

# India Daily Views

## Contents

India

**Bharat Iyer**<sup>AC</sup>  
(91-22) 6639-3005  
bharat.x.iyer@jpmorgan.com

### Recommendation/Forecast Changes

**Allahabad Bank (Underweight)**, Sachin Sheth  
*Revising Target Price Down*

**Satyam Computers (Overweight)**, Manoj Singla, CFA  
*Impressive 4QFY07 backed by strong FY08 guidance, Raising estimates and target price*

**Syndicate Bank (Underweight)**, Sachin Sheth  
*Reducing Target Price*

### Results and Company Views

**Dr Reddy's Limited (Underweight)**, Jesal Shah  
*Mylan receives approval for fexofenadine - ALERT*

**Jindal SAW (Not Covered)**, Pinakin Parekh  
*Company Visit Note: Jindal SAW - A Pipeline of Growth*

**Satyam Computers (Overweight)**, Manoj Singla, CFA  
*Good 4QFY07 backed by strong FY08 guidance*

**Wipro Ltd. (Overweight)**, Manoj Singla, CFA  
*4QFY07 largely inline with expectations*

### Sector Research

**Banks**, Sachin Sheth  
*Indian Financial Services: On Bank Street -Vol 79*

### [JPMorgan Daily Valuations](#)

[www.morganmarkets.com](http://www.morganmarkets.com)

J.P. Morgan India Private Limited

**See page 55 for analyst certification and important disclosures, including investment banking relationships.**

JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of JPMorgan in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at [www.morganmarkets.com](http://www.morganmarkets.com) or can call 1-800-477-0406 toll free to request a copy of this research.

# Allahabad Bank

## Revising Target Price Down

- We are setting our April 2008 target price for the stock at Rs68, which implies 10% downside from the current level. We retain our Underweight rating.
- ALBK's higher-than-peer balance sheet growth is increasingly worrying as its deposit rate hikes over the past 12 months were 325bp, almost double that of peers, vs PLR hikes of 125bp, only slightly above peers; We foresee increasing margin pressure which may not be fully evident in upcoming 4Q results given front-ended repricing of the loan book.
- We are lowering our sustainable margin estimate for ALBK given this high-growth tendency in a tight deposit market and our concerns about increasing loan loss provision charges, which were extremely low at 12bp in 3Q07. Our normalized ROE forecast now stands revised to 13.6% and target multiple at 0.55x book vs the current trading multiple of 0.7x.
- The stock has significantly underperformed the Sensex almost consistently over the past six months, and we expect this to continue.
- Our price target is based on the Gordon Growth Model. We believe the key risk is better pricing power

Reuters: ALBK.BO; Bloomberg: ALBK IN

Rs in millions, year-end December

	FY06	FY07E	FY08E	FY09E	Price	GDR	NA
Net profit	7,061	7,797	8,364	8,718	52-week range	Rs.99.4-53	Reuters
Basic EPS (rep'd) (Rs)	15.8	17.5	18.7	19.5	Market cap	US\$0.9B	Bloomberg
Basic EPS growth (%)	1.2	10.4	7.3	4.2	Shares outstanding	447MM shares	52-wk range
P/E (basic) (x)	4.8	4.4	4.1	3.9	Free float	40%	Ratio
BVPS (Rs)	81.5	93.9	107.1	120.6	Avg daily value	US\$1.8MM	Avg daily volume
P/BV (basic) (x)	0.93	0.81	0.71	0.63	Avg daily volume	0.86MM shares	Current prem (%)
ROE (%)	23.7	19.9	18.6	17.1	BSE Sensex	13,620	13-wk avg prem (%)
Tier 1 ratio (%)	9.5	8.7	8.1	7.6	Exchange rate	Rs42.08/US\$1	52-wk avg prem (%)
P/COPS (basic) (x)	3.8	2.9	2.7	2.2	<b>Performance</b>	<b>1 mth</b>	<b>3 mths</b>
DPS (Rs)	4.6	5.0	5.5	6.0	Absolute (%)	1.9	-16.1
Dividend yield (%)	6.0	6.6	7.2	7.9	Relative (%)	-6.50	-14.1
							-15.6

Source: JPMorgan estimates, Company data, Bloomberg.

## Underweight

**Rs75.95**

19 April 2007

Price Target: Rs68.00

India

Banks

Sachin Sheth<sup>AC</sup>

Figure 1: ALBK: Share price performance



Source: Bloomberg, JPMorgan

[www.morganmarkets.com](http://www.morganmarkets.com)

J.P. Morgan India Private Limited

### See page 55 for analyst certification and important disclosures, including investment banking relationships.

JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of JPMorgan in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at [www.morganmarkets.com](http://www.morganmarkets.com) or can call 1-800-477-0406 toll free to request a copy of this research.

## Allahabad Bank: Summary of financials

Rs in millions, year-end March

### Income statement

	FY06	FY07E	FY08E	FY09E
<b>Margins (% of Earning Assets)</b>	<b>3.25%</b>	<b>3.31%</b>	<b>3.00%</b>	<b>2.93%</b>
Earning Assets/Assets	97%	95%	95%	95%
<b>NIM (as % of avg. Assets)</b>	<b>3.14%</b>	<b>3.15%</b>	<b>2.85%</b>	<b>2.79%</b>
<b>Net Interest Income</b>	<b>15,774</b>	<b>19,166</b>	<b>20,803</b>	<b>24,247</b>
<b>Total Non-Interest Revenues</b>	<b>4,677</b>	<b>5,717</b>	<b>6,667</b>	<b>7,641</b>
Fee income	4,088	5,040	5,888	6,746
FX/Trading gains	589	677	779	896
Other operating income	0	0	0	0
<b>Total operating revenues</b>	<b>20,452</b>	<b>24,884</b>	<b>27,470</b>	<b>31,889</b>
Operating costs	(11,420)	(13,055)	(14,739)	(16,558)
<b>Operating profit</b>	<b>9,032</b>	<b>11,829</b>	<b>12,731</b>	<b>15,331</b>
Loan Loss Provisions	(1,298)	(1,985)	(3,082)	(4,223)
Other provisions	(655)	(1,099)	551	514
Exceptionals	0	0	0	0
Disposals/ Other income	0	0	0	0
<b>Pre-tax profit</b>	<b>7,079</b>	<b>8,744</b>	<b>10,200</b>	<b>11,622</b>
Tax [rate]	(18)	(947)	(1,836)	(2,906)
Minorities/preference dividends	0	0	0	0
<b>Attributable net income</b>	<b>7,061</b>	<b>7,797</b>	<b>8,364</b>	<b>8,717</b>

### Key balance sheet

	FY06	FY07E	FY08E	FY09E
Net Customer Loans	291,478	370,177	451,616	541,939
Gross Loans	300,855	379,539	462,060	554,605
Investments	179,847	201,067	232,526	276,674
Other Earning Assets	43,900	51,798	60,254	70,054
<b>Average Earning Assets = (A)</b>	<b>484,641</b>	<b>578,502</b>	<b>693,621</b>	<b>828,086</b>
Total assets	552,920	665,500	792,305	942,817
Interbank funding	(0)	(0)	0	0
Customer deposits	484,997	581,996	692,576	824,165
Other Interest Bearing Liabilities	468	1,164	1,385	1,648
<b>Average Interest Bearing Liab. = (B)</b>	<b>447,190</b>	<b>534,312</b>	<b>638,560</b>	<b>759,887</b>
<b>Average Assets</b>	<b>502,185</b>	<b>609,210</b>	<b>728,903</b>	<b>867,561</b>
Shareholders' equity	36,385	41,949	47,856	53,893
Risk Weighted Assets	381,798	484,883	591,557	709,869
Average Risk Weighted Assets	371,058	433,340	538,220	650,713

### Balance sheet gearing

	FY06	FY07E	FY08E	FY09E
Loan/Deposit	60%	64%	65%	66%
Investment/Assets	33%	30%	29%	29%
Loan/Assets	53%	56%	57%	57%
Customer deposits/Liab.	94%	93%	93%	93%
LT Debt/Liabilities	0%	0%	0%	0%

### Asset quality/capital

	FY06	FY07E	FY08E	FY09E
Loan loss reserves/Loans	3.1%	2.5%	2.3%	2.3%
NPLs/loans	3.9%	3.4%	3.1%	3.0%
Loan loss reserves/NPLs	79.2%	73.3%	72.8%	76.1%
Growth in NPLs	-7.8%	7.9%	12.3%	16.0%
Tier 1 Ratio	9.5%	8.7%	8.1%	7.6%
Total CAR	13.4%	11.7%	11.4%	11.1%

### Per share data

	FY06	FY07E	FY08E	FY09E
EPS (Rs)	15.81	17.45	18.72	19.51
Dividend (Rs)	4.56	5.00	5.50	6.00
Payout ratio	29%	29%	29%	31%
NAV	81.45	93.91	107.13	120.65
Avg. Shares issued (mn)	446.70	446.70	446.70	446.70

### DuPont analysis

	FY06	FY07E	FY08E	FY09E
<b>NIR/Avg. Assets</b>	<b>3.14%</b>	<b>3.15%</b>	<b>2.85%</b>	<b>2.79%</b>
Non IR/Total Rev	22.9%	23.0%	24.3%	24.0%
<b>Total Rev/Avg. Assets</b>	<b>4.07%</b>	<b>4.08%</b>	<b>3.77%</b>	<b>3.68%</b>
Cost/Income	55.84%	52.46%	53.65%	51.92%
Cost/Assets	2.27%	2.14%	2.02%	1.91%
<b>Operating ROAA</b>	<b>1.80%</b>	<b>1.94%</b>	<b>1.75%</b>	<b>1.77%</b>
LLP/Loans	-0.50%	-0.58%	-0.73%	-0.83%
Loan/Assets	52.02%	55.84%	57.73%	58.59%
Other inc:provs	-0.13%	-0.18%	0.08%	0.06%
Tax	0.25%	10.84%	18.00%	25.00%
MI	0.00%	0.00%	0.00%	0.00%
<b>ROAA</b>	<b>1.41%</b>	<b>1.28%</b>	<b>1.15%</b>	<b>1.00%</b>
<b>RoRWA</b>	<b>1.90%</b>	<b>1.80%</b>	<b>1.55%</b>	<b>1.34%</b>
Equity/Assets	5.94%	6.43%	6.16%	5.86%
<b>ROE</b>	<b>23.67%</b>	<b>19.91%</b>	<b>18.63%</b>	<b>17.13%</b>

Source: Company data, JPMorgan estimates.

# Satyam Computers

Impressive 4QFY07 backed by strong FY08 guidance, Raising estimates and target price

- **Satyam reported impressive 4QFY07 ahead of the peer group and beating consensus expectations.** Key highlights of the performance were strong volume growth (9.5% Q/Q) despite a seasonally weak quarter, first evidence of substantial pricing increase and significant fall in attrition rates. While margins slightly more than expected, higher revenue growth (7% Q/Q) and high other income led to a strong 15% Q/Q EPS growth.
- **FY08 guidance was strong inline with positive outlook from TCS and Infosys.** Management expects 28-30% US\$-based revenue growth (same as Infosys), flat margins (the first time in 5 years that Satyam has guided to flat margins) and 27-29% US\$ EPS growth (after assuming 2% share dilution). We believe that strong guidance is an indication of good demand environment, increasing volume visibility for Satyam due to large deal ramp-ups and tighter control of operations on the cost front.
- **We are raising our FY08E EPS by 3%** and believe that Satyam's track record of outperforming guidance would continue. We expect FY08E EPS growth of 26% against Re-based guidance of 18-20% growth. While sustained EPS growth momentum could lead to slight upward P/E re-rating in our view, we note that Satyam's growth continues to lag the top players (TCS and Infosys) despite a lower base and lower margins. Hence, we still expect Satyam to still trade at a 25% P/E gap to Infosys.
- **We are raising our Dec-07 target price to Rs 600/share**, 26% share price upside from current levels. We believe that sustained growth momentum would lead to share price upsides. On a relative basis, Satyam is our third pick in the space after TCS and Infosys.

Company Satyam earnings results summary (Bloomberg: SCS IN Reuters: SATY.BO)

INR millions (per sh. data in INR)	This period	JPM est.	Year ago	% Y/Y	Last period	% Q/Q
Sales	17,792	17,598	13,136	35.4	16,611	7.1
Gross profit	6,670	6,697	5,256	26.9	6,537	2.0
Operating profit	3,748	3,718	2,973	26.1	3,706	1.1
Net profit	3,936	3,623	2,847	38.3	3,372	16.7
EPS (Rs)	5.9	5.5	4.4	34.5	5.1	14.9
Gross margins	37.5	38.1	40.0	-252 bps	39.4	-186 bps
Operating margin	21.1	21.1	22.6	-157 bps	22.3	-124 bps

Source: JPMorgan estimates, Company data.

## Overweight

**Rs476.20**

20 April 2007  
Price Target: Rs600.00

India

eBusiness/IT Services

**Manoj Singla, CFA<sup>AC</sup>**

(91-22) 6639-3017  
manoj.singla@jpmorgan.com

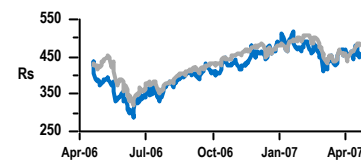
**Bhavin Shah**

(852) 2800-8538  
bhavin.a.shah@jpmorgan.com

**Mythili Balakrishnan, CFA**

(91-22) 6639-3008  
mythili.balakrishnan@jpmorgan.com

### Price Performance



	YTD	-1M	-3M	-12M
Absolute	-7.5%	3.3%	-8.2%	5.0%
Relative	-8.3%	-5.4%	-5.9%	-8.1%

Source: RIMES, Reuters.

### Earnings revision and valuation

	2008E	2009E
Old EPS (INR)	26.2	33.6
New EPS (INR)	27.0	35.0
% change	2.9%	4.2%
P/E (x)	17.7	13.6
ROE (%)	27.9	28.5
P/B (x)	4.4	3.5
Dec 07 fair value	600	

See page 55 for analyst certification and important disclosures, including investment banking relationships.

JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of JPMorgan in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at [www.morganmarkets.com](http://www.morganmarkets.com) or can call 1-800-477-0406 toll free to request a copy of this research.

Table 1: Reuters: SATY.BO/SATY.US, Bloomberg: SCS IN/SAY US

RsB (Year-end: Mar)	FY06A	FY07A	FY08E	FY09E	RsB	FY06A	FY07A	FY08E	FY09E		
Sales	47.9	64.9	85.9	113.5	Y/E BPS (Rs)	65.1	85.5	107.2	136.6	52-Week range	Rs270.5-524.9
Operating Profit	10.3	13.9	18.5	24.3	ROE (%)	26.0	27.9	27.9	28.5	Shares Outstg	673Mn
EBITDA	11.7	15.4	20.2	26.4	ROIC (%)	60.8	59.6	57.2	58.2	Avg daily volume	0.7Mn
Net profit	9.8	14.0	18.2	23.5						Index (Sensex)	13,897
<b>EPS</b>	<b>15.2</b>	<b>21.3</b>	<b>27.0</b>	<b>35.0</b>		<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	Free float	85%
P/E (x)	31.3	22.3	17.7	13.6	EPS (FY07) A	5.4	4.9	5.1	5.9	Avg daily value in US\$	7.7 Mn
EV/EBITDA (x)	25.9	19.7	14.9	11.5	EPS (FY08) E	5.9	6.4	7.0	7.7	Exchange rate	Rs41.9/US\$1
P/B (x)	7.3	5.6	4.4	3.5	EPS (FY09) E	8.2	8.2	9.0	9.6	Market Cap	US\$ 7.7B
Cash	31.1	39.9	49.2	63.5	Local	1M	3M	12M		ADR	US\$23.6
Gross Debt	1.0	1.5	1.5	1.5	Abs. Perf.(%)	6.8	-2.4	9.3		Ratio	1:2
					Rel. Perf.(%)	-2.3	-0.4	-5.3		52-week range	US\$14.0-25.9

Source: JPMorgan estimates, Company data

## 4QFY07 results above expectations

Satyam reported impressive 4QFY07 results above our and consensus expectations. US\$ revenues grew 9.5% Q/Q with an industry leading 9.5% Q/Q volume growth. However, EBITDA margins declined higher-than-expected 160+bps Q/Q driven by RSU charge (90 bps) and rupee appreciation (60 bps). Satyam saw decent interest income of Rs 650 m and Rs 33 foreign exchange gain as against foreign exchange loss of ~Rs 340m during 3QFY07. Overall, EPS grew 15% Q/Q. Results had several positive metrics including strong volume growth, price improvement, lower attrition and better subsidiary performance.

While Satyam 4QFY07 revenues were marginally ahead of our expectations, operating profit was in line with our estimates.

Satyam had significant interest income during the quarter. Overall, EPS was 8% ahead of our estimates.

Table 2: Actual results compared with our expectations

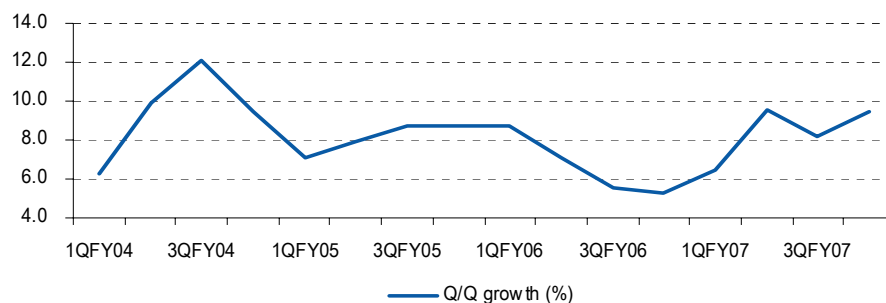
Rs m	Actuals	Expectations	Diff. (%)
Revenue	17,792	17,598	1.1
Gross Profit	6,670	6,697	(0.4)
EBIT	3,748	3,718	0.8
EBITDA	4,102	4,123	(0.5)
Net Other Income	630	362	
Pre Tax Profit	4,378	4,080	7.3
Net Profit after min/sub	3,936	3,623	8.6
EPS (Rs)	5.9	5.5	7.6
<b>Margins (%)</b>			
Gross Margin	37.5	38.1	(0.6)
Operating Margin	21.1	21.1	(0.1)
EBITDA Margin	23.1	23.4	(0.4)
Net Margin	22.1	20.6	1.5

Source: JPMorgan estimates, Company data.

Satyam saw 9.5% Q/Q volume growth in 4QFY07 ahead of larger peers such as Infosys, Wipro and TCS that saw 4-5% Q/Q volume growth.

## Volume growth strong with good headcount addition

Figure 2: Volume growth Q/Q



Source: JPMorgan estimates, Company data.

**Table 3: Volume growth across peers**

	2003				2004				2005				2006				2007			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Infosys	5.4	9.5	10.5	12.8	11.8	8.0	10.8	8.5	11.4	12.6	12.1	6.0	2.6	10.3	6.3	6.1	8.5	11.2	7.4	3.6
Wipro	10.4	12.4	7.6	5.6	7.7	11.2	9.2	10.2	6.9	7.3	7.1	8.5	6.1	11.0	12.7	7.4	5.5	7.9	9.3	5.4
TCS																	8.1	11.3	7.9	5.2
Satyam	4.1	8.9	5.6	4.3	6.2	9.9	12.1	9.4	7.1	7.9	8.8	8.7	8.7	7.1	5.5	5.3	6.4	9.5	8.2	9.5

Source: JPMorgan estimates, Company data.

**Pricing improvement below peers but with positive bias for future**

In 4QFY07, Satyam reported onsite pricing up 0.62% Q/Q and offshore pricing up 0.72% Q/Q. Further, Satyam reported onsite pricing up 1.74% and offshore pricing up 1.36%. While this is lower than the 1-2% Q/Q and 3-6% Y/Y improvement seen by larger peers, it is the first quarter of significant pricing increase from Satyam. Further, management expects positive momentum in pricing to continue into FY08 with 2-3% increase in average realization.

Pricing increase below peers but trend has begun to show

**Table 4: Offshore pricing trend as compared to larger peers**

Q/Q growth	1QFY07	2QFY07	3QFY07	4QFY07
TCS	0.0%	1.0%	2.0%	1.0%
Infosys	1.8%	1.2%	1.4%	1.7%
Wipro	1.3%	0.9%	-0.4%	1.4%
Satyam	0.2%	0.4%	0.3%	0.7%

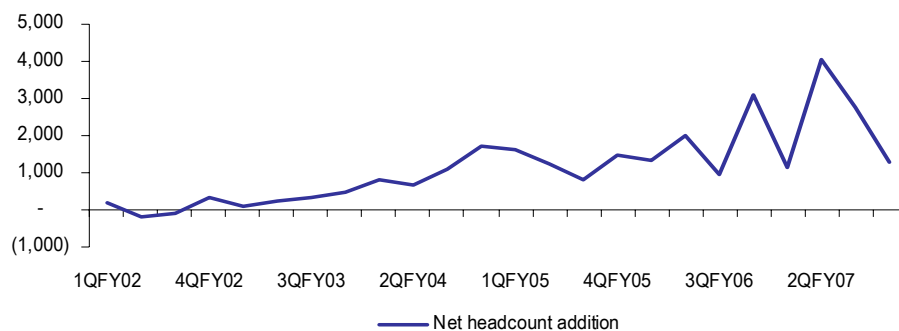
Source: JPMorgan estimates, Company data.

**Muted headcount addition but sharp drop in attrition**

Satyam saw a muted net headcount addition of just 1,265 in IT services and 91 in BPO. However, we view this as quarterly fluctuation given the strong addition in 3QFY07 and overall strong addition for FY07 (9,100+ people in IT and 1,100+ people in BPO). Further, FY08 headcount addition target was quite good at gross additions of 14,000-15,000 in IT services and 2,000 in BPO.

