JM FINANCIAL

Country: India

World Indices

	Close	Daily % Chg
BSE Sensex	13,526	0.5
NSE 50 Nifty	4,030	0.3
CNX Mid Cap	5,192	0.8
S&P 500	1,252	(0.8)
FTSE 100	5,513	1.8
Nasdaq	2,243	(0.1)
Hang Seng	21,413	(2.3)
Shanghai Comp	2,799	0.2

Turnover ($ bn)

	BSE	% Chg	NSE	% Chg
Cash	1.6	16.3	2.5	(19.8)
F&O	–	–	10.6	0.9

Institutional Flows ($ mn)

Date	Cash	NSE Derivatives (Net)	
FII	Net	Index	Stocks
07/07/08	133.2	151.0	64.7
MTD	(86.5)	–	–
YTD	(6,883.8)	–	–
MF			
07/07/08	(16.5)	NA	NA
MTD	70.5	NA	NA
YTD	2,375.8	NA	NA

Advances/Declines (%)

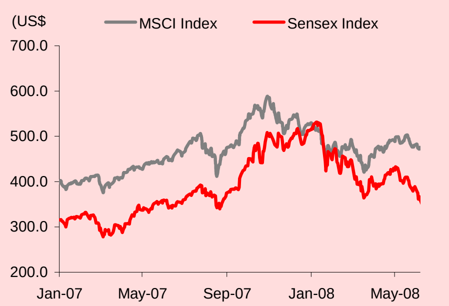
	Advances	Declines
BSE / NSE	69.9 / 73.3	28.2 / 25.4

Key Statistics

	Close	% Chg
US$ / Rs	43.25	0.23*
Euro / US$	1.57	(0.14)*
US$/Yen	107.18	0.41*
10 yr G-Sec (%)	9.1	2.35
Call rate (%)	6.3	(27.75)
Brent-spot (US$/bbl)	141.5	(1.78)
Gold (US$)	925.9	(0.79)
Aluminium (LME, US$/t)	3,308.0	4.68
Copper (LME, US$/t)	8,565.0	(1.11)
Zinc (LME, US$/t)	1,777.0	2.13

* +/- chg reflects $ appreciation/depreciation

Sensex vs MSCI Asia Ex Japan



8 July 2008

India Morning Brief

JM Financial Research

Company Update – BHEL: Doors open for 800 MW rating set

Results Review – IT Services: With bated breath

News Tracker

Corporate News – Industry trends

Economic/Regulatory development

Commodity/Money Market News

Market Tracker

Key Stock Activity for Previous Day

Top Sensex Movers				Top Turnover (NSE/BSE)					
Company	Price	% Chg Daily	% Chg YTD	NSE Company	Rs bn	%*	BSE Company	Rs bn	%*
RIL	2,028	(3.3)	(28.8)	RELIANCE	7.7	7.4	SPICE TELE	22.1	32.6
ICICI BANK	605	0.3	(50.8)	RELCAPITAL	5.5	5.3	RELIANCE CAP	3.5	5.1
L&T	2,362	(0.8)	(43.0)	RPL	3.8	3.7	RELIANCE	2.8	4.1
INFOSYS	1,800	2.5	2.9	RNRL	3.4	3.3	REL PET	2.0	2.9
HDFC	2,060	0.1	(29.4)	ICICIBANK	3.4	3.2	RIL NAT RES	1.8	2.7
SBI	1,172	4.2	(47.9)	RCOM	3.1	3.0	REL COM LTD	1.5	2.2
BHARTI	728	1.5	(24.8)	L&T	3.1	2.9	REL INFRA	1.4	2.0
ITC	178	3.9	(18.3)	RELINFRA	3.0	2.9	L&T	1.2	1.8
ONGC	883	0.7	(29.4)	DLF	2.3	2.2	TATA STL	1.0	1.5
TATA STEEL	652	1.8	(30.1)	BHEL	2.3	2.2	ANU LABS	0.9	1.3
RCOM	420	(3.9)	(43.3)	TATASTEEL	1.9	1.8	ESSAR OIL	0.8	1.2
HDFC BANK	1,005	0.5	(41.9)	IFCI	1.9	1.8	RPOWER	0.8	1.2
BHEL	1,468	(2.2)	(43.2)	INFOSYS	1.9	1.8	IFCI LTD	0.8	1.1
SATYAM	482	4.4	8.5	ONGC	1.8	1.7	BHEL	0.8	1.1
HUL	210	4.1	(3.8)	ESSAROIL	1.6	1.5	DLF LTD	0.7	1.1

Top Gainers**		Top Losers**		BSE Sectoral Indices		
Company	% Chg	Company	% Chg	Sector	% Chg	%YTD
DECCAN AVIAT	24.1	PHOENIX MILL	(6.9)	AUTO	2.2	(38.6)
HMT LTD	13.8	BAJAJHINDLTD	(6.6)	BANKEX	1.2	(46.6)
ADANI ENTER	11.6	ABG SHIPYARD	(6.4)	FMCG	2.7	(16.1)
ESSAR SHIP	10.0	CAIRN IND	(5.5)	CAP.GOODS	0.2	(45.8)
NAG CONS COM	9.1	INDBUL REAL	(5.0)	IT	2.6	(6.6)
SUN TVNET	6.8	REL COM LTD	(4.2)	METAL	1.8	(38.9)
SIEMENS LTD	6.6	LAKSHMI MA W	(4.2)	OIL & GAS	(2.0)	(33.1)
JSW SL	6.4	SH.PRECOATED	(4.0)	POWER	0.6	(50.1)
DISH TV	6.2	FEDERAL BANK	(3.8)	REALTY	0.7	(64.3)
				SENSEX	0.5	(33.4)

