Update

SECTOR: INFORMATION TECHNOLOGY

HCL Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,938	HCLT IN
	REUTERS CODE
S&P CNX: 3,745	HCLT.BO

Equity Shares (m)	324.4
52-Week Range	715/362
1,6,12 Rel. Perf. (%)	-1/-8/-27
M.Cap. (Rs b)	193.4
M.Cap. (US$ b)	4.4

28 February 2007

Buy

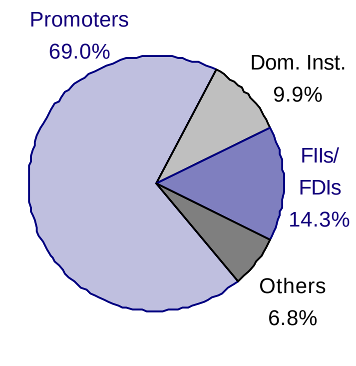
Previous Recommendation: Neutral Rs596

YEAR END	SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
6/06A	43,882	7,077	21.9	13.7	27.2	4.8	19.7	21.0	4.0	17.9
6/07E	60,359	9,964	30.3	38.3	19.7	4.4	25.7	28.3	2.9	12.8
6/08E	80,036	12,414	36.9	22.0	16.1	4.0	28.2	31.6	2.1	9.7
6/09E	103,395	15,353	44.8	21.3	13.3	3.6	30.4	34.5	1.6	7.6

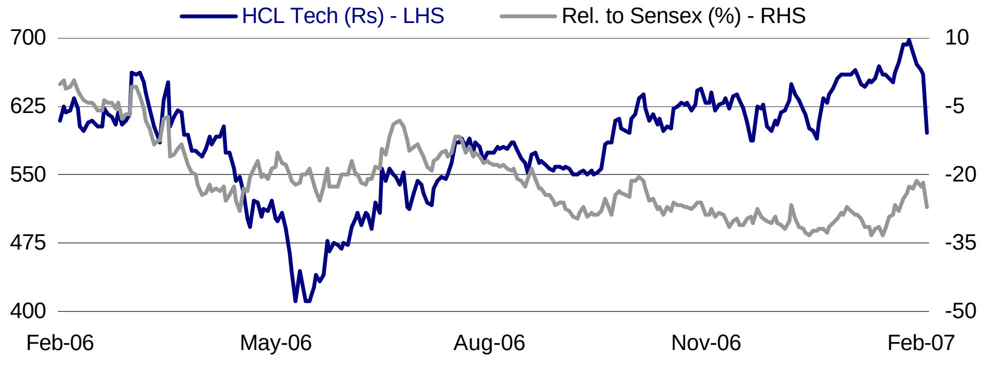
* After ESOP charges

- **Key contender for total IT outsourcing; Upgrade to Buy:** Integrated services portfolio will lead to rising engagements of HCL Tech in various large deals and in turn drive a healthy growth across its portfolio of various services. We expect CAGR of 30.9% and 24.1% in sales and PAT (after ESOP) from FY07E-FY09E.
- **Infrastructure services (IMS) led growth to ensure improved revenue visibility:** Unlike Indian peers that have high exposure to ADM (applications development and maintenance) services - i.e. Infosys 49.9%, Satyam 47% - HCL has positioned itself strongly in Infrastructure services. In this domain, traditionally, leading companies such as IBM, EDS and CSC were dominant. We believe greater exposure to large ITO deals (led by infrastructure services, but including ADM components as well) would improve revenue visibility for HCL Tech going forward. This focus is enabling HCL Tech to attract not only Infrastructure management projects but also in the application outsourcing space, where HCL Tech has been lagging peers.
- **HCL Tech is the only Indian vendor competing for ITO and BPO deals (within TPI pipeline):** According to TPI, restructuring deals valued at close to US$10b are in the pipeline for CY07. Of this around US$4.7b are expected to be awarded in 1QCY07 itself. Currently we note, HCL Tech is the only Indian bidder (other vendors are Accenture, HP, EDS, IBM and ACS) competing for both ITO and BPO deals.
- **Valuation and outlook:** We are impressed with the recent traction in HCL Tech's business owing to expansion of its services portfolio, client mining ability and increasing wins in new business. With critical size in each of its business segments and track record of winning a larger number of large deals, we believe HCL Tech's revenue visibility has improved significantly. Although we have not made significant revisions to our estimates, we believe the potential for positive surprises is higher going forward. The stock is trading at 16.1x FY08E and 13.3x FY09E EPS estimates (after ESOP charges), which appears attractive. Considering improved revenue visibility ahead, we upgrade the stock to **Buy** on a price target of Rs800 based on 18x FY09E EPS (upside of 34%).