Satyam plans gross addition of ~14,000-15,000 people in IT services and ~2,000 people in BPO in FY08.

**Figure 3: Satyam net headcount addition**

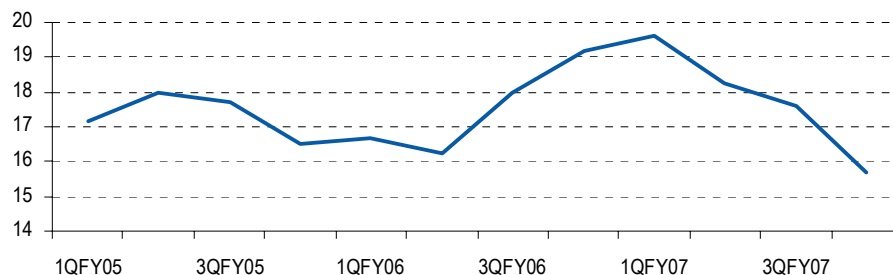


Source: Company data.

Attrition (trailing 12 months) has declined from 17.6% in 3QFY07 to 15.7% in 4QFY07 – indicating effectiveness of RSU and several people initiatives taken by Satyam over the past year. Satyam has been facing maximum attrition in the 2-5 years experience level and has taken several initiatives (like leadership opportunities, rotation between domains and technical skills) to control the same.

Attrition has come down significantly and is now largely inline with larger players. Quarter attrition (annualized) was even lower at 14%

Figure 4: Attrition (trailing 12 months - %)



Source: JPMorgan estimates, Company data.

### Nipuna and subsidiaries show better performance

Nipuna saw very strong 20% Q/QUS\$ based revenue growth. However, there was net employee addition of just 91 people as people added in previous quarters became billable. Nipuna losses declined sharply to US\$ 0.23m from US\$1.28m during 3QFY07. Overall Nipuna had a good FY07 with 81% revenue growth in US\$-terms. Management expects 60% revenue growth in FY08E with the company turning net profit positive. Other subsidiaries also showed better performance.

Table 5: Nipuna

Rs M	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07
Revenues	144.9	182.0	220.6	338.2	363.6	416.0	433.8	503.3
Profit	(109.2)	(106.3)	(95.8)	(24.7)	-61.5	-47.7	-53.4	-10
Net Margin	-75.4%	-58.4%	-43.4%	-7.3%	-16.9%	-11.5%	-12.3%	-2.0%
Headcount	1612	1673	1639	1765	2005	2446	2825	2916

Source: JPMorgan estimates, Company data.

Table 6: Effect of subsidiaries and JV

	4QFY07		3QFY07		Variance in profit
	Revenue	Profit	Revenue	Profit	
<b>Subsidiaries</b>					
Nipuna	11.6	-0.23	9.74	-1.28	1.05
Satyam Tech	0.2	-0.10	0.4	0.00	-0.10
Satyam China	2.0	-0.74	2.32	0.42	-1.16
Citisoft	5.0	0.18	4.37	-0.27	0.45
Total	18.9	-0.89	16.83	-1.13	0.24
<b>JV</b>					
CA Satyam	0.4	-0.02	0.59	0.79	-0.81
Satyam Venture	3.6	0.02	3.96	0.32	-0.30
Total	4.0	0.00	4.55	1.11	-1.11
JV and Subs Total	22.9	-0.88	21.38	-0.02	-0.86

Source: JPMorgan estimates, Company data.

The performance of subsidiaries improved with loss of US\$ 0.89m as against US\$ 1.13m in 3QFY07.

However profitability at JVs was down Q/Q.

Satyam gave strong FY08 guidance continuing the positive outlook trend of Infosys and TCS.

### Performance backed by strong FY08 guidance

#### US GAAP

In US\$-terms, Satyam guided to revenue growth of 28-30% and EPS growth of 27-29% for FY08 (US GAAP). This is quite healthy given that management has always been conservative in the past 4 years while guiding. However, management has assumed an exchange rate of Rs 42.3/US\$ for guidance impacting Re-guidance negatively by 6%.

**Table 7: US GAAP guidance – what it implies for 1Q-4Q**

	1QFY08	2QFY08	3QFY08E	4QFY08E	Guidance	Growth
Revenue	434	460	488	518	1,900	30%
Seq. growth (%)	5.5	6.1	6.1	6.1		
EPS	0.3	0.3	0.3	0.3	1.2	29%
Q/Q growth (%)		5.9	5.9	5.9		

Source: JPMorgan estimates, Company data.

### Indian GAAP

In Re-terms, Satyam guided to FY08 revenues of Rs 77,930-79,160 up 20-22% Y/Y. On EPS, Satyam guided to Rs 25.32-25.73 up 18-20% Y/Y. Guidance assumes a 2% dilution from exercise of ESOPs and hence net profit growth guidance is 20-22% Y/Y growth similar to revenue growth. In terms of Q/Q, guidance implies 6-7% Q/Q revenue growth for 2Q-4Q FY08 – quite healthy. The EPS guidance implies 4.8% Q/Q EPS growth for 2Q-4Q FY08.

**Table 8: Indian GAAP guidance**

	1QFY08E	2QFY08E	3QFY08E	4QFY08E	FY08 guidance	Y/Y growth
Revenue Rs M	18,100	19,183	20,330	21,547	79,160	22.1%
Seq. growth (%)		6.0	6.0	6.0		
Profit Rs M	3,990	4,185	4,389	4,603	17,167	22.2%
Seq. growth (%)		4.9	4.9	4.9		
EPS Rs	6.0	6.3	6.6	6.9	25.7	20.4%
Q/Q growth (%)		4.8	4.8	4.8		

Source: JP Morgan estimates, Company reports

### Guidance implies flat margins

Satyam's guidance implies flat margins – for the first time in past 5 years. Satyam expects to offset negative impact of wage hikes, RSUs and Rupee through:

- 2-3% Y/Y increase in price realization
- Further shift of business offshore
- Improvement in subsidiary performance – subsidiaries are expected to turn net profit positive in FY08 compared to losses in FY07.
- Flattening of employee pyramid
- G&A leverage and better fixed price project management

**Table 9: Full year impact from subsidiaries and JV in US\$ M**

US\$ M	FY07		FY06		Variance in profit
	Revenues	Profit	Revenues	Profit	
Nipuna	38.3	(3.9)	19.9	(7.6)	3.7
Satyam Tech	1.5	(0.1)	1.7	0.1	(0.1)
Satyam China	7.6	(1.1)	4.8	(1.2)	0.1
Citisoft	14.6	0.2	13.0	(0.5)	0.7
Knowledge dynamica	-	-	1.1	(0.9)	0.9
Subs Total	62.0	(4.8)	40.6	(10.1)	5.2
JV					
CA Satyam	1.7	0.7	1.5	0.0	0.6
Satyam Venture	15.3	1.4	12.5	1.3	0.1
JV total	17.1	2.1	14.0	1.3	0.7
JV and sub Total	79.0	(2.8)	54.6	(8.8)	6.0

Source: JPMorgan estimates, Company data.

**Subsidiaries are expected to turn net profit positive in FY08 leading to margin uptick at consolidated level**



### 1QFY08 Guidance decent

Satyam has guided to revenue of Rs 18,010-18,100 million up 1.2-1.7% Q/Q and EPS of Rs 5.93-5.98 -0.8% to 0% Q/Q. While these numbers look muted, we note that in US\$ terms, Satyam is guiding to a healthy 5-5.5% Q/Q revenue growth and 3.7% Q/Q EPS growth. Given normal conservativeness in guiding, we believe that Satyam would beat 1QFY08 guidance.

### Growth visibility seems higher, expect guidance to be beaten, raising estimates

Strong 4QFY07 performance and a robust FY08 guidance does indicate higher traction and growth visibility for Satyam. We believe that one key change for Satyam in the last one year has been 5 large deal wins - GM, Nissan, Citibank, Quantas and Applied materials. We believe that all these deals would be in the ramp-up mode in FY08 providing good visibility. Further, we believe that the deal pipeline for the large deals is quite strong and could result in more wins in FY08.

Secondly Satyam has outperformed its guidance by a significant margin over the last 4 years. In-fact, management has always begun the year with ~20% EPS growth over last 3 years and delivered 35%+ growth each year. We believe that there is sufficient conservativeness built into guidance this time around as well.

**Table 10: Beginning of year guidance and actual performance**

Satyam	For FY03	For FY04	For FY05	For FY06	For FY07	For FY08
<b>Guidance in beginning of year (%)</b>						
Rev growth Y/Y	21-23	13-15%	22-24	26-28	25.2-27.3	20-22%
EPS growth Y/Y	10-12%	7-10%	18-20%	20-22%	18-20%	18-20%
<b>Growth delivered/expected (%)</b>						
Rev growth Y/Y	17%	26%	35%	36%	35%	32%
EPS growth Y/Y	-6%	18%	37%	36%	40%	26%
<b>Out performance (%)</b>						
Revenue	-4.8	9.6	10.1	6.5	6.3	8.5
EPS	-16.6	7.7	14.4	11.4	16.6	4.8

Source: JPMorgan estimates, Company data.

Satyam has outperformed guidance by a good margin over the last 4 years.

Our estimates assume that Satyam will beat its FY08 EPS guidance by 5%.

We have raised our estimates post the strong 4QFY07 and now estimate 32% revenue growth and 26% EPS growth in FY08E. Our estimates are based on exchange rate of Rs 43/US\$ against Rs 42.3/US\$ used in guidance.

We are increasing our FY08 and FY09 revenue estimates by ~3% given the strong US\$ terms FY08 guidance.

We are also increasing our EBIT margin expectations marginally given the management indication on continued price increase.

Overall, we expect 32% revenue CAGR and 28% EPS CAGR over FY07-09E.

**Table 11: Raising our FY08 and FY09 estimates**

(Rs in m , year-end March)	New FY08E	FY09E	Old FY08E	FY09E	Change (%) FY08E	FY09E
Revenue	85,917	113,539	83,760	109,866	2.6	3.3
Gross Profit	32,270	41,629	31,528	40,141	2.4	3.7
EBIT	18,520	24,258	17,954	23,255	3.2	4.3
EBITDA	20,248	26,365	19,744	25,415	2.6	3.7
Pre Tax Profit	20,428	26,772	19,658	25,431	3.9	5.3
Net Profit	18,159	23,534	17,483	22,372	3.9	5.2
EPS (Rs)	27.0	35.0	26.2	33.6	2.9	4.2
<b>Margins (%)</b>						
Gross Margin	37.6	36.7	37.6	36.5		
EBIT Margin	21.6	21.4	21.4	21.2		
EBITDA Margin	23.6	23.2	23.6	23.1		
Net margin	21.1	20.7	20.9	20.4		

Source: JPMorgan estimates, Company data.

Table 12: Satyam P&L

(Rs in m , year-end March)	2007				2008E				2004	2005	2006	2007	2008E	2009E
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE						
Revenue	14,429	16,019	16,611	17,792	18,763	20,668	22,475	24,011	25,605	35,208	47,926	64,851	85,917	113,539
Gross Profit	5,745	5,813	6,537	6,670	7,170	7,733	8,354	9,013	10,991	13,804	18,489	24,764	32,270	41,629
EBIT	3,188	3,250	3,706	3,748	4,083	4,391	4,783	5,264	5,622	7,549	10,289	13,893	18,520	24,258
EBITDA	3,550	3,625	4,100	4,102	4,478	4,805	5,225	5,740	6,773	8,682	11,662	15,377	20,248	26,365
Net Other Income	719	255	69	630	420	462	494	532	703	838	1,112	1,674	1,908	2,515
Pre Tax Profit	3,908	3,505	3,776	4,378	4,503	4,853	5,276	5,796	6,326	8,386	11,401	15,566	20,428	26,772
Net Profit	3,541	3,198	3,372	3,936	3,999	4,312	4,691	5,157	5,134	7,116	9,819	14,047	18,159	23,534
EPS (Rs)	5.4	4.9	5.1	5.9	5.9	6.4	7.0	7.7	8.1	11.2	15.2	21.3	27.0	35.0
<b>Margins (%)</b>														
Gross Margin	39.8	36.3	39.4	37.5	38.2	37.4	37.2	37.5	42.9	39.2	38.6	38.2	37.6	36.7
Operating Margin	22.1	20.3	22.3	21.1	21.8	21.2	21.3	21.9	22.0	21.4	21.5	21.4	21.6	21.4
EBITDA Margin	24.6	22.6	24.7	23.1	23.9	23.3	23.2	23.9	26.5	24.7	24.3	23.7	23.6	23.2
Net Margin	24.5	20.0	20.3	22.1	21.3	20.9	20.9	21.5	20.1	20.2	20.5	21.7	21.1	20.7
<b>Seq. Growth (%)</b>														
Revenue	9.8	11.0	3.7	7.1	5.5	10.2	8.7	6.8		37.5	36.1	35.3	32.5	32.2
Gross Profit	9.3	1.2	12.4	2.0	7.5	7.9	8.0	7.9		25.6	33.9	33.9	30.3	29.0
EBIT	7.2	1.9	14.0	1.1	8.9	7.6	8.9	10.1		34.3	36.3	35.0	33.3	31.0
EBITDA	6.1	2.1	13.1	0.1	9.2	7.3	8.7	9.9		28.2	34.3	31.9	31.7	30.2
Net Profit	24.4	(9.7)	5.4	16.7	1.6	7.9	8.8	9.9		38.6	38.0	43.1	29.3	29.6
EPS	23.7	(10.0)	5.1	14.9	0.7	7.9	8.8	9.9		37.4	36.0	40.3	26.4	29.6

Source: JPMorgan estimates, Company data.

## Despite good performance, growth lags top tier

While the absolute performance of Satyam is quite decent, the company continues to trail TCS and Infosys on both growth and margins. We expect growth gap to continue - we estimate 28% EPS CAGR over FY07-09E for Satyam compared to 35% for TCS and 33% for Infosys. Further, Satyam continues to have a lower margin and ROIC profile than the top tier players.

Table 13: Revenue, EBIT and EPS growth of large peers

	Infosys	FY02	FY03	FY04	FY05	FY06	FY07
Revenue growth		37.0	40.3	33.1	46.7	33.7	45.9
EBIT growth		33.9	23.2	24.6	52.3	29.7	44.4
EPS growth		28.8	21.4	26.7	45.0	31.8	46.8
<b>TCS</b>							
Revenue growth		43.0	26.2	29.1	36.6	36.2	40.7
EBIT growth		40.7	(0.9)	45.7	43.1	31.8	36.1
EPS growth		41.9	(0.9)	47.4	39.2	26.4	42.1
<b>Satyam</b>							
Revenue growth		42.0	16.8	25.6	37.5	36.1	35.3
EBIT growth		32.9	6.4	17.7	34.3	36.3	35.0
EPS growth		38.6	-6.3	18.0	37.4	36.0	40.3

Source: JPMorgan estimates, Company data.

Table 14: Growth comparison with peers

	FY07-09E (%)	Revenue CAGR	EPS CAGR
TCS		32.8%	35.2%
Infosys		34.8%	32.8%
Wipro		30.6%	26.6%
HCL		28.9%	19.9%
Satyam		32.3%	28.0%

Source: JPMorgan estimates, Company data.

Satyam continues to underperform Infosys and TCS on EPS growth.

However, it leads players such as Wipro and HCL Tech.

## Valuation – Dec-07 price target of Rs 600/share

**Our Dec-07 price target is Rs600/share.**

### We are raising our Dec-07 target price to Rs600/share.

We are raising our Dec-07 target price by 4% to Rs600 from Rs 575 earlier based on a combination of P/E multiples and DCF fair values.

### Risks to our price target

Macro slowdown in IT spending environment, unexpected increase in wage inflation, appreciation of the rupee against the US\$ are key risks to our price target.

### P/E multiples

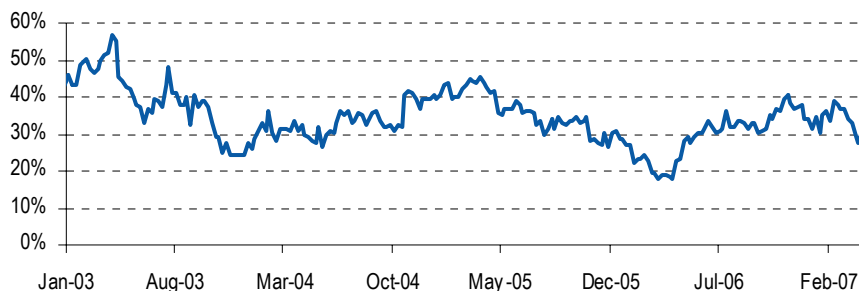
Our target price assumes a 1-year trailing P/E multiple of 24x, a 25% discount to our target trailing multiple for Infosys. With Satyam's growth expected to closely track the top tier players (ahead of Wipro), we believe that the P/E gap will contract from the current levels of ~30% to 25%.

Table 15: Satyam PER multiples

Satyam	1 year forward	1 year Trailing
Average P/E multiple for 1 year	17.0	22.4
Current P/E Multiple (x)	16.6	21.0
Multiple used in Target price (x)	18.2	23.8

Source: JPMorgan estimates, Company data.

Figure 5: Trailing multiple discount to Infosys



**Satyam has historically traded at a 32-33% discount to Infosys PER both trailing and forward PER.**

Source: JPMorgan estimates, Company data.

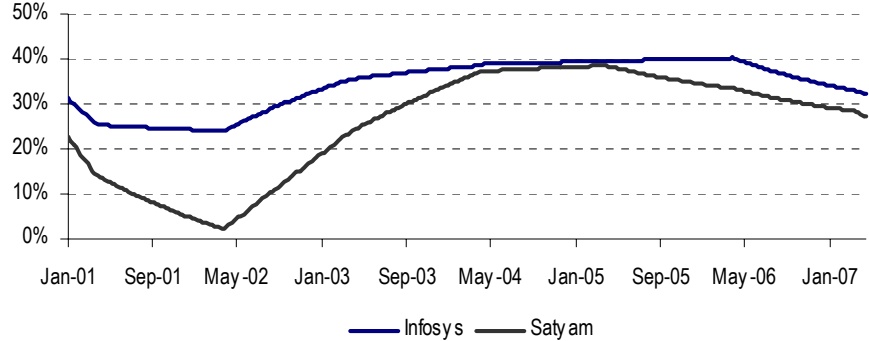
Figure 6: Forward multiple discount to Infosys



Source: JPMorgan estimates, Company data.

Given the differential in EPS CAGR, we expect Satyam to continue to trade at a discount to Infosys. However, we expect a discount of 25% given lower growth differential. We note that discount had narrowed to even below 20% when Satyam's growth almost matched Infosys.

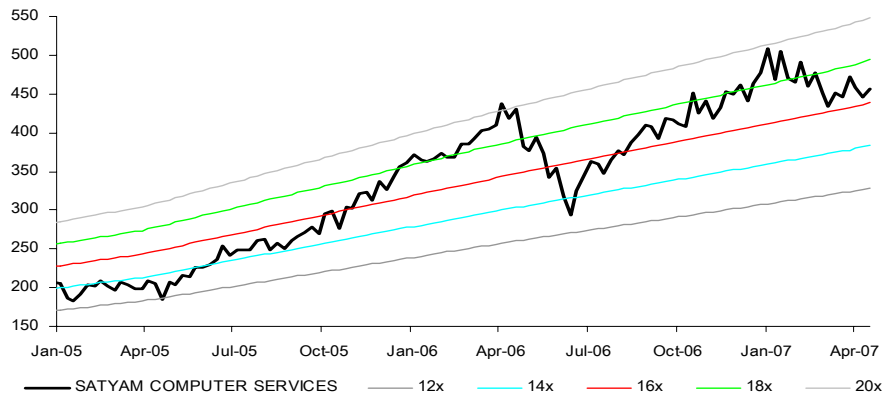
Figure 7: 2 year EPS CAGR of Satyam and Infosys (%)



Source: JPMorgan estimates, Company data.

Satyam is trading at 17X 1 year forward multiple, 29% discount to Infosys.

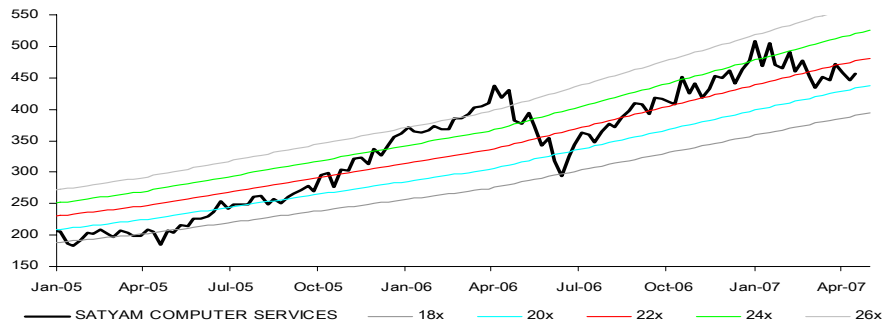
Figure 8: One year forward P/E



Source: JPMorgan estimates, Company data.

Satyam is trading at 21X 1 year trailing P/E.

