

## Technology

### Cautious optimism

Reason for report: Sector update

**Indian IT large-caps have been re-rated on expected stabilisation/recovery in the global economy. Signs of improvement in consumer confidence have been seen globally, leading to higher sectoral valuations ahead of fundamental upgrade. With mixed signals on global recovery, we believe the revival will unlikely be equally positive for all large-cap Indian IT vendors on fundamentals, at least in short-to-medium term (versus pick up across total IT sector post slowdown in '01) given depth of macro challenges, increased base, varied business concentration risks among vendors and resultant client-specific issues. This is reflected in the diverse stance by most India-based IT services vendors as regards volume pick-up & pricing decline. Hence, advice cautious optimism on IT.**

- ▶ **Mixed signals on recovery in global economy.** While consumer sentiment, a lead indicator, has improved in the US and Europe, key concerns are increasing unemployment, declining credit to consumers and higher debt, leading to increased savings rate among US consumers. The pace of some negative economic indicators has slowed down, indicating that the worst may be behind. Overall, sentiments and business confidence is unlikely to worsen.
- ▶ **Major pick up in IT services volumes is unlikely before H2FY10/FY11** with IT services growth lagging corporate profitability growth by ~2 quarters, in our view.
- ▶ **Likely stabilisation of global economy to cap valuation downside** in medium-to-long term. We believe that newsflow on global economy may not be significantly negative and, therefore, large-cap IT sector will be a direct beneficiary and recent P/E re-rating versus our earlier forward target P/E of 11-13x for Infosys, Tata Consultancy Services (TCS) and Wipro is likely to sustain over the medium-to-long term. But we are surprised by the pace of P/E re-rating and believe that there is less room for further upside in the short term. We raise our target price on revised forward FY11E target P/E of 12-16x.
- ▶ **Sectoral strategy.** Recommend staying selective based on: i) higher earnings visibility of vendors versus peers and ii) increased diversification in services/vertical portfolio to gain higher wallet share given the cautious recovery in IT spend. Hence, reiterate Infosys (upgrade to BUY from Hold) and Wipro as our sectoral picks over TCS as we believe that concerns about client-specific issues and relatively low-margin levers still persist for TCS. Though we maintain HOLD on HCL Technologies on short-term execution challenges, we rate it as a dark horse in the sector. We also upgrade Patni to BUY on lower valuation downside and earnings risk.
- ▶ **Key risks** are: i) significant rupee appreciation after likely stable political scenario in India ii) increasing protectionism in the US and Europe and iii) delay in client decision making beyond H1CY09.

### Valuations summary

Company	Reco	CMP (Rs)	Target Price (Rs)	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
				FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Infosys	BUY	1,548	1,760	104.7	109.9	14.8	14.1	10.5	9.3
TCS	HOLD	624	670	52.5	55.8	11.9	11.2	8.1	7.3
Wipro	HOLD	374	385	26.9	28.3	13.9	13.2	9.4	8.1
HCL Tech*	HOLD	163	170	12.6	17.8	12.9	9.1	5.3	4.6
Patni **	BUY	213	250	24.3	27.5	8.8	7.8	2.4	2.0

\* Year end June; \*\* Year end December and FY10 and FY11 reflects CY09 and CY10 respectively.

#### Top picks (large-caps)

Infosys Technologies  
Wipro

#### Upgrade from HOLD to BUY

Infosys Technologies  
Patni Computers

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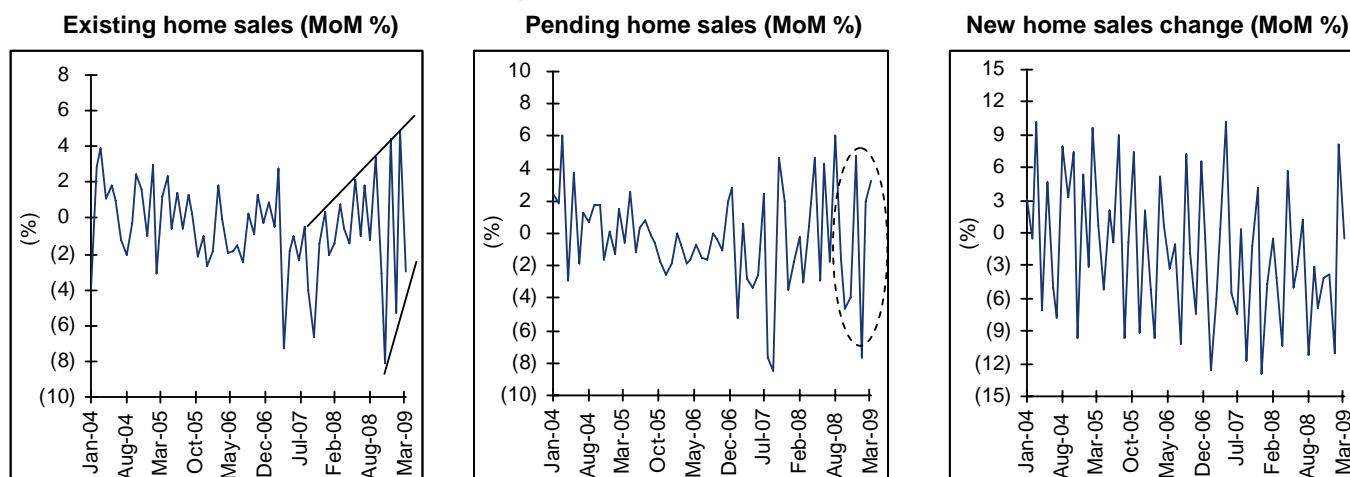
*Prices and Sensex as on May 26, 2009 unless otherwise mentioned*

## Mixed signals on global economic recovery

We believe that signals are mixed on economic recovery in developed countries, with consumer sentiment (a lead indicator) improving. This makes us cautiously optimistic. However, key concerns are increasing unemployment, declining credit to consumers and higher debt leading to increased savings rate among US consumers. The extent of some negative economic indicators has diminished, indicating that the worse may be behind. However, we strongly believe that this time the benefits of global recovery will unlikely be equally positive for all large-cap Indian IT vendors on fundamentals, at least in the short-to-medium term (versus pick up post the slowdown in '01) given the depth of macro challenges, increased base, varied business concentration risks among vendors and resultant client-specific issues. This is reflected in the diverse stance by most India-based IT services vendors' as regards volume pick-up & pricing decline. Therefore, we are cautiously optimistic on IT and believe that sentiments and business confidence will not worsen further. However, it is early to say that uncertainty in IT services demand is fully over.