SHAREHOLDING PATTERN (%) - DEC.06



STOCK PERFORMANCE (1 YEAR)



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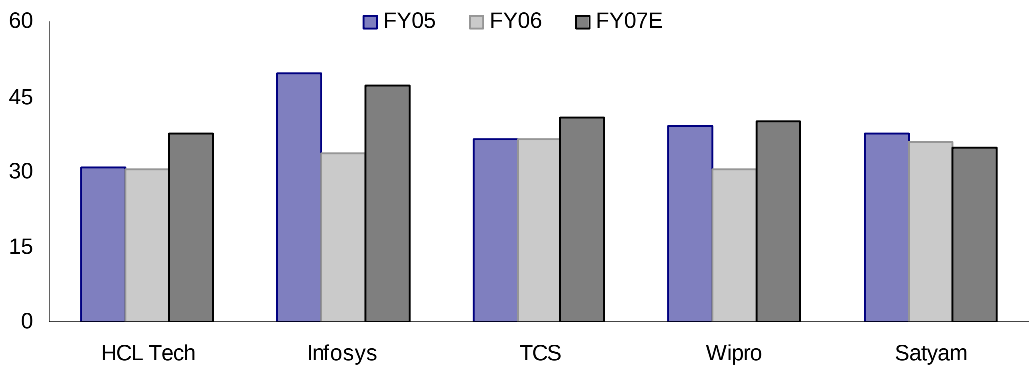
Key contender for total IT outsourcing; Upgrade to Buy

HCL Tech's business model was largely focused on project-based work in Engineering / R&D services where revenue predictability was not high. This resulted in growth rates underperforming in the recent past. However, increasing focus on Infrastructure services and the resulting traction in ADM revenues have led to a more sustainable stream of revenues. Hence, we believe future revenue growth for HCL Tech will likely be more consistent than in the past. This, coupled with growing demand for most of the practices of HCL Tech including Infrastructure services, Engineering and R&D services, lead us to believe that likelihood of positive surprises is higher going forward.

HISTORIC GROWTH RATES UNDER PERFORMING PEERS (%)



Source: Company/ Motilal Oswal Securities

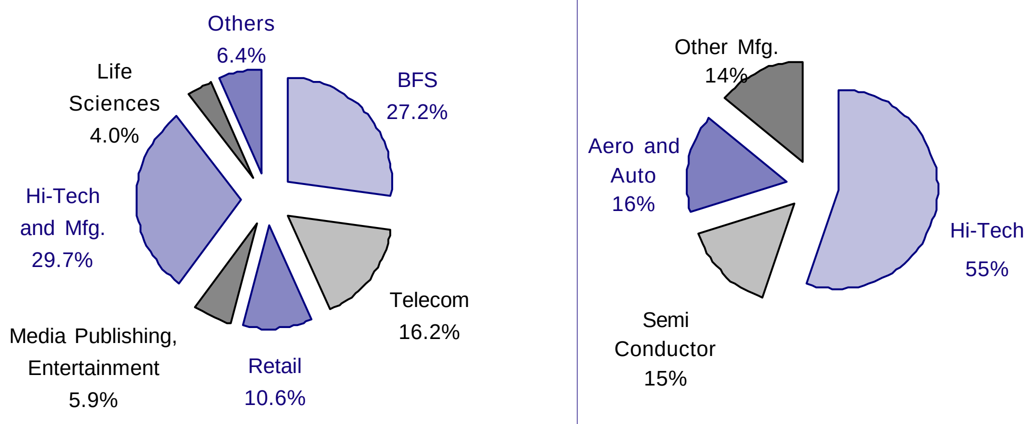
Our interaction with management indicates that HCL Tech is poised for healthy growth across its portfolio of various services. We believe that the company's engagements in various large deals are likely to increase considering its integrated services portfolio. We are also impressed by the buoyant traction in the each of services having attained critical size, which gives us a confidence that HCL Tech will be amongst the leading Indian contenders for total IT outsourcing/transformational deals.

CRITICAL SIZE IN MOST OF SERVICE PRACTICES

SERVICE PORTFOLIO	* US$ M	% CONTRI- -BUTION	COMMENTS
Enterprise Application Services:	**168**	**12.7**	We believe that portfolio is well diversified unlike peers like Satyam where it is more towards SAP
Oracle Universe	61	4.6	
SAP Universe	81	6.1	
Microsoft Dynamics	8	0.6	
Middleware	19	1.4	
Engineering and R&D Services:	**321**	**24.2**	We believe that Engineering and R&D services will be key growth verticals in terms of offshoring and HCL Tech is a leader.
Hardware and Mechanical Engineering	128	9.7	
Software Product Engineering	192	14.5	
Custom Application services	481	36.3	Lower than peers, decent size to vouch total outsourcing
Infrastructure Services	185	14.0	Clearly leader in terms of focus.
BPO	168	12.7	Ongoing restructuring to widen the portfolio.