Figure 9: One year trailing P/E



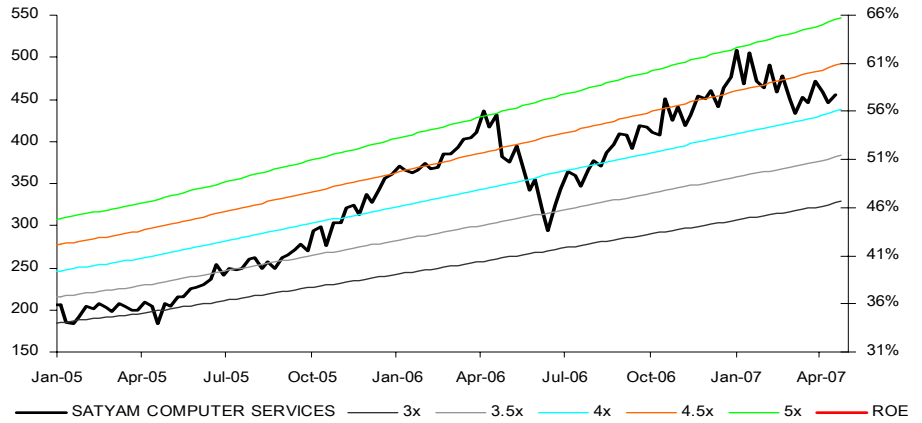
Source: JPMorgan estimates, Company data.

**DCF valuation**

As we roll over our model to FY07, we are increasing our DCF based fair value to Rs 470 from Rs 465 earlier. Our target price implies a premium of 27% to this fair value. Our long-term assumptions remain FY06-16 10- year revenue CAGR of 21%, long-term EBIT margins of 20% and long-term ROIC of 31%. We maintain our cost of capital at 13.2%.

Satyam is trading at 4.2X 1 year forward book.

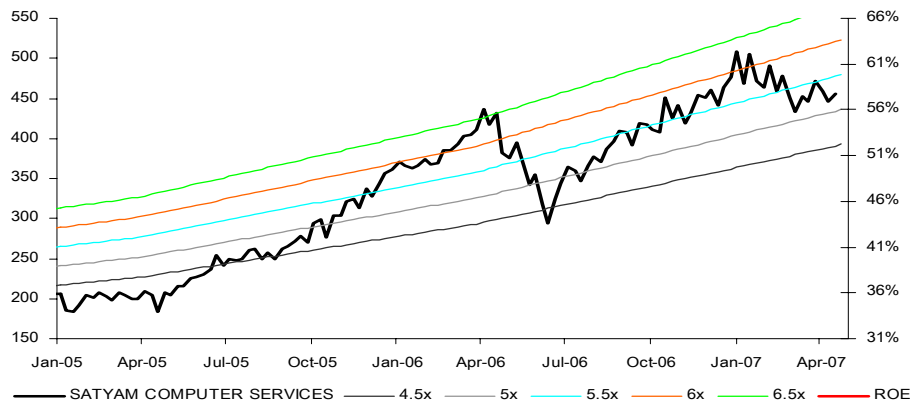
Figure 10: One year forward P/B



Source: JPMorgan estimates, Company data.

Satyam is trading at 5.3X 1 year trailing book.

Figure 11: One year trailing P/B



Source: JPMorgan estimates, Company data.

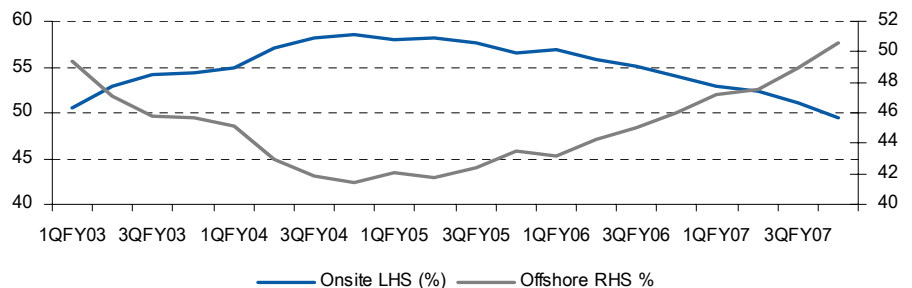
Other result metrics

Debtor days stood at 87, higher than the previous quarter level of 82 days.

Cash balances were Rs 39.94B. Foreign exchange cover stood at \$460 m. Management policy is to hedge 50% of the net US\$ inflows over the coming year.

Offshore revenues continued to increase accounting for 50.6% of revenues from 48.9% in 4QFY07.

Figure 12: Proportion of onsite revenues



Source: JPMorgan estimates, Company data.

Table 16: Satyam: Quarterly Metrics

Clients	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07
New clients added	31	32	35	22	34	35	34	35
Active clients	410	429	452	469	504	504	523	538
>US \$ 10 m	21	22	25	27	33	32	32	35
>US \$ 5 m	38	43	49	46	51	54	54	57
>US\$ 1 m	134	137	142	150	142	154	164	180
Employees	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07
Tot employees	20505	22482	23432	26511	27634	31659	34405	35670
Added	1,341	1,977	950	3,079	1,123	4,025	2,746	1,265
Attrition TTM	16.68	16.21	17.98	19.17	19.62	18.27	17.62	15.7
Offshore utilization incl trainees	74.2	74.7	74.3	72.2	71.2	71.1	68.5	71.3
Debtor days	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07
Debtor (days)	77	72	75	80	77	80	82	87
Revenue concentration (%)	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07
Top client	9.9	9.0	9.39	8.03	7.12	6.68	6.32	6.11
Top 5 clients	27.2	25.7	24.56	24.31	22.68	22.26	21.58	22.17
Top 10 clients	39.4	38.7	36.75	35.86	34.43	33.93	34.19	36.25
Domain-wise revenues (%)	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07
BFSI	26.99	28.74	28.04	28.82	29.65	28.59	25.61	24.74
Manufacturing	28.76	29.17	27.63	28.88	27.84	26.69	27.12	27.16
Telecom	19.36	19.17	18.54	18.3	19.12	20.36	20.69	21.79
Transportation and Retail	6.4	5.4	6.3	5.1	5.35	5.2	6	8.03
Healthcare	6.01	5.59	7.15	6.15	6.53	7.33	7.6	6.42
Others	12.5	11.94	12.28	12.7	11.51	11.83	12.98	11.86
Geographical spread (%)	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07
North America	67.77	66.80	64.43	63.92	65.91	65.87	64.27	62.56
Japan	1.47	1.20	1.22	1.88	1.13	1.65	1.66	1.48
Europe	17.2	18.34	18.48	18.64	17.59	18	19	19.86
Rest of World	13.56	13.66	15.87	15.56	15.37	14.48	15.07	16.11
New business breakup (%)	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07
Existing business	91.93	92.39	92.07	91.36	87.70	86.1	85.7	88.7
New business	8.07	7.61	7.93	8.64	12.30	13.9	14.3	11.3
Technology Revenues (%)	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07
Software Development & Maintenance	51.3	50.1	50.1	50.7	48.5	48.0	47.3	46.4
Consulting and enterprise Business solutions	37.4	39.4	39.4	39.3	40.3	40.4	42.0	42.6
Extended Engg Sol	7.2	6.6	6.4	6.4	6.0	6.4	6.8	7.0
Infra Mgmt Services	4.2	3.9	4.1	3.7	5.2	5.2	3.9	4.0

Source: JPMorgan estimates, Company data.

## Satyam: Summary of Financials

Income statement						Ratio Analysis					
INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E	% , year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E
Revenues	35,208	47,926	64,851	85,917	113,539	Gross Margin	39.2	38.6	38.2	37.6	36.7
Cost of Goods Sold	21,404	29,437	40,086	53,647	71,910	EBITDA margin	24.7	24.3	23.7	23.6	23.2
Gross Profit	13,804	18,489	24,764	32,270	41,629	Operating Margin	21.4	21.5	21.4	21.6	21.4
SG&A Expenses	6,256	8,200	10,872	13,749	17,371	Net Margin	20.2	20.5	21.7	21.1	20.7
Operating Profit (EBIT)	7,549	10,289	13,893	18,520	24,258	SG&A/Sales	17.8	17.1	16.8	16.0	15.3
EBITDA	8682	11662	15377	20248	26365	Sales growth	37.5	36.1	35.3	32.5	32.2
Other Income	846.7	1,167.4	1,832.8	2,205.9	2,813.2	Operating Profit Growth	34.3	36.3	35.0	33.3	31.0
Interest Expense	-9	-55	-159	-298	-299	Net profit growth	38.6	38.0	43.1	29.3	29.6
Earnings before tax	8,386	11,401	15,566	20,428	26,772	EPS (Reported) growth	37.4	36.0	40.3	26.4	29.6
Tax	-1,176	-1,509	-1,520	-2,269	-3,238	Interest coverage (x)	828.1	185.6	87.2	62.2	81.3
Net Income (Reported)	7116	9819	14047	18159	23534	Net debt to total capital	n.m.	n.m.	n.m.	n.m.	n.m.
INR						Net debt to equity	n.m.	n.m.	n.m.	n.m.	n.m.
EPS (Reported)	11.2	15.2	21.3	27.0	35.0	Asset Turnover	93.8	93.3	94.1	98.1	101.7
BPS	50.2	65.1	85.5	107.2	136.6	ROE	24.2	26.0	27.9	27.9	28.5
DPS	2.5	3.5	3.5	4.0	5.0	ROIC	60.1	60.8	59.6	57.2	58.2
Shares Outstanding (bn)	639	649	667	673	673	ROCE	23.0	23.9	25.1	25.4	26.1

Balance sheet						Cash flow statement					
INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E	INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E
Cash and cash equivalents	23,701	31,117	39,914	49,181	63,467	Net Income	7,116	9,819	14,047	18,159	23,534
Accounts receivable	7,085	11,684	17,432	23,526	30,725	Depr. & Amortisation	1,133	1,373	1,484	1,728	2,107
Inventories	0	0	0	0	0	Change in working capital	-537	-2,685	-2,925	-3,652	-4,097
Others	2,114	2,951	2,945	3,975	5,192	Other	95	73	-1	0	0
Current assets	32,900	45,752	60,291	76,682	99,384	Cash flow from operations	7,806	8,580	12,605	16,236	21,545
LT investments	107	46	437	437	437	Capex	-1,839	-3,167	-4,135	-3,942	-3,459
Net fixed assets	3,779	5,573	8,223	10,437	11,789	Disposal/ (purchase)	147	824	-391	0	0
Others	763	0	0	0	0	Cash flow from investing	-1,692	-2,343	-4,526	-3,942	-3,459
Total assets	37,549	51,371	68,951	87,556	111,610	Free cash flow	5,967	5,413	8,470	12,294	18,086
Liabilities						Equity raised/ (repaid)	462	24	291	12	0
ST loans	189	1,027	1,479	1,483	1,487	Debt raised/ (repaid)	107	838	452	4	4
Payables	2,483	4,370	5,745	7,749	10,332	Other	368	2,592	2,299	-350	-438
Others	1,896	2,760	4,201	5,670	7,405	Dividends paid	-1,596	-2,275	-2,324	-2,693	-3,366
Total current liabilities	4568	8157	11425	14902	19224	Cash flow from financing	-659	1,178	718	-3,027	-3,800
Long term debt	0	0	0	0	0	Net change in cash	5,455	7,416	8,797	9,267	14,286
Other liabilities	0	42	0	0	0	Beginning cash	18,246	23,701	31,117	39,914	49,181
Total liabilities	4568	8199	11425	14902	19224	Ending cash	23,701	31,117	39,914	49,181	63,467
Shareholders' equity	32981	43173	57526	72654	92385						

Source: JPMorgan estimates, Company data.

# Syndicate Bank

## Reducing Target Price

- We are setting our April FY08 target price for the stock at Rs64, which implies 14% downside from the current level. We retain our Underweight rating.
- SNDB's dizzy 52% growth in deposits resulted in just 4% net interest income growth, implying severe margin pressure. Also, what is increasingly worrying is that its deposit rate hikes over the past four months were an estimated 200bp vs PLR hikes of 125bp. We foresee increasing margin pressure, which may not be fully evident in upcoming 4Q results given front-ended repricing of the loan book and an exceptionally low base last year.
- We are lowering our sustainable margin estimate for SNDB to 3% given this high-growth tendency in a tight deposit market. Our normalized ROE forecast now stands revised to 15.3% and target multiple at 0.74x book vs. the current trading multiple of 0.98x.
- The stock has recently moved in line with the market, appreciating 10% in a month, but we expect it to underperform going forward.
- Our price target is based on the Gordon Growth Model. We believe the key risk is better pricing power.

Reuters: **SBNK.BO**, Bloomberg: **SNDB IN**

Rs in millions, year-end March

	FY06	FY07E	FY08E	FY09E	Price	GDR	NA
Net profit	5,365	7,989	8,429	10,821	52-week range	Rs103-47	Reuters
Basic EPS (rep'd) (Rs)	10.3	15.3	16.1	20.7	Market cap	US\$ 0.9B	Bloomberg
Basic EPS growth (%)	20.6	48.9	5.5	28.4	Shares outstanding	521.9MM shares	52-wk range
P/E (basic) (x)	7.2	4.9	4.6	3.6	Free float	31%	Ratio
BVPS (Rs)	54.3	66.1	78.5	94.8	Avg daily value	US\$3.3MM	Avg daily volume
P/BV (basic) (x)	1.37	1.12	0.95	0.78	Avg daily volume	1.86MM shares	Current prem (%)
ROE (%)	21.3	25.4	22.3	23.9	BSE Sensex	13,620	13-wk avg prem (%)
Tier 1 ratio (%)	7.4	6.7	6.4	6.3	Exchange rate	Rs42.08/US\$1	52-wk avg prem (%)
DPS (Rs)	2.9	3.5	3.7	4.5	<b>Performance</b>	<b>1 mth</b>	<b>3 mths</b>
Dividend yield (%)	3.8	4.7	5.0	6.1	Absolute (%)	11.3	-1.5
					Relative (%)	1.8	0.5
							-28.4

Source: JPMorgan estimates, Company data, Bloomberg.

[www.morganmarkets.com](http://www.morganmarkets.com)

J.P. Morgan India Private Limited

See page 55 for analyst certification and important disclosures, including investment banking relationships.

JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## Underweight

**Rs74.35**

19 April 2007  
Price Target: Rs64.00

India  
Banks

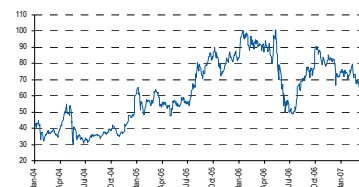
**Sachin Sheth**<sup>AC</sup>

(91-22) 6639-3004  
sachin.sheth@jpmorgan.com

**Sunil Garg**

(852) 2800-8518  
sunil.garg@jpmorgan.com

Figure 1: Syndicate Bank: Share price performance



Source: Bloomberg



## Syndicate Bank: Summary of financials

Rs in millions, year-end March

### Income statement

	FY06	FY07E	FY08E	FY09E
<b>Margins (% of Earning Assets)</b>	<b>3.38%</b>	<b>3.46%</b>	<b>3.14%</b>	<b>3.15%</b>
Earning Assets/Assets	98%	99%	99%	100%
<b>NIM (as % of avg. Assets)</b>	<b>3.32%</b>	<b>3.41%</b>	<b>3.12%</b>	<b>3.14%</b>
<b>Net Interest Income</b>	<b>18,809</b>	<b>23,413</b>	<b>26,425</b>	<b>32,533</b>
<b>Total Non-Interest Revenues</b>	<b>4,581</b>	<b>5,791</b>	<b>7,035</b>	<b>8,327</b>
Fee income	4,147	5,292	6,466	7,684
FX/Trading gains	434	499	569	643
Other operating income	0	0	0	0
<b>Total operating revenues</b>	<b>23,390</b>	<b>29,204</b>	<b>33,460</b>	<b>40,860</b>
Operating costs	(13,345)	(15,305)	(17,310)	(19,527)
<b>Operating profit</b>	<b>10,045</b>	<b>13,899</b>	<b>16,150</b>	<b>21,333</b>
Loan Loss Provisions	(3,606)	(4,285)	(5,514)	(6,806)
Other provisions	(587)	(214)	(100)	(100)
Exceptionals	0	0	0	0
Disposals/ Other income	0	0	0	0
<b>Pre-tax profit</b>	<b>5,853</b>	<b>9,401</b>	<b>10,536</b>	<b>14,426</b>
Tax [rate]	(488)	(1,412)	(2,107)	(3,607)
Minorities/preference dividends	0	0	0	0
<b>Attributable net income</b>	<b>5,365</b>	<b>7,989</b>	<b>8,429</b>	<b>10,820</b>

### Key balance sheet

	FY06	FY07E	FY08E	FY09E
Net Customer Loans	364,662	492,294	610,445	750,847
Gross Loans	376,601	506,517	628,182	773,390
Investments	172,691	195,223	237,295	287,037
Other Earning Assets	52,135	50,943	62,660	76,445
<b>Average Earning Assets = (A)</b>	<b>556,595</b>	<b>677,055</b>	<b>840,410</b>	<b>1,032,505</b>
Total assets	610,768	760,803	933,636	1,138,263
Interbank funding	(0)	(0)	(0)	(0)
Customer deposits	536,244	670,305	824,475	1,005,860
Other Interest Bearing Liabilities	3,431	4,692	6,596	9,053
<b>Average Interest Bearing Liab. = (B)</b>	<b>502,920</b>	<b>607,336</b>	<b>753,034</b>	<b>922,992</b>
<b>Average Assets</b>	<b>565,931</b>	<b>685,785</b>	<b>847,220</b>	<b>1,035,950</b>
Shareholders' equity	28,336	34,498	40,996	49,467
Risk Weighted Assets	382,921	516,944	641,010	788,442
Average Risk Weighted Assets	371,666	449,932	578,977	714,726

### Balance sheet gearing

	FY06	FY07E	FY08E	FY09E
Loan/Deposit	68%	73%	74%	75%
Investment/Assets	28%	26%	25%	25%
Loan/Assets	60%	65%	65%	66%
Customer deposits/Liab.	92%	92%	92%	92%
LT Debt/Liabilities	0%	0%	0%	0%

### Asset quality/capital

	FY06	FY07E	FY08E	FY09E
Loan loss reserves/Loans	3.2%	2.8%	2.8%	2.9%
NPLs/loans	4.0%	3.5%	3.6%	3.7%
Loan loss reserves/NPLs	79.3%	79.4%	78.9%	79.5%
Growth in NPLs	5.1%	18.9%	25.5%	26.1%
Tier 1 Ratio	7.4%	6.7%	6.4%	6.3%
Total CAR	11.7%	10.8%	10.5%	10.3%

### Per share data

	FY06	FY07E	FY08E	FY09E
EPS (Rs)	10.28	15.31	16.15	20.73
Dividend (Rs)	2.85	3.50	3.70	4.50
Payout ratio	28%	23%	23%	22%
NAV	54.29	66.09	78.54	94.77
Avg. Shares issued (mn)	521.97	521.97	521.97	521.97

### DuPont analysis

	FY06	FY07E	FY08E	FY09E
<b>NIR/Avg. Assets</b>	<b>3.32%</b>	<b>3.41%</b>	<b>3.12%</b>	<b>3.14%</b>
Non IR/Total Rev	19.6%	19.8%	21.0%	20.4%
<b>Total Rev/Avg. Assets</b>	<b>4.13%</b>	<b>4.26%</b>	<b>3.95%</b>	<b>3.94%</b>
Cost/Income	57.05%	52.41%	51.73%	47.79%
Cost/Assets	2.36%	2.23%	2.04%	1.88%
<b>Operating ROAA</b>	<b>1.78%</b>	<b>2.03%</b>	<b>1.91%</b>	<b>2.06%</b>
LLP/Loans	-1.10%	-0.97%	-0.97%	-0.97%
Loan/Assets	57.78%	64.39%	66.97%	67.65%
Other inc:provs	-0.10%	-0.03%	-0.01%	-0.01%
Tax	8.33%	15.02%	20.00%	25.00%
MI	0.00%	0.00%	0.00%	0.00%
<b>ROAA</b>	<b>0.95%</b>	<b>1.16%</b>	<b>0.99%</b>	<b>1.04%</b>
<b>RoRWA</b>	<b>1.44%</b>	<b>1.78%</b>	<b>1.46%</b>	<b>1.51%</b>
Equity/Assets	4.45%	4.58%	4.46%	4.37%
<b>ROE</b>	<b>21.32%</b>	<b>25.43%</b>	<b>22.33%</b>	<b>23.92%</b>

Source: Company data, JPMorgan estimates

# Dr Reddy's Limited

## Mylan receives approval for fexofenadine - ALERT

- Mylan has received approval for fexofenadine 180mg tablets (Sanofi-Aventis's Allegra, total sales c.\$800mn). The 180mg strength is 80% of the market and currently Dr. Reddy's (DRL), Teva and Prasco (authorized generic) are the only generics in the market with Teva and Prasco having a market share of c. 45% and c. 40% respectively.

### Impact

- Since we have been expecting Mylan's launch, we have modeled in \$30m sales for DRL in FY08 – down from \$50m in FY07.
- We note that Mylan has got approval for only one-strength. Hence it may not be able to capture too much market.
- The following table shows DRL's value sales from IMS. The actual sales are roughly half of these numbers. Based on this, we believe there is scope for price to fall further. However, we believe our estimates factor in this decline to a large extent. Hence, we are maintaining our estimates.

Table 1: DRL's sales of fexofenadine

\$mn

Strength	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
180MG	\$6.5	\$5.7	\$6.0	\$6.9	\$5.6	\$5.6
30MG	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
60MG	\$0.9	\$0.9	\$1.1	\$1.5	\$1.1	\$1.1
Total	\$7.5	\$6.6	\$7.2	\$8.5	\$6.8	\$6.8

Source: IMS

Table 2: Fexofenadine 180mg- average price per unit

\$

Corporation	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
DRL	1.3	1.3	1.3	1.3	1.3	1.2
Prasco	1.2	1.2	1.2	1.2	1.1	1.1
Teva	1.2	1.2	1.2	1.2	1.2	1.2
Sanofi-Aventis	1.7	1.9	1.8	1.8	1.7	1.7

Source: IMS

[www.morganmarkets.com](http://www.morganmarkets.com)

J.P. Morgan India Private Limited

### See page 55 for analyst certification and important disclosures, including investment banking relationships.

JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of JPMorgan in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at [www.morganmarkets.com](http://www.morganmarkets.com) or can call 1-800-477-0406 toll free to request a copy of this research.