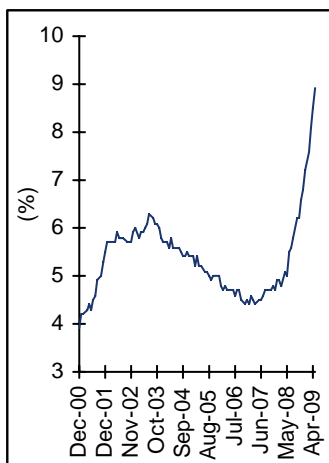
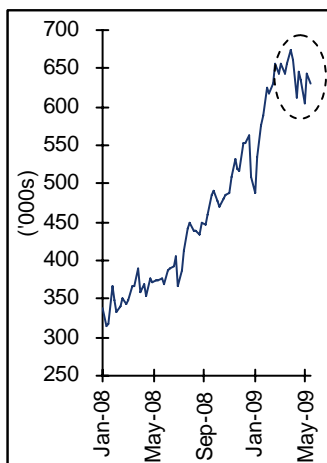
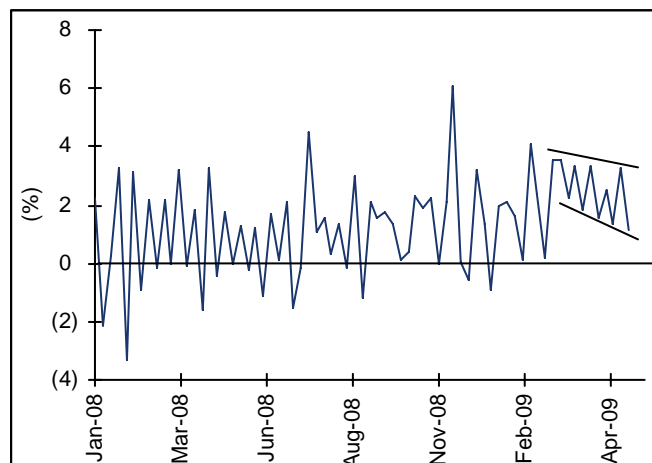
In Charts 1-8, we have analysed various economic indicators in the US and Europe, the key markets for Indian IT services.

**Chart 1: US home sales (MoM % change)**



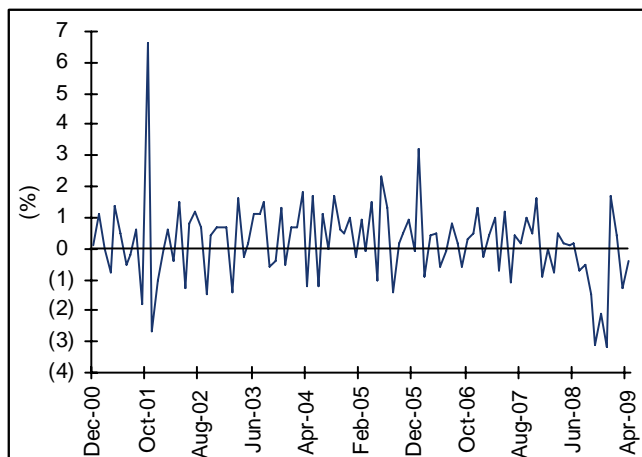
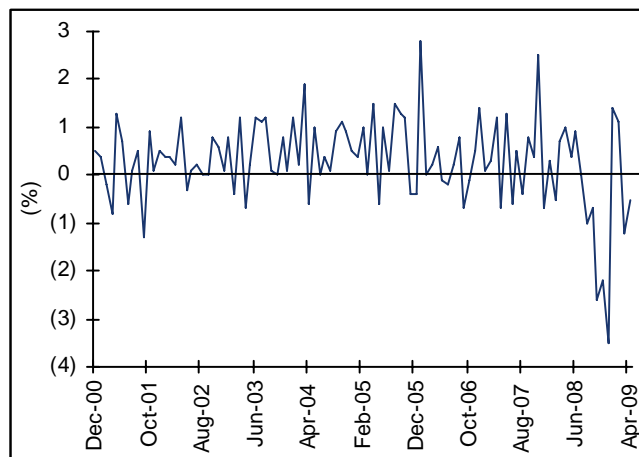
Source: Bloomberg, I-Sec Research

While existing and new home sales in the US have been declining, the pace of the decline is lessening. However, a lead indicator, pending home sales (home sales under contract), is on a gradual uptrend.

**Chart 2: Unemployment in the US****US unemployment (MoM %)****Initial job loss claims (WoW)****Change in continuing job loss claims (WoW %)**

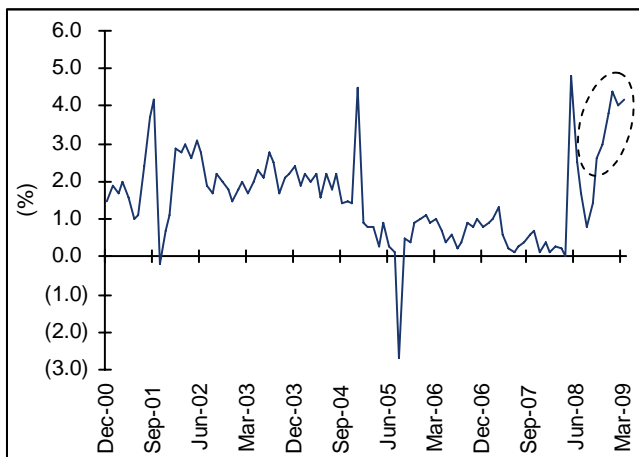
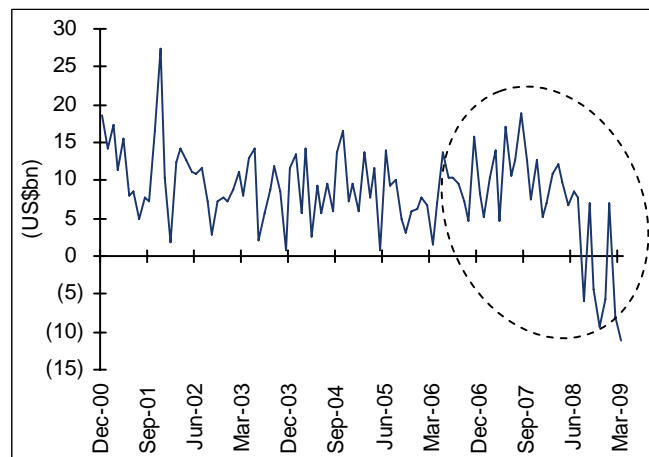
Source: Bloomberg, I-Sec Research

Unemployment rate in the US has reached 8.9% in April '09 and most economists expect it to peak at ~10%. There has been some decline in initial job loss claims and the pace of increase has lessened in the recent weeks; however, it is too early to become a trend. Higher unemployment would have direct impact on savings and consumption and thus economic growth.