** Based on 2QFY07 annualized run rate* *Source: Company/Motilal Oswal Securities*

COMPREHENSIVE OFFERINGS ACROSS INDUSTRY VERTICALS | WELLSPREAD WITHIN HI-TECH/MANUFACTURING



Source: Company/Motilal Oswal Securities

The above chart indicates that not only HCL Tech has widened the traction of its services portfolio and also vertical spread, which we believe will be a key for HCL Tech's visibility via a total services model. In order to drive larger IT outsourcing from clients, HCL Tech has formed the Enterprise Transformation Services group recently, which works closely with customers to drive IT outsourcing. We, therefore, believe that HCL Tech's revenue growth rates will likely be in line with industry growth rates from FY08 onward unlike underperformance earlier.

Infrastructure services (IMS) led growth to ensure improved revenue visibility

Unlike Indian peers (that have high exposure to ADM services e.g. Infosys 49.9% and Satyam 47%), HCL has positioned itself as a focused player in Infrastructure services; in this domain, traditionally, leading companies such as IBM, EDS and CSC were dominant. HCL Tech is largely focused on infrastructure services (14% of revenue), which affords it a first mover advantage in this space. In addition, it also helps the company position itself as a total IT outsourcing partner in ITO deals. The company's partnership strategy (has tied up with top tier data centre providers in the US and Europe) and output-based pricing strategy through automated management, maintenance and operations tools, also contributes to its higher hit rate for such deals. We believe that greater exposure to large ITO deals (led by infrastructure services, but including ADM components as well) would improve revenue visibility for HCL Tech post FY07 as well. This focus is leading HCL Tech to win not only Infrastructure management projects but also those in application outsourcing, where HCL Tech has been lagging peers.

Demand for bundled services such as application outsourcing, Infrastructure management and BPO is increasing, as more clients are now focusing on value addition to their business rather than mere technology updates for cost efficiencies. Clients are also challenging the reason for the existence of underlying technology assets and are looking for correlation between IT and business operations. In such a scenario we believe that Indian IT vendor needs to widen the service portfolio besides application outsourcing to include Infrastructure and BPO services. Considering HCL Tech's focus on Infrastructure services as well as BPO, we believe the company's positioning in large deal renegotiations will be better versus earlier. We also believe that HCL Tech's bundling strategy will result in much stronger client relationships and will allow it to mine the client better than earlier when the company was being just a vanilla vendor for application development, enterprise application and maintenance outsourcing.

Demand for Infrastructure services on fast track

According to Forrester, most of the IT service providers are ramping up their low-cost, remote infrastructure delivery capabilities. Traditionally, vendors touted their global capabilities as a mechanism for serving clients locally wherever they happened to be. But now providers are moving toward a more distributed, process-centric, global delivery model (GDM) that relies on near shore and offshore facilities to remotely service clients. This has led to demand for remote Infrastructure services from Indian offshore vendors also due to availability of talent pool and offshore execution capabilities. Therefore, after IT application outsourcing and BPO, Infrastructure outsourcing is expected to be the next big opportunity for Indian IT vendors. According to Nasscom-McKinsey study 2005, total addressable market for IT infrastructure offshoring, inclusive of support, network administration and help desk is around US$70-US$85b and expected to increase significantly going forward. According to Gartner, around 32% of a CIO's IT budget was spent on internal resources to service infrastructure operations and management. Since this segment represents a significant share, it is important for CIO to keep a tight hold on costs. The offshore market for Infrastructure management services is expected to grow at a CAGR of 55% to US$9b from CY05-CY10E, indicative of strong demand for Infrastructure outsourcing.

Forrester in a study of Global Delivery Infrastructure Management for Europe has evaluated leading Indian service providers across 25 criteria with regard to their offshore infrastructure management services and concluded that HCL, TCS and Wipro have established early leadership. According to Forrester, HCL differentiates based on its deep infrastructure management expertise and innovative services strategy. HCL also caters to the particular needs of its European clients through a near shore center in Northern Ireland and help desk support in seven different languages. While TCS maintains the broadest infrastructure management portfolio, with significant resources dedicated to Europe, Wipro has the strongest European market presence today and has already started to push beyond pure remote outsourcing. Meanwhile, Infosys is building up some strong growth momentum through its sophisticated business-centric delivery approach.

