

India IT Services & Software

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Technology/Software & Service

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SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK: ↓

- TP set 15%, 25% and 32% below Street for Infosys, Satyam and Wipro.
- EPS estimates remain above Street on BUYs and below on HOLD and REDUCE.
- Higher-than-Street INR revenue projections on likely weaker USD/ INR assumptions.

Stock Picks

Company	BBG code	Rec	Share price (INR)	Target price (INR)	Upside/ (Downside) (%)	Mkt cap (USD m)	Rec P/E 2008 (x)	2009E (x)	2010E (x)
Infosys	INFO IN	BUY	1,447.50	1,720.00	18.8	18,676	18.3	14.0	12.0
Satyam	SCS IN	BUY	321.95	380.00	18.0	4,785	13.0	9.9	8.3
Wipro	WPRO IN	HOLD	343.75	320.00	(6.9)	11,153	15.5	13.2	11.4
TCS	TCS IN	REDUCE	676.20	580.00	(14.2)	14,589	13.2	11.5	10.2

Source: BNP Paribas estimates

- Extensive checks suggest worsening environment; we see Infosys as relatively better positioned than peers.
- Cutting TP by 16-34% and FY10 USD revenue estimates by 5-7% across coverage universe.
- TPs set at near one standard deviation below historical mean two-year PEGs to capture increased risk to estimates.

Infosys – better positioned than peers

Cutting estimates and TP across coverage universe
We downgraded the sector and TCS in a separate note today and now cut target prices and USD revenue and INR EPS estimates across the rest of our coverage universe. We expect an uncertain next 12 months for Indian IT companies given the increasing macro headwinds. While a collapse in spending is unlikely - outsourcing is still seen as an effective cost lever for major clients - we believe that current estimates could be at risk. Infosys is our top pick as, in our view, it faces the least risk to internal targets and consensus estimates.

Infosys is our top pick, Satyam remains a BUY
We are yet to see any operational (non-currency) reasons at Infosys that could lead to a downward revision in its guidance. Our checks suggest that the company's proactive sales effort to tip "on-the-fence" client decisions is working in its favour. While we have not gained the same confidence in Satyam's internal targets, the recent sell-off post the negative news of lay-offs and high exposure to Lehman and Merrill Lynch seems overdone. Merrill is about a USD10m run rate account (<0.5% of the total), by our estimate, and Lehman even smaller. In addition, the company needs only a 1.3% q-q average EPS growth for the next three quarters to meet our estimates. We continue to rate Satyam BUY.

USD estimates for INFO and SCS in-line with guidance
We set our FY09 USD revenue projection at the upper end of guidance for Infosys and Satyam. For FY10E we cut our FY10E USD revenue y-y growth to 15-17% across companies. We are modelling flat to declining pricing and utilization for the 12 months, and only a modest recovery in 2H09. This, and an increased sales effort, could keep margins weak despite our projection of a weakening USD/INR.

Readjusting target multiples to capture increased risk
We expect a choppy near-term for all stocks as the risk of reading into every news item runs high. The nearest, albeit temporary, trigger could be Infosys retaining FY09 USD guidance. To capture the increased risk to estimates, we set our target multiples near a standard deviation below the historical PEGs. For Satyam it is set lower given its smaller size.

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Changes To Key Estimates

	— FY09E —		— FY10E —	
	Prior	New	Prior	New
USD/INR, end of period	42.00	45.75	41.00	44.75
USD/INR, average	42.14	44.24	41.50	45.13
	————— Growth —————			
	(y-y %)	(y-y %)	(y-y %)	(y-y %)

Infosys

Total revenue (INR)	29.8	34.1	18.5	17.7
Revenue (USD)	22.7	20.9	20.7	15.6
EPS (INR)	30.5	30.9	15.1	16.1
EBIT margin chg (y-y bps)	58	29	(32)	(15)

TCS

Total revenue (INR)	23.7	27.7	20.0	17.8
Revenue (International, USD)	18.1	16.2	21.7	15.8
EPS (INR)	17.4	14.6	15.6	12.8
EBIT margin chg (y-y bps)	21	(59)	(36)	(34)

Wipro

Total revenue (INR)	29.4	31.4	18.9	17.7
Revenue (IT services, USD)	24.2	20.9	20.4	15.5
EPS (INR)	17.1	17.9	13.3	15.1
EBIT margin chg (y-y bps)	(79)	(90)	(36)	8

Satyam

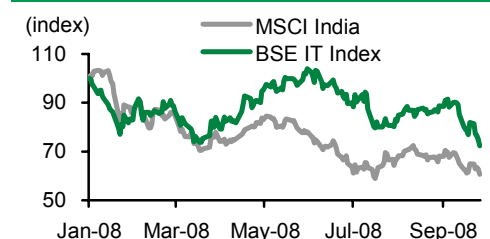
Total revenue (INR)	34.3	39.3	19.9	19.2
Revenue (Standalone exports, USD)	26.5	25.8	22.8	16.5
EPS	31.4	32.0	17.3	19.4
EBIT margin chg (y-y bps)	42	49	(54)	(63)

Changes To Price Targets

	INFO	TCS	WPRO	SCS
Price target, new (INR)	1,720	580	320	380
Price target, old (INR)	2,050	880	440	500

Source: BNP Paribas estimates

Share Price Daily vs MSCI



Source: Datastream



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All share prices are as at market close on 26 September 2009 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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