Approximate 84% of Sensex weight

*Note: **From BSE A Group, * % of total turnover, All data are as of previous day's closing.*

Bulk Deals											
BSE						NSE					
Buy	Price	Rs mn	Sell	Price	Rs mn	Buy	Price	Rs mn	Sell	Price	Rs mn
AXON INFOTEC	25	0.1	APOLLO HOS E	500	540.6	APOLLOHOSP	500	450.0	PSTL	178	122.6
BAFNA PHARMA	30	7.4	NIRAJ CEMENT	95	6.6	OILCOUNTUB	57	12.7	SAREGAMA	104	29.0
BHURUKA GAS	25	17.6	NITCO TILES	100	59.9	PSTL	179	14.3	SASKEN	141	26.1
BRUSHMAN IND	139	8.4	KOTAK SENSEX	136	3.6	SAREGAMA	104	29.0	UNITY	371	26.8
CYBERMAT INF	5	5.0	LOK HOUSI CO	48	28.5	SASKEN	141	26.3	WANBURY	95	7.9

Spurt in Turnover							
Company	$ mn	Volume %	Daily Price Chg %	Company	$ mn	Volume %	Daily Price Chg %
APOLLOHOSP	35.66	40,738.3	(0.6)	JINDALPOLY	0.26	3,347.0	11.9
WHEELS	0.00	21,123.6	(2.8)	BRITANNIA	0.38	2,648.5	0.7
GSKCONS	0.36	4,334.6	(2.8)	MACMILLAN	0.02	2,230.6	(1.0)
SHREECEM	1.46	3,918.1	(1.1)	M&MFIN	0.06	2,107.0	0.2
SHANTIGEAR	0.17	3,768.4	9.1	FOSECOIND	0.00	1,604.9	(1.6)

Corporate News – Industry trends

- **Cairn India** to invest US$ 100 mn to explore for oil in Sri Lanka (BS)
- **Suzlon Energy** promoters, the Tanti group to scale China wall with US$ 2 bn; partners with Arcapita through Colossus (BL)
- **L&T** gets Rs 4.4 bn order from JSW Power Transco (BS)
- **RIL, GAIL** applies for gas retail licence; plans to sell natural gas to households, vehicles (BS)
- **Infosys** has invested A$ 1.9 mn in Australia's IT services industry, in cash and services in the newly formed Smart services cooperative research centre (FE)
- **Niko** a partner in **RIL** operated KG basin has sought government's permission to pledge its KG basin stake to raise US$ 550 mn (ET)
- **Daimler and Hero group** signed a MoU with the government of TN for setting up a Rs 47 bn Greenfield commercial vehicles facility. (BL)
- **State Bank of India** may suffer Rs 7 bn MTM hit in Q1 (ET)
- **DLF** is looking to set up Rs 8 bn venture capital fund to inveast in companies engaged in equipment management and construction activity (ET)
- **Akruti city** plans 50:50 JV with US based Pacific Aliance group (FE)
- **Essar shipping** to buy 2 rigs from ABG Shipyard for US$ 440 mn (Mint)
- **Sobha** receives US$ 10 mn FDI for setting up a residential project in Bangalore (Mint)

Economic/Regulatory development

- **Government** allocates 23 coking and non-coking coal blocks to steel, cement and power producers (BS)

Commodity/Money Market News

- **The Central Government** may cut the cotton import duty from 14% to nil (BS)

JM FINANCIAL

Country: India

Sector: Power

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Key Data

Market cap (bn)	Rs734.4/US$17.4
Shares in issue (mn)	489.5
Diluted share (mn)	489.5
3-mon avg daily val (mn)	Rs3,670/US$85
52-week range	Rs2,925/1,325
BSE sensex (04/07/08)	13,454
Nifty (04/07/08)	4,016
Rs/US$	43.1

Shareholding Pattern (%)

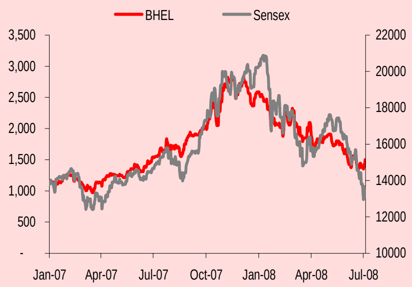
	4Q FY07	4Q FY08
Promoters	67.7	67.7
FIIs	20.0	18.1
MFs/FIs/Banks	5.0	5.8
Public	1.6	2.0
Others	5.7	6.4

Price Performance (%)

	1M	3M	12M
Absolute	5.5	(8.3)	(3.6)
Relative*	19.1	6.3	6.5

** To the BSE Sensex*

Daily Performance



(As of 04 July 2008)

7 July 2008

Company Update

BHEL

Bloomberg: BHEL IB

Buy

Price: Rs1,500 **Target Price (Mar 09): Rs1,750**

Doors open for 800 MW rating set

- **BHEL L1 bidder in boiler package of 2x800 MW Krishnapatnam TPP:** Our channel checks suggest that BHEL has emerged as L1 bidder for AP Genco's Krishnapatnam thermal power plant, for which the bids opened on 4th July 2008. The order would mark BHEL's foray into the 800 MW unit rating super-critical (Sup.c) technology. The indicative bid prices are close to c.Rs26 bn for BHEL. Abiding to our earlier take, the boiler package bids are in 2-3% range for both the bidders (other bidder being L&T-MHI JV).