**Chart 3: US retail sales (MoM % change)****Retail sales (MoM %)****Retail sales ex-auto (MoM %)**

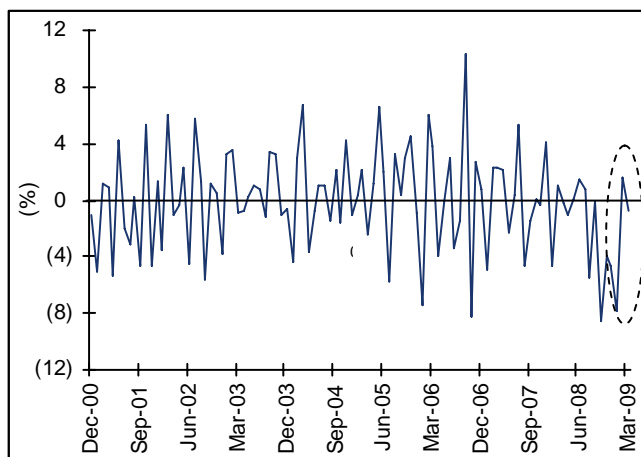
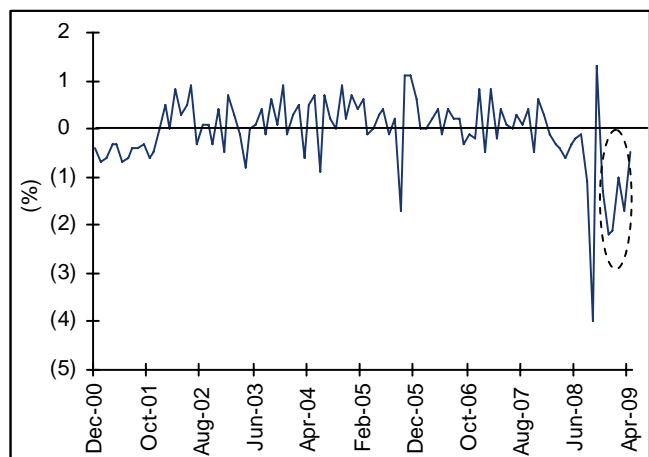
Source: Bloomberg, I-Sec Research

Retail sales in the US fell for the sixth consecutive month in H2CY08 before improving in January and February '09. However, March and April '09 showed some marginal decline, which indicates that consumers are becoming increasingly cautious on spending. This is also reflected in higher savings rate, which inched up from 0.2% in March '08 to 4.2% in March '09.

**Chart 4: Increasing US savings rate (MoM%) with declining US consumer credit (MoM%)****US personal saving rate as percentage of disposable income (MoM)****Monthly change in US consumer credit**

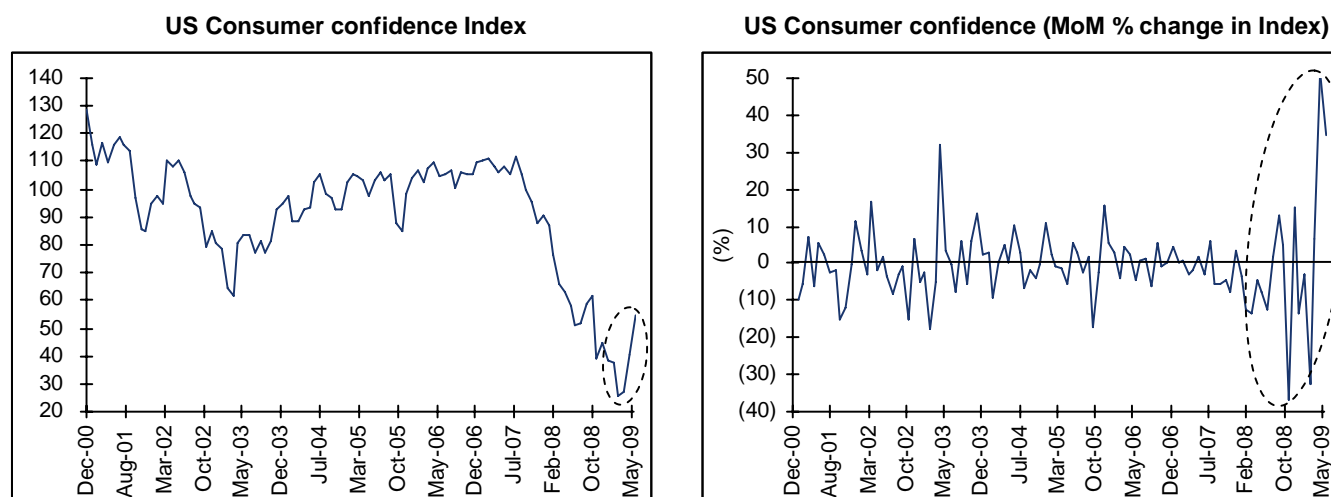
Source: Bloomberg, I-Sec Research

Similarly, US consumer credit has seen a decline in recent months as banks have become more cautious on lending and consumers careful while spending, so as to increase their savings.

**Chart 5: Durable goods and industrial production****Durable goods (MoM)****Industrial production (MoM)**

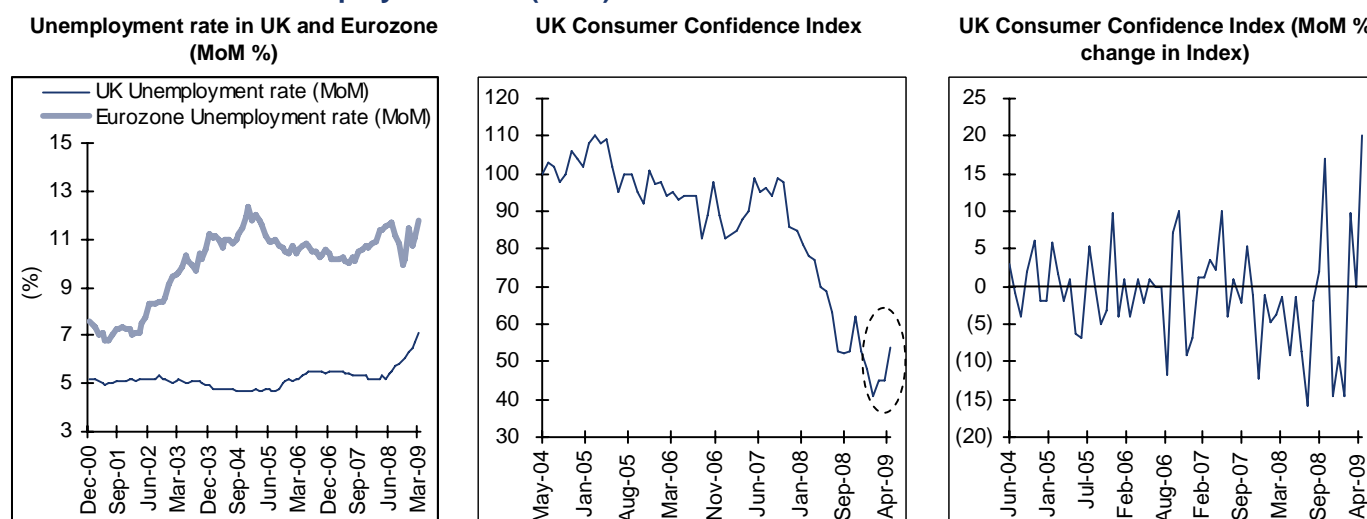
Source: Bloomberg, I-Sec Research

Durable goods new orders and industrial production real output change, on MoM basis, are still not showing a positive trend; however, the pace of decline has reduced MoM.