HCL TECH'S INCREASING FOCUS TOWARDS INFRASTRUCTURE SERVICES

	JUNE'06	SEP'06	DEC'06
HCL Tech Contribution	12.5	13.2	14.0
QoQ Growth (%)	*19.7*	*16.6*	*12.5*
TCS Contribution	6.8	6	5.5
QoQ Growth (%)		*(4.6)*	*(0.6)*
Wipro Contribution	9.6	10	11.1
QoQ Growth (%)	*21.3*	*15.6*	*18.3*
Satyam Contribution	5.24	5.2	3.91
QoQ Growth (%)	*57.6*	*10.0*	*(22.0)*

Source: Company/Motilal Oswal Securities

Therefore, we believe HCL Tech's focus on Infrastructure services will not only result in better revenue visibility but will also gain entry into new clients to offer other services also. HCL has now emerged as a strong vendor based on its strong infrastructure management background and innovative services strategy. The company has grown from being a pure play IT operations player to an end-to-end service provider capable of initiating and managing infrastructure transformation to help clients better align with their business needs.

HCL Tech is the only Indian vendor competing for ITO and BPO deals (within TPI pipeline)

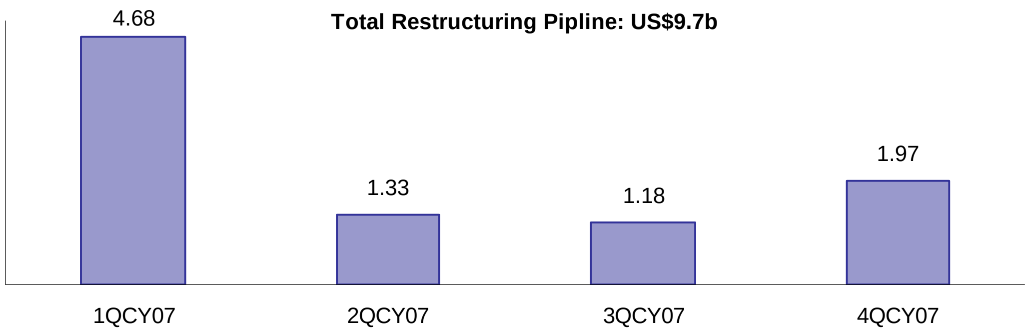
HCL's management is confident of the demand being sustained in CY07 with its clients trying to maximize returns from IT investments without incurring large increases in absolute spending. Management therefore expects a greater number of total outsourcing deals to come into the market and is confident of bagging deals in this space. According to TPI, around US$19b of contracts is in pipeline at present (for TPI), of which nearly US$10b are contracts that are up for restructuring in CY07. Of this, around US$4.7b is expected to be awarded in 1QCY07. Currently, HCL Tech is the only Indian bidder (other vendors are Accenture, HP, EDS, IBM and ACS) competing for both ITO and BPO deals. TPI estimates that at least US$500m worth of deals from this deal pipeline would be handed to Indian vendors. HCL Tech also claims that in most of the large deals it has won in the last four quarters, HCL Tech was the only Indian bidder in the last round. This signifies that HCL Tech's total service portfolio with track record of wining deals is likely to result in much stronger traction going forward.

LARGE DEAL TRACTION ACROSS VERTICALS

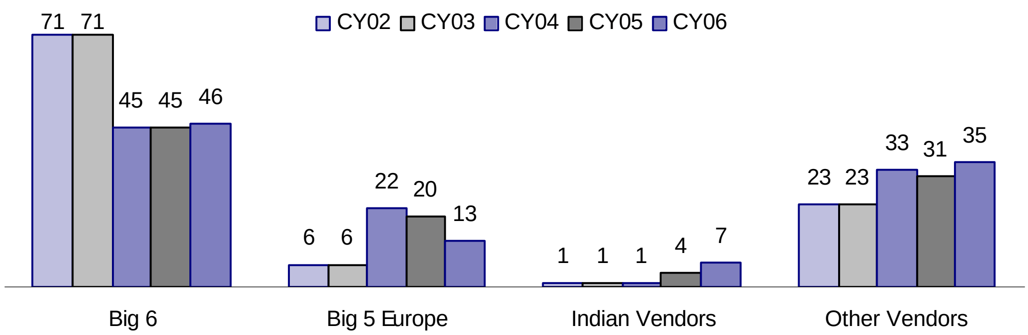
LARGE DEALS WON	US$ M	VERTICAL	MONTH
Skandia	200	Insurance	Dec-06
Teradyne	70	Manufacturing	Jul-06
DSG International	330	Retail	Jan-06
Large European Bank	120	Banking	Dec-05
Autodesk	50	ISV	Nov-05

Source: Company/Motilal Oswal Securities

PROJECTED AWARD TIMELINE OF CURRENT PIPELINE (US$B)



INDIAN VENDORS GAINING SHARE IN CONTRACTS >$50M (%)



Source: TPI

The number of industrywide contracts of over US$50m that are likely to be renewed is expected to touch 150 in CY2007 and nearly 200 by CY08, with total contract value of US$32.9b and US$39.6b respectively. The share of Indian IT vendors has increased rapidly over FY04-FY06, and we expect Tier I players to capture a greater chunk of the market in forthcoming years as well.