- **Long wait for TG award in Sup.c segment:** Despite being sole bidder in NTPC's 3x660 MW Barh-II, BHEL is still awaiting the final award for the TG set (boiler package awarded in March 2008). We believe that L&T's aggressive pricing at 2x800 MW Krishnapatnam would be set as a benchmark by NTPC to evaluate BHEL's bid for Barh-II.

- **Past bids suggest competitiveness in Boiler (Alstom), but TG a grey area (Siemens):** Barh-II and Krishnapatnam bids suggest that while BHEL is maintaining competitiveness for the boiler package (with Alstom being the technology partner-TPA), it is the TG package that is price critical, Siemens being the TPA (it was c.28% higher than L&T in Krishnapatnam bid earlier). BHEL was believed to be higher in its earlier bid due to – a) L&T or MHI had undercut; b) Siemens having given higher quote and that too in stronger currency Euro vs. MHI's quote in relatively weaker Yen.

  Krishnapatnam boiler bid makes us believe that: a) currency difference can be adjusted given that BHEL would bid aggressively (where it'll have to compromise on margins); b) tightening required on TPA - Siemens for competitive quote for import component. L&T-MHI stands benefitted from JV relationship over BHEL's TPA, where Siemens would only receive royalty payments after 8-10 orders and can also compete with BHEL at a later date. Emerging competition in TG segment in the form of L&T-MHI, Alstom-Bharat Forge and Toshiba-JSW would continue to remain a grey area for BHEL wherein it would have to sacrifice current margin levels.

- **Correction provides buying opportunity:** The stock has corrected c.30% since our downgrade in April 2008 and is well poised to give better returns even on conservative estimates. Post our historical analysis of RM/Sales with individual components vis-à-vis steel price movement, we believe that RM price hike impact would be visible in FY10E and hence, we prune down our estimates marginally. We upgrade it to a Buy with Mar-09 target price of Rs1,750 (from Rs1,800) on 20x target multiple.

Exhibit 1: Financial summary **(Rs mn)**

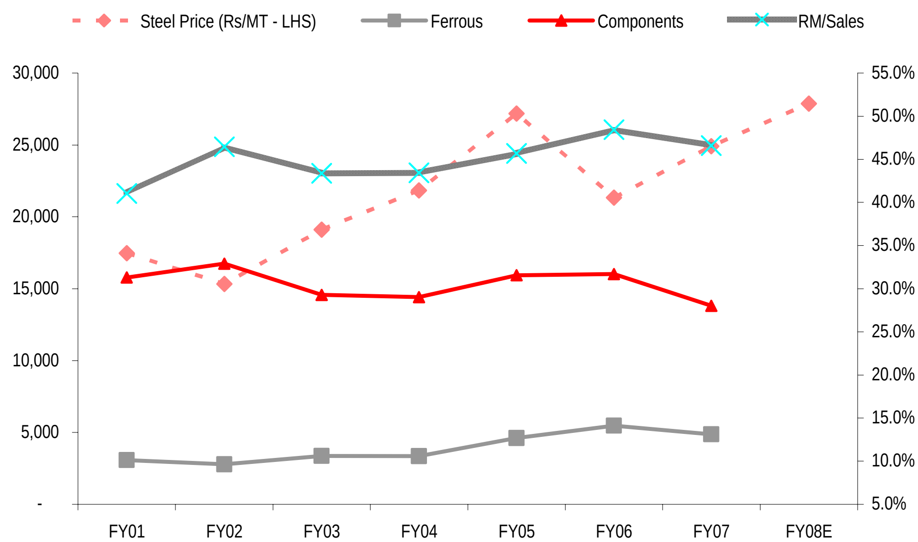
Y/E March	FY06	FY07	FY08	FY09E	FY10E
Net sales	133,740	172,375	193,646	251,527	302,354
Sales growth (%)	40.4	28.9	12.3	29.9	20.2
EBITDA	25,650	33,718	33,659	46,343	56,551
EBITDA (%)	19.2	19.6	17.4	18.4	18.7
Adjusted net profit	16,757	24,142	28,593	35,983	42,900
EPS (Rs)	34.3	49.3	58.4	73.5	87.6
EPS growth (%)	76.1	43.8	18.4	25.8	19.2
ROCE (%)	26.0	30.3	29.1	29.5	28.5
ROE (%)	25.2	30.0	29.2	29.8	28.7
PE (x)	43.7	30.4	25.7	20.4	17.1
Price/Book value (x)	10.1	8.4	6.8	5.5	4.5
EV/EBITDA (x)	27.2	20.1	19.3	14.8	11.2

Source: Company data, JM Financial. Note: Valuations as of 04 July 2008

Historical analysis of steel price impact

- Revenue growth masked margin fall in 2005 when the steel price jumped by 24% YoY.
- **RM/Sales jumps with one year lag effect, as the deliveries for order intake start after 8-10 months of design and engineering activities.**
- We believe that margin pressures would be visible in FY10 when deliveries would happen for orders booked in previous year (FY08), as input pressures are witnessed with a 1 year lag effect in historical analysis also.