**Chart 6: US consumer confidence**

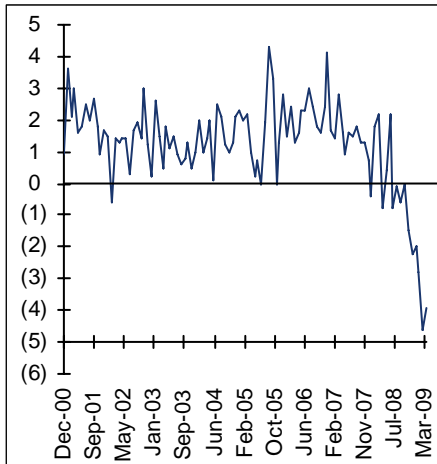
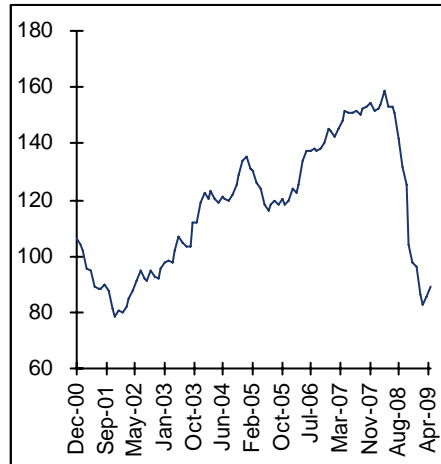
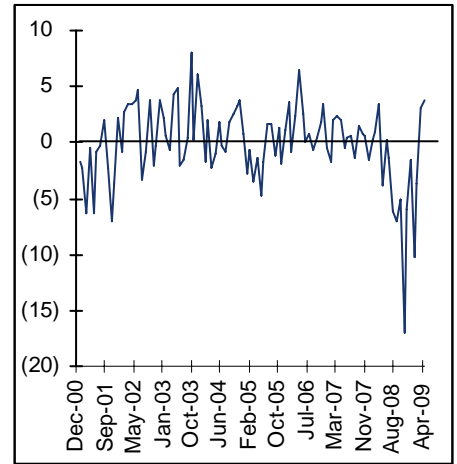
Source: Bloomberg, I-Sec Research

Consumer confidence in the US, as measured by Consumer Confidence Index (a lead indicator of economic health for forthcoming six months), fell sharply since February '07 and was the least at 25.3 in February '09. March '09 showed a marginal improvement, while April-May '09 reflected a drastic uptick, indicating improvement in business environment/consumer sentiments.

**Chart 7: UK & Euro unemployment rate (MoM) and UK consumer confidence**

Source: Bloomberg, I-Sec Research

Unemployment in the UK is increasing steadily since the recent lows of 5.2% in May '08 to 7.1% in March '09. Similarly, in Eurozone, unemployment rate has consistently remained at double digits, with recent high of 11.8% in March '09. Nationwide consumer confidence in the UK has been deteriorating since September '07 and touched a low of 41 in January '09 before improving to 45 in February and March '09 and 54 in April '09. Thus, recently there has been some improvement in consumer confidence in the UK.

**Chart 8: Eurozone retail sales and economic sentiment indicator****Eurozone retail sales (% MoM change)****European Commission Economic Sentiment Indicator****European Commission Economic Sentiment Indicator (% MoM change)**

Source: Bloomberg, I-Sec Research

Eurozone retail sales have declined in the past six months and there are no visible signs of recovery yet. We believe that this would largely be on account of consistent higher unemployment in Eurozone. However, European economic sentiment indicator has seen improvement over March-April '09, post decline for nine consecutive months. Please note that within Europe, most Indian IT vendors are deriving more than 50-60% of their revenues from the UK.

## Likely stabilisation in global economy to cap valuation downside in medium-to-long term

We believe that newsflow on global economy may not be significantly negative going forward and global equity markets are factoring in diminishing negative economic indicators with expectations of global economic stabilisation in H2CY09/early CY10. Our check on macro indicators also indicates improving consumer confidence and likely stabilisation in the global economy. We believe that improving business confidence in developed markets (especially in the US) is likely to lead to some improvement in decision making on IT investments by clients, which is the key to volume recovery for Indian IT vendors, though full pick-up will still likely lag clients' profitability growth by ~2 quarters. We believe that during the recovery cycle, the client may still be reluctant to spend on discretionary projects. However, decision making on outsourcing and offshoring is likely to improve as it would result in better cost efficiency for clients despite macro challenges (though bottoming out).

Therefore, large-cap IT sector will be a direct beneficiary and recent P/E re-rating versus our earlier forward target P/E of 11-13x for Infosys, TCS and Wipro is likely to sustain over the medium-to-long term. This is owing to expected lower negative surprise on FY11 dollar revenue growth with FY10 likely to be the toughest year. We, therefore, raise our target price on revised forward target FY11E P/E of 12-16x. Our target price is now based on FY11, beyond which, we expect the Indian large-cap IT sector to post 10-15% growth in dollar revenues. This is despite higher base on expectations of better revenue visibility due to expected global economic recovery post FY10 (even on discretionary projects) and increased outsourcing as we still believe that the scope for outsourcing and offshoring remains high.

## Pace of re-rating to impact absolute return in short term

We are surprised by the pace of P/E re-rating in the current rally and expect that room for upside in the short term will likely be limited. Even in FY11, higher tax rate due to expiry of STPI benefits would lead to sluggish EPS growth. Therefore, EPS CAGR through FY09E-11E is likely to be in lower single digit for Indian large caps based on our assumption of average rupee appreciation of 7% in FY11E versus expected 4% depreciation in FY10E. However, we believe that higher tax rate, though affecting return ratios on an ongoing basis, will affect EPS growth only in FY11. Therefore, post FY10, EBITDA growth is likely to play a key role in terms of valuation of Indian large-caps, at least for the next 1-2 years.