Likely positives

(1) Large deals unlikely to be margin dilutive: Large deals currently constitute 10% of HCL Tech's total revenue. Of the six large deals won over the last 12 months, two are in steady state, two are ramping up and two are in the transition phase. Management claims that margins in these deals are currently higher than the company average (contrary to expectations) with large deals coming off the knowledge transfer phase, margins could improve further going forward.

(2) Infrastructure services apart, BPO restructuring will enhance revenue visibility: Within the BPO business, which is predominantly voice-based (around 75%-80%), management is engaged in restructuring the portfolio to increase non-voice composition going forward, thereby focusing increasingly on new client additions as well as considering inorganic growth opportunity. We believe that restructuring will help HCL Tech improve margins in the long term and will also strengthen its total service portfolio thereby enabling it to garner larger wins in transformational deals.

(3) Integrated services model will result in better client mining: HCL Tech has indicated that around 20% of the active client base is utilizing its multi-service offerings of HCL Tech. Within this, around 50% of the +US$5m and 70% of +US$10m clients are using multi-service offerings. This indicates that HCL Tech's multi-service offerings are helping it to increasingly mine the bigger clients. HCL Tech also claims that its share of the business has increased from 10% from existing clients to 24% arising from new customers.

CLIENT MINING (NO. OF CLIENTS)

CLIENT CATEGORY	COMPANY	DEC-05	DEC-06	% INCREASE IN BASE
>$1m - <=$5m	HCL Tech	97	99	2.1
>$5m - <=$10m		17	24	41.2
>$10m		16	22	37.5
>$1m - <=$5m	Infosys	128	148	15.6
>$5m - <=$10m		27	41	51.9
>$10m		51	67	31.4
>$1m - <=$5m	TCS	142	174	22.5
>$5m - <=$10m		34	40	17.6
>$10m		53	74	39.6
>$1m - <=$5m	Wipro	126	152	20.6
>$5m - <=$10m		32	31	-3.1
>$10m		52	70	34.6
>$1m - <=$5m	Satyam	93	110	18.3
>$5m - <=$10m		24	22	-8.3
>$10m		25	32	28.0

Source: Company/Motilal Oswal Securities

The above table indicates that HCL Tech's performance is in line with industry leaders in migrating clients to higher revenue brackets, particularly in the higher than US$5m and US$10m category. This is an indicator that HCL Tech's integrated services are witnessing high traction with the clients.

Wage inflation would continue to be higher v/s industry; expect pricing, SG&A to serve as positives

Attrition rates continue to be high in all the business segments; voluntary attrition stands at 17.8%, 16.8% and 19.9% in IT services, Infrastructure services and BPO respectively. We believe that the high attrition rates would force the company to offer more attractive wage structures to employees, as well as result in a greater number of employees being included in the company's stock option plan. The recent move to increase employees' monthly take-home salaries with a higher fixed component and lower variable component, is likely to lead to higher fixed wage costs. However owing to the robust demand scenario and HCL Tech's increasing traction with clients for its broad services portfolio, we believe such move will help HCL Tech overcome attrition.

Increasing ESOPs a concern

In view of higher attrition in all its segments, HCL has recently increased the number of its employees included in its ESOP plans, where the options have been granted at a price significantly lower than the market rate. However our discussion with the management indicates that the company has extended ESOPs to most of its key employees. Hence future increases in offering options at significantly lower than the market price will not be very high.

Total shares outstanding under various ESOP schemes as on 31 December 2006 are 32.56m (10% of current equity capital) to be vested across 2007-2011. Of these outstanding options, around 7.54m options are granted at lower than the market price. Our discussions with management indicated that ESOP charges are expected to touch US$23m (1.7% to FY07E sales) and US$26m (1.4% to sales) in FY07 and FY08 respectively and thereafter likely to decline gradually. However, any significant increase in the number of employees to be included as part of the company's ESOP plan at less than market price could increase the charge further.

