273) | (7,377) | 3,890 | (8,719) | (8,667) |
| Net change in cash | 2,471 | 3,144 | 10,964 | 14,020 | 16,946 |

Per share data

| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------------|------|------|------|-------|-------|
| EPS Basic Adj | 11.7 | 14.7 | 20.6 | 24.1 | 30.0 |
| EPS diluted Wtd. | 11.6 | 14.5 | 20.4 | 23.8 | 29.6 |
| EPS Cons & Diluted | 11.6 | 14.6 | 20.4 | 23.7 | 29.8 |
| CEPS | 13.3 | 16.6 | 23.2 | 27.4 | 34.6 |
| Book value | 37.6 | 46.3 | 66.6 | 83.5 | 106.0 |
| Dividend | 2.5 | 5.0 | 6.0 | 7.1 | 8.1 |
| O/s shares.-actual (mn) | 1392 | 1407 | 1427 | 1435 | 1450 |
| O/s shares.-diluted (mn) | 1404 | 1428 | 1441 | 1452 | 1467 |
| O/s shs wtd / diluted (mn) | 1401 | 1415 | 1442 | 1456 | 1460 |

| Key data | | | |
|---------------------------------|---------------------|------------------|--------------|
| Sector | IT | | |
| Market Cap | Rs288bn / US\$7.2bn | | |
| 52 Wk H/L (Rs) | 524.9/396 | | |
| Avg. daily vol. (6 month) | 3,596,495 | | |
| BSE Code | 500376 | | |
| NSE Code | SATYAMCOMP | | |
| Bloomberg | SCS IN | | |
| Reuters | SATY.BO | | |
| Sensex | 16,921 | | |
| Nifty | 4,941 | | |
| Shareholding pattern (%) | | | |
| | 31-Mar-07 | 30-Jun-07 | |
| FII's NRI, ADR/GDR | 68.0 | 68.7 | |
| MFs and institutions | 11.6 | 12.1 | |
| Promoters | 8.8 | 8.8 | |
| Others | 11.6 | 10.5 | |
| Absolute returns (%) | | | |
| | 1mth | 3mth | 12mth |
| Satyam | (1.3) | (5.5) | 3.4 |
| Sensex | 17.3 | 16.7 | 37.3 |
| BSE IT | 2.1 | (6.2) | 2.5 |

Satyam Computer Services Ltd.

Accumulate
Current Price: Rs431
Target price: Rs580

Quarterly Performance

| | FY07 | | | | FY08 | | (Rs mn) | |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | FY07 | FY08E |
| Net Sales | 14,429 | 16,019 | 16,611 | 17,792 | 18,302 | 19,562 | 64,851 | 80,271 |
| Change (%) QoQ | | 11.0 | 3.7 | 7.1 | 2.9 | 6.9 | - | - |
| Change (%) YoY | 36.3 | 38.7 | 31.3 | 35.4 | 26.8 | 22.1 | 35.3 | 23.8 |
| Total Expenditure | 10879 | 12394 | 12511 | 13689 | 14199 | 15463 | 49,474 | 62,232 |
| EBITDA | 3,550 | 3,625 | 4,100 | 4,102 | 4,103 | 4,099 | 15,377 | 18,039 |
| EBITDA margin (%) | 24.6 | 22.6 | 24.7 | 23.1 | 22.4 | 21.0 | 23.7 | 22.5 |
| Change (%) QoQ | | 2.1 | 13.1 | 0.1 | 0.0 | -0.1 | - | - |
| Change (%) YoY | 47.5 | 31.2 | 30.3 | 22.6 | 15.6 | 13.1 | 31.9 | 17.3 |
| Depreciation | 362 | 375 | 394 | 354 | 387 | 507 | 1,484 | 1,906 |
| EBIT | 3,188 | 3,250 | 3,706 | 3,748 | 3,716 | 3,592 | 13,893 | 16,132 |
| EBIT margin (%) | 22.1 | 20.3 | 22.3 | 21.1 | 20.3 | 18.4 | 21.4 | 20.1 |
| Other Income | 745 | 282 | 102 | 704 | 632 | 533 | 1,833 | 2,232 |
| Interest exp/(inc) | 26 | 27 | 32 | 74 | 33 | 47 | 159 | 174 |
| PBT | 3,908 | 3,505 | 3,776 | 4,378 | 4,315 | 4,079 | 15,566 | 18,191 |
| Tax | 368 | 307 | 403 | 442 | 532 | 489 | 1,520 | 2,139 |
| Effective tax rate (%) | 9.4 | 8.8 | 10.7 | 10.1 | 12.3 | 12.0 | 9.8 | 11.8 |
| Extraordinary exp/(Inc) | | | | | | | | |
| PAT | 3,541 | 3,198 | 3,372 | 3,936 | 3,783 | 3,589 | 14,047 | 16,051 |
| PAT margin (%) | 24.5 | 20.0 | 20.3 | 22.1 | 20.7 | 18.3 | 21.7 | 20.0 |
| Change (%) QoQ | | -9.7 | 5.4 | 16.7 | -3.9 | -5.1 | - | - |
| Change (%) YoY | 86.2 | 34.7 | 33.6 | 38.3 | 6.8 | 12.2 | 43.1 | 14.3 |
| Adjusted PAT | 3541 | 3198 | 3372 | 3936 | 3783 | 3589 | 14,047 | 16,051 |
| Adj PAT margin (%) | 24.5 | 20.0 | 20.3 | 22.1 | 20.7 | 18.3 | 21.7 | 20.0 |
| Change (%) QoQ | | -9.7 | 5.4 | 16.7 | -3.9 | -5.1 | | 14.3 |
| Change (%) YoY | 86.2 | 34.7 | 33.6 | 38.3 | 6.8 | 12.2 | 43.1 | 14.3 |
| EPS Basic adjusted | 5.44 | 4.89 | 5.14 | 6.01 | 5.67 | 5.45 | 21.5 | 24.2 |
| Adj EPS diluted | 5.24 | 4.75 | 5.00 | 5.88 | 5.53 | 5.23 | 21.0 | 23.4 |

Financial highlights

- **Net Sales** for Q2FY08 will rise by 6.9% QoQ and 22.1% YoY. The growth would be primarily volume driven supported by a slight improvement in the billing rates.
- **EBITDA** will decline by 0.1% QoQ and increase by 13.1% YoY. The EBITDA margin will decline to 21% from 22.4% in the last quarter due to the expected salary hikes.
- **Adj. PAT** will decline 5.3% QoQ and increase 12.2% YoY.