**Table 1: Dollar revenue growth estimates**

Dollar revenues (mn)	FY08	FY09	FY10E	CQoQ FY10E (dollar revenues)	CQoQ FY10E (volumes)*	FY11E	CQoQ FY11E (\$ Rev)	CQoQ FY11E (volumes)*
Infosys YoY (%)	4,174	4,663 11.7	4,576 (1.9)	0.8%	1.5%	5,345 16.8	4.1%	4.0%
TCS (with CGSL) YoY (%)	5,635	6,015 6.7	5,728 (4.8)	0.0%	0.8%	6,576 14.8	3.8%	4.0%
Wipro-IT services only (with CITOS) YoY (%)	3,647	4,324 18.5	4,337 0.3	1.4%	1.2%	4,987 15.0	3.6%	2.8%
HCL Tech (with Axon) ** YoY (%)	1,871	2,109 12.7	2,368 12.3	3.0%	2.4%	2,753 16.2	4.1%	4.2%
Patni Computers # YoY (%)	663	719 8.4	641 (10.9)			717 11.9		

\* For Wipro CQoQ volume growth rate is only for Global IT services, excluding CITOS & Infocrossing; for HCL Tech CQoQ volume growth rate reflects only for IT services; \*\* Year end June; # Year end December and FY10 and FY11 reflects CY09 and CY10 respectively.

Source: Company data, I-Sec Research

## Rupee appreciation, the key risk after UPA being voted to power

UPA's convincing win over opponents in the elections would result in more foreign investors focussing on India within their emerging market portfolio. Therefore, expected higher FII inflow owing to a stable Government and focus on reducing fiscal deficit is likely to result in rupee appreciation, which would be negative for export-focussed companies and hence, technology. Our FY10E/FY11E EPS estimates are based on average rupee-dollar rate of Rs48.5/45.1. Therefore, the downside to our EPS estimates is likely, especially for FY10. Table 2 shows the hedging position of large-caps.

**We continue to believe that any steep rupee appreciation is likely to mar the re-rating of tech valuations and view it as a material risk to our revised target P/Es.**

**Table 2: Hedging position**

Company	*Hedge cover (US\$mn)	Comments
Infosys	506	Infosys has the lowest cover among peers, covering less than one quarter of net forex inflow. We believe that it would be inappropriate to assume that Infosys is unlikely to increase the cover, with likely rupee appreciation. With further increase in cover, Infosys' hedge rate is likely to be better than peers
Wipro	1900	Wipro's gross hedging of US\$1.9bn (net US\$1.3bn) covers more than three quarters of net inflow of IT services with hedge rate of ~Rs39.5-51. However, the maturity of this cover is over 3-4 years, which we believe would be too long in terms of certainty of impact/protection from rupee depreciation/appreciation.
TCS	2076	TCS' hedging covers more than two quarters of net inflow of IT services with hedge rate of not more than Rs42 for contracts maturing in FY10
HCL Technologies	1288	HCL Technologies' hedging covers more than seven quarters of net inflow, with average hedge rate of ~Rs41. Besides, HCL Technologies' hedge cover predominantly comprises Futures. With likely appreciation in rupee, cashflow hedge loss is likely to be lower than earlier estimates. However, the management was planning to cancel hedge cover worth US\$600mn in tranches when spot rate was ~Rs50. We are awaiting further updates on this and our estimates do not factor in cancellation of these contracts before maturity
Patni Computers	373	Patni's hedging covers around four quarters of net inflow with average hedge rate of Rs40.7-51.5. With higher onsite revenue contribution at ~58%, Patni has higher natural hedge versus peers in an appreciating rupee scenario.

\*Hedge position as of end of March '09

Source: I-Sec Research

**Table 3: EPS sensitivity to rupee-dollar movement**

FY10E EPS Sensitivity to Rs/\$US movement (Rs)					
Rs / \$US	48.5	48.0	47.0	46.0	45.0
Infosys	104.7	103.4	100.7	97.8	95.5
TCS	52.5	51.8	50.3	48.8	47.5
Wipro	26.9	26.6	25.9	25.2	24.6
HCL Tech *	12.6	12.5	12.1	11.8	11.6
Patni Computers **	24.3	24.0	23.3	22.6	21.9

FY11E EPS Sensitivity to Rs/\$US movement (Rs)					
Rs / \$US	45.1	44.5	44.0	43.5	43.0
Infosys	109.9	108.1	106.6	104.9	103.6
TCS	55.8	54.8	53.9	53.2	52.2
Wipro	28.3	27.8	27.4	27.0	26.7
HCL Tech *	17.8	17.5	17.3	17.0	16.8
Patni Computers **	27.5	27.0	26.5	26.1	25.7

\* Year end June; \*\* Year end December and FY10 and FY11 reflects CY09 and CY10 respectively.

Source: I-Sec Research

## Sector strategy – Upgrade Infosys to BUY; Wipro next best pick

We recommend investors to remain selective based on:

- i) **Higher earnings visibility of vendors versus peers** – Infosys remains the best bet on this parameter. We rate Infosys as a sector defensive stock considering no premium on EV/FCF versus peers despite higher EVA, EBITDA margin. Even in an appreciating rupee scenario, Infosys remains the preferred choice considering its leading capability of fighting margin headwinds.
- ii) **Increased diversification in services/vertical portfolio** to gain higher wallet share given the cautious recovery in IT spend – Wipro remains the best on this parameter and we rate HCL Technologies as a dark horse on his parameter.

Hence, within Indian peers, we reiterate Infosys (upgrade to BUY from Hold) and Wipro as our sector picks over TCS as we believe that client-specific issues and low margin visibility still persist for TCS.

Though we maintain HOLD on HCL Technologies as execution challenges remain, at least in the short term, we rate it as a dark horse within the sector and likely gainer in the long term on the back of rich diversification in the business model.

We upgrade Patni Computers to BUY from HOLD considering its current cheap valuations, which will likely be re-rated given our belief that the worst is over as regards revenue growth. We also believe that with increasing management focus in cost efficiency, earnings visibility has also improved.

**Table 4: Revised one-year forward target P/E multiple**

Companies	Old target P/E	New target P/E	Comments
Infosys	13	16	Our revised target P/E is still lower than Infosys' past three-year average one-year forward P/E of 20x and is at par with current FY10 Sensex P/E
TCS	11	12	Implies 25% discount to Infosys
Wipro	11	14	Implies 15% discount to Infosys
HCL Tech	6	10	Implies 40% discount to Infosys