IMPACT OF FBT ON ESOPS PLANS – THOUGH CLARITY AWAITED (BASED ON FY06 ANNUAL REPORT)

	NO OF SHARES OUTSTANDING (M)	WEIGHTED AVG.LIFE (YEARS)	WEIGHTED AVG. EXERCISE PRICE (RS)	TOTAL FBT (RS M)	FBT PER ANNUM (RS M)
1999 Plan	8.4	5.6	279	886	157
	3.4	4.3	495	138	32
2000 Plan	2.3	3.4	210	292	87
	12.5	7.0	298	1245	178
	2.1	2.4	521	68	28
2004 Plan	4.9	7.7	2	924	121
	0.4	7.0	328	39	6
Total	**34.1**			**3593**	**609**
EPS impact over a period 5-7 years (p.a.) - (Rs)					1.9
EPS impact over FY08 and FY09 (p.a.) - %					4-5
EPS - FY08E after FBT Charge					35.0
P/E					17.0
EPS - FY09E after FBT Charge					42.9
P/E					13.9

Source: Company Annual Report/ Motilal Oswal Securities

Assumptions:

1) We have assumed the fair market value for all ESOPs at Rs630 for calculating FBT
2) We have also assumed 100% of ESOP outstanding will be exercised by employee
3) We have assumed FBT to be amortised based on SLM method over average remaining life

We are awaiting for further clarity on treatment of FBT w.r.t ESOP proposed in the Union Budget 2007. In the worst case scenario, we believe impact on EPS of HCL Tech could be around 4%-5% for FY08 and FY09 (calculated for ESOPs outstanding as on 30th June 2006, however HCL Tech has issued more ESOPs at a significant discount to market price in 1QFY07 also). However, the impact could be lower than our estimates, if options are not fully exercised or taxable component is less than 100% of ESOP benefit. The companies are also looking at option of passing FBT charge to employees, in which case the impact on income statement would be lower. We believe that current valuations after FBT charge (based on our estimates) are attractive.

Margin levers

We believe billing rate increase (HCL Tech is witnessing 3-5% increase in the billing rates with many of its existing clients and claims an increase of as high as 10% in the new contracts) and SG&A leverage due to expected volume traction ahead could ease some of the cost pressures due to high attrition and ESOP charges. We also believe a high proportion of new business relative to peers with higher increase in new contracts would result in a faster increase in realized rates versus peers going forward. We expect improvement in realizations to act as a key margin positive over the next few quarters.

REVENUE CONTRIBUTION FROM NEW BUSINESS (%)

	DEC-06	DEC-05
HCL Tech	11.8	5.0
Infosys	5.3	6.8
TCS	3.9	5.2
Wipro	3.9	6.0
Satyam	14.3	7.9

Source: Company/Motilal Oswal Securities

In addition, HCL Tech is now increasingly moving towards engagement models based on output-based pricing such as fixed price bid pricing in applications, transactions based in BPO and device-based pricing in Infrastructure management and risk-reward based in product engineering.

We also expect some margin gains to accrue through flattening in the employee pyramid over FY08-FY09. Higher growth in infrastructure services would also help lower cost per employee since the company can employ a greater number of diploma holders in this segment.

Valuation and view

We are impressed by the recent traction in HCL Tech's business with expansion of its services portfolio, client mining ability and rising wins in new business. Having attained critical size in most of its business segments and a track record of winning higher number of large deals, we believe HCL Tech's revenue visibility is stronger versus earlier.

While we expect margin pressure arising from wage inflation to continue, we expect the margin squeeze to be eased through better pricing, SG&A, flattening of employee pyramid and output-based pricing.

Though we have not revised our estimates significantly, we believe the potential for positive surprises is higher going forward. The stock is trading at 16.1x FY08E and 13.3x FY09E EPS estimates (after ESOP charges), which appears attractive on an FY09 basis. Going by the improved revenue visibility, we are upgrading to stock to **Buy** on a price target of Rs800 based on 18x FY09E EPS (upside of 34%).

VALUATION DISCOUNT THAT HCL TECH HAS OVER PEERS COULD NARROW:

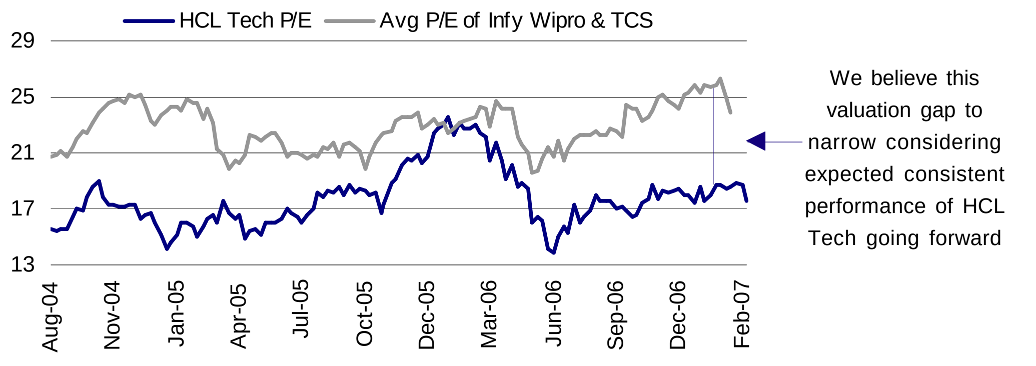
PARTICULARS	INFOSYS	TCS	WIPRO	SATYAM	HCL TECH	DISCOUNT TO PEERS EX SATYAM	DISCOUNT TO SATYAM
EPS CAGR (FY05-FY07E)	39.7	31.3	31.8	37.2	25.4		
EPS CAGR (FY07E-FY09E)	24.0	25.1	24.4	19.7	21.6		
One Year Forward P/E (FY05)	18.4		21.2	13.6	15.6	-21.3	14.9
(FY06E)	24.7	23.5	23.9	13.3	17.3	-28.1	29.4
(FY07E)	21.6	21.6	26.9	19.4	15.2	-35.1	-21.9
P/E based on CMP (FY08E)	23.8	21.8	22.0	16.2	16.1	-28.3	-0.4