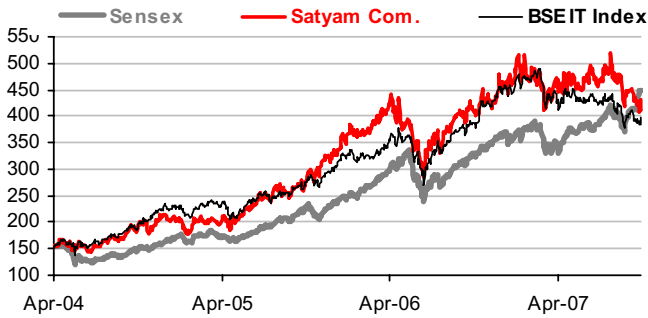
Valuations and Recommendation

Like its peers, Satyam is also trading at the lower end of its valuation range. Satyam has shown improvement in its key matrices over last 8-12 quarters. Although Q2FY08 will be little soft due to salary increases, we expect Satyam to continue to improve its business matrices. Hence we maintain an **Accumulate** rating.

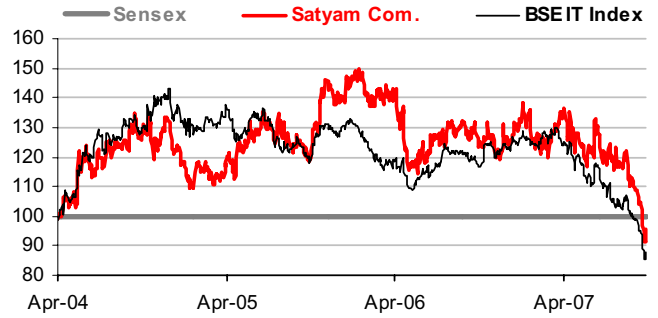
Stock performance

Satyam

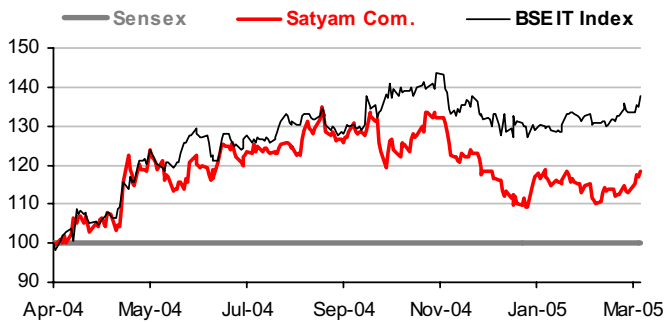
Absolute Perf. From Apr 04



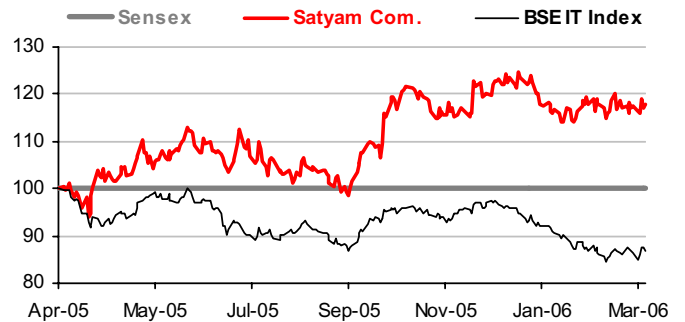
Relative Perf. From Apr 04



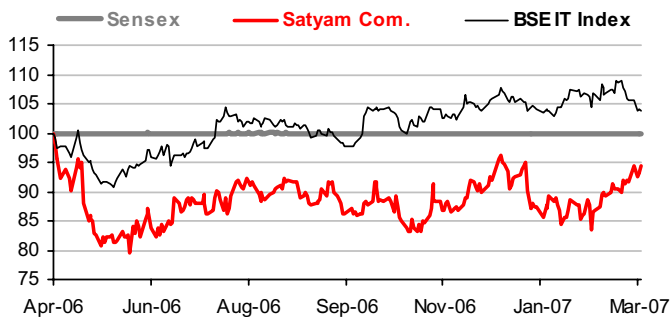
Relative Perf. From Apr 04 to Mar 05



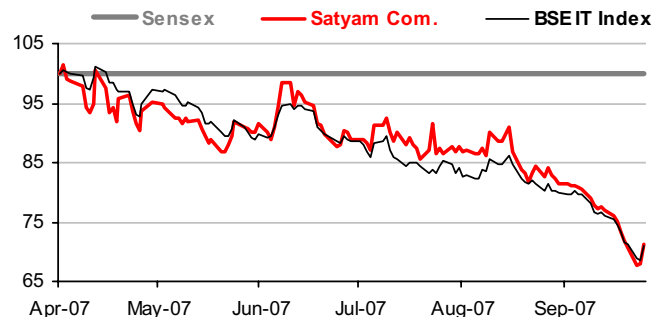
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