## Underweight

## Rs710.05

19 April 2007

### Pharmaceuticals

#### Jesal Shah<sup>AC</sup>

(91-22) 6639-3012  
[jesal.n.shah@jpmorgan.com](mailto:jesal.n.shah@jpmorgan.com)

#### Ravi Agrawal

(91-22) 6639-3013  
[ravi.k.agrawal@jpmorgan.com](mailto:ravi.k.agrawal@jpmorgan.com)

# Company Visit Note

## Jindal SAW - A Pipeline of Growth

- We recently visited Jindal SAW (JSAW IN, Not Rated), a diversified pipe company with products across Sub-merged Arc Welded (SAW), Seamless and Ductile Iron (DI) pipes. Global demand for SAW pipes (used in oil and gas transportation) and seamless pipes (primarily used in exploration, transportation) has been rising strongly on the back of growing oil and gas capex. In India demand for DI pipes used in water/sewage transportation is expected to rise significantly.
- Jindal SAW's order book currently stands at \$1.5bn. The company's annual revenues over past two years averaged \$720mn. The company expects to execute most of these orders over the next 12 months. It expects further order wins from the export market given strong demand momentum in the pipeline segment.
- Jindal SAW is expanding capacity in Seamless pipes (from 100,000MT to 250,000MT) and DI pipes (increase production through line balancing). It is also adding a power plant (15MW), and sintering plant. It hopes these initiatives will translate into substantial cost savings and ensure a strong diversified growth pipeline.
- Simdex, a global consultancy specializing in pipeline projects, estimates total global pipeline construction at 210,000 kms, as the Middle East, North America and Asia concurrently embark on oil and gas pipeline capex. The company is currently trading at 9.4x FY08 and 7.7x FY09 consensus estimates.

**NOTE: THIS DOCUMENT IS INTENDED AS INFORMATION ONLY AND NOT AS A RECOMMENDATION FOR ANY STOCK. IT CONTAINS FACTUAL INFORMATION, OBTAINED BY THE ANALYST DURING MEETINGS WITH MANAGEMENT. JPMORGAN DOES NOT COVER THIS COMPANY AND HAS NO RATING ON THE STOCK.**

### Jindal SAW (Reuters: JIND.BO, Bloomberg: JSAW IN), Historical financial data

INR, year-end March	FY04	FY05	FY06
Sales	10,821	23,136	38,557
EBITDA	1,321	2,672	4,099
Net Income	563	1,007	1,691
EPS	14.4	20.8	33.5
EV/EBITDA	23.1	12.6	8.6
ROE	15%	16%	18%
ROCE	15%	17%	18%
PE ratio	34.6	24.0	14.9

Source: Company.

### India

#### Metals

#### Pinakin Parekh<sup>AC</sup>

(91-22) 6639 3018  
pinakin.m.parekh@jpmchase.com

#### Abhay Laijwala

(91 22) 6639-3015  
abhay.p.laijwala@jpmchase.com

#### JSAW.IN, Not Covered

INR 535, April 19, 2007

#### Five-year share price chart



Source: Datastream.

#### One-year price performance

	1M	3M	12M
Absolute (%)	11.5	20.1	27.7
Relative (%)	6.3	24.3	14.6

Source: Datastream.

#### Company data

52-wk range (INR)	553-235
Mkt cap. (INR Mn)	26,114
Mkt cap. (\$ Mn)	607
Shares O/S	48.3
Free float (%)	51
Avg. daily volume	0.12
Liquidity Rs Mn	51
Exchange rate	43
Index	13619
Year-end	September

Source Bloomberg.

[www.morganmarkets.com](http://www.morganmarkets.com)

J.P. Morgan India Private Limited

See page 55 for analyst certification and important disclosures, including investment banking relationships.

JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Company expects order book to grow over the next 2 years**

## Order book at US\$1.5B

Jindal SAW's current order book stands at US\$1.5bn spread across geographies and product segments. The current order book at the US operations stands at \$700mn, while the Indian operations have an order book of \$800mn.

Exports account for more than 90% of the order book, with North America and the Middle East split equally. Currently the order book is mostly skewed towards SAW pipes.

**Table 1: Order book breakup**

\$MM		
Geography	Segment	Size \$mn
North America	SAW	700
Middle East & Domestic India	SAW	750
	Seamless and DI	50
		<b>1500</b>

Source: Company.

**Jindal SAW is expanding capacity in the SAW pipes and seamless divisions. In DI pipes it is setting up a sinter plant and power plant whereby it hopes to increase margins**

## Capex aimed at cost savings, higher production

Jindal SAW is in the process of expanding capacity in SAW pipes and also implementing capex in its DI and Seamless pipe business. In SAW pipes it is expanding capacity in Helical Sub Merged Arc Welded (HSAW) by 150,000 tonnes with the aim of capitalizing on the strong growth seen in HSAW market.

In the seamless division, it is expanding capacity by 100,000 tonnes to 250,000 tonnes at a total cost of Rs3 bn. It is also de-bottlenecking the production facility in order to increase the yield. The company is focusing more on the Oil Country Tubular Goods (OCTG) market.

In DI division, it is setting up a sinter plant to help it utilize lower cost iron ore fines. It is also setting up a captive power plant (15MW). According to the company, the sintering plant and power plant should help improve the margins in the DI business and translate into cost savings of Rs400mn a year. The company believes the captive power plant would help reduce power costs to Rs 1.5-2 per unit from the current grid purchased power of Rs 5.5 per unit. The line balancing in the DI plant would also increase production of DI (more profitable) and reduce the production of the by-product pig iron (less profitable), it says.

**Table 2: Capex breakdown—FY 07-09E**

RsMM, Tonnes		
Business	Cost	Company Comment
<b>Seamless</b>	Rs3 bn	
Increasing Capacity to 250,000 Tonnes,		Business will have higher yield, increase focus on the more profitable OCTG segment
<b>Ductile Iron</b>		
Captive Power plant (15MW)	Rs 700mn	The captive power plant and the sintering plant will improve margins. The sintering plant will help the company utilize iron ore fines
Sinter Plant	Rs 350mn	
Slag Granulation Plant	Rs 100mn	
De-bottlenecking	Rs 800mn	
<b>SAW</b>		
Increasing Capacity of HSAW by 200,000 tonnes		Market share gains in the fast growing HSAW market

Source: Company reports.

## Port based location, access to us manufacturing facilities

Jindal SAW's SAW pipes and DI pipes manufacturing facility is located at Mundra, Gujarat, giving the company a port-based location, which it says helps to lower freight costs, because the company imports its key raw material – steel plates. Jindal SAW through its affiliates also has manufacturing facilities in the US. SAW pipes in which it has a 20% stake, has a 0.5MT pipe mill and has a 49% stake in JUSCO, which operates a 1.2MT plate mill. The US manufacturing facilities cater to the energy and petrochemical line pipe demand in North America.

## Approvals with global oil and gas majors

Jindal SAW has pre-qualification and accreditation from the global oil and gas majors. It believes this is an important advantage as the process of pre-qualification is a lengthy and cumbersome. Its customers include most global and Indian oil and gas majors - British Gas, BECHTEL, China National Petroleum Corporation, Saudi Aramco, Indian Oil, GAIL, ONGC, Petronet LNG, BPCL and HPCL.

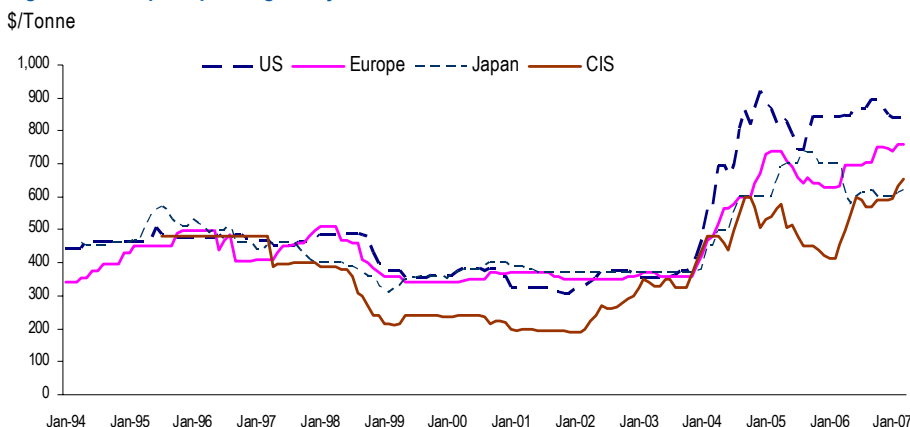
**Pre qualification and increasing accreditation with global oil and gas majors**

## Steel plate price risk, but new plate mills coming up in India

Jindal SAW's is not an integrated producer and hence buys steel plates and converts them into LSAW pipes (Helical SAW pipes use HR Coil as raw material, while seamless is made from billets). Steel plates are the key raw material and are therefore the key determinant for profitability.

Indian companies currently import their entire steel plate requirements from CIS, South Korea and Europe. Recent strong demand seen in LSAW pipes globally has led to a sharp increase in steel plate prices as plate for API grade pipelines remain in tight supply.

Figure 1: Steel plate prices globally



Source: CRU

## Indian plate capacity likely to rise

Indian companies are implementing plate mill projects totaling 4MT and are in different stages of implementation. Essar Steel and Welspun Gujarat's plate mills are due to be commissioned end 2007 while Jindal Steel and Power's (JSPL) plate mill is currently being commissioned. Once these plate mills become fully operational it would be possible for the Indian pipe manufacturing companies to purchase plates

domestically. This should translate into cost savings from lower landed cost, and lower working capital charges for the Indian pipe manufacturers.

**Table 3: Steel plate capacities coming up in India**

MT		
Company	Capacity (MT)	Date
Essar	1.5	End 2007
Welspun Gujarat	1.5	End 2007
Jindal Steel and Power	1	Apr-07

Source: Company reports and JPMorgan estimates.

### Global energy capex: strength to continue

Global energy capex is forecast to increase strongly over the next few years, driven by Middle East, North America, CIS and Asia. With natural usage to increase (as oil prices remain above multi year highs), major gas pipeline construction is planned. We expect pipeline capex to be over \$52bn over the next 3-5 years.

### Gas Usage to Increase

The International Energy Agency (IEA) has forecast strong gas demand growth till 2030. It calls for an increased share of the Total Primary Energy Supply (TPES) coming from gas while the share of oil remains more or less same.

**Table 4: IEA Total Primary Energy Supply (TPES) forecast**

%			
Fuel Share	2004	2010	2030
Oil	34.3%	35.8%	34.1%
Coal	25.1%	23.1%	22.9%
<b>Gas</b>	<b>20.9%</b>	<b>21.5%</b>	<b>24.2%</b>
Nuclear	6.5%	6.3%	4.7%
Hydro	2.2%	2.2%	2.3%
Others	11.0%	11.1%	11.8%
MTOE	11,059	12,200	16500

Source: IEA

**Table 5: A snapshot of capex budgets/programs announced by Global Oil and Gas majors (Includes Upstream and Downstream capex)**

Company	\$/Euros bn	Time period
Lukoil	78	2007-16
Petrobras	87.1	2007-11
Saudi Aramco	47	
Saudi Aramco JV	35	
Exxon Mobil	21	per year for 2008-2011
Chevron	19.6	2007
BP	17.5	2007
Conoco Philips	13.5	2007
ENI	Euros 45	2007-2010
Shell	22-23	2007
Petro China	146	2007- 2011
Sinopec	40	2007-2009
Total	16	2007

Source: Company Reports, JPMorgan estimates.

### Global pipeline capex breakdown

**North America:** Accounts for roughly 40% of the total pipeline capex. Demand comes from both replacement of old pipelines and from new pipelines for natural

gas. *Approximately 65% of North America's existing pipelines are more than 30 years old and close to replacement*

**North America pipeline construction boom expected on a combination replacement and new gas pipelines construction**

*Increased spending in North America is expected to come from increasing Rockies Natural Gas production, higher use of LNG, and the Canadian oilsands projects*

As per our US Analyst some of the major pipeline projects are the Alaska gas and the gulf coast pipelines.

**Table 6: Some of the major proposed pipeline projects in North America**

Project	Estimated Tonnes	Pipeline Miles	Tube Diameter (inches)
Alaska Gas	1,900,000	1,800	48
Altex	570,000	2,000	30
Mackenzie Gas	418,000	760	30
TCPL - Keystone	400,000	1,200	30
Enbridge - Alberta Clipper	385,000	1,000	36
Enbridge - Gateway	360,000	721	36
Kinder Morgan - TMX	348,000	1,000	30-36
Enbridge - South Access Phase 2	136,000	321	36-42
Enbridge - Gulf Coast	na	2,055	36
Texas Gas	na	555	36-42
CenterPoint	na	730	30,36,42
Total	4,517,000	12,142	

Source: JPMorgan estimates.

Recently our US Analyst Michael Gambardella in his report on IPSCO (US and Canada pipe and pipe grade plate manufacturer) stated, *“demand for IPSCO's large diameter line pipe has been sold out through April 2008. With firm options (tubular orders for yet-to-be-specified future projects) on over 500kt of large diameter line pipe the company is confident that demand is set to increase over the next several years”*.

**Middle East-** Qatar and Iran have the largest gas reserves in the world and are planning to develop them commercially. This would entail the construction of transnational pipelines. Saudi Aramco has lined up mega projects totaling \$45bn to increase oil production, build petrochemicals complex and new pipelines.

**CIS and Europe:** Gazprom is planning to build major pipeline infrastructure to supply Europe with gas, which will connect Russia with Germany With Russia also emerging as the gas supplier to Asia, transnational pipelines from Russia to China are also under consideration.

**The other major drivers of pipeline capex would be from the CIS and Middle East as gas development and transportation projects start**

**South America & Asia:** Brazil, Indonesia, China and India are also planning and constructing gas pipelines. Russia plans to build gas pipelines to supply China with natural gas. Work is currently undergoing on a 2800km oil pipeline. China Petroleum Pipeline Bureau has commented that China plans to build 25,000 km of oil and gas pipelines by 2010.

**India:** GAIL has announced plans to build five new pipelines, totaling over 5000kms, with an investment of over Rs 180bn. GAIL currently has 5,680kms of pipelines. The company expects to complete the projects over the next 3-4 years.

Reliance Industries has also announced significant pipe line program of over 10,000 kms over the next 5 years.

**Table 7: Global demand projections over the next 5 years**

\$bn

Region	Number of projects	Km	Eq Mt of Steel	\$Bn Capex
North America	167	59,875	15.0	15.0
Latin America	42	21,430	5.4	5.4
Europe	46	22,729	5.7	5.7
Africa	28	12,236	3.1	3.1
Middle East and Asia	105	82,114	20.5	20.5
Australasia	18	12,658	3.2	3.2
Total	406	211042	52.7	52.7

Source: Simdex.

### Increasing M&A in North American tubular segment

North America has seen robust M&A in the welded and seamless pipe segment with companies striving to buy capacities instead of waiting to build them highlighting the urgency to acquire rather than incur an opportunity loss in time taken to build capacities. IPSCO, one of the largest pipe manufacturers in the US, is currently in talks for a possible sale.

**Table 8: Recent North America M&A in tubular segment**

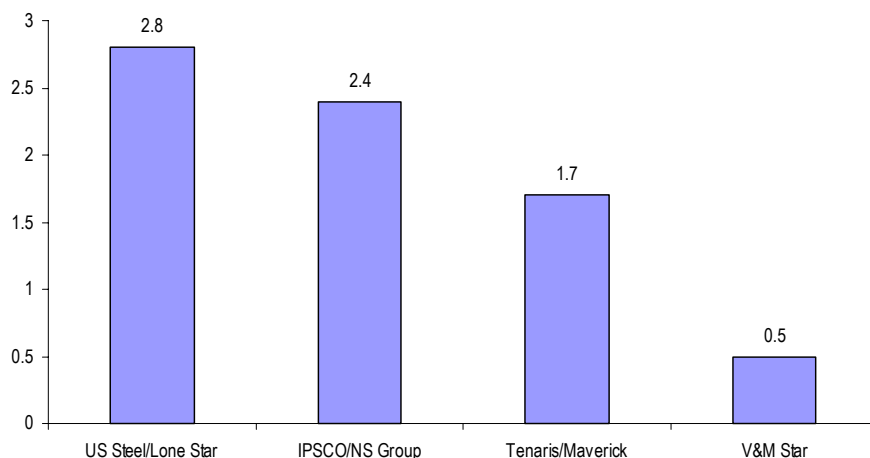
MT, \$bn

Acquirer	Company	Purchase Price \$bn	Date	Products	Capacity
Tenaris	Maverick Tubes	2.8	Jun-06	Seamless, Welded Tubes, and coiled tubing	2MT Short tons of welded
IPSCO Inc.	NS Group Inc.*	1.46	Dec-06	Seamless and alloy	0.26MT of seamless and .56MT of welded
US Steel	Lone Star	2.1	Mar-07	Welded Tubes	1MT

Source: Company reports and JPMorgan estimates.

**Figure 2: North America pipe capacity breakdown**

MT



Source: Company reports and JPMorgan estimates.



## Implications for Indian companies

Demand in the next 3 years is expected to be strong with tight pipe supply. As per our estimates Indian companies such as Welspun Gujarat, Jindal SAW, Man Industries and PSL have around 12 % of the production share in longitudinal and 13% in spiral globally and should benefit from the increased pipeline capex globally.

## Water-related business an additional opportunity

We believe water and irrigation offers a very strong business opportunity in India. The company believes its DI business should benefit from the increased spending on water infrastructure. A combination of increased government focus on irrigation, rising multilateral lending for water related sectors and enhanced private sector participation in water supply projects should increase the potential for increasing demand from this segment.

Some of the schemes currently under implementation/proposed are the *Rajiv Gandhi Drinking Water Mission, Accelerated Rural Water Supply Programme and the Urban Water Supply Programme*

## Financials

In 1QFY07 Jindal SAW (September year end reporting basis) reported yoy revenue growth of 46% and EBITDA growth of 49% as demand for pipes (particularly SAW) rose sharply. EBITDA margins marginally improved to 11.4% from 11.2% a year earlier. FY06 saw 67% growth in revenues, 53% growth in EBITDA and 68% growth in net profit as volumes increased 97% y/y.

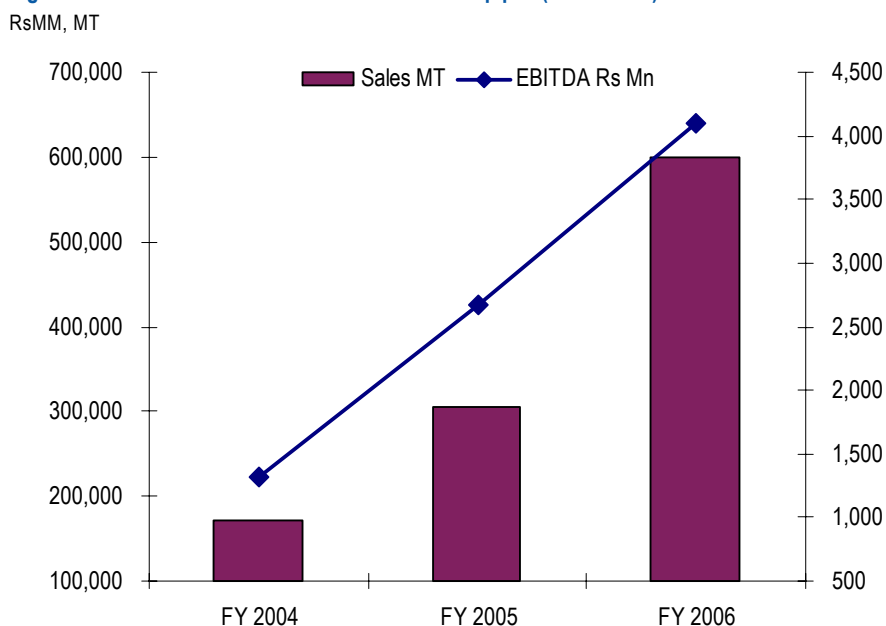
**Table 9: Jindal SAW—Quarterly and annual financials (standalone)**

RsMM, %

	Q1 2006	Q1 2007	% y/y	FY 05	FY 06	% y/y
Sales/ Income from operations	8,617	12,343		23,928	40,615	
Less : Excise Duty	419	415		792	2,058	
<b>Net Sales</b>	<b>8,198</b>	<b>11,928</b>	<b>46%</b>	<b>23,136</b>	<b>38,557</b>	<b>67%</b>
Total Expenditure						
(Increase)/ Decrease in stock in trade	(1,294)	(728)	-44%	(1,904)	(3,116)	64%
Consumption of Raw Materials	6,649	8,104	22%	17,809	27,132	52%
Outsourcing	830	1,720		1,798	5,031	
Staff Cost	160	222	39%	409	816	99%
Other Expenditure	939	1,244	33%	2,352	4,594	95%
<b>Total Expenditure</b>	<b>7,284</b>	<b>10,563</b>	<b>45%</b>	<b>20,465</b>	<b>34,457</b>	<b>68%</b>
<b>EBITDA</b>	<b>914</b>	<b>1,366</b>	<b>49%</b>	<b>2,672</b>	<b>4,099</b>	<b>53%</b>
Interest	287	331	15%	997	1,450	45%
Depreciation	120	139	15%	354	519	47%
Other Income	16	8	-50%	195	432	122%
<b>Profit before tax</b>	<b>523</b>	<b>903</b>	<b>73%</b>	<b>1,515</b>	<b>2,562</b>	<b>69%</b>
Provision for Taxation						
- Current tax	205	302	47%	508	871	72%
- Deferred tax						
- Fringe Benefit tax						
-Earlier year's adjustments						
<b>PAT</b>	<b>318</b>	<b>601</b>	<b>89%</b>	<b>1,007</b>	<b>1,691</b>	<b>68%</b>
Extraordinary Income/(Loss)	84			-	71	
Reported PAT	402	601		1,007	1,762	
Effective Tax Rate	39%	33%		34%	34%	
EBITDA Margin	11.2%	11.4%		11.5%	10.6%	
Net Margin	3.9%	5.0%		4.4%	4.4%	

Source: Company reports.