** One year forward P/E are based on average price in the month of March/June - for HCL Tech of a preceding year.*

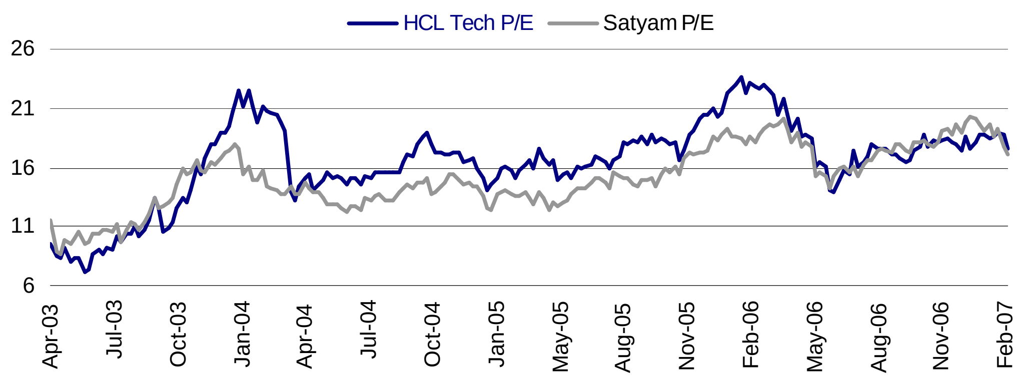
Source: Company/Motilal Oswal Securities

Despite HCL Tech's improved performance in the recent past and the resulting earnings visibility (leading to narrowing the gap in EPS CAGR from FY07E-FY09E v/s peers), the P/E discount to peers continues to be high. We believe this gap will narrow based on the expected consistent performance of HCL Tech going forward.

HCL TECH P/E V/S INFOSYS, WIPRO AND TCS P/E



HCL TECH P/E V/S SATYAM P/E



Source: Motilal Oswal Securities

INCOME STATEMENT (Rs Million)

Y/E JUNE	2005	2006	2007E	2008E	2009E
Sales	**33,627**	**43,882**	**60,359**	**80,036**	**103,395**
Change (%)	*30.9*	*30.5*	*37.5*	*32.6*	*29.2*
Cost of Goods Sold	21,168	27,571	37,609	51,143	67,627
Gross Profit	**12,459**	**16,311**	**22,750**	**28,893**	**35,769**
Selling Expenses	4,815	6,582	9,274	11,572	14,305
EBITDA	**7,644**	**9,729**	**13,476**	**17,321**	**21,464**
% of Net Sales	*22.7*	*22.2*	*22.3*	*21.6*	*20.8*
Depreciation	1,482	1,916	2,524	3,352	4,223
EBIT	**6,162**	**7,813**	**10,951**	**13,969**	**17,241**
% of Net Sales	*18.3*	*17.8*	*18.1*	*17.5*	*16.7*
Other Income	1,062	573	1,221	1,300	1,401
PBT	**7,224**	**8,386**	**12,172**	**15,269**	**18,642**
Tax	671	632	1,076	1,569	2,136
Rate (%)	*9.3*	*7.5*	*8.8*	*10.3*	*11.5*
Net Profit	**6,553**	**7,754**	**11,096**	**13,700**	**16,506**
Share of Income from Eq.	-26	-6	-20	-43	-55
Minority interest	438	16	81	126	153
Net Income	**6,089**	**7,732**	**10,994**	**13,530**	**16,299**
% of Net Sales	*18.1*	*17.6*	*18.2*	*16.9*	*15.8*
Change (%)	*19.7*	*27.0*	*42.2*	*23.1*	*20.5*
ESOP Charges		655.5	1,030.6	1,116.2	946.0
Net Income after ESOP	**6,089**	**7,077**	**9,964**	**12,414**	**15,353**
% of Net Sales	*18.1*	*16.1*	*16.5*	*15.5*	*14.8*
Change (%)		*16.2*	*40.8*	*24.6*	*23.7*
Extraordinary Item	4.7	604.7	0.0	0.0	0.0
Net Income after EO	**6,084**	**6,472**	**9,964**	**12,414**	**15,353**