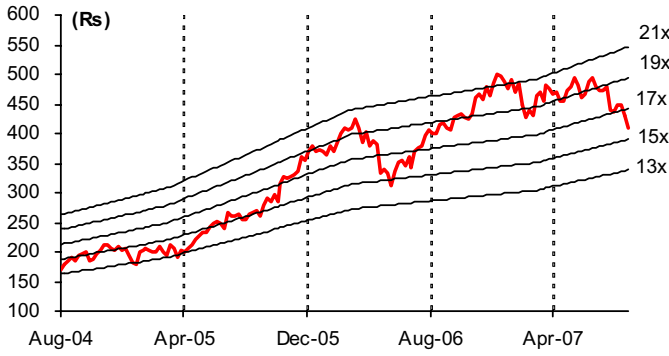


Source: Bloomberg, Religare Institutional Equity Research

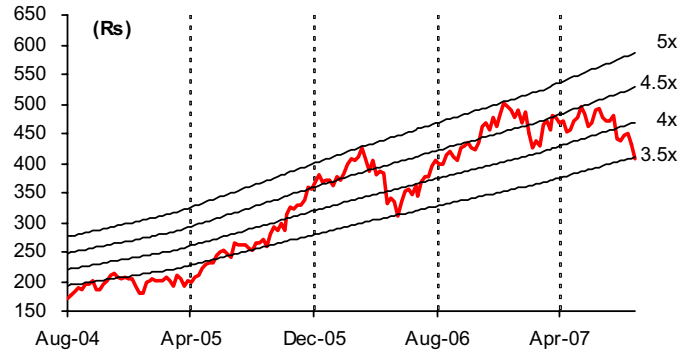
12 month forward rolling band charts

Satyam

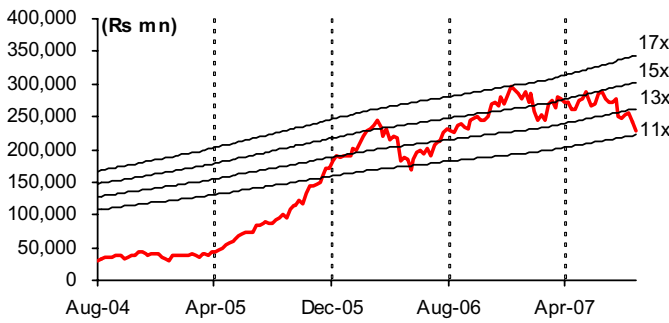
P/E Band



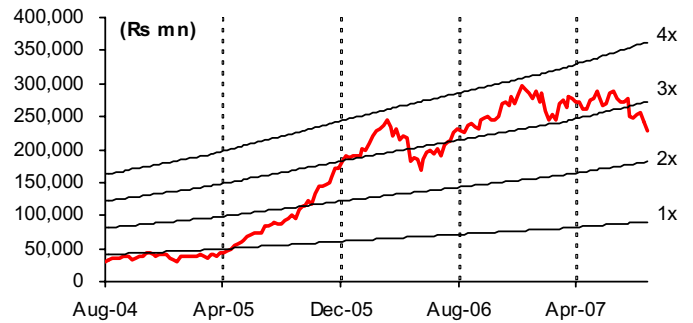
P/BV Band



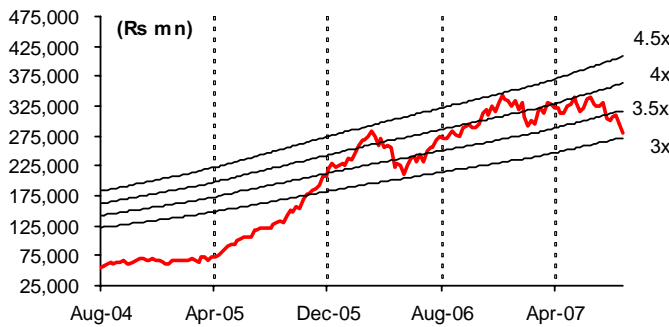
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Satyam Computer Services Ltd Financials- Indian GAAP

| Income statement | | | | | | (Rs mn) |
|--------------------------------------|--------|--------|--------|--------|---------|---------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E | |
| Net Sales | 35,208 | 47,926 | 64,851 | 80,271 | 101,109 | |
| EBITDA | 8,566 | 11,582 | 15,377 | 18,039 | 22,331 | |
| EBITDA margin (%) | 24.3 | 24.2 | 23.7 | 22.5 | 22.1 | |
| Depreciation | 1,133 | 1,373 | 1,484 | 1,906 | 2,544 | |
| EBIT | 7,433 | 10,210 | 13,893 | 16,132 | 19,787 | |
| Other income | 865 | 1,168 | 1,833 | 2,232 | 2,773 | |
| Interest exp/ (inc) | 9 | 55 | 159 | 174 | 188 | |
| PBT | 8,292 | 13,487 | 15,566 | 18,191 | 22,372 | |
| PBT margin (%) | 23.6 | 28.1 | 24.0 | 22.7 | 22.1 | |
| Cos share in JV | | | | | | |
| Taxes | 1,176 | 2,075 | 1,520 | 2,139 | 2,631 | |
| Extra ord exp/ (inc) | 3 | 2,164 | 0 | 0 | 0 | |
| PAT (Reported) | 7,116 | 11,417 | 14,047 | 16,051 | 19,741 | |
| PAT margin (%) | 20.2 | 23.8 | 21.7 | 20.0 | 19.5 | |
| Less: Extra ordinary income / Others | | | | | | |
| Adj PAT | 7,114 | 9,819 | 14,047 | 16,051 | 19,741 | |
| Adj PAT margin (%) | 20.2 | 20.5 | 21.7 | 20.0 | 19.5 | |

| Quarterly – Financials | | | | | | (Rs mn) |
|--------------------------|--------|--------|--------|--------|--------|---------|
| (Rs mn) | Q1FY07 | Q2FY07 | Q3FY07 | Q4FY07 | Q1FY08 | |
| Net Sales | 14,429 | 16,019 | 16,611 | 17,792 | 18,302 | |
| Change (%) | 36.3 | 38.7 | 31.3 | 35.4 | 26.8 | |
| EBITDA | 3,550 | 3,625 | 4,100 | 4,102 | 4,103 | |
| Change (%) | 47.5 | 31.2 | 30.3 | 22.6 | 15.6 | |
| Margin (%) | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | |
| PAT | 3,541 | 3,198 | 3,372 | 3,936 | 3,783 | |
| PAT adjusted | 3,541 | 3,198 | 3,372 | 3,936 | 3,783 | |
| Change (%) | 86.2 | 34.7 | 33.6 | 38.3 | 6.8 | |
| Margin (%) | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | |
| EPS Basic adjusted (Rs) | 5.4 | 4.9 | 5.1 | 6.0 | 5.7 | |
| EPS diluted adjusted(Rs) | 5.2 | 4.7 | 5.0 | 5.9 | 5.5 | |

| Ratios | | | | | |
|---------------------------|------|------|------|-------|-------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| Growth | | | | | |
| Net sales (%) | 37.5 | 36.1 | 35.3 | 23.8 | 26.0 |
| EBITDA (%) | 29.7 | 35.2 | 32.8 | 17.3 | 23.8 |
| PAT adjusted (%) | 41.3 | 38.0 | 43.1 | 14.3 | 23.0 |
| EPS Basic adjusted (%) | 40.1 | 36.2 | 40.7 | 12.7 | 22.1 |
| EPS diluted adj(%) | 39.4 | 33.7 | 43.1 | 11.6 | 22.1 |
| EPS Consl and diluted (%) | 39.4 | 33.7 | 43.1 | 11.6 | 22.1 |

| Valuations | | | | | |
|-----------------|------|------|------|-------|-------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| P/E (x) | 39.3 | 29.4 | 20.6 | 18.4 | 15.1 |
| Price/BV (x) | 8.7 | 6.8 | 5.1 | 4.1 | 3.3 |
| EV/EBITDA (x) | 29.9 | 22.1 | 16.7 | 14.2 | 11.5 |
| EV/Sales (x) | 7.3 | 5.3 | 4.0 | 3.2 | 2.5 |

| Profitability | | | | | |
|--------------------|-------|------|------|-------|-------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| EBITDA margin (%) | 24.3 | 24.2 | 23.7 | 22.5 | 22.1 |
| Adj PAT margin (%) | 20.2 | 20.5 | 21.7 | 20.0 | 19.5 |
| RoE (%) | 24.5 | 26.4 | 28.3 | 24.9 | 24.5 |
| RoCE (%) | 23.8 | 24.9 | 27.6 | 24.6 | 24.1 |
| RoIC (%) | 104.5 | 97.7 | 87.8 | 76.1 | 74.1 |