Exhibit 2: Steel price movement vis-à-vis RM/Sales, Ferrous and components to RM (%)



Source: Company, JM Financial

Strong order queue up

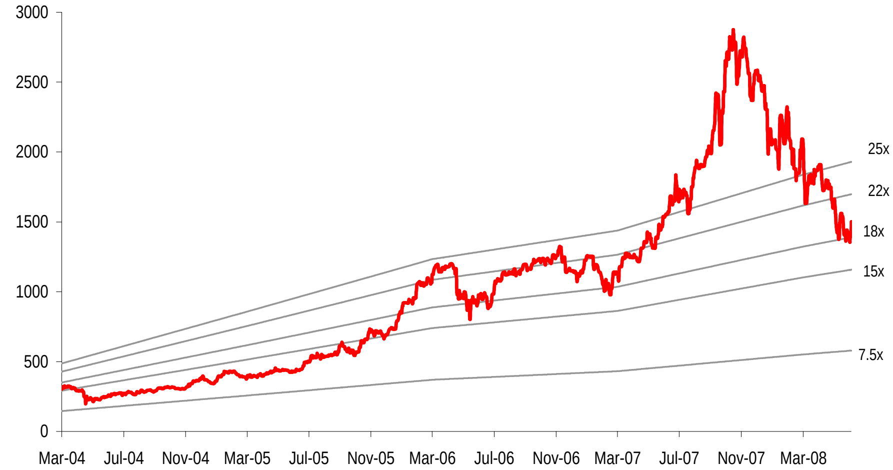
- **BHEL re-marked its entry in the oil rigs**, having won a project of Rs5.06 bn from ONGC for up gradation of onshore drilling rigs. As per the contract, BHEL is to upgrade 12 onshore drilling rigs and supply new rig equipments to ONGC. The project encompasses overhauling of rotating and hoisting equipment, revamping electrical systems and site erection and commissioning of those equipments. We believe it could be a high margin business (inline with current levels) given that there is a shortage of rigs across the world.
- **Advancing further in ACGT:** BHEL won Rs35.9 bn contract from Pragati Power Corporation for setting up an additional combined-cycle power plant in Delhi, on a turnkey basis and second order from Tripura for 750 MW valued at Rs25 bn. Former order, comprising two combined-cycle modules with a gross output of 1,371 MW, would involve BHEL in supply and commissioning of four advanced class Frame-9FA gas turbines. The order gives confidence in BHEL's adoption of the new technology. Currently, the gas turbines are being imported from GE and would be indigenously manufactured going forward.
- BHEL also bagged a turnkey contract worth Rs18.4 bn from DVC for setting up a 500MW generating unit at the Bokaro thermal power station in Jharkhand. This order is in addition to the operational three units of 210MW each at Bokaro thermal power station.

- BHEL is also close to getting a repeat order for TNEB's 600 MW North Chennai thermal power project for a negotiated price of Rs22 bn. It was the sole bidder for the first unit awarded to it in February 2008.
- **Industry orders maintaining momentum:** BHEL received a turnkey order worth Rs20.8 bn from the Ministry of Electricity, Syria for setting up 2x200 MW at the Tishreen thermal power plant extension. The order placed by the public establishment of electricity for generation and transmission (PEEGT) is scheduled for execution in 33 months and includes manufacturing supply and commissioning of main plant and balance of plant (BoP) equipment besides Controls & Instrumentation (C&I).

Valuation and risks

- The stock has corrected c.30% since over downgrade in April 2008 and hence, is well poised to give better returns even on conservative estimates.
- Post our historical analysis of RM/Sales with individual components vis-à-vis steel price movement, we believe that RM price hike impact would be visible in FY10E and hence, we prune down our estimates marginally. Though we believe their is some scope for operating leverage, yet we believe it would be off-set by a) higher RM/Sales on the back of higher input costs; b) rising employee number and cost.
- We upgrade it to a Buy with Mar-09 target price of Rs1,750 (from Rs1,800) marinating our target multiple at 20x on revised FY10E EPS of Rs87.6 (from Rs88.4).

Exhibit 3: 1-year forward PE band chart



Source: Bloomberg, JM Financial

Financial Tables

Profit & loss statement (Rs mn)

Y/E March	FY06	FY07	FY08	FY09E	FY10E
Net Sales	133,740	172,375	193,646	251,527	302,354
Growth (%)	40.4	28.9	12.3	29.9	20.2
Other operational income	2,769	3,768	5,275	5,803	6,383
Consumption of raw material & components	77,605	100,007	106,622	142,074	172,367
Employee Remuneration & benefits	18,785	23,690	31,459	35,729	40,578
Other expenses	11,599	11,700	14,961	21,905	27,382
EBITDA	25,650	33,718	33,659	46,343	56,551
EBITDA %	19.2	19.6	17.4	18.4	18.7
Growth (%)	85.2	31.5	(0.2)	37.7	22.0
Other non-operational income	237	3,033	8,696	6,903	8,228
Depreciation & amortisation	2,459	2,730	2,972	3,361	4,619
EBIT	26,196	37,789	44,658	55,687	66,543
Interest (income)/expense (net)	587	433	354	446	536
Pre tax profit	25,609	37,355	44,304	55,241	66,008
Taxes	8,852	13,214	15,711	19,258	23,108
Adjusted net profit	16,757	24,142	28,593	35,983	42,900
Margin (%)	12.5	14.0	14.8	14.3	14.2
Extraordinary (income)/expense (net)	(35)	(5)	0	0	0
Reported net profit	16,792	24,147	28,593	35,983	42,900
Diluted share capital (mn)	2,448	2,448	4,895	4,895	4,895
EPS adj. (Rs)	34.3	49.3	58.4	73.5	87.6
Growth (%)	76.1	43.8	18.4	25.8	19.2