Figure 3: Jindal SAW—EBITDA and sales volumes pipes (standalone)



Source: Company reports.

## Cost structure

Raw materials (HR Coils and HR plates) are the single largest cost item, followed by outsourcing costs (charges paid to the US affiliates).

Table 10: Jindal SAW—Cost structure (standalone)

%

% OF TOTAL OPERATING COST	FY 2004	FY 2005	FY 2006
Raw Materials	80%	87%	79%
Salaries and Wages	3%	2%	2%
Stores and Spares	1%	2%	2%
Power and Fuel	2%	2%	2%
Forwarding Charges	3%	3%	5%
Other Expenses	1%	1%	1%
Outsourcing Charges	14%	9%	15%
(Increase)/Decrease in stocks	-7%	-9%	-9%
SGA	3%	3%	2%
<b>Operating</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company reports.

## Valuations

The company is currently trading at 9.5x FY 08 and 7.7x FY 09 consensus estimates, at a discount to its peers in India.

**Table 11: Valuation multiples**

x	FY 08E	FY 09E
Welspun Gujarat	10.9	8.4
Jindal SAW	9.4	7.7
Man Industries	6.4	5.5
Maharashtra Seamless	10.7	10.3
<b>North America</b>		
Tenaris (JPM)	13.3	
Ipsco (JPM)	11.7	9.6

Source: Bloomberg, JPMorgan estimates are for Tenaris and IPSCO, the rest are based on consensus estimates. Tenaris and IPSCO year end is Dec and so FY 08 is CY 07 and FY 09 is CY 08

## Company background

Jindal SAW is one of India's largest pipe manufacturing companies in India. Its product mix includes SAW pipes, seamless pipes and ductile iron pipes. Its geographic footprint also includes India and North America; North America is currently the world's fastest growing market for OTCG and SAW pipes.

Jindal SAW's pipe manufacturing business consists of longitudinal SAW (LSAW, used in high pressure oil and gas transportation), Helical/Spiral SAW (HSAW used in low pressure oil, gas and water transportation), Seamless (used in petroleum exploration, boiler and engineering) and Ductile Iron (DI, used in Water transportation, Sewage and Housing).

**Table 12: Jindal SAW—Pipemaking capacity**

MT	Kosi	Mundra	Nashik	US Operations
<b>Tonnes</b>				
SAW Pipes	250,000	700,000		500,000
Seamless			100,000	
Ductile Iron		200,000		
Steel Plates				1,200,000

Source: Company.

## Diversified pipes company

Jindal SAW is a diversified pipe manufacturing company with a diversified product mix across the key pipe segments - Submerged Arc Welded (SAW), Ductile Iron (DI), and Seamless pipes. The company also has access to manufacturing facilities in the US (in Texas) for steel plate and steel pipe manufacturing (via associate companies), the only Indian company so far. The US operation serves the pipeline market in North America – the fastest growing market currently.

The company believes the DI pipes business gives it an opportunity to leverage on the strong domestic capex seen in the water transportation segment in India. A combination of increasing government focus to build water infrastructure and rising support from multilateral agencies like the World Bank and the Asian Development Bank (ADB) should translate into strong continued demand for DI pipes.

**Jindal SAW has presence across pipe segments, though predominant exposure is to SAW pipes**

Seamless pipes used in petroleum exploration and boilers are seeing strong demand growth as oil exploration rises globally.

**Table 13: Types of pipes, uses and key players**

TYPES	Longitudinal Saw Pipes (LSAW)	Spiral/Helical Saw Pipes (HSAW)	Seamless	Ductile/Cast Iron (DI)	Electric Resistance Welded (ERW)
<b>USES</b>	Oil & Gas Transportation	Oil & Gas Transportation Water Transportation	Petroleum, Exploration General Engineering Boilers	Water Transportation Sanitation & Housing	Oil & Gas/ Water Distribution
<b>COMPANIES</b>	<b>Jindal Saw</b> Welspun Gujarat Stahl Rohren Man Industries	<b>Jindal Saw</b> PSL Welspun Gujarat Stahl Rohren Man Industries	<b>Jindal Saw</b> Indian Seamless Tubes Maharashtra Seamless	<b>Jindal Saw</b> Electrosteel Castings	Welspun Gujarat Stahl Rohren Maharashtra Seamless

Source: Company reports and JPMorgan estimates.

## Jindal SAW: Summary of historical financials

Profit and Loss statement				Cash flow statement			
Rs in millions, year-end Mar	FY04A	FY05A	FY06A	Rs in millions, year-end Mar	FY04A	FY05A	FY06A
Revenues	10,821	23,136	38,557	Net Income (Pre Exceptional)	563	1,007	1,691
% change Y/Y	0%	56%	67%	Add: Depreciation	219	354	519
EBITDA	1,321	2,672	4,099	Working Capital Movement	(1,025)	(5,340)	(1,715)
% change Y/Y	0%	-17%	53%	Operational Cash Flow	(244)	(3,979)	495
EBITDA Margin (%)	12%	12%	11%	Net Capex	(2,928)	(1,895)	(2,052)
EBIT	1,102	2,317	3,580	Free cash flow	(3,171)	(5,874)	(1,557)
% change Y/Y	0%	110%	54%	Equity raised/ (repaid)	(36)	3,686	445
EBIT Margin (%)	10%	10%	9%	Debt raised/ (repaid)	3,530	4,335	3,823
Net Interest	327	803	1,018	Other	(1)		
Earnings before tax	775	1,515	2,562	Dividends paid	(110)	(215)	(276)
% change Y/Y	-26%	95%	69%	Beginning cash	243	338	1,509
Tax	(212)	(508)	(871)	Ending cash	338	1,509	3,910
as % of EBT	-27%	-34%	-34%	DPS	2.50	4.80	5.01
Net Income (Pre Exceptional)	563	1,007	1,691				
% change Y/Y	0%	-26%	68%				
Shares Outstanding	39	48	50				
EPS (pre exceptional)	14.4	20.8	33.5				
% change Y/Y	0%	-26%	61%				
<b>Balance sheet</b>				<b>Ratio analysis</b>			
Rs in millions, year-end Mar	FY04A	FY05A	FY06A	% , year-end Mar	FY04A	FY05A	FY06A
Inventories	4,518	9,262	13,741	EBITDA margin	12%	12%	11%
Debtors	4,104	3,335	7,526	Operating margin	10%	10%	9%
Cash and bank balances	338	1,509	3,910	Net profit margin	5%	4%	4%
Interest receivable accrued	0	0	0	Sales growth	0%	56%	67%
Investments	560	962	964	Net profit growth	0%	-26%	61%
Net fixed assets	5,744	7,285	8,817	EPS growth	0%	-26%	61%
Total assets	16,420	23,998	36,787	Interest coverage (x)			
Sundry Creditors	5,741	3,320	9,276	Net debt to total capital	4	3	4
Others	572	1,628	2,628	Net debt to equity	32%	35%	27%
Total current liabilities	6,313	4,948	11,904	Sales/assets	133%	100%	96%
Total debt	5,642	9,977	13,800	Assets/equity (x)	0.7	1.0	1.0
Other liabilities	466	599	766	ROE	4.1	2.8	3.6
Total liabilities	12,421	15,524	26,469	ROCE	15%	16%	18%
Shareholders' equity	3,999	8,475	10,318				

Source: Company.

# Satyam Computers

Good 4QFY07 backed by strong FY08 guidance

- **Satyam reported good 4QFY07** with positive surprise on revenues. However, EBITDA margins fell more than expected by 160 bps Q/Q leading to inline EBITDA. Foreign exchange gain due to hedging led to sharp 17% Q/Q net profit increase. Metrics were solid – volumes grew an impressive 9.5% Q/Q leading the peer group, there were first visible signs of pricing increases (up 0.6-0.7% Q/Q) and attrition fell to 13.21%.
- **More importantly, FY08 guidance was strong** with 28-30% US\$-based revenue growth and 27-29% EPS growth. Rupee appreciation led to a lower guidance in Rupee-terms – 20-22% revenue growth and 18-20% EPS growth. Management expects flattish margins in FY08 as price increases of 2-3% are expected to trickle in to offset salary hikes and Rupee appreciation.
- **Takeaways:** Strong FY08 guidance from Satyam backs the positive outlook from TCS and Infosys – we believe that offshore demand environment remains solid and expect growth acceleration in 1QFY08. For Satyam in particular, **business momentum appears to be accelerating** – volume growth led the industry and pricing increase has led management to guide to flat margins for the first time in 5 years.
- **Investment view:** In line with historical trend, we expect Satyam to outperform guidance and expect 23%+ EPS growth in FY08E. With FY08E P/E of 18x, valuations remain reasonable. We remain positive on Satyam and expect share price upsides inline with EPS growth over the coming 9-12 months, with a Dec 07 price target of Rs575. We plan to review our estimates post the conference call this evening.

Table 1: Reuters: SATY.BO/SATY.US, Bloomberg: SCS IN/SAY US

RsB (Year-end: Mar)	FY06A	FY07A	FY08E	FY09E	RsB	FY06A	FY07A	FY08E	FY09E		
Sales	47.9	64.9	83.8	109.9	ROE (%)	26.0	27.7	27.0	27.6	52-Week range	Rs270.5-524.9
Operating Profit	10.3	13.9	18.0	23.3	ROIC (%)	60.8	60.4	57.5	58.6	Shares Outstg	667Mn
EBITDA	11.7	15.4	19.7	25.4		1Q	2Q	3Q	4Q	Avg daily volume	0.7Mn
Net profit	9.8	14.0	17.5	22.4	EPS (FY07) A	5.4	4.9	5.1	5.5	Mkt Cap US\$	7.2Bn
EPS	15.2	21.3	26.2	33.6	EPS (FY08) A	5.9	6.2	6.8	7.4	Free float	85%
P/E (x)	29.4	21.0	17.1	13.3	EPS (FY09) E	7.9	7.8	8.6	9.2	Avg daily value US\$	7.6 Mn
Y/E BPS (Rs)	65.1	85.5	104.1	132.0	Local	1M	3M	12M		Exchange rate	Rs42.1/US\$1
P/B (x)	6.9	5.2	4.3	3.4	Abs. Perf.(%)	3.3	-8.2	5.0		ADR	US\$35.7
Cash	31.1	39.9	48.9	62.2	Rel. Perf.(%)	-4.1	-4.4	-8.3		Ratio	1:2
										52-week range	US\$14.0-25.9

Source: JPMorgan estimates, Company data

[www.morganmarkets.com](http://www.morganmarkets.com)

J.P. Morgan India Private Limited

See page 55 for analyst certification and important disclosures, including investment banking relationships. JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of JPMorgan in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at [www.morganmarkets.com](http://www.morganmarkets.com) or can call 1-800-477-0406 toll free to request a copy of this research.

## Overweight

**Rs447.85**

19 April 2007  
Price Target: Rs575.00

### India

#### eBusiness/IT Services

**Manoj Singla, CFA<sup>AC</sup>**

(91-22) 6639-3017  
manoj.singla@jpmorgan.com

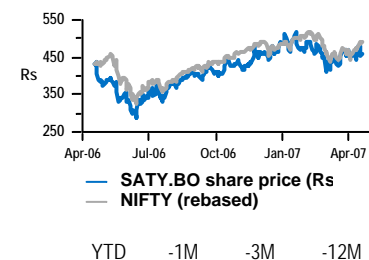
**Bhavin Shah**

(852) 2800-8538  
bhavin.a.shah@jpmorgan.com

**Mythili Balakrishnan, CFA**

(91-22) 6639-3008  
mythili.balakrishnan@jpmorgan.com

#### Price Performance



Absolute	-4.6%	7.5%	-10.4%	7.1%
Relative	-5.7%	-3.7%	-8.0%	-6.9%

Source: RIMES, Reuters.

## 4QFY07 Result details

Revenues came in at Rs17.79, up 7% Q/Q and 1% above our expectation.

Growth was volume driven (up 9.5% Q/Q). There was further movement of work offshore from 48.9% of revenues in 3QFY07 to 50.62%.

**Pricing was up marginally 0.62% onsite and 0.72% offshore.** We note that pricing is up 1.74% onsite and 1.36% offshore, still lower than the strong 4-5% pricing Y/Y increases seen by TCS and Infosys. However, pricing increase has begun to happen and management expects 2-3% average price increase in FY08.

### Margins – sharp decline

EBITDA margins were down 162 bps Q/Q largely due to Rupee/US\$ appreciation and RSU charge.

Offshore utilization was at 78.4% against 77.6% in 3QFY07. Satyam added 1,265 people during the quarter in IT services and 91 people in BPO. Headcount addition is on the lower side but comes on the back of strong addition in 3QFY07.

**Attrition was down Q/Q and is now at 15.7% from 17.6% in 3QFY07 indicating decent impact from the measures instituted at Satyam in FY07. This is very encouraging as high attrition was one of key worries for Satyam.**

### Other metrics

Other income was up to Rs 704m from Rs102m in 3QFY07 due to higher yield on investments and forex gain of Rs 33m against loss of Rs 340 m in previous quarter.

Tax rate was at 10.1% compared to 10.7% in 3QFY07.

Net profit was at Rs3.9 billion, up 17% Q/Q.

Satyam added 35 clients in the quarter, a good number.

Receivable days were up to 87 days from 82 days in 3QFY07.

## FY08 guidance quite good

In US\$-terms, Satyam guided to revenue growth of 28-30% and EPS growth of 27-29% for FY08 (US GAAP). However, management has assumed an exchange rate of Rs 42.3/US\$ for guidance impacting Re-guidance by 6%.

In Re-terms, Satyam guided to FY08 revenues of Rs 77,930-79,160 up 20-22% Y/Y. On EPS, Satyam guided to Rs 25.32-25.73 up 18-20% Y/Y. In terms of Q/Q, guidance implies 6-7% Q/Q revenue growth for 2Q-4Q FY08 – quite healthy. The EPS guidance implies 4.8% Q/Q EPS growth for 2Q-4Q FY08.

### 1QFY08 Guidance decent

Satyam has guided to revenue of Rs 18,010-18,100 million up 1.2-1.7% Q/Q and EPS of Rs 5.93-5.98 -0.8% to 0% Q/Q. While these numbers look muted, we note that in US\$ terms, Satyam is guiding to a healthy 5-5.5% Q/Q revenue growth and 3.7% Q/Q EPS growth. Given normal conservativeness in guiding, we believe that Satyam would beat 1QFY08 guidance.

Table 2: Indian GAAP guidance

	1QFY08E	2QFY08E	3QFY08E	4QFY08E	FY08 guidance	Y/Y growth
Revenue Rs M	18,100	19,183	20,330	21,547	79,160	22.1%
Seq. growth (%)		6.0	6.0	6.0		
Profit Rs M	3,990	4,185	4,389	4,603	17,167	22.2%
Seq. growth (%)		4.9	4.9	4.9		
EPS Rs	6.0	6.3	6.6	6.9	25.7	20.4%
Q/Q growth (%)		4.8	4.8	4.8		

Source: JP Morgan estimates, Company reports

Table 3: US GAAP guidance

	1QFY08	2QFY08	3QFY08E	4QFY08E	Guidance	Growth
Revenue	434	460	488	518	1,900	30%
Seq. growth (%)	5.5	6.1	6.1	6.1		
EPS	0.3	0.3	0.3	0.3	1.2	29%
Q/Q growth (%)		5.9	5.9	5.9		

Source: JPMorgan estimates, Company data.

Satyam has outperformed guidance by a good margin over the last 4 years.

Table 4: Beginning of year guidance and actual performance

Satyam	For FY03	For FY04	For FY05	For FY06	For FY07	For FY08
<b>Guidance in beginning of year (%)</b>						
Rev growth Y/Y	21-23	13-15%	22-24	26-28	25.2-27.3	20-22%
EPS growth Y/Y	10-12%	7-10%	18-20%	20-22%	18-20%	18-20%
<b>Implied Q/Q growth (%)</b>						
Implied QoQ Revenue growth	5.7%	2.6%	3.2%	5.7%	5.7%	4.3%
Implied QoQ EPS growth	6.8%	2.9%	5.6%	1.9%	1.4%	3.5%
<b>Growth delivered/expected (%)</b>						
Rev growth Y/Y	17%	26%	35%	36%	35%	29%
EPS growth Y/Y	-6%	18%	37%	36%	40%	23%

Source: JPMorgan estimates, Company data.

## Valuation

Our Dec-07 target price is Rs 575/share based on a combination of P/E multiples and DCF fair values to derive our target price. Our target price assumes a 1-year trailing P/E multiple of 23x inline with the last year average 1 year trailing multiple of 23x. On 1-year forward, we expect a P/E multiple of 18X.

Our DCF based fair value estimate for Satyam is Rs 465/share and our target price implies a premium of 25% to this fair value. Our long-term assumptions remain 10-year revenue CAGR of 21%, long-term EBIT margins of 20% and long-term ROIC of 30%. We maintain our cost of capital at 13.2%.

### Risks to our price target

Macro slowdown in IT spending environment, unexpected increase in wage inflation, appreciation of the rupee against the US\$ are key risks to our price target.



Table 5: Satyam: Quarterly Metrics

Clients	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07
New clients added	31	32	35	22	34	35	34	35
Active clients	410	429	452	469	504	504	523	538
>US \$ 10 m	21	22	25	27	33	32	32	35
>US \$ 5 m	38	43	49	46	51	54	54	57
>US\$ 1 m	134	137	142	150	142	154	164	180
<b>Employees</b>	<b>1QFY06</b>	<b>2QFY06</b>	<b>3QFY06</b>	<b>4QFY06</b>	<b>1QFY07</b>	<b>2QFY07</b>	<b>3QFY07</b>	<b>4QFY07</b>
Tot employees	20505	22482	23432	26511	27634	31659	34405	35670
Added	1,341	1,977	950	3,079	1,123	4,025	2,746	1,265
Attrition TTM	16.68	16.21	17.98	19.17	19.62	18.27	17.62	15.7
Offshore utilization incl trainees	74.2	74.7	74.3	72.2	71.2	71.1	68.5	71.3
<b>Debtor days</b>	<b>1QFY06</b>	<b>2QFY06</b>	<b>3QFY06</b>	<b>4QFY06</b>	<b>1QFY07</b>	<b>2QFY07</b>	<b>3QFY07</b>	<b>4QFY07</b>
Debtor (days)	77	72	75	80	77	80	82	87
<b>Revenue concentration (%)</b>	<b>1QFY06</b>	<b>2QFY06</b>	<b>3QFY06</b>	<b>4QFY06</b>	<b>1QFY07</b>	<b>2QFY07</b>	<b>3QFY07</b>	<b>4QFY07</b>
Top client	9.9	9.0	9.39	8.03	7.12	6.68	6.32	6.11
Top 5 clients	27.2	25.7	24.56	24.31	22.68	22.26	21.58	22.17
Top 10 clients	39.4	38.7	36.75	35.86	34.43	33.93	34.19	36.25
<b>Domain-wise revenues (%)</b>	<b>1QFY06</b>	<b>2QFY06</b>	<b>3QFY06</b>	<b>4QFY06</b>	<b>1QFY07</b>	<b>2QFY07</b>	<b>3QFY07</b>	<b>4QFY07</b>
BFSI	26.99	28.74	28.04	28.82	29.65	28.59	25.61	24.74
Manufacturing	28.76	29.17	27.63	28.88	27.84	26.69	27.12	27.16
Telecom	19.36	19.17	18.54	18.3	19.12	20.36	20.69	21.79
Transportation and Retail	6.4	5.4	6.3	5.1	5.35	5.2	6	8.03
Healthcare	6.01	5.59	7.15	6.15	6.53	7.33	7.6	6.42
Others	12.5	11.94	12.28	12.7	11.51	11.83	12.98	11.86
<b>Geographical spread (%)</b>	<b>1QFY06</b>	<b>2QFY06</b>	<b>3QFY06</b>	<b>4QFY06</b>	<b>1QFY07</b>	<b>2QFY07</b>	<b>3QFY07</b>	<b>4QFY07</b>
North America	67.77	66.80	64.43	63.92	65.91	65.87	64.27	62.56
Japan	1.47	1.20	1.22	1.88	1.13	1.65	1.66	1.48
Europe	17.2	18.34	18.48	18.64	17.59	18	19	19.86
Rest of World	13.56	13.66	15.87	15.56	15.37	14.48	15.07	16.11
<b>New business breakup (%)</b>	<b>1QFY06</b>	<b>2QFY06</b>	<b>3QFY06</b>	<b>4QFY06</b>	<b>1QFY07</b>	<b>2QFY07</b>	<b>3QFY07</b>	<b>4QFY07</b>
Existing business	91.93	92.39	92.07	91.36	87.70	86.1	85.7	88.7
New business	8.07	7.61	7.93	8.64	12.30	13.9	14.3	11.3
<b>Technology Revenues (%)</b>	<b>1QFY06</b>	<b>2QFY06</b>	<b>3QFY06</b>	<b>4QFY06</b>	<b>1QFY07</b>	<b>2QFY07</b>	<b>3QFY07</b>	<b>4QFY07</b>
Software	51.3	50.1	50.1	50.7				
Development & Maintenance					48.5	48.0	47.3	46.4
Consulting and enterprise Business solutions	37.4	39.4	39.4	39.3				
Extended Engg Sol	7.2	6.6	6.4	6.4	40.3	40.4	42.0	42.6
Infra Mgmt Services	4.2	3.9	4.1	3.7	6.0	6.4	6.8	7.0
					5.2	5.2%	3.9%	4.0

Source: JPMorgan estimates, Company data.