| B/S ratios | | | | | |
|----------------------|------|------|------|-------|-------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| Inventory days | 0 | 0 | 0 | 0 | 0 |
| Creditor days | 21 | 25 | 28 | 25 | 23 |
| Debtors days | 72 | 74 | 82 | 82 | 76 |
| Working Capital Days | 75 | 74 | 79 | 80 | 76 |
| Net debt/equity | 0 | 0 | 0 | 0 | 0 |

| Balance sheet | | | | | | (Rs mn) |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E | |
| Liabilities | | | | | | |
| Share capital | 639 | 649 | 1,334 | 1,353 | 1,363 | |
| Total Res. & Surplus | 32,338 | 42,506 | 56,113 | 70,963 | 88,624 | |
| Total Shareholders' funds | 32,977 | 43,155 | 57,448 | 72,316 | 89,987 | |
| Convertible debt | | | | | | |
| Others | 189 | 1,027 | 1,479 | 1,479 | 1,479 | |
| Total loans | 189 | 1,027 | 1,479 | 1,479 | 1,479 | |
| Deferred tax lia. (net) | (107) | (5) | (437) | (437) | (437) | |
| Total liabilities | 33,059 | 44,177 | 58,490 | 73,358 | 91,029 | |

| Assets | | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| Net fixed assets | 3,086 | 4,770 | 5,207 | 7,600 | 9,556 |
| Capital WIP | 693 | 803 | 3,017 | 3,017 | 3,017 |
| Total non-current assets | 3,779 | 5,573 | 8,223 | 10,617 | 12,573 |
| Inv - non current | 763 | 0 | 0 | 0 | 0 |
| Current assets | | | | | |
| Inventories | 2 | 2 | 0 | 3 | 4 |
| Sundry debtors | 7,805 | 11,684 | 17,432 | 18,693 | 23,546 |
| Cash & cash equivalents | 23,701 | 31,117 | 39,914 | 49,555 | 61,457 |
| Cash | 23,701 | 31,117 | 39,914 | 49,555 | 61,457 |
| <i>Liquid investments</i> | | | | | |
| Other current assets | 1,392 | 2,949 | 2,945 | 3,736 | 4,538 |
| Total current assets | 32,900 | 45,752 | 60,291 | 71,988 | 89,544 |
| Total current liabilities | 1,709 | 3,309 | 4,157 | 4,306 | 5,451 |
| Total provisions | 2,674 | 3,839 | 5,868 | 4,940 | 5,637 |
| Net current assets | 28,517 | 38,605 | 50,266 | 62,741 | 78,456 |
| Misc. expenditure | 0 | 0 | 0 | 0 | 0 |
| Total assets | 33,059 | 44,177 | 58,490 | 73,358 | 91,029 |

| Cash flow | | | | | |
|----------------------------------|--------------|---------------|---------------|----------------|----------------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| Cash from operations | | | | | |
| PBT | 8,292 | 13,487 | 15,566 | 18,191 | 22,372 |
| Tax paid | 1,176 | 2,075 | 1,520 | 2,139 | 2,631 |
| Dep & amortization | 1,133 | 1,373 | 1,484 | 1,906 | 2,544 |
| Working capital changes | 535 | 2,672 | 2,864 | 2,834 | 3,813 |
| Others | (80) | (27) | (39) | (0) | 0 |
| Net cash from operations | 8,704 | 10,086 | 12,628 | 15,123 | 18,472 |
| Cash from investments | | | | | |
| Capital expenditure | 1,759 | 3,140 | 4,097 | 4,300 | 4,500 |
| Sale/purchase of investments | (202) | (763) | 0 | 0 | 0 |
| Net cash from investments | 1,557 | 2,376 | 4,097 | 4,300 | 4,500 |
| Cash from financing | | | | | |
| Issue of shares & sh. premium | 1,130 | 1,411 | 2,905 | 1,875 | 1,010 |
| Dividends paid | 1,805 | 2,604 | 2,700 | 3,058 | 3,080 |
| Debt change | 107 | 838 | 452 | 0 | 0 |
| Others | (54) | 61 | (391) | 0 | 0 |
| Net cash from financing | (622) | (294) | 266 | (1,183) | (2,070) |
| Net change in cash | 6,525 | 7,416 | 8,797 | 9,641 | 11,902 |

| Per share data | | | | | |
|----------------------------|------|------|------|-------|-------|
| Y/E, 31st March | FY05 | FY06 | FY07 | FY08E | FY09E |
| EPS adjusted | 11.2 | 15.3 | 21.5 | 24.2 | 29.5 |
| EPS diluted - wtd | 11.2 | 15.3 | 21.5 | 24.3 | 29.6 |
| EPS Consl and diluted | 11.0 | 14.7 | 21.0 | 23.4 | 28.6 |
| CEPS | 12.7 | 16.7 | 23.2 | 26.2 | 32.3 |
| Book value | 49.4 | 63.1 | 85.1 | 104.8 | 129.7 |
| Dividend | 2.5 | 3.4 | 3.5 | 3.9 | 3.9 |
| O/s shares.-actual (mn) | 636 | 644 | 655 | 664 | 669 |
| O/s shares.-diluted (mn) | 649 | 670 | 670 | 685 | 690 |
| O/s shs wtd / diluted (mn) | 635 | 643 | 654 | 661 | 667 |

Key data

| | | | |
|---------------------------------|---------------------|------------------|--------------|
| Sector | IT | | |
| Market Cap | Rs197bn / US\$4.9bn | | |
| 52 Wk H/L (Rs) | 365.75/266.85 | | |
| Avg. daily vol. (6 month) | 1,102,678 | | |
| BSE Code | 532281 | | |
| NSE Code | HCLTECH | | |
| Bloomberg | HCLT IN | | |
| Reuters | HCLT.BO | | |
| Sensex | 16,921 | | |
| Nifty | 4,941 | | |
| Shareholding pattern (%) | | | |
| | 31-Mar-07 | 30-Jun-07 | |
| FII's NRI, ADR/GDR | 16.6 | 17.2 | |
| MFs and institutions | 6.0 | 7.0 | |
| Promoters | 67.6 | 67.6 | |
| Others | 9.9 | 8.2 | |
| Absolute returns (%) | | | |
| | 1mth | 3mth | 12mth |
| HCL TECH | 7.4 | (9.2) | 6.5 |
| Sensex | 17.3 | 16.7 | 37.3 |
| BSE IT | 2.1 | (6.2) | 2.5 |

HCL Technologies Ltd.

