



Economy News

- India's import of items which may affect the interest of small scale industries and agriculture grew at a lesser pace by 26.8% than overall imports at 44.9% in the first half of this fiscal. Import of sensitive items was 3.1% of the gross imports during the period against 3.6% of the last year, it said. (BL)
- Atomic Energy Commission Chairman Anil Kakodkar said an amount of Rs 7,000-8,000mn would be invested in exploration of uranium deposits in the country during the 11th Five Year Plan period. (BS)
- In partial relaxation of ban on export of non-basmati rice, the government has allowed two export-oriented units from Pondicherry and Andhra Pradesh to ship 25,000 tonne in the current season. (BS)
- An improvement in the liquidity situation is visible as also an increased inflow into mutual funds this month, a top mutual funds industry official said on Wednesday. (BL)
- The rupee fell to 50 per dollar in late trade on Wednesday, hit by losses in the domestic equity market and heavy dollar demand from banks looking to arbitrage between onshore spot and offshore forward rates. (ET)

Corporate News

- ONGC Videsh (OVL)** has received approval from National Iranian Oil Company (NIOC) on the feasibility report of its gas discovery in the Farsi block. The offshore block is said to contain gas reserves of 12.5 trillion cubic feet (tcf) and oil reserves of over one billion barrels. (ET)
- Nalco** has received a green signal from the Indonesian government for setting up a Rs 170.0bn aluminium smelter and captive power project in the country. (BS)
- Maruti Suzuki India** today launched its compact B-segment car 'A-Star'. The vehicle will be sold at a price of Rs 3.46-4.11 lakh at Delhi showrooms. (BS)
- Asian Paints Ltd** said on Wednesday it has temporarily shut down its phthalic anhydride making plant at Ankleshwar in Gujarat. (ET)
- Times of Money has entered into an agreement with **Axis Bank** to provide its remittance solution to **Axis Bank** which will help the bank offer its non-resident customers AxisRemit, the bank's own branded online remittance services. (ET)
- Weakening asset quality and liquidity pressure, especially in its overseas business, could lead to **ICICI Bank's** individual ratings getting affected, said Fitch Ratings. This is for the first time that a ratings agency has come out with a warning on ICICI Bank or any of the other large Indian banks. (ET)
- Issues seem to have cropped-up regarding **DLF's** pact with **Fortis Healthcare** for setting-up super-speciality hospitals in DLF townships. This comes at a time when the real estate giant is facing deferment of some of its projects due to weak real estate demand. (BL)
- Bharat Heavy Electricals Ltd (BHEL)** is planning to set up a greenfield manufacturing base in India for nuclear forgings. The state-owned equipment major is in talks with UK-based Sheffield Forgemasters International Ltd and Japan's Kobe Steel for a possible joint venture. Bharat Forge, the world's second largest forging company, could also be involved in the new venture. (BL)
- Larsen & Toubro** has won orders worth 16.4 billion rupees. Three orders worth a total of 9.4 billion rupees for engineering, procurement and construction projects in Delhi and Andhra Pradesh. It has also won a Rs. 7 billion refinery order from HPCL-Mittal Energy Ltd, a joint venture of Hindustan Petroleum Corp and Mittal Energy Investments. (FE)

Equity

		% Chg			
	19 Nov 08	1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	8,774	(1.8)	(14.2)	(40.2)	
NIFTY Index	2,635	(1.8)	(15.6)	(40.3)	
BANKEX Index	4,597	(2.9)	(19.3)	(33.7)	
BSET Index	2,411	(1.5)	(5.0)	(38.1)	
BSETCG INDEX	6,397	(3.5)	(11.7)	(47.0)	
BSEOIL INDEX	5,507	(1.2)	(15.0)	(44.9)	
CNXMcap Index	3,381	(1.3)	(12.8)	(40.8)	
BSESMCAP INDEX	3,493	(1.8)	(16.2)	(50.2)	
World Indices					
Dow Jones	7,997	(5.1)	(13.7)	(30.0)	
Nasdaq	1,386	(6.5)	(21.7)	(42.0)	
FTSE	4,006	(4.8)	(6.5)	(25.4)	
Nikkei	8,273	(0.7)	(12.1)	(38.4)	
Hangseng	12,816	(0.8)	(20.9)	(42.1)	