Source: Company, JM Financial

Balance sheet (Rs mn)

Y/E March	FY06	FY07	FY08E	FY09E	FY10E
Share capital	2,448	2,448	4,895	4,895	4,895
Reserves & surplus	70,567	85,434	102,990	128,664	160,109
Networth	73,015	87,882	107,885	133,559	165,004
Total loans	5,582	893	1,117	1,396	1,745
Sources of funds	78,597	88,775	109,002	134,955	166,748
Intangible assets	0	0	0	0	0
Fixed assets	38,220	41,350	46,150	54,650	73,650
Less: Depreciation/amortisation	28,398	31,463	34,326	37,687	42,306
Net block	9,822	9,887	11,824	16,963	31,344
CWIP	1,846	3,025	6,250	9,820	1,875
Investments	83	83	166	332	663
Deferred tax assets/(liability)	6,737	9,351	11,137	13,095	15,239
Current assets					
Inventories	37,444	42,177	61,808	71,880	87,166
Sundry debtors	71,681	96,958	82,482	140,791	121,635
Cash & bank balance	41,340	58,089	84,215	48,043	104,968
Other current assets	845	1,997	2,197	2,416	2,658
Loans & advances	11,999	11,409	12,817	16,647	20,011
Current liabilities & provisions					
Current liabilities	88,077	118,979	136,149	154,514	185,240
Provisions and others	15,123	25,222	27,745	30,519	33,571
Net current assets	60,108	66,429	79,625	94,746	117,627
Others (net)	1	(0)	0	0	0
Application of funds	78,597	88,775	109,002	134,955	166,748

Source: Company, JM Financial

Cash flow statement (Rs mn)

Y/E March	FY06	FY07	FY08E	FY09E	FY10E
Net profit	16,792	22,020	28,593	35,983	42,900
Depreciation/amortisation	2,459	2,730	2,972	3,361	4,619
(Inc)/dec in working capital	(1,576)	10,428	12,930	(51,293)	34,044
Others	(2,704)	(5,549)	(6,158)	(6,807)	(7,748)
Net cash from operations	14,972	29,629	38,337	(18,755)	73,814
(Inc)/dec in investments					
Capex	(2,933)	(4,440)	(8,025)	(12,070)	(11,055)
Others	1,862	3,497	4,643	5,129	5,807
Cash flow from inv.	(1,071)	(942)	(3,381)	(6,941)	(5,248)
Inc/(dec) in capital					
Dividends paid + div tax	(4,047)	(6,925)	(8,591)	(10,309)	(11,455)
Inc/dec in loans	213	(4,689)	223	279	349
Others	(506)	(324)	(463)	(446)	(536)
Financial cash flow	(4,340)	(11,938)	(8,830)	(10,476)	(11,641)
Net inc/dec in cash	9,561	16,749	26,126	(36,172)	56,925
Opening cash balance	31,779	41,340	58,089	84,215	48,043
Closing cash balance	41,340	58,089	84,215	48,043	104,968

Source: Company, JM Financial

Key ratios

Y/E March	FY06	FY07	FY08E	FY09E	FY10E
ROCE (%)	26.0	30.3	29.1	29.5	28.5
ROE (%)	25.2	30.0	29.2	29.8	28.7
Debt-equity ratio (x)	0.1	0.0	0.0	0.0	0.0
Valuation ratios (x)					
PER	43.7	30.4	25.7	20.4	17.1
PBV	10.1	8.4	6.8	5.5	4.5
EV/EBITDA	27.2	20.1	19.3	14.8	11.2
EV/Sales	5.2	3.9	3.4	2.7	2.1
Turnover ratios (no.)					
Debtor days	202	185	187	180	176
Inventory days	91	84	98	97	96
Creditor days	130	141	139	147	151

Source: Company, JM Financial

JM FINANCIAL

Country: India

Sector: IT Services

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8 July 2008

Results Review

IT Services

With bated breath

- **Demand largely unmoved; rupee offers a spot of sunshine**: While some vendors, notably Infosys, have seen a palpable improvement in client confidence levels, others remain under confident on revival in demand. The sector has outperformed the broader market over 1QFY09, with sentiments improving primarily due to sharp rupee depreciation of over 7%. We expect select stocks could continue to outperform, driven by improvement in client confidence. Infosys remains the preferred pick, while TCS has scope for positive surprises. We do not expect significant outperformance from Satyam and Wipro.

- **Rupee revenue to be strong, dollar outperformance to be limited in 1QFY09**: While rupee depreciation will boost revenue realizations, we do not factor in significant outperformance in dollar revenue. Forex losses are expected to keep rupee profit growth muted. We expect significant outperformance vis-à-vis the guidance for Infosys. We expect Satyam to miss its rupee guidance due to high forex losses.