Accumulate
Current Price: Rs297
Target price: Rs346
Quarterly Performance

| | FY06 | FY07 | | | | FY08 | (Rs mn) | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | 4Q | 1Q | 2Q | 3Q | | 4Q | 1QE |
| Net Sales | 12,538 | 13,795 | 14,651 | 15,771 | 16,120 | 18,066 | 60,336 | 78,953 |
| Change % (QoQ) | | 10.0 | 6.2 | 7.6 | 2.2 | 12.1 | - | - |
| Change % (YoY) | 35.2 | 42.1 | 39.0 | 40.6 | 28.6 | 31.0 | 37.5 | 30.9 |
| Total Expenditure | 9,723 | 10,806 | 11,410 | 12,104 | 12,646 | 14,381 | 46,967 | 61,710 |
| EBITDA | 2,815 | 2,989 | 3,241 | 3,667 | 3,474 | 3,685 | 13,369 | 17,243 |
| EBITDA margin (%) | 22.5 | 21.7 | 22.1 | 23.3 | 21.6 | 20.4 | 22.2 | 21.8 |
| Change % (QoQ) | | 6.2 | 8.4 | 13.1 | -5.3 | 6.1 | - | - |
| Change % (YoY) | 33.3 | 38.5 | 36.3 | 46.8 | 23.4 | 23.3 | 37.8 | 29.0 |
| Depreciation | 562 | 557 | 623 | 659 | 693 | 822 | 2,536 | 3,288 |
| EBIT | 2,253 | 2,432 | 2,618 | 3,008 | 2,781 | 2,863 | 10,833 | 13,955 |
| EBIT margin (%) | 18.0 | 17.6 | 17.9 | 19.1 | 17.3 | 15.9 | 18.0 | 17.7 |
| Other Income/(expenses), Net | 222 | 278 | 134 | 197 | 369 | 395 | 4,424 | 1,579 |
| PBT | 2,110 | 2,520 | 2,833 | 3,318 | 5,456 | 3,015 | 15,258 | 15,534 |
| Tax | (23) | 219 | 206 | 283 | 777 | 350 | 1,520 | 1,689 |
| Effective tax rate (%) | -1.1 | 8.7 | 7.3 | 8.5 | 14.2 | 11.6 | 10.0 | 10.9 |
| Extraordinary exp/(Inc) | | | | | | | | |
| PAT | 2,133 | 2,301 | 2,627 | 3,035 | 4,679 | 2,665 | 12,770 | 12,871 |
| PAT margin (%) | 17.0 | 16.7 | 17.9 | 19.2 | 29.0 | 14.8 | 21.2 | 16.3 |
| Change % (QoQ) | | 7.9 | 14.2 | 15.5 | 54.2 | -43.0 | - | - |
| Change % (YoY) | 29.5 | 47.5 | 57.9 | 72.5 | 119.4 | 15.8 | 96.4 | 0.8 |
| Adjusted PAT | 2,132 | 2,300 | 2,597 | 3,012 | 4,669 | 2,657 | 12,705 | 12,798 |
| Adj PAT margin (%) | 17.0 | 16.7 | 17.7 | 19.1 | 29.0 | 14.7 | 21.1 | 16.2 |
| Change % (QoQ) | | 7.9 | 12.9 | 16.0 | 55.0 | -43.1 | - | - |
| Change % (YoY) | 31.6 | 46.6 | 57.3 | 72.9 | 119.0 | 15.5 | 79.3 | 0.7 |
| EPS basic adj. | 3.3 | 3.6 | 4.0 | 4.6 | 7.0 | 4.0 | 19.5 | 19.4 |
| EPS diluted adj. | 3.1 | 3.4 | 3.8 | 4.4 | 6.8 | 3.9 | 18.8 | 18.7 |

Financial highlights

- **Net Sales** for Q1FY08 will grow by 12% QoQ and 31% YoY. The growth in the quarter will be driven by strong volume growth and billing rate improvement.
- **EBITDA** for the quarter will rise by 6.1% QoQ and 23.3% YoY. The EBITDA margin will however decline this quarter because of salary hikes.
- **Adj. PAT** Adj. Net profit will decline QoQ by 43% and increase 15.5% YoY. This quarterly decline is due to higher other income because of forex hedging gains in the last quarter that the Q1FY08 Net profit numbers look lower.

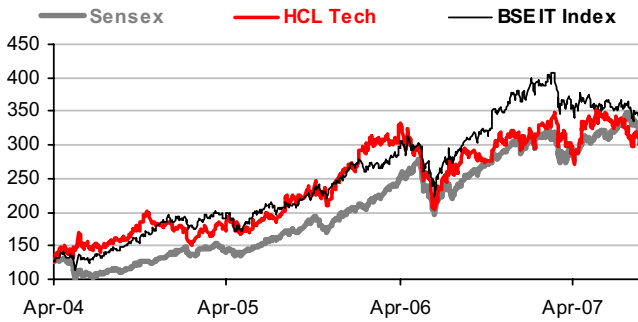
Valuations and Recommendation

HCL Tech is also trading at the lower end of its valuation range. It is also the cheapest among the group of stocks under our coverage. With improving business matrices and corporate governance, we expect HCL Tech to do better than its peers. Hence we maintain our **Accumulate** rating.