BALANCE SHEET (Rs Million)

Y/E JUNE	2005	2006	2007E	2008E	2009E
Share Capital	632	647	659	675	689
Other Reserves	37,239	39,910	44,345	50,206	55,739
Net Worth	**37,871**	**40,557**	**45,004**	**50,881**	**56,427**
Loans	1,308	83	86	0	0
Minority Interest	111	107	196	322	475
Capital Employed	**39,290**	**40,747**	**45,286**	**51,203**	**56,902**
Gross Block	11,949	16,011	20,511	24,761	29,761
Less : Depreciation	5,353	7,269	9,793	13,146	17,369
Net Block	**6,596**	**8,742**	**10,718**	**11,616**	**12,392**
CWIP	691	1,199	1,215	1,986	2,357
Intangibles	8,423	8,394	8,179	8,179	8,179
Investments	18,469	15,889	19,593	22,593	25,093
Curr. Assets	**12,063**	**16,221**	**19,366**	**25,462**	**33,945**
Debtors	6,408	9,628	12,200	15,428	20,264
Cash & Bank Balance	2,304	3,022	1,320	3,073	4,719
Other Current Assets	3,351	3,571	5,845	6,961	8,962
Current Liab. & Prov	**6,952**	**9,697**	**13,785**	**18,633**	**25,064**
Creditors	462	741	913	1,280	1,553
Other liabilites	5,819	7,673	10,408	12,485	15,799
Provisions	671	1,283	2,464	4,869	7,712
Net Current Assets	**5,111**	**6,524**	**5,581**	**6,829**	**8,881**
Application of Funds	**39,290**	**40,748**	**45,286**	**51,203**	**56,902**

E: MOSt Estimates

RATIOS

Y/E JUNE	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS before ESOP chg	**19.2**	**23.9**	**33.4**	**40.2**	**47.5**
EPS after ESOP chg	**19.2**	**21.9**	**30.3**	**36.9**	**44.8**
Cash EPS	23.9	25.9	37.9	46.8	57.0
Book Value	119.8	125.4	136.7	150.8	163.9
DPS	14.8	16.0	22.7	27.1	32.9
Valuation (x)					
P/E before ESOP chg		24.9	17.9	14.8	12.5
P/E after ESOP chg		27.2	19.7	16.1	13.3
Cash P/E		23.0	15.7	12.7	10.5
EV/EBITDA		17.9	12.8	9.7	7.6
EV/Sales		4.0	2.9	2.1	1.6
Price/Book Value		4.8	4.4	4.0	3.6
Dividend Yield (%)		2.7	3.8	4.6	5.5
Profitability Ratios (%)					
RoE	18.1	19.7	25.7	28.2	30.4
RoCE	20.3	21.0	28.3	31.6	34.5
Turnover Ratios					
Debtors (Days)	70	80	74	70	72
Asset Turnover (x)	2.8	2.7	2.9	3.2	3.5
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0

CASH FLOW STATEMENT (Rs Million)

Y/E JUNE	2005	2006	2007E	2008E	2009E
CF from Operations	7,571	9,648	13,519	16,047	19,814
Cash for Working Capital	11,072	4,509	15,678	12,963	14,575
Net Operating CF	**-3,501**	**5,139**	**-2,160**	**3,084**	**5,239**
Net Purchase of FA	-9,114	-4,541	-4,301	-5,021	-5,370
Net Purchase of Invest.	855	2,576	-3,615	-2,874	-2,347
Net Cash from Inv.	**-8,259**	**-1,965**	**-7,916**	**-7,895**	**-7,717**
Issue of shares	42	15	12	16	14
Proceeds from LTB/STB	-73	-1,225	3	-86	0
Dividend Payments	-4,679	-5,175	-7,473	-9,156	-11,324
Net CF from Finan.	**-4,709**	**-6,386**	**-7,458**	**-9,226**	**-11,311**
Free Cash Flow	-1,153	6,912	4,675	8,450	11,457
Net Cash Flow	**48**	**718**	**-1,701**	**1,753**	**1,646**
Opening Cash Balance	**2,256**	**2,304**	**3,022**	**1,320**	**3,073**
Closing CashBalance	**2,304**	**3,022**	**1,320**	**3,073**	**4,719**

E: MOSt Estimates

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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No