Value traded (Rs cr)

	19 Nov 08	% Chg - Day
Cash BSE	3,479	16.4
Cash NSE	9,286	11.5
Derivatives	41,656.4	(3.7)

Net inflows (Rs cr)

	18 Nov 08	% Chg	MTD	YTD
FII	(369)	(42)	(1,657)	(53,411)
Mutual Fund	(45)	(88)	(1,366)	12,787

FII open interest (Rs cr)

	18 Nov 08	% Chg
FII Index Futures	7,565	(5.7)
FII Index Options	12,820	(1.7)
FII Stock Futures	10,022	0.9
FII Stock Options	218	(0.2)

Advances / Declines (BSE)

	19 Nov 08	A	B	S	Total	% total
Advances	49	481	137	667	30	
Declines	152	1099	268	1,519	67	
Unchanged	4	51	10	65	3	

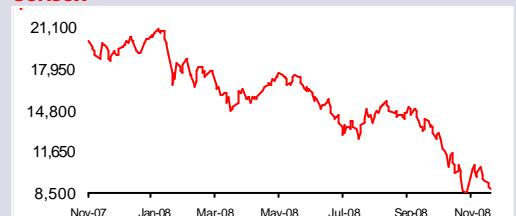
Commodity

			% Chg			
	19 Nov 08	1 Day	1 Mth	3 Mths		
Crude (NYMEX) (US\$/BBL)	52.9	(1.4)	(28.8)	(54.0)		
Gold (US\$/OZ)	734.6	(0.5)	(7.5)	(9.4)		
Silver (US\$/OZ)	9.3	(4.0)	(5.1)	(29.9)		

Debt / forex market

	19 Nov 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.44	7.51	7.62	9.16
Re/US\$	49.99	49.65	49.02	43.58

Sensex



COMPANY UPDATE

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INFOSYS TECHNOLOGIES LTD

PRICE: Rs.1180

TARGET PRICE: Rs.1465

RECOMMENDATION: BUY

FY09E P/E: 12.1x

Management indicates greater challenges on the macro front. Velocity of business slowing. Budget finalization getting delayed, not material, in any case. Client specific issues may crop up. Two large deals closed during the quarter. Tweak FY09 earnings estimates. Revise DCF based price target to Rs.1465 (v/s Rs.1645 earlier). Continue to repose faith in management team and the strong business model. Maintain BUY.

We recently spoke to the management of Infosys. The main takeaways are as under :

Summary table

(Rs mn)	FY07	FY08	FY09E
Sales	138,925	166,920	213,438
Growth (%)	45.9	20.2	27.9
EBITDA	43,909	52,380	67,284
EBITDA margin (%)	31.6	31.4	31.5
Net profit	37,300	45,380	55,721
Net cash (debt)	58,616	85,100	91,862
EPS (Rs)	65.3	79.3	97.4
Growth (%)	46.5	21.5	22.8
CEPS	74.3	89.8	110.1
DPS (Rs)	10.0	33.3	15.0
ROE (%)	40.9	36.2	34.7
ROCE (%)	46.6	42.7	40.4
EV/Sales (x)	15.4	12.9	10.0
EV/EBITDA (x)	15.4	12.9	10.0
P/E (x)	18.1	14.9	12.1
P/Cash Earnings	15.9	13.1	10.7
P/BV (x)	6.0	4.9	3.7