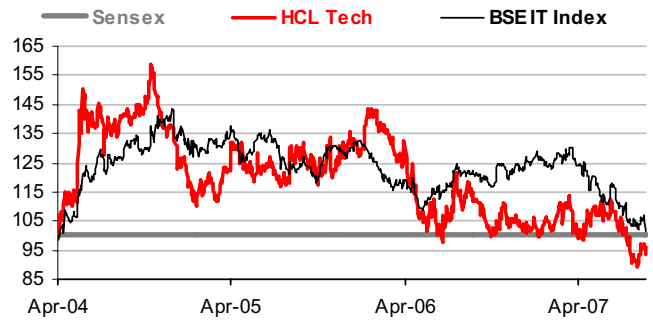
Stock performance

HCL Tech

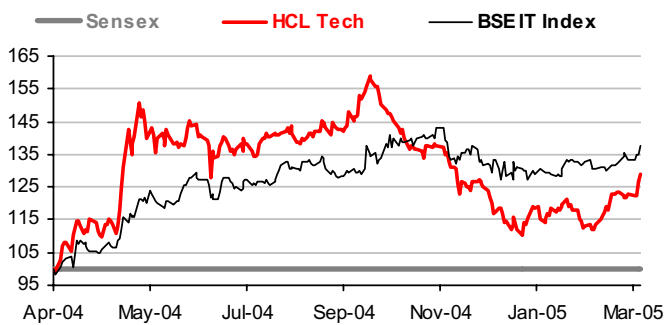
Absolute Perf. From April 2004



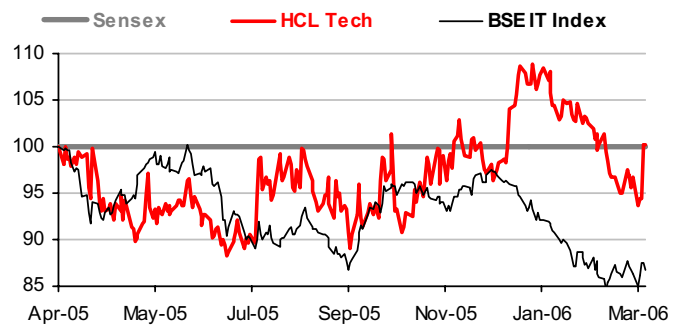
Relative Perf. From Apr 04



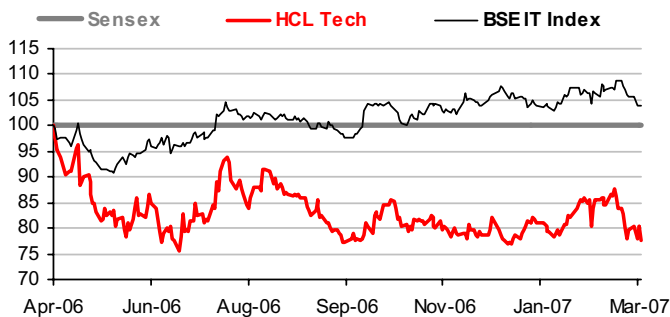
Relative Perf. From Apr 04 to Mar 05



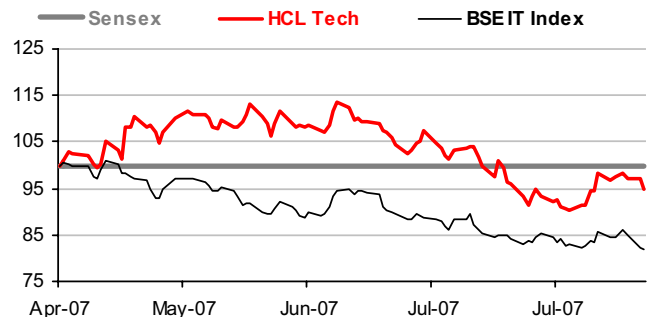
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

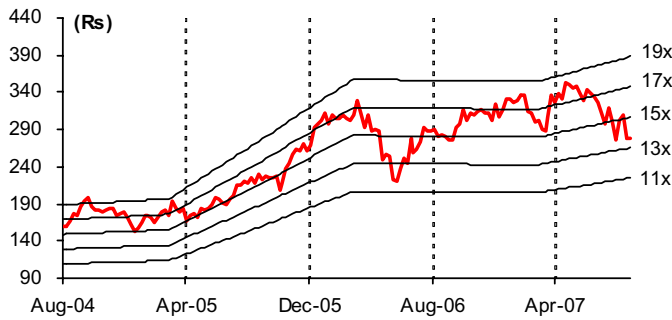


Source: Bloomberg, Religare Institutional Equity Research

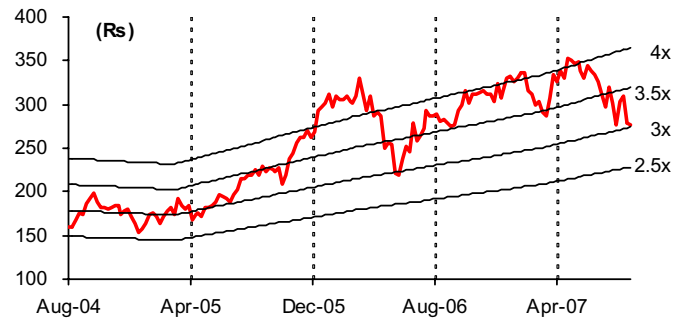
12 month forward rolling band charts

HCL Tech

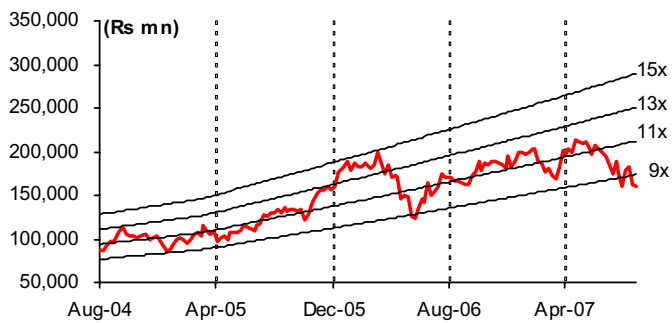
P/E Band



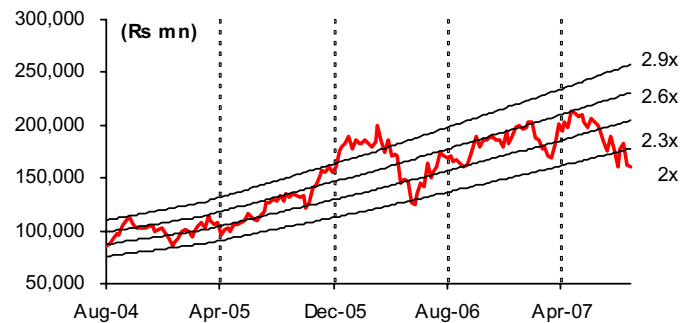
P/BV Band



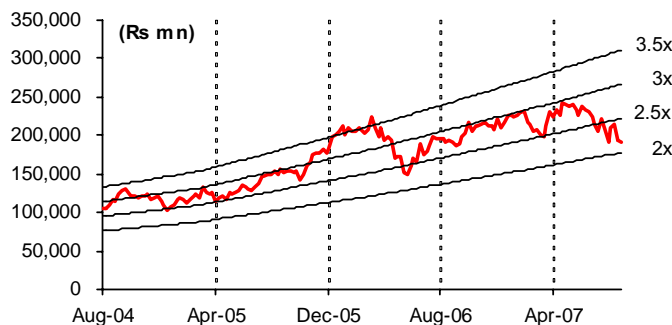
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



HCL Tech Financials (US GAAP)