Source: Company data, I-Sec Research

**Table 5: Revised target price**

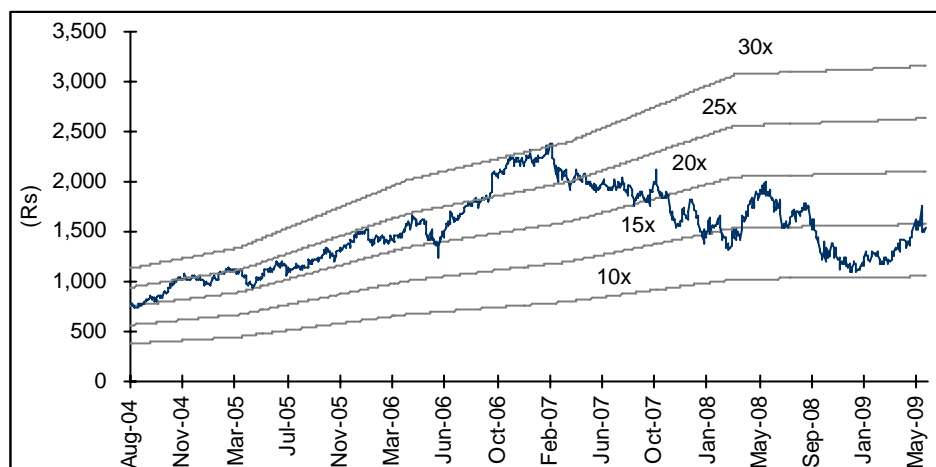
Companies	Old Rating	Revised Rating	Old target price (Rs)	Revised Target price (Rs)
Infosys	HOLD	BUY	1,380	1,760
TCS	HOLD	HOLD	555	670
Wipro	HOLD	HOLD	290	385
HCL Tech	HOLD	HOLD	121	170
Patni Computers	HOLD	BUY	181	250

Source: Company data, I-Sec Research

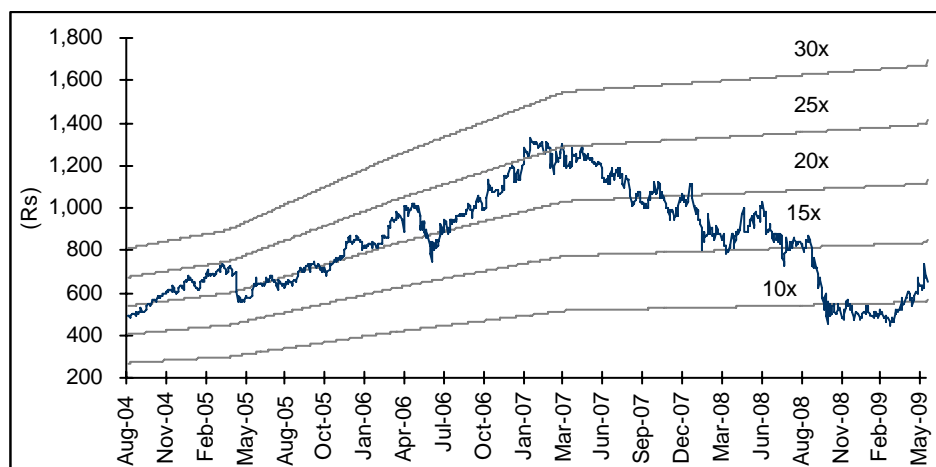
**Table 6: Valuation summary**

Company	CMP (Rs)	EPS (Rs)		P/E (x)		EV/EBITDA (x)		EV/FCF (x)	
		FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Infosys	1,548	104.7	109.9	14.8	14.1	10.5	9.3	11.4	13.2
TCS	624	52.5	55.8	11.9	11.2	8.1	7.3	11.0	14.0
Wipro	374	26.9	28.3	13.9	13.2	9.4	8.1	12.3	17.0
HCL Tech	163	12.6	17.8	12.9	9.1	5.3	4.6	10.6	11.7
Patni Computers	213	24.3	27.5	8.8	7.8	2.4	2.0	4.9	4.5

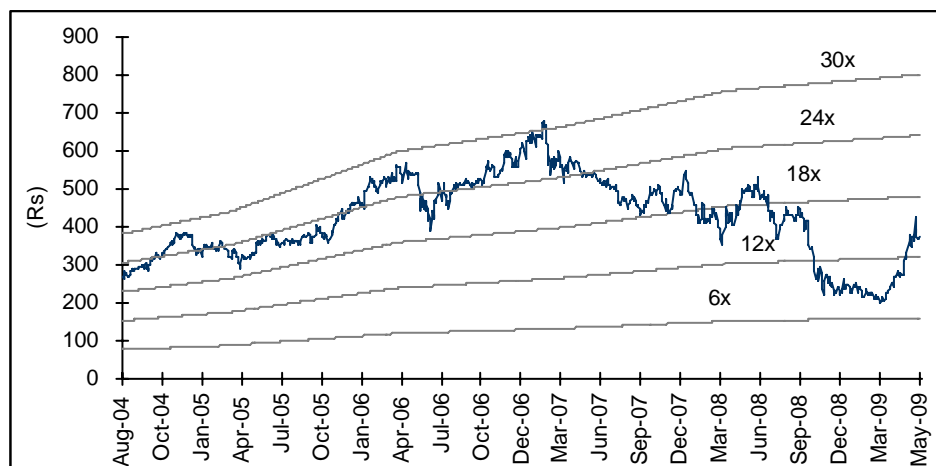
Source: Company data, I-Sec Research

**Chart 9: Infosys – One-year forward P/E band**

Source: Company data, I-Sec Research

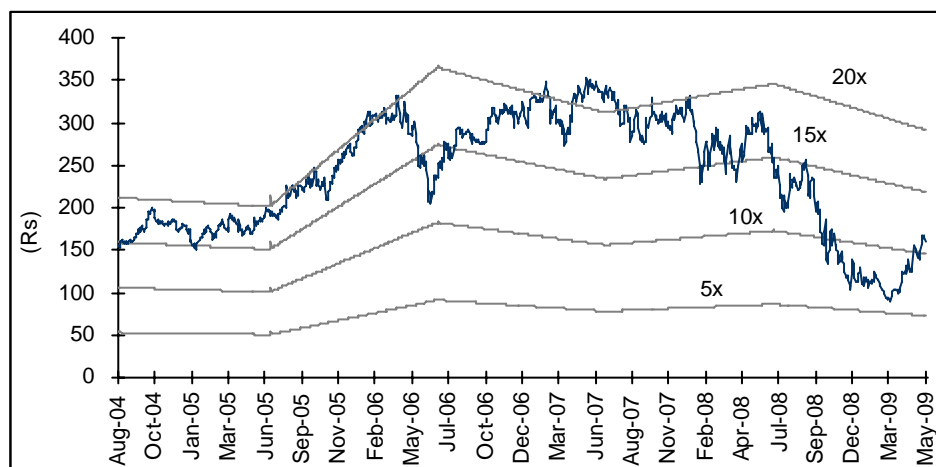
**Chart 10: TCS – One-year forward P/E band**