- **Infosys dollar guidance upgrade of 1-2% likely; TCS holds potential for surprise**: We expect 1-2% upgrade in full year dollar guidance, led by an equal outperformance in 1QFY09. With a 1-2% upgrade in dollar guidance, and INR-US$ rate of 42.8 (as on 30 June 2008), we are looking at a rupee revenue guidance of close to 32%. Low investor expectations vis-à-vis Infosys and Satyam holds potential for possible positive surprise on TCS relative to the sector.

- **Hiring numbers would be key to FY09 growth trends**: Our interaction with recruitment consultants indicate a mixed trend in hiring for IT services. While Chennai is witnessing revival in hiring, it is yet to revive in Bangalore. Hiring trends during the quarter and outlook on FY09 hiring would be key pointers to demand scenario in FY09.

- **1Q FY09 will provide much needed direction:** Sentiments in the sector seemed to have improved over the last few months, but concerns on demand continue to weigh over near term. We expect both Infosys and TCS to sound more confident post 1Q, and continue to see revival from 2Q FY09. **Infosys** remains our top pick within the sector. We retain Buy on **TCS**, while we maintain Hold on **Satyam** and **Wipro**

Exhibit 1: Peer comparison

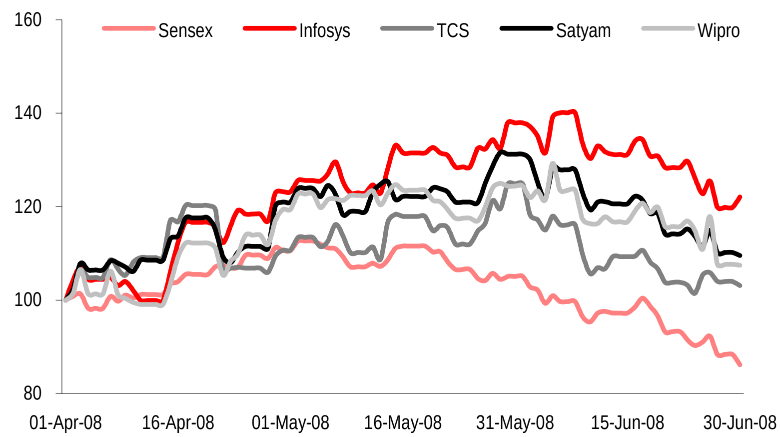
	Infosys	TCS	Wipro	Satyam
Recommendation	Buy	Buy	Hold	Hold
Target price (Rs)	2,342	1,310	484	505
Upside (%)	29.7	54.1	10.3	4.9
Revenues FY10E (Rs mn)	274,188	354,828	327,762	137,760
EBITDA margin FY10E (%)	30.9	24.9	18.1	20.4
Net Profit margin (%)	25.2	20.1	13.8	18.2
PE FY10E (x)	15.0	11.7	14.2	13.1
EV / EBITDA FY10E (x)	10.4	8.5	9.8	8.3
EV / Sales FY10E (x)	3.2	2.1	1.8	1.7
EPS CAGR (FY08-10E) (%)	21.6	19.6	17.7	20.5
PEG (x)	0.81	0.73	0.94	0.75

Source: Company data, JM Financial

Demand for the IT services sector remained murky in the June quarter, even as the US seemed to revive from the brink of a banking system crisis. While some vendors, notably Infosys, have seen a palpable improvement in client confidence levels, others remain under confident on revival in demand. Investors also remain wary of increased pricing pressure in the face of stressed IT budgets. Still, the sector has outperformed the market indices over the last 3 months, driven by improving sentiments due to sharp rupee depreciation of over 7% as well as extension in STPI benefits.

We expect select stocks could continue to outperform from current levels, driven by improvement in client confidence. Infosys remains the preferred pick, while TCS has scope for positive surprises. We do not expect significant outperformance from Satyam, while R&D services would continue to weigh down Wipro.

Exhibit 2: IT large caps have outperformed Sensex over 1Q FY09



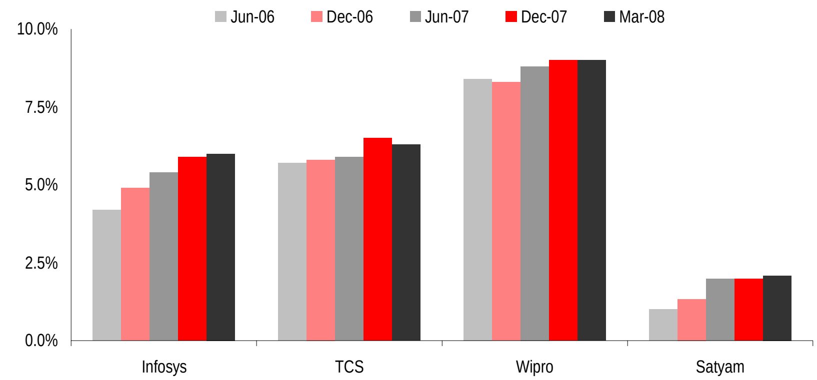
Source: Bloomberg data

Demand largely unmoved; rupee offers a spot of sunshine

- **Demand outlook remained largely unchanged; US still uncertain**: Amidst mixed signals from the US scenario, demand environment for Indian IT services vendors remained largely unchanged. Fears of bankruptcy announcements from industry heavy weights continue to dog both the banking system as well as the broader economy. Infosys was the only vendor to report increased client confidence, and reiterate in-line performance for BFSI. However, management commentary on demand improvement remained cautious. Satyam, on the other hand, has turned increasingly negative on BFSI, expecting 4 top clients to remain muted. TCS and Wipro retained view on demand outlook, weighed down by individual sector exposures. Amongst the MNCs, Accenture reported a strong quarter, which saw increase in both consulting and outsourcing revenue.