Income statement (Rs mn)

| Year to 30th June | FY05 | FY06 | FY07 | FY08E | FY09E |
|--|--------|--------|--------|--------|--------|
| Net Sales | 33,629 | 43,882 | 60,336 | 78,953 | 98,691 |
| EBITDA | 7,673 | 9,705 | 13,369 | 17,243 | 21,317 |
| EBITDA margin (%) | 22.8 | 22.1 | 22.2 | 21.8 | 21.6 |
| Depreciation | 1482 | 1916 | 2536 | 3288 | 4246 |
| EBIT | 6,190 | 7,789 | 10,833 | 13,955 | 17,071 |
| Other income/ (Expenses), Net | 519 | (835) | 1,920 | 1,579 | 1,974 |
| Interest exp/ (inc) | | | | | |
| PBT | 6,710 | 6,953 | 12,754 | 15,534 | 19,045 |
| PBT margin (%) | 20.0 | 15.8 | 21.1 | 19.7 | 19.3 |
| Cos share in JV | | | | | |
| Taxes | 671 | 603 | 1,520 | 1,689 | 2,476 |
| Extra ord exp/ Minority Interest & other Non- Tangible charges | 543 | 806 | 2,504 | - | - |
| PAT | 6,556 | 6,501 | 12,770 | 12,871 | 15,595 |
| PAT margin (%) | 19.5 | 14.8 | 21.2 | 16.3 | 15.8 |
| Less: Extra ordinary income / Others | | | | | |
| Adj PAT | 6,092 | 7,084 | 12,705 | 12,798 | 15,523 |
| Adj PAT margin (%) | 18.1 | 16.1 | 21.1 | 16.2 | 15.7 |

Quarterly – Financials (Rs mn)

| (Rs mn) | Q4FY06 | Q1FY07 | Q2FY07 | Q3FY07 | Q4FY07 |
|-------------------|--------|--------|--------|--------|--------|
| Net Sales | 12,538 | 13,795 | 14,651 | 15,771 | 16,120 |
| Change (%) | 35.2 | 42.1 | 39.0 | 40.6 | 28.6 |
| EBITDA | 2815 | 2989 | 3241 | 3667 | 3474 |
| Change (%) | 33.3 | 38.5 | 36.3 | 46.8 | 23.4 |
| Margin (%) | 22.5 | 21.7 | 22.1 | 23.3 | 21.6 |
| PAT | 2133 | 2301 | 2627 | 3035 | 4679 |
| PAT adjusted | 2132 | 2300 | 2597 | 3012 | 4669 |
| Change (%) | 31.6 | 46.6 | 57.3 | 72.9 | 119.0 |
| Margin (%) | 17.0 | 16.7 | 17.7 | 19.1 | 29.0 |
| EPS adjusted (Rs) | 3.32 | 3.55 | 4.00 | 4.63 | 7.03 |
| EPS diluted (Rs) | 3.14 | 3.40 | 3.80 | 4.39 | 6.83 |

Ratios

| Year to 30th June | FY05 | FY06 | FY07 | FY08E | FY09E |
|---------------------------|------|------|------|-------|-------|
| Growth | | | | | |
| Net sales (%) | 28.7 | 30.5 | 37.5 | 30.9 | 25.0 |
| EBITDA (%) | 45.1 | 26.5 | 37.8 | 29.0 | 23.6 |
| PAT adjusted (%) | 18.0 | 16.3 | 79.3 | 0.7 | 21.3 |
| EPS adjusted (%) | 12.2 | 11.2 | 76.6 | -0.6 | 19.0 |
| EPS diluted (%) | 11.1 | 7.4 | 81.7 | -0.8 | 19.1 |
| EPS Consl and diluted (%) | 11.1 | 7.4 | 81.7 | -0.8 | 19.1 |

Valuations

| | FY05 | FY06 | FY07 | FY08E | FY09E |
|---------------|------|------|------|-------|-------|
| P/E (x) | 31.0 | 28.8 | 15.9 | 16.0 | 13.4 |
| Price/BV (x) | 4.9 | 5.2 | 4.2 | 3.6 | 3.0 |
| EV/EBITDA (x) | 24.2 | 19.1 | 13.9 | 10.8 | 8.7 |
| EV/Sales (x) | 5.5 | 4.2 | 3.1 | 2.4 | 1.9 |

Profitability

| | FY05 | FY06 | FY07 | FY08E | FY09E |
|--------------------|------|------|------|-------|-------|
| EBITDA margin (%) | 22.8 | 22.1 | 22.2 | 21.8 | 21.6 |
| Adj PAT margin (%) | 18.1 | 16.1 | 21.1 | 16.2 | 15.7 |
| RoE (%) | 17.9 | 18.2 | 28.9 | 24.2 | 24.5 |
| RoCE (%) | 17.3 | 18.0 | 28.7 | 24.1 | 24.4 |
| RoIC (%) | 36.6 | 33.8 | 41.0 | 45.8 | 47.1 |

B/S ratios

| | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------|------|------|------|-------|-------|
| Inventory days | 6 | 5 | 4 | 5 | 5 |
| Creditor days | 14 | 12 | 12 | 12 | 13 |
| Debtors days | 70 | 78 | 71 | 71 | 71 |
| Working Capital days | 42 | 52 | 43 | 36 | 37 |
| Net debt/equity | 0.02 | 0.00 | 0.00 | 0.00 | 0.00 |

Balance sheet (Rs mn)

| Year to 30th June | FY05 | FY06 | FY07E | FY08E | FY09E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Liabilities | | | | | |
| Equity share capital | 760 | 782 | 802 | 819 | 844 |
| Total Res. & Surplus | 37,651 | 38,832 | 47,657 | 56,309 | 68,515 |
| Total Shareholders' funds | 38,411 | 39,614 | 48,459 | 57,128 | 69,359 |
| Convertible debt | | | | | |
| Others | 1,601 | 891 | 947 | 1,011 | 1,075 |
| Total loans | 1,601 | 891 | 947 | 1,011 | 1,075 |
| Deferred tax lia. (net) | 195 | 194 | 194 | 194 | 194 |
| Total liabilities | 40,207 | 40,700 | 49,601 | 58,334 | 70,628 |
| Assets | | | | | |
| Net fixed assets | 15,934 | 17,720 | 19,784 | 22,496 | 25,750 |
| Capital WIP | | | | | |
| Total non-current assets | 15,934 | 17,720 | 19,784 | 22,496 | 25,750 |
| Inv - non current | 554 | 117 | 117 | 117 | 117 |
| Current assets | | | | | |
| Inventories | 438 | 263 | 630 | 829 | 1,041 |
| Sundry debtors | 6,487 | 9,404 | 11,815 | 15,461 | 19,326 |
| Cash & cash equivalents | 20,488 | 18,327 | 24,592 | 29,221 | 36,835 |
| Cash | 20,156 | 18,218 | 24,483 | 29,111 | 36,725 |
| Liquid investments | 332 | 110 | 110 | 110 | 110 |
| Other current assets | 3,000 | 3,441 | 4,586 | 5,880 | 7,253 |
| Total current assets | 30,413 | 31,436 | 41,623 | 51,390 | 64,455 |
| Total current liabilities | 820 | 957 | 1,457 | 1,915 | 2,407 |
| Other current Liabilities | 5,874 | 7,616 | 10,466 | 13,755 | 17,287 |
| Net current assets | 23,719 | 22,862 | 29,700 | 35,720 | 44,761 |
| Misc. expenditure | - | - | - | - | - |
| Total assets | 40,207 | 40,700 | 49,601 | 58,334 | 70,628 |