Source: Company, Kotak Securities - Private Client Research

Macro scene more challenging

- With the US economy sliding into a recession, the crisis of the financial services industry is spreading to other sectors.
- According to the management, the retail industry in USA and Europe has already been impacted and the trickle down impact is now being felt by the manufacturing sector.
- The European Union and Japan have also entered into a recession and there are demand concerns emerging from the EU.
- We believe that, in the event of a deeper recession, high-priced services like consulting and package implementation are expected to be impacted first followed by other services.
- The pricing is stable for Infosys as yet. However, few competitors are turning aggressive, according to the management.
- These competitors have reduced prices in some cases and may further put pressure on prices to gain additional volumes. In that case, Infosys may also be forced to reduce prices, in our opinion.
- Thus, the macro scenario has turned more challenging as compared to 2QFY09 end.

CY09 budget finalization in 1QCY09. Clients turning more cautious

- Overall, clients are turning cautious and selective in terms of IT spending.
- They are executing only selective projects with other projects being postponed.
- Budgets for the next calendar are expected to be finalized only in 1QCY09 as against the normal practice of finalizing them by the end of the previous quarter.
- We concur with the management's view that, budgets may have little relevance if the current volatility in the economy does not subside and confidence is not restored.
- One of the large UK-based telecom customers of the company has announced a reduction of nearly 10,000 employees globally.
- Infosys has already seen business from this customer reducing but expects further impact, though the extent of reduction is uncertain.
- One of the other large clients for the company is undergoing a vendor rationalization process, which may impact Infosys.
- A few of the clients have seen ownership changes (including Government ownership), which has further impacted the decision making process of the client.

- Thus, though projects are coming in and are getting executed, the velocity of the business has reduced.
- In case this trend continues, we expect it to further impact revenue growth for FY10.

Two large deals won

- Infosys continues to bid for and win large transformational deals.
- As at 2QFY09 end, Infosys was pursuing 12 large deals and has won two deals during 3QFY09, according to the management.
- We believe that, large off-shore vendors are relatively better-placed to win these large deals.
- In our opinion, they score over most incumbents in terms of better value for money and the global delivery model. The mid-tier companies lose out on breadth of services, brand image and scaling capabilities.

No change in guidance, as expected. US GAAP revenue growth may be impacted

- As expected, the management declined to comment on any changes in the guidance for FY09.
- However, it has indicated that, USD GAAP revenue growth may be impacted because of cross-currency movements.
- The GBP and Euro have depreciated by about 12% - 13% v/s the USD in the current quarter and this will impact the USD GAAP revenue growth.
- However, the management is comfortable with the guidance for 3QFY09 and FY09, in constant currency terms. We track the company's Indian GAAP financials.

Hedging reduced

- Infosys had hedges of about \$925mn as at 2QFY09 end. The company has reduced this to about \$800mn currently.
- Also, with the rupee under constant pressure, we do not expect Infosys to increase its hedging significantly.

Employee additions on track

- Infosys added more than 10,000 employees on a gross basis in 2QFY09. This is in line with the guidance issued by the company.
- The management has also re-iterated that, it will add a gross 25,000 employees during the fiscal with 4,500 of these in 3QFY09.
- The company had made 18000 offers on campus of which about 11300 have already come on board. The company will be honoring the balance commitments in 3QFY09.
- The company may end up with a larger bench in the near future.
- However, we believe that, this may not lead to a material fall in margins as the company has enough levers to restrict the impact.
- On the other hand, this will allow the company to take advantage of any uptrend which will emerge from this slowdown.
- The company has also made larger investments in its future growth by increasing spends on sales and marketing initiatives during the quarter.
- We believe that, Infosys is better placed than peers to handle the impact on margins and we maintain our base optimism on the robust business model of the company.

Future prospects

- We have made marginal changes to our FY09E estimates. We will introduce FY10E estimates once the macro scene stabilizes and we get more visibility on the numbers.
- We expect the company to achieve a volume growth of 17.5% in FY09. Pricing is expected to be marginally lower in 2HFY09 v/s 1HFY09.
- Margins are expected to be lower in 2HFY09 due to the expected appreciation in the rupee (assumed Rs.45 per USD in 2HFY09) and the seasonality involved with the December quarter.
- We expect the EPS to work out to Rs.97.5 v/s our earlier estimate of Rs.99.