- **Early signs of increased offshoring seen**: Our interaction with recruitment consultants indicated a sharp revival in the BPO hiring. Players such as Aegis, Genpact, Accenture and Infosys have been actively recruiting over April and May.

Exhibit 3: BPO exposure for Top 4 ISPs



Source: Company data

On the IT services front, Accenture results reported early signs on increased outsourcing; new bookings grew 5.3% QoQ to US$2.79 bn. This was better than management's earlier expectations off slower growth. Management attributed this to quicker transitioning in new projects and expansion within existing clients. A leading recruitment consultant has reported full order books for the September quarter, with pick up in hiring for traditional IT services.

Exhibit 4: Accenture reported strong outsourcing bookings

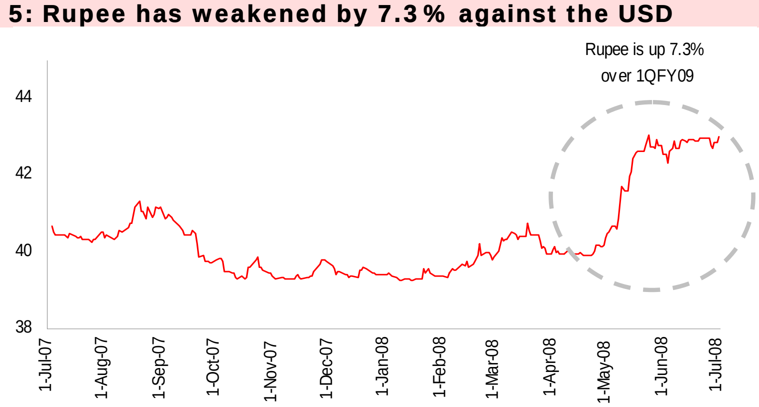
(US$ bn)	1Q FY08	2Q FY08	QoQ	3Q FY08	QoQ	Target for FY08	4Q FY08E
New contract bookings	5.92	6.44	8.9%	6.77	5.1%	25.0-26.0	5.88-6.88
Consulting	3.37	3.79	12.4%	3.98	5.0%		
Outsourcing	2.54	2.65	4.2%	2.79	5.3%		

Source: Company data, JM Financial estimates

Rupee turned direction, to give some relief against salary hikes

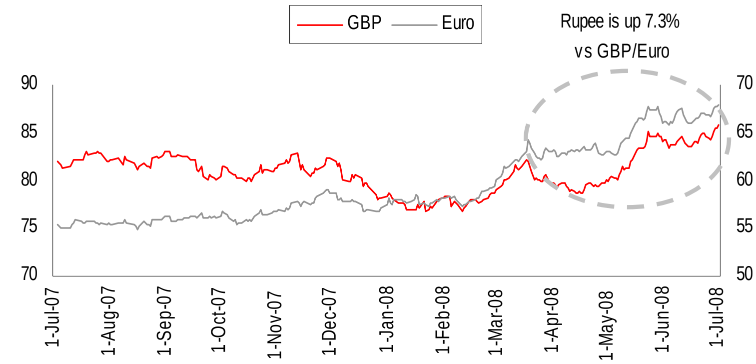
- **Rupee depreciation of 7.3% in 1QFY09…:** The rupee depreciated by over 7% against major currencies during the June quarter, which will help boost rupee revenue and profitability in FY09.

Exhibit 5: Rupee has weakened by 7.3% against the USD



Source: OANDA

Exhibit 6: Similar movement against Euro, GBP



Source: OANDA

- **... will help counter salary headwinds**: The sharp depreciation of the rupee against primary currencies would offer significant relief in a strong margin headwind quarter for players offering salary hikes. Infosys has announced 10-12% (300 bps impact) hikes, while TCS hopes to contain hikes around 10%, which would impact margins by (200-250 bps impact) during the quarter. We expect rupee depreciation to result in lower margin impact during the quarter (Infosys 120 bps; TCS 100 bps).

Strong rupee revenue, forex losses primary dampener

- **Rupee revenue to be strong, dollar outperformance to be limited**: While rupee depreciation will boost revenue realizations across the board, we do not factor in significant increase in dollar revenue. Forex losses are expected to keep rupee profit growth muted despite strong rupee revenue growth. However, we expect significant outperformance vis-à-vis the guidance for Infosys (1.2% QoQ versus guidance of -5%).