Table 6: Satyam P&L – Indian GAAP

Rs m, year end Mar	Q1-06	Q2-06	Q3-06	Q4-06	Q1-07	Q2 -07	Q3-07	Q4-07
Sales	10,587	11,550	12,653	13,136	14,429	16,019	16,611	17,792
Personnel exp	6,393	6,781	7,381	7,509	8,323	9,831	9,681	10,768
SG&A exp	1,787	2,005	2,126	2,282	2,556	2,563	2,830	2,922
<b>Operating profit</b>	<b>2,407</b>	<b>2,764</b>	<b>3,146</b>	<b>3,345</b>	<b>3,550</b>	<b>3,625</b>	<b>4,100</b>	<b>4,102</b>
OPM (%)	22.7	23.9	24.9	25.5	24.6	22.6	24.7	23.1
Other Income	234	316	330	289	745	282	102	704
Depreciation	313	347	341	372	362	375	394	354
PBT	2,323	2,724	3,108	3,246	3,908	3,505	3,776	4,378
Tax	392	333	386	397	368	307	403	442
<b>PAT</b>	<b>1,902</b>	<b>2,373</b>	<b>2,697</b>	<b>2,847</b>	<b>3,540</b>	<b>3,198</b>	<b>3,372</b>	<b>3,936</b>
NPM (%)	18	20.5	21.3	21.7	24.5	20.0	20.3	22.1
Tax rate (%)	16.90%	12.20%	12.40%	12.20%	9.40%	8.8%	10.7%	10.1%
EPS (Rs)	2.91	3.64	4.13	4.36	5.42	4.89	5.13	5.90
<b>Q-o-Q (%)</b>								
Sales	9	9.1	9.6	3.8	9.8	11.0	3.7	7.1
Operating profit	1	14.8	13.8	6.3	6.1	2.1	13.1	0.1
PBT	-2.4	17.3	14.1	4.4	20.4	-10.3	7.7	16.0
PAT	-7.7	24.8	13.6	5.5	24.4	-9.7	5.4	16.7
<b>Y-o-Y (%)</b>								
Sales	35.8	34	39.4	35.2	36.3	38.7	31.3	35.4
Operating profit	24	29.9	41.1	40.4	47.5	31.2	30.3	22.6
PBT	18.9	30.6	58	36.4	68.2	28.6	21.5	34.9
PAT	16.2	34.2	63.6	38.1	86.1	34.7	25.0	38.3

Source: JPMorgan estimates, Company data.

Table 7: Satyam P&L (Indian GAAP)

(Rs in m , year-end March)	2004	2005	2006	2007	2008E	2009E
Revenue	25,605	35,208	47,926	64,851	83,760	109,866
Gross Profit	10,991	13,804	18,489	24,764	31,528	40,141
EBIT	5,622	7,549	10,289	13,893	17,954	23,255
EBITDA	6,773	8,682	11,662	15,377	19,744	25,415
Pre Tax Profit	6,326	8,386	11,401	15,566	19,658	25,431
Net Profit	5,263	7,211	9,892	14,046	17,483	22,372
Net Profit after min/sub	5,134	7,116	9,819	14,047	17,483	22,372
EPS (Rs)	8.1	11.2	15.2	21.3	26.2	33.6
<b>Margins (%)</b>						
Gross Margin	42.9	39.2	38.6	38.2	37.6	36.5
Operating Margin	22.0	21.4	21.5	21.4	21.4	21.2
EBITDA Margin	26.5	24.7	24.3	23.7	23.6	23.1
Net Margin	20.1	20.2	20.5	21.7	20.9	20.4
<b>Sequential Growth (%)</b>						
Revenue		37.5	36.1	35.3	29.2	31.2
Gross Profit		25.6	33.9	33.9	27.3	27.3
EBIT		34.3	36.3	35.0	29.2	29.5
EBITDA		28.2	34.3	31.9	28.4	28.7
Net Profit		38.6	38.0	43.1	24.5	28.0
EPS		37.4	36.0	40.3	22.9	28.0

Source: JPMorgan estimates, Company data.

## Satyam: Summary of Financials

Income statement						Ratio Analysis					
INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E	% , year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E
Revenues	35,208	47,926	64,851	83,760	109,866	Gross Margin	39.2	38.6	38.2	37.6	36.5
Cost of Goods Sold	21,404	29,437	40,086	52,232	69,726	EBITDA margin	24.7	24.3	23.7	23.6	23.1
Gross Profit	13,804	18,489	24,764	31,528	40,141	Operating Margin	21.4	21.5	21.4	21.4	21.2
SG&A Expenses	6,256	8,200	10,872	13,574	16,886	Net Margin	20.2	20.5	21.7	20.9	20.4
Operating Profit (EBIT)	7,549	10,289	13,893	17,954	23,255	SG&A/Sales	17.8	17.1	16.8	16.2	15.4
EBITDA	8682	11662	15377	19744	25415	Sales growth	37.5	36.1	35.3	29.2	31.2
Other Income	846.7	1,167.4	1,832.8	1,833.7	2,306.4	Operating Profit Growth	34.3	36.3	35.0	29.2	29.5
Interest Expense	-9	-55	-159	-130	-130	Net profit growth	38.6	38.0	43.1	24.5	28.0
Earnings before tax	8,386	11,401	15,566	19,658	25,431	EPS (Reported) growth	37.4	36.0	40.3	22.9	28.0
Tax	-1,176	-1,509	-1,520	-2,175	-3,059	Interest coverage (x)	828.1	185.6	87.2	138.6	178.9
Net Income (Reported)	7116	9819	14047	17483	22372	Net debt to total capital	n.m.	n.m.	n.m.	n.m.	n.m.
INR						Net debt to equity	n.m.	n.m.	n.m.	n.m.	n.m.
EPS (Reported)	11.2	15.2	21.3	26.2	33.6	Asset Turnover	93.8	93.3	94.1	101.0	104.4
BPS	50.2	65.1	85.5	104.1	132.0	ROE	24.2	26.0	27.9	27.7	28.1
DPS	2.5	3.5	1.0	4.0	5.0	ROIC	60.1	60.8	59.6	59.0	59.9
Shares Outstanding (bn)	639	649	667	667	667	ROCE	23.0	23.9	25.1	25.5	25.9
Balance sheet						Cash flow statement					
INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E	INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E
Cash and cash equivalents	23,701	31,117	39,914	48,915	62,219	Net Income	7,116	9,819	14,047	17,483	22,372
Accounts receivable	7,085	11,684	17,432	20,408	26,595	Depr. & Amortisation	1,133	1,373	1,484	1,790	2,160
Inventories	0	0	0	0	0	Change in working capital	-537	-2,685	-2,925	-3,111	-3,706
Others	2,114	2,951	2,945	4,018	5,236	Other	95	73	-1	0	0
Current assets	32,900	45,752	60,291	73,342	94,050	Cash flow from operations	7,806	8,580	12,605	16,162	20,826
LT investments	107	46	437	419	419	Capex	-1,839	-3,167	-4,135	-3,311	-3,759
Net fixed assets	3,779	5,573	8,223	9,162	10,761	Disposal/ (purchase)	147	824	-391	0	0
Others	763	0	0	0	0	Cash flow from investing	-1,692	-2,343	-4,526	-3,311	-3,759
Total assets	37,549	51,371	68,951	82,923	105,230	Free cash flow	5,967	5,413	8,470	12,851	17,067
Liabilities						Equity raised/ (repaid)	462	24	291	12	0
ST loans	189	1,027	1,479	1,285	1,289	Debt raised/ (repaid)	107	838	452	4	4
Payables	2,483	4,370	5,745	8,554	11,407	Other	368	2,592	631	-347	-433
Others	1,896	2,760	4,201	2,789	3,634	Dividends paid	-1,596	-2,275	-656	-2,667	-3,334
Total current liabilities	4568	8157	11425	12628	16330	Cash flow from financing	-659	1,178	718	-2,998	-3,763
Long term debt	0	0	0	0	0	Net change in cash	5,455	7,416	8,797	9,853	13,304
Other liabilities	0	42	0	0	0	Beginning cash	18,246	23,701	31,117	39,062	48,915
Total liabilities	4568	8199	11425	12628	16330	Ending cash	23,701	31,117	39,914	48,915	62,219
Shareholders' equity	32981	43173	57526	70295	88899						

Source: JPMorgan estimates, Company data.

# Wipro Ltd.

4QFY07 largely inline with expectations

- **Wipro reported decent 4QFY07 results. Global IT business was inline with expectations** with revenues up 6% Q/Q (8% in US\$-terms) and margins down 20 bps Q/Q. Organic performance was on the weaker side (revenues up 5% Q/Q with 80 bps Q/Q margin drop) offset by strong performance in BPO (double-digit growth with 100 bps+ margin expansion) and acquisitions (up 14% Q/Q with more than tripling of margins). **On a consolidated basis, revenues grew 9% Q/Q as other divisions** (Infotech, Consumer and Others) delivered higher growth. Overall, EBIT margins fell 40 bps Q/Q. **High other income and lower tax rate drove the above-expected 12% Q/Q profit growth.**
- **Metrics were mixed** – volume growth was 5% Q/Q, onsite pricing moved up 2% Q/Q but offshore was up just 0.6% Q/Q and headcount addition was on the lower side. Further, **1QFY08 management guidance was weak at 3% Q/Q US\$-based revenue growth for Global IT.** We believe that this is driven by continued weakness in Telecom OEM business. However, management indicated that growth should pick up from 2QFY08.
- **Takeaways:** Wipro's 4QFY07 performance continues the trend of mixed 4QFY07 from large Indian IT players. However, Wipro's 1QFY08 outlook is weaker compared to Infosys and TCS. Overall, we believe that Wipro's performance would continue to lag TCS and Infosys in FY08 – we expect <30% EPS growth from Wipro compared to 33% from Infosys and 34% from TCS. While strong demand environment leads to our fundamental positive view on Wipro, we prefer TCS and Infosys on a relative basis.

## Overweight

**Rs578.90**

19 April 2007  
Price Target: Rs750.00

### India

#### eBusiness/IT Services

**Manoj Singla, CFA<sup>AC</sup>**

(91-22) 6639-3017  
manoj.singla@jpmorgan.com

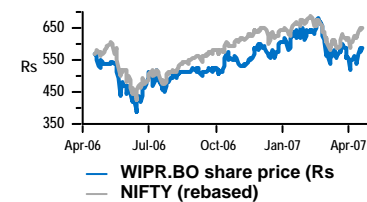
**Bhavin Shah**

(852) 2800-8538  
bhavin.a.shah@jpmorgan.com

**Mythili Balakrishnan, CFA**

(91-22) 6639-3008  
mythili.balakrishnan@jpmorgan.com

#### Price Performance



	YTD	-1M	-3M	-12M
Absolute	-3.0%	3.6%	-8.5%	2.8%
Relative	-4.1%	-7.6%	-6.1%	-11.2%

Source: RIMES, Reuters.

Table 1: Reuters: WIPR.BO/WIPR.US, Bloomberg: WPRO IN/WIT US

Rs in billions, year-end March

	FY06A	FY07A	FY08E	FY09E	Rs B	FY06A	FY07A	FY08E	FY09E		
Sales	106.1	149.4	198.3	257.4	ROE (%)	30.1	32.5	33.8	37.5	52-Week range	Rs383.0-690.0
Operating Profit	22.2	30.1	39.7	51.8	ROIC (%)	45.3	47.7	45.2	51.1	Shares Outstg	1,425Mn
EBITDA	25.2	34.0	44.7	58.4	Qtr EPS (Rs)	1Q	2Q	3Q	4Q	Avg daily volume	0.2Mn
Net profit	20.5	29.3	36.4	47.0	EPS (FY07) A	4.3	4.9	5.2	5.9	Index (Sensex)	13,620
EPS (Rs)	14.4	20.4	25.3	32.6	EPS (FY08) E	5.6	6.2	6.6	6.8	Free float	18%
P/E (x)	40.1	27.6	22.9	17.7	EPS (FY09) E	7.4	8.0	8.4	8.8	Avg daily value \$M	3.1 Mn
P/BV (x)	10.5	8.1	6.9	6.4	Local	1M	3M	12M		Mkt Cap (US\$ bn)	US\$ 19.6 Bn
Cash	39.2	52.1	57.1	65.9	Abs. Perf.(%)	0.0	-6.8	3.4		ADR	US\$ 16.66
Y/E BPS (Rs)	55.3	69.6	83.4	90.8	Rel. Perf.(%)	-7.2	-3.0	-9.7		Ratio	1:1
										52-week range	US\$10.2-18.4

Source: Company data, Bloomberg, JPMorgan estimates.

[www.morganmarkets.com](http://www.morganmarkets.com)

J.P. Morgan India Private Limited

See page 55 for analyst certification and important disclosures, including investment banking relationships.

JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of JPMorgan in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at [www.morganmarkets.com](http://www.morganmarkets.com) or can call 1-800-477-0406 toll free to request a copy of this research.

## 4QFY07 - Details of the results (INDIAN GAAP)

Table 2: Results against expectations

While performance of Wipro technologies lagged our expectations, Infotech and consumer performance was ahead of our expectations.

<i>Rs m, Year-end March</i>	Actual	Expected	Difference %
Revenue	43,345	42,382	2.3
Gross Profit	13,528	13,041	3.7
EBIT	8,303	8,330	(0.3)
EBITDA	9,366	9,450	(0.9)
- IT Services	8,053	8,328	(3.3)
Net Other Income	1,023	477	114.6
Pre Tax Profit	9,326	8,807	5.9
Tax	596	1,157	(48.5)
<b>Net Profit</b>	<b>8,614</b>	<b>7,730</b>	<b>11.4</b>
EPS (Rs)	5.9	5.4	10.0
<b>Margins (%)</b>			
Gross Margin	31.2	30.8	43.9
Operating Margin	19.2	19.7	(49.9)
EBITDA Margin	21.6	22.3	(69.1)
Net Margin	19.9	18.2	163.4

Source: JPMorgan estimates, Company data.

Table 3: Segment performance

While revenues were marginally ahead of our expectations, we note that operating profit was in line with our estimates.

However, Wipro net profit is 11% higher than expected led by non operating items- higher other income and lower taxes.

<i>Sales (Rs m)</i>	Actual	Expected	Difference %
Wipro Technologies	30,357	30,752	(1.3)
Wipro Infotech	7,800	7,150	9.1
Consumer Care & Light	2,107	1,869	12.7
Others	3,081	2,611	18.0
<b>EBIT (Rs m)</b>			
Wipro Technologies	7,130	7,330	(2.7)
Wipro Infotech	727	608	19.7
Consumer Care & Light	328	262	25.4
Others	117	131	(10.1)
<b>EBIT (margins)</b>			
Wipro Technologies	23.5	23.8	(34.9)
Wipro Infotech	9.3	8.5	82.5
Consumer Care & Light	15.6	14.0	157.6
Others	3.8	5.0	(119.1)

Source: JPMorgan estimates, Company data.

- Global IT Services revenues were up 7.8% Q/Q in US\$ terms and up 6% Q/Q in Rupee terms. While IT Services grew 7% Q/Q, BPO saw continued traction with 12% Q/Q growth in US terms.
- In Rupee terms, Global IT grew 6% Q/Q with 5% Q/Q growth in IT services and 12% Q/Q growth in BPO.
- **IT Services volumes grew around 5.3% Q/Q, in line with peer group** (TCS and Infosys). Onsite volumes grew 5% Q/Q and offshore volumes grew 5.6% Q/Q.
- **Onsite pricing increased 2.2% Q/Q and offshore pricing improved 0.6% Q/Q.**
- R&D services growth remained muted at 1.5% Q/Q, enterprise services grew 8% Q/Q. Package implementation and infrastructure delivered strong growth.

- Wipro had net addition of 1,041 people in IT services and 601 people in BPO. **The headcount addition is quite muted**
- EBIT margins in Global IT were down marginally by ~22 bps Q/Q. Wipro saw 87 bps Q/Q decline in IT services margins while margins in BPO saw strong 1.2% Q/Q increase and acquisitions also saw 9.7% Q/Q increase in EBIT margins. Management attributed fall in margins due to Rupee/US\$ appreciation.
- **IT services attrition** increased marginally to 16.9% from 16.2% in 3QFY07. BPO attrition also showed similar trend with 25% from 24% in 3QFY07.
- **Utilization was up slightly to 63% from 62% in 3QFY07. We expect this to move up going forward.**
- Other income was up at Rs 850m from Rs 713 m 3QFY07. Net profit was up 12% Q/Q.
- Wipro added 447 new clients taking the total active clients to 620.
- **Wipro Ltd revenues came in at Rs 43.3 up 9% Q/Q and above our expectation of Rs 42.4B. Net profit grew 12% Q/Q. This was driven by strong performance of Wipro Infotech and others segment.**
- Wipro Infotech grew 12% Q/Q.
- Wipro Ltd saw 40 bps Q/Q decline in margins due to lower margins in Wipro Global It and higher contribution from lower margin Wipro Infotech and other businesses. **EBITD for Wipro Ltd was up 7% Q/Q.**

#### 4QFY07 Guidance muted

Management expects Global IT services revenues of US\$ 711 million, up 3% Q/Q. Given the weak headcount addition during the quarter, we do not expect the company to show significant out-performance. Further, we note that Apr-June quarter has traditionally been the stronger quarter for Indian IT and the muted guidance remains a worry. Margins are expected to remain in a narrow range.

Table 4: Wipro P&L – Indian GAAP

Rs m, Year end March	1Q-06	2Q-06	3Q-06	4Q-06	1Q-07	2Q-07	3Q-07	4Q-07
Net sales	22,865	24,966	27,734	30,542	31,312	35,138	39,790	43,331
Op Exp	2,958	2,811	3,491	3,036	3,543	3,743	31,911	34,925
<b>Op Profit</b>	<b>4,625</b>	<b>5,157</b>	<b>5,936</b>	<b>6,445</b>	<b>6,622</b>	<b>7,554</b>	<b>7,879</b>	<b>8,406</b>
<b>OPM (%)</b>	<b>20.2</b>	<b>20.7</b>	<b>21.4</b>	<b>21.1</b>	<b>21.1</b>	<b>21.5</b>	<b>19.8</b>	<b>19.4</b>
Other income	214	294	367	402	508	471	713	850
PBT	4,839	5,450	6,303	6,847	7,129	8,025	8,592	9,256
Tax	586	791	989	898	979	1,068	1,031	746
Equity in earning affiliates	56	83	94	55	65	92	89	8,510
<b>PAT</b>	<b>4,282</b>	<b>4,715</b>	<b>5,334</b>	<b>6,003</b>	<b>6,156</b>	<b>7,051</b>	<b>7,654</b>	<b>8,561</b>
Net margin (%)	18.7	18.9	19.2	19.7	19.7	20.1	18.9	19.4
<b>EPS (Rs)</b>	<b>3.0</b>	<b>3.3</b>	<b>3.8</b>	<b>4.2</b>	<b>4.3</b>	<b>4.9</b>	<b>5.4</b>	<b>6.0</b>
<b>Sales (Rs m)</b>								
Wipro Technologies	17,430	18,876	21,528	22,891	24,513	27,179	28,755	30,480
<i>IT</i>	<i>15,495</i>	<i>17,131</i>	<i>19,269</i>	<i>20,637</i>	<i>21,842</i>	<i>23,538</i>	24,962	26,201
<i>Acquisitions</i>			59	443	565	1,368	1,435	1,643
<i>BPO</i>	<i>1,823</i>	<i>1,817</i>	<i>1,895</i>	<i>2,091</i>	<i>2,098</i>	<i>2,299</i>	2,358	2,636
Wipro Infotech	3,382	3,980	3,992	5,695	4,564	5,246	7,008	7,837
Consumer Care & Light	1,364	1,437	1,549	1,658	1,768	2,025	2,114	2,275
Others	555	703	675	608	588	806	1,913	2,739
<b>EBIT (Rs m)</b>								
Wipro Technologies	4,158	4,624	5,262	5,810	6,020	6,639	6,964	7,316
<i>IT</i>	<i>4,002</i>	<i>4,396</i>	<i>4,941</i>	<i>5,412</i>	<i>5,690</i>	<i>6,099</i>	6,347	6,434
<i>Acquisitions</i>			16	29	-96	14	63	231
<i>BPO</i>	<i>156</i>	<i>228</i>	<i>305</i>	<i>369</i>	<i>426</i>	<i>526</i>	554	651
Wipro Infotech	218	299	376	566	353	468	587	731
Consumer Care & Light	187	195	209	214	231	246	262	267
Others	76	123	74	115	69	95	66	92
<b>EBIT Margin (%)</b>								
Wipro Technologies	24.0	24.4	24.8	25.1	24.6	24.4	24.2	24.0
<i>IT</i>	<i>25.8</i>	<i>25.7</i>	<i>25.6</i>	<i>26.2</i>	<i>26.1</i>	<i>25.9</i>	25.4	24.6
<i>Acquisition</i>			27.1	6.5	-17.0	1.0	4.4	14.1
<i>BPO</i>	<i>8.6</i>	<i>12.5</i>	<i>16.1</i>	<i>17.6</i>	<i>20.3</i>	<i>22.9</i>	23.5	24.7
Wipro Infotech	6.4	7.5	9.4	9.9	7.7	8.9	8.4	9.3
Consumer Care & Light	13.7	13.6	13.5	12.9	13.1	12.1	12.4	11.7
<b>Wipro Ltd - Q-o-Q (%)</b>								
Net sales	5.7	2.6	9.5	13.5	0.9	12.3	12.8	8.9
Op Profit	-3.8	13.0	13.0	13.2	-0.5	11.6	5.8	6.7
PBT	-3.3	13.9	13.8	13.0	1.0	10.9	7.9	7.7
PAT	-1.2	11.7	13.7	13.7	0.4	12.9	9.3	11.9
<b>Sales - Q/Q %</b>								
Wipro Technologies	5.5	9.4	12.0	9.2	5.8	11.0	5.7	6.0
Wipro Infotech	-30.2	17.7	0.3	42.7	-19.9	14.9	33.6	11.8
Consumer Care & Light	11.2	5.4	7.8	7.0	6.6	14.5	4.4	7.6
<b>EBIT - Q/Q (%)</b>								
Wipro Technologies	0.2	11.2	13.8	10.4	3.6	10.3	4.9	5.1
Wipro Infotech	-47.5	37.2	25.8	50.5	-37.6	32.6	25.4	24.5
Consumer Care & Light	5.6	4.3	7.2	2.4	7.9	6.5	6.5	1.9