Cash flow

| Year to 30th June | FY05 | FY06 | FY07E | FY08E | FY09E |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash from operations | | | | | |
| PBT | 7,253 | 7,760 | 15,258 | 15,534 | 19,045 |
| Tax paid | 671 | 603 | 1,520 | 1,689 | 2,476 |
| Dep & amortization | 1,482 | 1,916 | 2,536 | 3,288 | 4,246 |
| Working capital changes | 1,657 | 1,304 | 572 | 1,392 | 1,427 |
| Others | (387) | 12 | 56 | 64 | 64 |
| Net cash from operations | 6,020 | 7,781 | 15,758 | 15,805 | 19,452 |
| Cash from investments | | | | | |
| Capital expenditure | 9,413 | 3,555 | 4,600 | 6,000 | 7,500 |
| Sale/purchase of investments | (150) | (660) | 0 | 0 | 0 |
| Net cash from investments | 9,263 | 2,895 | 4,600 | 6,000 | 7,500 |
| Cash from financing | | | | | |
| Issue of shares & sh. premium | 7,924 | 10 | 960 | 677 | 1,515 |
| Dividends paid | 5,590 | 5,963 | 5,853 | 5,853 | 5,853 |
| Debt change | (570) | (723) | 0 | 0 | 0 |
| Others | 76 | (148) | 0 | (0) | (0) |
| Net cash from financing | 1,840 | (6,824) | (4,893) | (5,176) | (4,338) |
| Net change in cash | (1,403) | (1,938) | 6,265 | 4,629 | 7,614 |

Per share data

| Year to 30th June | FY05 | FY06 | FY07 | FY08E | FY09E |
|----------------------------|------|------|------|-------|-------|
| EPS adjusted | 9.9 | 11.0 | 19.5 | 19.4 | 23.0 |
| EPS diluted - wtd | 9.9 | 11.1 | 19.4 | 19.0 | 22.4 |
| EPS Consl and diluted | 9.6 | 10.4 | 18.8 | 18.7 | 22.2 |
| CEPS | 11.2 | 13.2 | 22.6 | 23.4 | 28.3 |
| Book value | 60.8 | 57.9 | 71.8 | 83.3 | 99.3 |
| Dividend | 8.8 | 8.7 | 8.7 | 8.5 | 8.4 |
| O/s shares.-actual (mn) | 615 | 643 | 653 | 661 | 674 |
| O/s shares.-diluted (mn) | 632 | 684 | 675 | 686 | 699 |
| O/s shs wtd / diluted (mn) | 616 | 641 | 655 | 675 | 692 |

Religare Institutional Equity Team

| Name | Sector | E-Mail ID | Telephone |
|---|---------------------------------|-------------------------------|------------------|
| Sangeeta Purushottam (<i>Head Institutional Business</i>) | | sangeeta.p@religare.in | +91 22 6655 0102 |
| Research - Equity | | | |
| Arvind Jain | Auto, Steel Pipes | arvind.jain@religare.in | +91 22 6655 0140 |
| Manish Agarwalla | Banking, Textiles, Sugar | m.agarwalla@religare.in | +91 22 6655 0119 |
| Kunal Sheth | Capital Goods / Power Utilities | kunal.sheth@religare.in | +91 22 6655 0141 |
| Manak Gaushal | Cement, Logistics | manak.gaushal@religare.in | +91 22 6655 0106 |
| Nimit Shah | Construction, Real Estate | nimit.shah@religare.in | +91 22 6655 0128 |
| Suryaneel Kumar | FMCG, Hotels | suryaneel.kumar@religare.in | +91 22 6655 0156 |
| Harshad Deshpande | Information Technology | harshad.deshpande@religare.in | +91 22 6655 0116 |
| Abneesh Roy | Media | abneesh.roy@religare.in | +91 22 6655 0176 |
| Vikas Sonawale | Pharma | vikas.sonawale@religare.in | +91 22 6655 0112 |
| Naveen Kulkarni | Telecom | naveen.kulkarni@religare.in | +91 22 6655 0185 |
| Archit Kumar | Auto, Steel Pipes, Textiles | archit.kumar@religare.in | +91 22 6655 0190 |
| Sneha Rungta | Logistics, Construction, Cement | sneha.rungta@religare.in | +91 22 6655 0170 |
| Technical research - Equity | | | |
| Vidur Pendharkar | | vidur.p@religare.in | +91 22 6655 0109 |
| Sales - Equity | | | |
| Paresh Mehta | | paresh.mehta@religare.in | +91 22 6655 0108 |
| Aisha Udeshie | | aisha.udeshie@religare.in | +91 22 6655 0107 |
| Ankur Varman | | ankur.varman@religare.in | +91 22 6655 0103 |
| Dealing - Equity | | | |
| Rajeev Gupta (<i>Head - Dealing and Sales trading</i>) | | rajeev.g@religare.in | +91 22 6655 0104 |
| Jayesh Balsara | | jayesh.balsara@religare.in | +91 22 6655 0186 |
| Govind Satam | | govind.satam@religare.in | +91 22 6655 0181 |
| Vinita Pandya | | vinita.pandya@religare.in | +91 22 6655 0180 |
| Production, Database and administration | | | |
| Mandar Deokar | | mandar.deokar@religare.in | +91 22 6655 0157 |
| Vishal Randive | | vishal.randive@religare.in | +91 22 6655 0160 |
| Sachin Jadhav | | sachin.jadhav@religare.in | +91 22 6655 0189 |

Rating definition

| | | | |
|-------------|--|-------------------|---|
| Buy | : > 15% returns relative to Sensex | Accumulate | : +5 to +15% returns relative to Sensex |
| Sell | : > (-)15% returns relative to Sensex | Reduce | : (-) 5 to (-) 15% returns relative to Sensex |
| Hold | : Upto + / (-) 5% returns relative to Sensex | | |

Religare Securities Ltd. Taj Building, 210, D.N. Road, Mumbai - 400001

For inquiries contact:
Email: institutionalsales@religare.in
Phone: 6655 0000

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