Source: Company data, I-Sec Research

**Chart 11: Wipro – One-year forward P/E band**

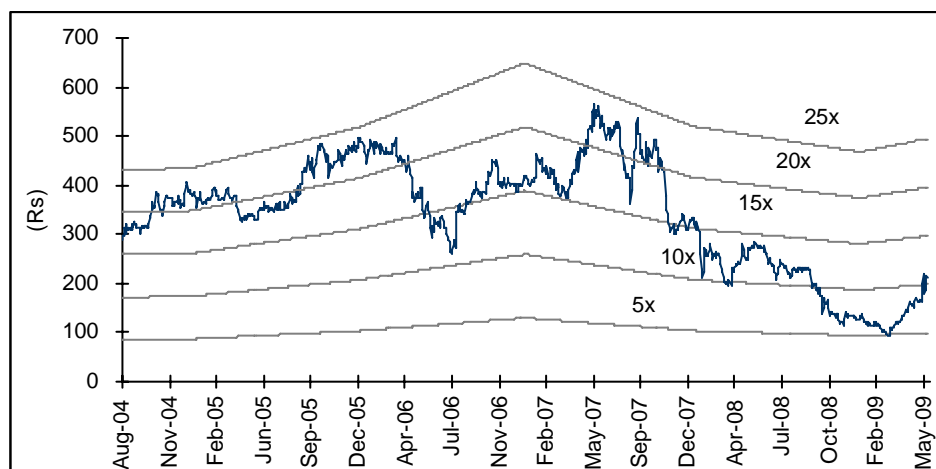
Source: Company data, I-Sec Research

Chart 12: HCL Technologies – One-year forward P/E band



Source: Company data, I-Sec Research

Chart 13: Patni Computers – One-year forward P/E band



Source: Company data, I-Sec Research

Table 7: Price performance

	Price (Rs)	Absolute				Relative to Sensex			
		MoM	QoQ	YoY	YTD	MoM	QoQ	YoY	YTD
HCL Technologies	163	25.6	60.0	(46.5)	30.5	6.1	7.2	(30.0)	(6.7)
Infosys Technologies	1,548	7.8	25.7	(17.8)	34.8	(11.7)	(27.1)	(1.3)	(2.4)
Patni Computer Systems	213	39.8	118.1	(22.1)	59.6	20.3	65.2	(5.6)	22.4
Tata Consultancy Service	624	3.8	29.3	(35.6)	25.7	(15.8)	(23.6)	(19.1)	(11.5)
Wipro	374	14.7	80.2	(23.8)	50.7	(4.8)	27.4	(7.3)	13.5

Source: Bloomberg, I-Sec Research

## Risks

**Key downside risks** are: i) significant rupee appreciation, ii) increasing protectionism in the US and Europe, iii) delay in client decision making beyond H1CY09 and iv) slower-than-expected global economic recovery.

**Key upside risks** are: i) sharp rupee depreciation, ii) extension of income tax benefits under STPI beyond March '10 and iii) faster-than-expected global economic recovery.

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# HCL Technologies

**HOLD**  
Maintained  
**Rs163**

## Dark horse

Reason for report: Company update

With increasing volatility in earnings growth – FY07 PAT growth 75%, 17% decline in FY08 and likely growth of 4% in FY09E, higher balance sheet risk, short-term execution challenges and declining support from dividend yield, we believe HCL Technologies will likely continue to trade at a discount to peers in the short term. We strongly believe that forex income is now a part of operations. The company's changing policy as regards hedging and accounting classification does not give us comfort. Hence, we reiterate HOLD with revised target price of Rs170/share (based on 10x FY11E June end EPS). We believe valuations are unlikely to improve until volatility in earnings growth reduces. Though we maintain HOLD on HCL Technologies since execution challenges exist, at least in the short term, we rate it as a dark horse over 18-24 months perspective and believe that it will likely gain in the long term owing to significant diversification in the business model post the Axon acquisition.

- **Despite winning large deals, ramp-down in existing clients a risk.** HCL Technologies has won new deals worth US\$1bn in FY08 and US\$1.5bn in 9MFY09. However, with declining management confidence on existing client ramp-up and increasing proportion of free transition offered in new deals, we believe execution risk exists as regards revenues and hence margins.
- **Axon acquisition, long-term differentiator.** Post the Axon acquisition, business diversification has increased with more exposure to non-traditional verticals of Government, Utilities and Oil & Gas. With HCL Technologies' organic focus on RIM and BPO and Axon's front end capabilities, the company is likely to be a winner post any pick up in the global economy. However, in the short-to-medium term, based on high discretionary revenues and challenges from ramp-up of existing clients, positive EPS surprise is unlikely.
- **Reiterate HOLD; HCL Technologies, a dark horse.** The current run-up in the stock has led to P/E re-rating owing to improving global economic sentiment. However, the stock will likely trade at a high discount to peers due to stock-specific risk in the short term. Hence, we reiterate HOLD; however, we do not rule out further re-rating in HCL Technologies once the global economy recovers and expect narrowing down of the valuation discount versus peers. Please note our estimates do not factor in likely cancellation of hedge contracts worth ~US\$600mn before maturity.

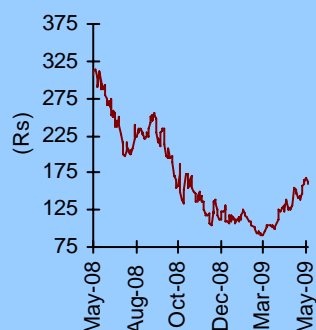
## Technology

### Shareholding pattern

(%)	Sep '08	Dec '08	Mar '09
Promoters	67.3	67.6	68.2
Institutional investors	23.6	22.8	22.0
MFs and UTI	1.9	2.2	2.5
Insurance Cos.	4.0	4.0	2.8
FIs	17.7	16.6	16.7
Others	9.1	9.6	9.8

Source: www.nseindia.com

### Price chart



Market Cap	Rs109.2bn/US\$2.3bn
Reuters/Bloomberg	HCLT.BO/HCLT IN
Shares Outstanding (mn)	669.73
52-week Range (Rs)	325/87
Free Float (%)	31.8
FII (%)	16.7
Daily Volume (US\$'000)	4,730
Absolute Return 3m (%)	60.0
Absolute Return 12m (%)	(46.5)
Sensex Return 3m (%)	52.8
Sensex Return 12m (%)	(16.5)

Year to June	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	76,398	104,441	111,364	121,754
Net Income (Rs mn)	10,351	10,985	8,460	12,032
EPS (Rs) *	15.6	16.4	12.6	17.8
% Chg YoY	(17.6)	5.4	(23.2)	41.6
P/E(x)	10.5	9.9	12.9	9.1
CEPS (Rs)	20.5	22.9	19.5	25.3
EV/E(x)	5.1	5.5	5.3	4.6
Dividend Yield	5.5	4.3	2.5	3.7
RoCE (%)	20.1	15.9	9.2	11.4
RoE (%)	21.1	21.3	14.6	16.9

\* After ESOP charges

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## Financial Summary (US GAAP Consolidated)

Table 1: Profit and Loss Statement

(Rs mn, year ending June 30)