Source: JPMorgan estimates, Company data

Table 4: Metrics

Metrics	1Q-06	2Q-06	3Q-06	4Q-06	1Q-07	2Q-07	3Q-07	4Q-07
Utilization (offshore) (%)	67.0	65.0	63.0	65.0	67.0	64.0	62.0	63.0
<b>Clients</b>								
Repeat business (%)	99.5	98.3	94.0	92.5	99.4	97.8	96.1	95.1
New clients added	29	37	60	40	60	53	37	44
Total clients	430	433	485	494	580	612	606	620
<b>Employees</b>								
Tot employees	28,281	32,856	36,626	37,655	40,496	45,824	49,313	50,354
Added (Net)	2,097	4,575	3,770	1,029	2,841	5,328	3,489	1,041
<b>Bill rates (\$/hr)</b>								
Onsite	66.3	65.8	63.5	65.4	65.9	66.3	66.1	67.5
Offshore	25.9	25.3	25.3	25.4	25.5	25.2	25.1	25.3
<b>Q/Q growth (%)</b>								
Onsite	1.4	-0.8	-3.6	3.0	0.8	0.7	-0.4	2.2
Offshore	2.2	-2.1	-0.1	0.2	0.5	-1.1	-0.4	0.6
<b>Client concentration (%)</b>								
Top client	3.9	3.2	3.5	3.4	3.6	3.6	3.5	3.0
Top 5	16.0	14.6	15.1	14.7	15.8	15.2	15.1	14.0
Top 10	28.7	26.7	27.0	26.1	27.1	25.7	24.7	24.1
<b>No of clients</b>								
> \$ 1m clients	177	201	210	221	233	243	253	262
> \$ 5m clients	75	77	84	82	94	102	101	117
Total clients	430	433	485	494	565	593	592	620
<b>Project mix</b>								
Fixed price projects (%)	21.4	20.1	21.2	21.4	21.9	22.6	21.9	22.7
<b>Geography (%)</b>								
U.S.	64	63	62	62	63	63	61	64
Europe	32	32	33	33	33	32	34	31
Japan	4	4	4	4	4	4	4	3
Others	1	1	1	1	1	1	2	2
<b>Mix (%)</b>								
Onsite	54.8	54.7	53.1	52.6	53.4	54.9	54.9	55.2
Offshore	45.2	45.3	46.9	47.4	46.6	45.1	45.1	44.8
<b>Revenues - Vertical (%)</b>								
<b>R&amp;D services</b>	<b>36.1</b>	<b>36.6</b>	<b>36.9</b>	<b>37.4</b>	<b>36.4</b>	<b>36.0</b>	<b>34.4</b>	<b>33.1</b>
- Telecom & Internetworking	31.6	31.1	30.7	31.0	30.6	30.4	29.0	26.5
- Telecom & service Providers	4.5	5.5	6.2	6.4	5.8	5.6	5.4	6.6
<b>Enterprise</b>	<b>63.9</b>	<b>63.4</b>	<b>63.1</b>	<b>62.6</b>	<b>63.6</b>	<b>64.0</b>	<b>65.6</b>	<b>66.9</b>
- Financial Services	19.9	20.7	21.1	22.4	22.9	23.3	23.4	22.9
- Retail & Utilities	22.0	20.8	20.6	19.4	19.0	19.1	20.9	20.3
- Manufacturing	11.7	11.2	10.4	9.9	10.0	9.7	9.7	9.3
- Healthcare & Corporate	10.3	10.7	11.0	10.9	11.7	11.9	11.6	14.4
<b>Horizontals - (%)</b>	<b>1Q-06</b>	<b>2Q-06</b>	<b>3Q-06</b>	<b>4Q-06</b>	<b>1Q-07</b>	<b>2Q-07</b>	<b>3Q-07</b>	<b>4Q-07</b>
Technology								
Infrastructure								
Services	7.7%	8.0%	8.5%	8.5%	9.6%	10.0%	11.1%	11.5%
Testing	7.7%	8.7%	9.5%	10.0%	10.7%	11.1%	11.0%	11.0%
Package Implementation	11.0%	11.1%	11.1%	10.6%	10.7%	10.8%	11.3%	11.9%
Consulting	1.5%	1.2%	1.0%	1.4%	1.0%	1.0%	1.1%	1.1%
BPO	10.7%	9.6%	9.1%	9.1%	8.4%	8.4%	8.3%	8.6%
ADM	61.3%	61.4%	60.8%	60.4%	59.6%	58.7%	57.2%	55.9%

Source: JPMorgan estimates, Company data.



Table 5: Wipro P&L – US GAAP

Rs m, Year-end March	2003	2004	2005	2006	2007E	2008E	2009E
Revenue	42,850	58,433	81,353	106,107	149,431	198,291	257,373
Gross Profit	15,671	19,434	27,498	34,460	47,265	61,004	78,412
EBIT	9,496	11,213	18,072	22,163	30,069	39,677	51,805
EBITDA	11,049	13,185	20,461	25,233	33,984	44,710	58,386
Net Other Income	718	837	592	1,276	2,706	2,268	3,126
Pre Tax Profit	10,214	12,050	18,664	23,439	32,775	41,945	54,931
Tax	1,382	1,611	2,693	3,265	3,723	5,906	8,284
Net Profit	8,243	10,465	15,974	20,461	29,331	36,358	46,967
EPS (Rs)	5.9	7.5	11.4	14.4	20.4	25.3	32.6
<b>Margins (%)</b>							
Gross Margin	36.6	33.3	33.8	32.5	31.6	30.8	30.5
Operating Margin	22.2	19.2	22.2	20.9	20.1	20.0	20.1
EBITDA Margin	25.8	22.6	25.2	23.8	22.7	22.5	22.7
Net Margin	19.2	17.9	19.6	19.3	19.6	18.3	18.2
<b>Sequential Growth (%)</b>							
Revenue	27.0	36.4	39.2	30.4	40.8	32.7	29.8
Gross Profit	21.3	24.0	41.5	25.3	37.2	29.1	28.5
EBIT	10.9	18.1	61.2	22.6	35.7	32.0	30.6
EBITDA	10.7	19.3	55.2	23.3	34.7	31.6	30.6
Net Profit	(1.3)	27.0	52.6	28.1	43.4	24.0	29.2
EPS	(1.3)	27.0	51.5	26.6	41.0	24.1	29.2

Source: JPMorgan estimates, Company data.

## Valuation and target price

### Dec-07 target price of Rs 750/share

We are setting a Dec-07 target price of Rs 750/share, implying 18% upside from the current level. We have continued to look at a combination of P/E multiples and DCF fair values to derive our target price.

### DCF valuation

Our DCF-based December 2007 DCF fair value estimate is Rs 650, and our target price implies a premium of 15% to this fair value. Our 10-year revenue CAGR estimate is 23%. We expect long-term EBIT margins of 23% and long-term ROIC of 35%. We maintain our WACC at 12.8%.

### P/E multiples

Our target price assumes a 1-year forward P/E multiple of 24.5x, in line with last year's average one-year forward. On a one-year trailing multiple, we expect a trailing multiple of 31.5x, slightly lower than the last one-year average of 32.4x.

### Risks to our price target

Macro slowdown in IT spending environment, integration issues for the acquisitions, appreciation of the Rupee against the US dollar are key risks to our price target.

## Wipro: Summary of Financials

Income statement						Ratio Analysis					
INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E	%	FY05A	FY06A	FY07A	FY08E	FY09E
Revenues	81,353	106,107	149,431	198,291	257,373	Gross Margin	33.8	32.5	31.6	30.8	30.5
Cost of Goods Sold	53,854	71,647	102,166	137,288	178,961	EBITDA margin	25.2	23.8	22.7	22.5	22.7
Gross Profit	27,498	34,460	47,265	61,004	78,412	Operating Margin	22.2	20.9	20.1	20.0	20.1
SG&A Expenses	9,426	12,297	17,196	21,327	26,607	Net Margin	19.6	19.3	19.6	18.3	18.2
						SG&A/Sales	11.6	11.6	11.5	10.8	10.3
Operating Profit (EBIT)	18,072	22,163	30,069	39,677	51,805						
EBITDA	20461	25233	33984	44710	58386	Sales growth	39.2	30.4	40.8	32.7	29.8
Other Income	592	1,276	2,706	2,268	3,126	Operating Profit Growth	61.2	22.6	35.7	32.0	30.6
						Net profit growth	52.6	28.1	43.4	24.0	29.2
						EPS (Reported) growth	51.5	26.6	41.0	24.1	29.2
Earnings before tax	18,664	23,439	32,775	41,945	54,931						
Tax	-2,693	-3,265	-3,723	-5,906	-8,284	Interest coverage (x)	n.m	n.m	n.m	n.m	n.m
Net Income (Reported)	15,974	20,461	29,331	36,358	46,967	Net debt to total capital	n.m.	n.m.	n.m.	n.m.	n.m.
						Net debt to equity	n.m.	n.m.	n.m.	n.m.	n.m.
INR											
EPS (Reported)	11.4	14.4	20.4	25.3	32.6	Asset Turnover	112.9	105.8	102.3	120.9	146.3
BPS	40.3	55.3	69.6	83.4	90.8	ROE	30.7	30.1	32.5	33.8	37.5
DPS	5.4	5.0	0.0	8.0	9.0	ROIC	46.6	45.3	47.7	45.2	51.1
Shares Outstanding (bn)	1406	1425	1459	1439	1439	ROCE	29.7	28.3	29.9	31.5	35.0
Balance sheet						Cash flow statement					
INR in millions, year-end Mar	FY05A	FY06A	FY07A	FY08E	FY09E		FY05A	FY06A	FY07A	FY08E	FY09E
Cash and cash equivalents	28,628	39,186	52,060	57,133	65,922	Net Income	15,974	20,461	29,331	36,358	46,967
Accounts receivable	14,806	20,593	28,467	37,320	38,492	Depr. & Amortisation	2,389	3,070	3,915	5,032	6,581
Inventories	1,769	2,065	4,150	5,417	5,588	Change in working capital	1,052	-3,723	5,029	-4,076	-561
Others	5,932	9,993	16,421	16,900	17,431	Other	0	0	0	0	0
Current assets	51,136	71,837	101,098	116,770	127,433	Cash flow from operations	19,415	19,808	38,275	37,314	52,987
LT investments	769	1,244	1,446	1,554	1,554	Capex	-6,334	-7,646	-12,679	-9,778	-7,878
Net fixed assets	13,201	17,777	26,541	28,641	29,937	Disposal/ (purchase)	-595	-2,915	-7,810	0	0
Others	6,968	9,408	17,016	17,033	17,033	Cash flow from investing	-6,928	-10,561	-20,489	-9,778	-7,878
Total assets	72,075	100,266	146,102	163,998	175,958	Free cash flow	13,082	12,162	25,596	27,536	45,109
Liabilities						Equity raised/ (repaid)	1,934	7,880	-6,906	-320	-23,686
ST loans	0	0	0	0	0	Debt raised/ (repaid)	0	0	859	0	0
Payables	0	0	0	0	0	Other	-74	555	1,136	320	320
Others	14,687	21,107	42,523	41,788	43,102	Dividends paid	-7,576	-7,127	0	-11,515	-12,954
Total current liabilities	14,687	21,107	42,523	41,788	43,102	Cash flow from financing	-5,715	1,309	-4,911	-11,515	-36,320
Long term debt	0	0	859	800	800						
Other liabilities	659	395	1,252	1,322	1,322	Net change in cash	6,772	10,556	12,874	16,021	8,789
Total liabilities	15,346	21,502	44,634	43,911	45,224	Beginning cash	21,776	28,628	39,186	41,111	57,133
Shareholders' equity	56,729	78,764	101,468	120,087	130,733	Ending cash	28,548	39,185	52,060	57,133	65,922

Source: JPMorgan estimates, Company data.

# Indian Financial Services

On Bank Street -Vol 79

- **\*\*\*FLASH\*\*\*** Inflation at 6.09% - higher than 5.8% expected.
- All eyes now on RBI meet scheduled for 24 April – ECB flows could potentially be capped at a lower level. Other than that no major action expected.
- Stock movement: SOE index up 8.7% - outperforming the market vs. private banks moving in line, up 3.9%. Star stock performer – Syndicate Bank, up 17%.
- UTI Bank reports 39.6% growth in profits in 4Q07 results.
- Fortis plans broking foray.
- SBI sees credit growth slowing down to 25 % in FY08.
- Canara Bank hikes PLR 75bp.

## Banks

### Sachin Sheth<sup>AC</sup>

(91-22) 6639-3004  
sachin.sheth@jpmorgan.com

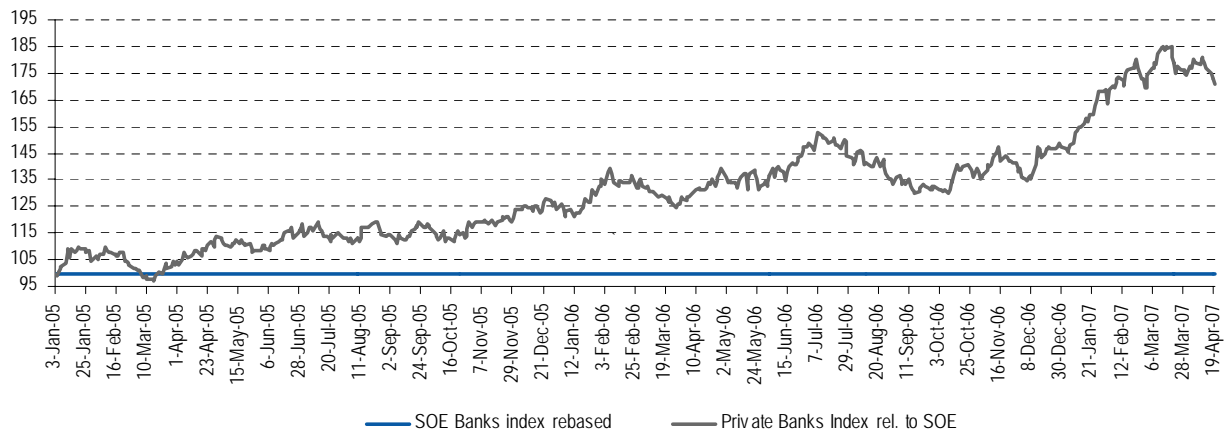
### Karan Uberoi

(91-22) 6639 3002  
karan.s.uberoi@jpmorgan.com

### Puneet Gulati

(91-22) 6639-3003  
puneet.x.gulati@jpmorgan.com

Figure 1: Private Banks Index relative to SOE since January 2005



Source: Bloomberg, JPMorgan

See page 55 for analyst certification and important disclosures, including investment banking relationships.

JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

### Stock Price Performance

	19-Apr	Chg
BOB	232	6.1%
CBK	204	7.3%
PNB	482	8.9%
SBI	1053	8.8%
UNBK	105	3.2%
ALBK	76	5.3%
BOI	187	8.1%
IOB	104	7.2%
SNDB	74	16.8%
CBOP	38	3.0%
HDFC	1564	1.8%
HDFC Bank	983	2.6%
ICICI Bank	905	6.5%
IDFC	96	5.0%
YES	151	0.9%
DEVB	71	1.8%
KBL	165	-3.4%
Sensex	13,620	3.9%
SOE Bank Index		8.7%
Pvt Bank Index		3.9%

Source: Bloomberg, JPMorgan estimates;  
Change in prices is weekly.

### ADR/GDR (USD)

	19-Apr	Chg	Prem
HDFCB	69.45	2.4%	-0.9%
ICICIB	42.36	7.2%	-1.5%
SBI	66.20	6.4%	32.2%
UTI B	11.10	-2.6%	0.6%

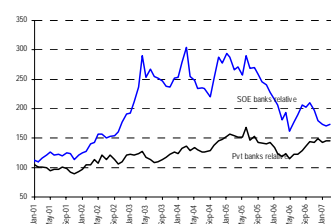
Source: Bloomberg, JPMorgan estimates;  
Change in prices is weekly.

### Others

	19-Apr	Chg
10 year yield	8.08-	0.03
Rs/US\$	42.08	(0.77)
Brent (US\$/bbl)*	65.63	(2.91)
Inflation	6.09	0.35

Source: Bloomberg, JPMorgan estimates;  
Change in prices is weekly.

Figure 2: SOE bank and private bank index relative to Sensex



Source: Bloomberg, JPMorgan estimates

## On Bank Street

We are happy to present you with our banking news digest for the week ended 20 April 2007.

### Sector news

- [No interest on CRR balances](#)
- [FM asks banks to moderate credit growth, hold interest rates for home loans upto Rs 1 mn](#)
- [Minority loans to get priority lending status](#)
- [RBI may cut rates on NRI deposits](#)
- [RBI may clamp down on ECBs for real estate](#)
- [SEBI caps Mutual funds' exposure to short-term bank deposits at 15 %](#)
- [RBI urged to raise home loan limit](#)
- [Banks for right to prepay deposits](#)
- [Banks must raise Rs 455 bn from capital markets to comply with Basel 11 requirements as per RBI study](#)
- [Banks can break lockers not used for over a year](#)

### Private Banks

- [UTI Bank reports 39.6% growth in profits](#)
- [UTI Bank to raise Rs 20 bn fresh capital](#)
- [LIC may get government's nod for UTI Bank stake](#)
- [ICICI identity for Sangli Bank](#)
- [Indiabulls to revamp its businesses](#)
- [Citicorp sells stake in Yes Bank](#)
- [Bank of Rajasthan hikes PLR](#)
- [Fortis plans broking foray](#)
- [DE Shaw, Och Ziff plan NBFC foray here](#)

### SOE Banks

- [SBI sees credit growth slowing down to 25 %](#)
- [Canara bank hikes PLR](#)
- [IOB gets RBI nod for financial services arm](#)
- [Merger of Associates with SBI not in near future](#)
- [State Bank of Travancore hikes PLR to 13 %](#)
- [PNB offers floating rate deposits](#)
- [PNB ties up with Motilal Oswal](#)

### Insurance

- [Left against move to raise FDI limit in insurance](#)

28. [Life claims cannot be denied on false data](#)
29. [SBI Life to tap rural banks](#)
30. [Bharti AXA Life launches its first traditional product](#)

## **Appendix 1**

[Valuation](#)

[Macro data](#)

## Sector news

### ***No interest on CRR balances (Apr 15-HBL)***

[Top](#)

RBI will not pay interest rate on CRR balances of banks, effective March 31, 2007. With this move, banks will not earn any income on the deposits impounded by the RBI under the CRR.

### ***FM asks banks to moderate credit growth, hold interest rates for home loans upto Rs 1 mn (Apr 20-ET)***

[Top](#)

Finance Minister asked SOE banks to temper credit growth as well as rebalance their portfolios. He also cautioned against mobilizing bulk deposits at high costs and asked the banks to keep interest rates low for home loans up to Rs 1mn

### ***Minority loans to get priority lending status (Apr 20-BS)***

[Top](#)

Loans extended to minority communities would soon qualify for priority sector lending. The finance ministry has asked the RBI to amend the priority sector norms to include minority communities under lending to weaker sections

### ***RBI may cut rates on NRI deposits (Apr 17-BS)***

[Top](#)

Deposit schemes for NRIs could become unattractive as part of attempts to check foreign exchange inflows. RBI may reduce the rate of interest that banks offer on NRI deposits to discourage foreign exchange inflows, in addition to proposals being considered by the government to put curbs on ECBs

### ***RBI may clamp down on ECBs for real estate (Apr 18-BS)***

[Top](#)

RBI is seriously considering the option of clamping down on overseas financing for real estate in a bid to contain inflation. The clampdown will be part of a package from the central bank to make end-use norms for ECB funds more stringent for various sectors

### ***SEBI caps Mutual funds' exposure to short-term bank deposits at 15 % (Apr 17-BS)***

[Top](#)

SEBI has capped mutual funds' exposure to short-term bank deposits at 15 % in order to ensure that the money they have collected are deployed in line with investment objectives. This, however, may be increased to 20 % provided the trustees give prior approval.

### ***RBI urged to raise home loan limit (Apr 19-BS)***

[Top](#)

Commercial banks have urged the RBI to raise the cap on individual home loans for the purpose of classification under priority sector lending in the backdrop of the overall rise in property prices. The banks want the central bank to raise the ceiling to Rs 20 mn from Rs 15 mn for classification under priority sector.

### ***Banks for right to prepay deposits (Apr 19-BS)***

[Top](#)

Banks have requested the RBI to allow them to prepay high-cost deposits, to avoid liquidity and interest rate risks. At present, banks do not have the freedom to prepay deposits that carry higher interest rates, even though depositors have the option of withdrawing their deposits.