Exhibit 7: 1QFY09 estimates

1QFY09E	Revenue (Rs mn)	%QoQ	Guidance (Rs mn)	EBITDA (%)	(bps)	PAT (Rs mn)	%QoQ	Guidance (Rs mn)
Infosys	48,918	7.7	45,820	31.4	-1.2	12,642	1.2	11,857
TCS	65,489	7.5		24.5	-1.0	12,801	0.8	
Wipro	59,181	5.8		21.0	1.5	8,635	-0.4	
Satyam	26,482	9.6	25,125	23.8	1.0	5,023	0.1	5,173

Source: Company data, JM Financial estimates

- **Infosys to be least impacted by forex losses**: Infosys, which had reduced hedging exposure to just $760 mn on anticipation of depreciation, will be the primary beneficiary during 1Q FY09. Wipro (75%) and Satyam (40%) have higher exposure to forward contracts as compared to 20% for TCS. We expect Satyam to miss rupee guidance due to high forex losses.

Exhibit 8: Hedging exposure for Top 4 Indian vendors

Forex hedges (US$ mn)	4QFY08
Infosys	760
TCS	3,000
Wipro	3,500
Satyam	1,100

Source: Company data

Dollar guidance will decide sector performance

- **Infosys dollar guidance upgrade of 1-2% likely; to set tone for sector**: Infosys has guided for flat dollar revenue in 1QFY09, citing an uncertain demand environment and concerns in BFSI. However, management commentary has turned more positive since, with stronger than expected performance from Finacle (at least 2 US$100 mn deals) and BPO. We expect 1-2% upgrade in full year dollar guidance, led by an equal outperformance in 1QFY09. With a 1-2% upgrade in dollar guidance, and INR-US$ rate of 42.8 (as on 30 June 2008), we are looking at a rupee revenue guidance of close to 32%.

Exhibit 9: 30-32% rupee revenue guidance likely from Infosys

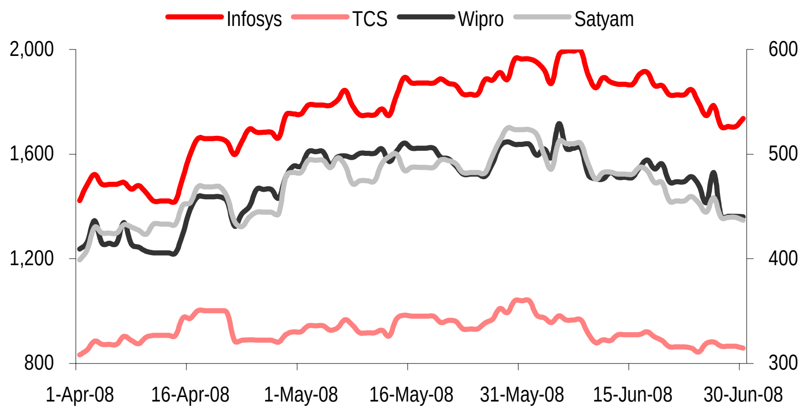
Re/USD	43.5			42.8			40.0		
Dollar Revenue Growth (%)	19%	21%	23%	19%	21%	23%	19%	21%	23%
Dollar Revenue (mn)	4,970	5,054	5,137	4,970	5,054	5,137	4,970	5,054	5,137
Rupee Revenue (mn)	216,206	219,839	223,473	212,726	216,302	219,877	198,810	202,151	205,492
Rupee Revenue Growth (%)	29.7	31.9	34.0	27.6	29.7	31.9	19.2	21.3	23.3

Source: JM Financial estimates

Satyam is also expected to marginally increase dollar revenue guidance. However, we believe that FY09 is not likely to be a year of strong outperformance for Satyam, given its higher risk services mix (see our report “Showing signs of fatigue” dated 21 April 2008).

- **TCS holds potential for surprise**: TCS stock has languished post the negative surprise of 4QFY08, driven down by fears of further free transitions and stake reduction by Tata Sons to fund requirements in Tata group companies (notably, Tata Motors, which is expected to come up with a rights issue of US$1.7 bn).

Exhibit 10: TCS stock has languished over 1QFY09



Source: Bloomberg data

Low investor expectations vis-à-vis Infosys and Satyam holds potential for possible positive surprise on TCS relative to the sector. Completion of free transitions in 1QFY09 and revenue from a few large deals (Nielson, Chrysler) should help TCS report better revenue than expected. Fears of high forex losses abound, due to high forex exposure at close to US$3 bn (80% options). However, reduction in forex hedge to US$2.2-2.5 bn by end June 2008 could help lower losses during the quarter.

- **Hiring numbers would be key to FY09 growth trends**: Our interaction with recruitment consultants indicate a mixed trend in hiring for IT services. While Chennai is witnessing revival in hiring trends, hiring in Bangalore is yet to revive. Companies such as IBM, Accenture, Cognizant, and Satyam have reported smart hiring out of Chennai; mid caps have been leading hiring in Bangalore. Hiring trends during the quarter and outlook on FY09 hiring would be key pointers to demand scenario in FY09.

Exhibit 11: Hiring plans in FY09E

FY09E Hiring Plans (Nos)	Gross addition	Campus offers
Infosys	25,000	18,000
TCS	30,000-35,000	27,000
Wipro	NA	17,500
Satyam	18,000	8,000-9,000

Source: Company data

- **1Q FY09 will provide much needed direction:** Sentiments in the sector seemed to have improved over the last few months, but concerns on demand continue to weigh over near term. We expect both Infosys and TCS to sound more confident post 1Q, and continue to see revival from 2Q FY09. **Infosys** remains our top pick within the sector. We retain Buy on **TCS**, while we maintain Hold on **Satyam** and **Wipro**.

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