Valuations and recommendation

We recommend BUY on Infosys Technologies with a price target of Rs.1465

- The stock is currently quoting at about 12x FY09 earnings.
- We have done the DCF analysis for Infosys. We have assumed lower growth in the immediate term.
- This analysis has led up to a fair price of Rs.1465 (Rs.1644 earlier) at which levels out FY09E earnings will be discounted 15x.
- We continue to rate Infosys as our top pick in the sector with a price target of Rs.1465.

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
19-Nov	Bharati Ship	Copthall Mauritius Investment Ltd	B	247,460	73.00
19-Nov	Bharati Ship	BSMA Limited	S	247,460	73.00
19-Nov	Bihar Tubes	APL Infrastructure Pvt Ltd	B	91,041	50.32
19-Nov	Bihar Tubes	Jagan Tubes Limited	S	89,503	50.00
19-Nov	Diamon Cable	KSK Emerging India Energy	B	700,000	104.00
19-Nov	Diamon Cable	Swiss Finance Corporation Mauritius Ltd	S	700,000	104.00
19-Nov	Filat Fash	Kinjal Vasantlal Savla	B	75,175	39.90
19-Nov	Ganesh Hou C	Copthall Mauritius Investment Ltd	B	870,000	58.00
19-Nov	Ganesh Hou C	Bsma Limited	S	870,000	58.00
19-Nov	Harya Capfin	Dharam Pal Jindal and Sons HUF	B	27,500	21.89
19-Nov	Jyoti Struct	Copthall Mauritius Investment Ltd	B	1,500,000	60.20
19-Nov	Jyoti Struct	BSMA Limited	S	1,500,000	60.20
19-Nov	Kailash Fico	Mandvi Dyes and Chemicals Pvt	B	200,000	22.56
19-Nov	Logix Micro	Copthall Mauritius Investment Ltd	B	200,000	43.00
19-Nov	Logix Micro	BSMA Limited	S	200,000	43.00
19-Nov	Olympic Oil	Sunil Verma	B	10,000	4.04
19-Nov	Olympic Oil	Patil Vijay Balwant	S	10,000	4.04
19-Nov	Pyramid Saim	Panchapikesa Subramania Saminathan	B	400,000	49.93
19-Nov	Sadbhav Engg	Copthall Mauritius Investment Ltd	B	406,000	335.00
19-Nov	Sadbhav Engg	BSMA Limited	S	406,000	335.00
19-Nov	Sanguine Md	Khaitan Weaving Mills Ltd	S	91,028	7.43
19-Nov	Shipping Cor	Copthall Mauritius Investment Ltd	B	4,880,814	77.80
19-Nov	Shipping Cor	Bsma Limited	S	4,880,814	77.80
19-Nov	Tanla	Copthall Mauritius Investment Ltd	B	2,100,000	69.40
19-Nov	Tanla	BSMA Limited	S	2,100,000	69.40
19-Nov	Winsome Text	Sanjay Shah	B	30,000	15.79
19-Nov	Winsome Text	Paresh Sanat Rachh	S	30,000	15.74

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ITC	165	2.7	2.7	6.8
Hero Honda Motors	750	3.7	0.9	0.5
Cairn India	138	1.5	0.6	2.6
Losers				
ONGC	653	(2.3)	(5.2)	2.3
NTPC Ltd	136	(2.4)	(4.4)	7.9
Reliance Com	199	(5.1)	(3.5)	8.5

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
20 Nov	Bajaj Allianz Life Insurance Co. holds press conference Future Group holds press meet on business plans
26 Nov	Mphasis to announce earnings
28 Nov	Tata Steel to announce consolidated half-year earnings Dhampur Sugar to announce earnings

Source: Bloomberg

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