***Banks must raise Rs 455 bn from capital markets to comply with Basel II requirements as per RBI study (Apr 19-HBL)*** [Top](#)

Leading public and private sector banks would have to increase their Tier-I capital by about Rs 512 bn within March 31, 2009, including raising Rs 455 bn from the capital market to meet the Basel-II requirements on minimum capital adequacy of 9 %. The Reserve Bank of India has conveyed this to the Government after conducting a simulation study of 50 public and private sector banks.

***Banks can break lockers not used for over a year (Apr 17-FE)*** [Top](#)

RBI issued fresh guidelines permitting banks to break open lockers that were unoperated for more than one year. These guidelines are aimed at tackling rising security threats. RBI also asked banks not to insist on fixed deposits beyond the permitted limit for issuing lockers. The banks, however, may obtain a fixed deposit at the time of the allotment of locker to cover three years' rent and charges for breaking open the locker in case of an eventuality

## Private Banks

### ***UTI Bank reports 39.6% growth in profits (Apr 18-ET)***

[Top](#)

UTI Bank reported a 39.6% yoy growth in its net profit at Rs 2.12 bn for 4Q07. The bank's net interest income grew by 48.4% yoy to Rs 4.64 bn. The fee-based and other income for 4Q07 rose by 59% yoy to Rs 2.58 bn. The bank opened 80 new branches during this quarter.

### ***UTI Bank to raise Rs 20 bn fresh capital (Apr 18-ET)***

[Top](#)

UTI Bank has decided to go in for a fresh equity issue in the current financial year. The bank is looking at raising around Rs 20 bn either through a domestic issue or global depository receipts in order to spruce up its tier-I capital base

### ***LIC may get government's nod for UTI Bank stake (Apr 16-FE)***

[Top](#)

LIC may get the government's nod to buy out the 27.44 % stake that the Specified Undertaking of the Unit Trust of India holds in UTI Bank, to take its stake to 37.82 %. The acquisition will give the country's largest insurance company an entry into the banking sector. At present, LIC holds 10.38% stake in UTI bank.

### ***ICICI identity for Sangli Bank (Apr 19-HBL)***

[Top](#)

All branches of Sangli Bank will function as branches of ICICI Bank from April 19 with the RBI sanctioning the scheme of amalgamation of Sangli Bank with ICICI Bank.

### ***Indiabulls to revamp its businesses (Apr 17-TOI)***

[Top](#)

Indiabulls Financial Services has decided to restructure its businesses. The revamp include de-merging its stock broking businesses and buying out minority shareholders in its personal loans and housing finance arms.

### ***Citicorp sells stake in Yes Bank (Apr 17-TOI)***

[Top](#)

Citicorp International Finance Corporation sold 7.94 mn shares of Yes Bank, bringing down its stake in the bank from 5.37 % to 2.53 %. The shares were sold at a price of Rs 156 to Merrill Lynch Capital.

### ***Bank of Rajasthan hikes PLR (Apr 18-HBL)***

[Top](#)

Bank of Rajasthan hiked its PLR by 50 bps to 14.5 %.

### ***Fortis plans broking foray (Apr 19-BS)***

[Top](#)

European banking and insurance major Fortis is planning to foray into wealth management and equity broking business in India to tap the growing rich and super rich individuals of one of the fastest growing economies in the world.

### ***DE Shaw, Och Ziff plan NBFC foray here (Apr 18-ET)***

[Top](#)

US-based global hedge funds DE Shaw and Och Ziff are learnt to be considering setting up NBFC in India, after the final guidelines for setting up NBFCs by foreign companies are announced.



## SOE Banks

### ***SBI sees credit growth slowing down to 25 %***

[Top](#)

SBI expects its advances growth to slow down to 25% this fiscal as against the 28 % growth in FY07. The chairman of SBI also expects that interest rates have peaked or are near peak. He also felt home loan rates would not go up any further.

### ***Canara bank hikes PLR (Apr 17-BS)***

[Top](#)

Canara Bank has hiked its PLR by 75 bps to 13.25 %

### **Comments:**

The Bank last increased its PLR in February, 2007 by 75 bps.

### ***IOB gets RBI nod for financial services arm (Apr 18-HBL)***

[Top](#)

IOB has secured RBI's approval for starting a financial services subsidiary. IOB would invest Rs 500 mn in IOB Financial Services Ltd, the company that will be set up to provide services such as stock broking, depository participant, wealth management, distribution of third-party financial products and, at a later stage, investment banking.

### ***Merger of Associates with SBI not in near future (Apr 18-HBL)***

[Top](#)

The Ministry of Finance has ruled out any immediate plans for a merger of four associate banks of the SBI with the parent bank. The unlisted associate banks are State Bank of Hyderabad, State Bank of Indore, State Bank of Patiala and State Bank of Saurashtra, while those listed on the stock exchanges are State Bank of Bikaner & Jaipur, State Bank of Travancore and State Bank of Mysore.

### ***State Bank of Travancore hikes PLR to 13 % (Apr 16-HBL)***

[Top](#)

State Bank of Travancore has hiked its PLR from 12.5% to 13 %.

### ***PNB offers floating rate deposits (Apr 19-HBL)***

[Top](#)

PNB launched the PNB Floating Rate Fixed Deposit Scheme, where the interest payable on the fixed deposit would automatically change with the changes in the fixed-deposit card rates made available by the bank from time to time. The scheme would be valid in Core Banking Solution branches only.

### ***PNB ties up with Motilal Oswal (Apr 18-FE)***

[Top](#)

PNB has forged a tie-up with Motilal Oswal Securities to provide online trading facility for its customers. PNB customers will now be able to trade in equity and derivatives online using Oswal's online trading platform.

## Insurance

### ***Left against move to raise FDI limit in insurance (Apr 20-ET)***

[Top](#)

Group of Ministers failed to convince the Left parties on the need for raising FDI limit in insurance sector to 49 % and discussions on a Bill toward this end would be held again later.

### ***Life claims cannot be denied on false data (Apr 18-ET)***

[Top](#)

It may soon become illegal for a life insurance company to refuse to honour a claim on the ground that the policyholder had misstated facts while buying the policy. Insurance firms will be given five years to verify the details in a proposal form and repudiate a policy in case there is any false information provided.

### ***SBI Life to tap rural banks (Apr 19-ET)***

[Top](#)

SBI Life is planning to tap co-operative banks and RRBs to spruce up sales of its insurance products.

### ***Bharti AXA Life launches its first traditional product (Apr 19-HBL)***

[Top](#)

Bharti AXA Life has announced the unveiling of its first traditional endowment product called SaveConfident.

## Appendix 1

### Valuations

[Top](#)

Table 1: Indian Financials – Valuation Summary

	Price (Rs)	Target Price (Rs)	Mcap \$ mil	Stock Rating	Earnings growth (%)			ROE (%)			P/E (x)		P/B (x)	
					2006	2007E	2008E	2006	2007E	2008E	2007E	2008E	2007E	2008E
<b>SOE Banks</b>														
BOB IN	232	171	2,006	UW	-2	0	26	12.3	10.2	11.8	10.2	8.2	1.00	0.92
CBK IN	204	214	1,990	N	21	6	16	20.3	18.6	18.8	5.9	5.1	1.03	0.89
PNB IN	482	427	3,609	UW	2	4	36	16.4	14.9	17.6	10.2	7.5	1.43	1.22
SBIN IN	1,053	1,010	13,173	OW	2	-23	15	17.0	11.8	12.2	16.3	14.2	1.83	1.65
SBI (Consol)	1,053		13,173								12.5	10.9	1.35	1.23
UNBK IN	105	100	1,264	UW	-15	39	12	16.5	19.0	18.5	5.7	5.1	1.01	0.87
ALBK IN	76	80	806	UW	10	15	11	19.9	19.9	19.1	4.4	4.1	0.81	0.71
BOI IN	187	110	2,169	UW	34	16	24	17.5	17.6	18.8	9.7	8.4	1.59	1.39
IOB IN	104	161	1,347	OW	32	15	14	28.8	26.6	24.8	5.5	4.8	1.42	1.15
SNDB IN	74	81	922	UW	38	4	39	23.9	21.0	24.4	4.9	4.6	1.12	0.95
<b>Private Banks</b>														
CBOP IN	38	31	1,324	OW	NM	38	72	11.2	12.4	18.2	43.9	25.6	5.11	4.26
HDFCB IN	983	980	7,289	N	25	29	29	17.7	19.6	21.3	27.3	21.2	4.94	4.13
HDFC IN	1,564	1,272	9,267	OW	20	19	21	29.3	29.4	29.6	26.5	21.9	7.15	5.89
ICICIBC IN	905	1100	19,119	OW	5	34	30	14.6	14.5	16.6	23.7	18.3	3.25	2.84
IDFC IN	96	69	2,573	N	17	20	21	18.5	18.4	19.1	21.8	18.6	3.79	3.36
YES IN	151	130	970	OW	NM	48	47	13.2	10.6	11.0	52.3	35.5	4.16	3.72
DEVB IN	71	80	248	OW	NM	NM	556%	NM	3.1	12.8	131.7	20.1	2.75	2.42
KBL IN	165	156	474	OW	20	13	20	16.9	16.8	17.6	10.0	8.4	1.58	1.38

Source: Bloomberg, JPMorgan

Prices as of April 12, 2007; annual data represents financial year ending March;

### Macro Indicators

Table 2: Loan, deposit growth

[Top](#)

As at 30-Mar-2007	
Loan Growth (yoy)	28.5%
Deposit Growth (yoy)	24.3%
Incremental LDR	84.2%
LDR	74.1%

Source: RBI, JPMorgan

Note: YoY growth rates have been computed by taking 31 Mar 2006 as the base date

Table 3: Interest rates

[Top](#)

Yields	19-Apr-07	1m Chg	3M Chg	12M chg
3m T Bill	7.20	(0.05)	0.09	1.82
10 year g sec	8.08	0.02	0.25	0.75
1 year AAA corp	10.32	(0.16)	1.62	3.24

Source: Bloomberg

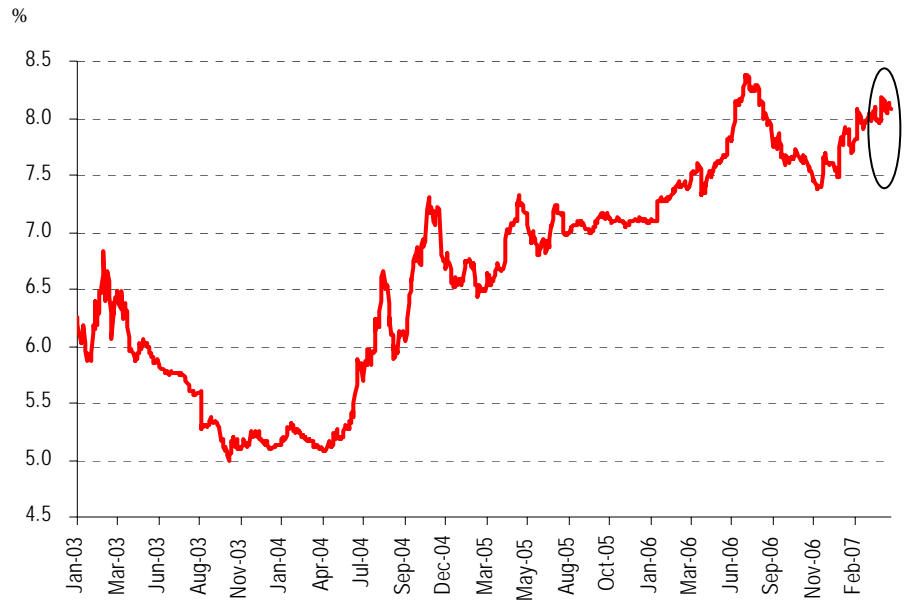
### Company Events

Table 4: 4Q07 results & misc.

[Top](#)

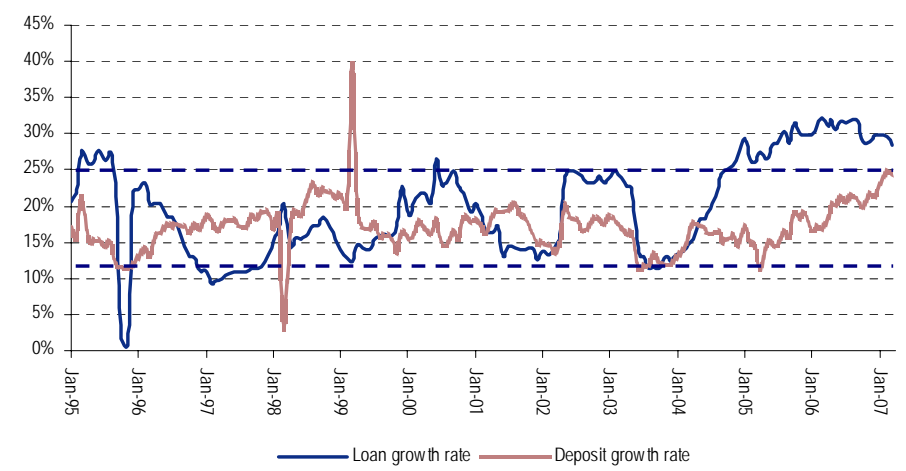
Date	Events
23-Apr	BOI, IOB results
24-Apr	RBI monetary policy review, HDFC Bank, Yes Bank results
25-Apr	IDFC results
28-Apr	ICICI Bank results, BOB results
30-Apr	Canara Bank results
3-May	HDFC results
7-May	Union Bank results
12-May	SBI results

Figure 3: 10-year bond yields



Source: Bloomberg

Figure 4: System loan and deposit growth

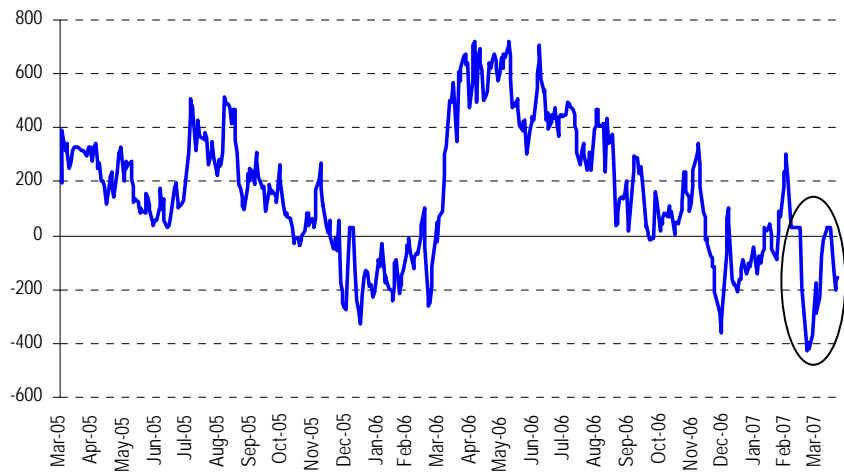


Source: Reserve Bank of India, JPMorgan

## Liquidity metrics

Figure 5: Net reverse repo amount outstanding

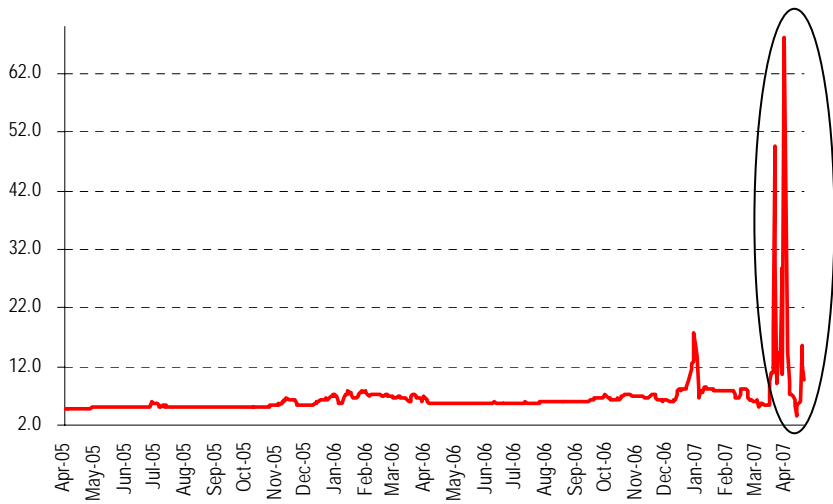
Rs in billions



Source: Bloomberg

Figure 6: Interbank rate

%



Source: Bloomberg

## Glossary of terms

BS: Business Standard

DC: Deccan Chronicle

ET: Economic Times

FE: Financial Express

HBL: Hindu Business Line

DH: Deccan Herald

HT: Hindustan Times

TOI: Times of India

IE: Indian Express

RBI: Reserve Bank of India

FM: Finance Minister

MoF: Ministry of Finance

**Other Companies Recommended in This Report (all prices in this report as of market close on 20 April 2007)**

Dr Reddy's Limited (REDY.BO/Rs715.00/Underweight), JIN (3046) (3046.OJ/¥460/Not Covered), Satyam Computers (SATY.BO/Rs476.20/Overweight), Syndicate Bank (SBNK.BO/Rs73.30/Underweight), Wipro Ltd. (WIPR.BO/Rs570.80/Overweight)

**Analyst Certification:**

The research analyst(s) denoted by an "AC" on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an "AC" on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

**Important Disclosures**

- **Client of the Firm:** Allahabad Bank is or was in the past 12 months a client of JPMSI. Dr Reddy's Limited is or was in the past 12 months a client of JPMSI; during the past 12 months, JPMSI provided to the company non-investment banking securities-related service. Satyam Computers is or was in the past 12 months a client of JPMSI. Syndicate Bank is or was in the past 12 months a client of JPMSI. Wipro Ltd. is or was in the past 12 months a client of JPMSI.
- **Investment Banking (next 3 months):** JPMSI or its affiliates expect to receive, or intend to seek, compensation for investment banking services in the next three months from Satyam Computers.
- **Non-Investment Banking Compensation:** JPMSI has received compensation in the past 12 months for products or services other than investment banking from Dr Reddy's Limited. An affiliate of JPMSI has received compensation in the past 12 months for products or services other than investment banking from Allahabad Bank, Dr Reddy's Limited, Syndicate Bank, Wipro Ltd..

**Allahabad Bank (ALBK.BO) Price Chart**



Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.  
 This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.  
 JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

**Price Charts for Compendium Reports:** Price charts are available for all companies under coverage for at least one year through the search function on JPMorgan's website <https://mm.jpmorgan.com/disclosures/company> or by calling this toll free number (1-800-477-0406).

**Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:**

JPMorgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] The analyst or analyst's team's coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

Coverage Universe: **Sachin Sheth:** Allahabad Bank (ALBK.BO), Bank of Baroda (BOB.BO), Bank of India (BOI.BO), Canara Bank (CNBK.BO), Centurion Bank of Punjab (CENB.BO), Development Credit Bank (DCBA.BO), HDFC (Housing Development Finance Corporation) (HDFC.BO), HDFC Bank (HDBK.BO), ICICI Bank (ICBK.BO), Indian Overseas Bank (IOBK.BO), Infrastructure Development Finance Company (IDFC.BO), Karnataka Bank (KBNK.BO), Punjab National Bank (PNBK.BO), State Bank of India (SBI.BO), Syndicate Bank (SBNK.BO), Union Bank of India (UNBK.BO), YES Bank Ltd (YESB.BO)

**JPMorgan Equity Research Ratings Distribution, as of March 30, 2007**

	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	42%	41%	17%
IB clients*	49%	51%	38%
JPMSI Equity Research Coverage	38%	48%	14%
IB clients*	68%	64%	53%

\*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

**Valuation and Risks:** Please see the most recent JPMorgan research report for an analysis of valuation JPM methodology and risks on any securities recommended herein. Research is available at <http://www.morganmarkets.com>, or you can contact the analyst named on the front of this note or your JPMorgan representative.

**Analysts' Compensation:** The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

**Other Disclosures**

**Options related research:** If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your JPMorgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>.

**Legal Entities Disclosures**

**U.S.:** JPMSI is a member of NYSE, NASD and SIPC. J.P. Morgan Futures Inc. is a member of the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a Market Participant with the ASX and regulated by ASIC. **Taiwan:** J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Commission. **India:** J.P. Morgan India Private Limited is a member of the National Stock Exchange of India Limited and The Stock Exchange, Mumbai and is regulated by the Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Jakarta Stock Exchange and Surabaya Stock Exchange and is regulated by the BAPEPAM. **Philippines:** J.P. Morgan Securities Philippines Inc. is a member of the Philippine Stock Exchange and is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Japan:** This material is distributed in Japan by JPMorgan Securities Japan Co., Ltd., which is regulated by the Japan Financial Services Agency (FSA). **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMS) [mica (p) 069/09/2006 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-x) which is a Participating Organization of Bursa Malaysia Securities Bhd and is licensed as a dealer by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan.



### Country and Region Specific Disclosures

**U.K. and European Economic Area (EEA):** Issued and approved for distribution in the U.K. and the EEA by JPMSL. Investment research issued by JPMSL has been prepared in accordance with JPMSL's Policies for Managing Conflicts of Interest in Connection with Investment Research which can be found at <http://www.jpmorgan.com/pdfdoc/research/ConflictManagementPolicy.pdf>. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction **Germany:** This material is distributed in Germany by J.P. Morgan Securities Ltd. Frankfurt Branch and JPMorgan Chase Bank, N.A., Frankfurt Branch who are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients." The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months' prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider for derivative warrants issued by J.P. Morgan International Derivatives Ltd and listed on The Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk/prod/dw/Lp.htm>. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. **Singapore:** JPMSI and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Legal Disclosures section above. **India:** For private circulation only not for sale. **Pakistan:** For private circulation only not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL.

**General:** Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively JPMorgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a JPMorgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

Revised March 30, 2007.

---

**Copyright 2007 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of JPMorgan.**