	FY08	FY09E	FY10E	FY11E
<b>Operating Revenues (Sales)</b>	<b>76,398</b>	<b>104,441</b>	<b>111,364</b>	<b>121,754</b>
<i>of which Exports</i>	76,398	104,441	111,364	121,754
<b>Operating Expenses</b>	<b>59,455</b>	<b>82,171</b>	<b>89,520</b>	<b>98,364</b>
<b>EBITDA</b>	<b>16,943</b>	<b>22,270</b>	<b>21,845</b>	<b>23,390</b>
<i>% margins</i>	22.2	21.3	19.6	19.2
Depreciation	3,032	3,722	4,096	4,502
Amortisation	0	984	1,149	589
Other Income	(1,370)	(3,789)	(5,268)	(1,726)
<b>Recurring PBT</b>	<b>12,541</b>	<b>13,775</b>	<b>11,332</b>	<b>16,573</b>
Add: Extraordinaries	0	0	0	0
Less: Taxes	1272	2105	2326	4197
Less: Minority Interest	19	0	0	0
Add: Share of profit from associates	0	50	81	98
<b>Net Income (Reported) bef ESOP</b>	<b>11,250</b>	<b>11,720</b>	<b>9,086</b>	<b>12,474</b>
ESOP charges	899	734	626	443
<b>Net Income (Reported) aft ESOP</b>	<b>10,351</b>	<b>10,985</b>	<b>8,460</b>	<b>12,032</b>
<b>Recurring Net Income aft ESOP</b>	<b>10,351</b>	<b>10,985</b>	<b>8,460</b>	<b>12,032</b>

Source: Company data, I-Sec Research

Table 2: Balance Sheet

(Rs mn, year ending June 30)

	FY08	FY09E	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	32,312	46,887	53,199	73,684
<i>of which cash and deposits</i>	4,655	6,129	12,837	19,974
Total Current Liabilities & Provisions	21,874	37,910	29,443	36,345
<b>Net Current Assets</b>	<b>10,437</b>	<b>8,977</b>	<b>23,756</b>	<b>37,339</b>
<b>Investments</b>	<b>20,066</b>	<b>16,183</b>	<b>16,183</b>	<b>16,183</b>
<i>of which Strategic/Group</i>	101	63	63	63
<i>of which Other Marketable</i>	19,964	16,120	16,120	16,120
<b>Net Fixed Assets</b>	<b>18,619</b>	<b>56,242</b>	<b>54,998</b>	<b>55,907</b>
<i>Intangibles</i>	9,586	43,067	41,918	41,330
<i>Goodwill</i>	9,221	36,764	36,764	36,764
<b>Capital Work-in-Progress</b>	<b>4,286</b>	<b>4,000</b>	<b>3,500</b>	<b>4,500</b>
<b>Other Assets</b>	<b>5,064</b>	<b>7,886</b>	<b>7,428</b>	<b>7,191</b>
<b>Total Assets</b>	<b>58,471</b>	<b>93,288</b>	<b>105,864</b>	<b>121,119</b>
<i>of which cash and equivalents</i>	24,619	22,249	28,957	36,094
<b>Liabilities</b>				
Borrowings	273	34,500	34,500	34,500
Other Liabilities	5,959	7,777	6,664	9,080
Minority Interest	57	23	23	23
Equity Share Capital	1,333	1,338	1,342	1,348
<i>Face Value per share (Rs)</i>	2	2	2	2
Reserves & Surplus*	50,850	49,650	63,334	76,168
<b>Net Worth</b>	<b>52,183</b>	<b>50,988</b>	<b>64,677</b>	<b>77,516</b>
<b>Total Liabilities</b>	<b>58,471</b>	<b>93,288</b>	<b>105,864</b>	<b>121,119</b>

\*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 5: Quarterly trends

(Rs mn, year ending June 30)

	Jun-08	Sep-08	Dec-08	Mar-09
Net sales	21,689	23,518	24,692	28,615
% growth (YoY)	34.5	37.6	35.9	49.4
EBITDA	5,085	5,136	5,385	6,103
Margin (%)	23.4	21.8	21.8	21.3
Other income	(2,644)	(240)	1	(2,040)
ESOP Charges	231	187	186	183
Rec. Net Income after ESOP	1,180	3,379	3,546	1,995

Source: Company data, I-Sec Research

Table 3: Cash Flow Statement

(Rs mn, year ending June 30)

	FY08	FY09E	FY10E	FY11E
<b>Operating Cash flow before W Cap changes</b>	<b>12,946</b>	<b>16,242</b>	<b>14,140</b>	<b>17,521</b>
Working Capital Inflow / (Outflow)	1,812	(8,416)	(393)	(1,485)
Capex / Acquisition	(5,971)	(41,004)	(2,932)	(6,817)
<b>Free Cash flow</b>	<b>8,788</b>	<b>(33,177)</b>	<b>10,816</b>	<b>9,219</b>
<b>Cash Flow from other Invest Act (Ex Capex)</b>	<b>(914)</b>	<b>3,883</b>	<b>0</b>	<b>0</b>
Proceeds from Issue of Share Capital	354	213	150	245
Inc/(Dec) in Borrowings	(301)	36,045	(1,113)	2,416
Divided paid	(6,860)	(5,489)	(3,144)	(4,744)
<b>Increase/(Decrease) in Cash</b>	<b>1,067</b>	<b>1,474</b>	<b>6,708</b>	<b>7,137</b>

Source: Company data, I-Sec Research

Table 4: Key Ratios

(Year ending June 30)

	FY08	FY09E	FY10E	FY11E
<b>Per Share Data (in Rs)</b>				
EPS(Basic Recurring) before ESOP Charges	16.9	17.5	13.5	18.5
Fully Diluted Recurring EPS before ESOP Charges	15.7	16.6	12.9	17.7
Recurring Cash EPS	20.5	22.9	19.5	25.3
Dividend per share (DPS)	9.0	7.0	4.0	6.0
Book Value per share (BV)	77.2	74.3	92.7	110.2
EPS(Basic Recurring) after ESOP Charges	15.6	16.4	12.6	17.8
<b>Growth Ratios (%)</b>				
Operating Income (Sales)	26.1	37.2	6.6	9.3
EBITDA	24.5	33.8	(1.9)	7.1
Recurring Net Income (bef ESOP)	(17.0)	4.2	(22.5)	37.3
Diluted Recurring EPS	(17.0)	5.6	(22.5)	37.3
Diluted Recurring CEPS	(15.3)	14.4	(14.8)	29.5
<b>Valuation Ratios (x)</b>				
P/E (Before ESOP Charges)	9.6	9.3	12.0	8.8
P/CEPS	8.0	7.1	8.4	6.5
P/BV	2.1	2.2	1.8	1.5
EV / EBITDA	5.1	5.5	5.3	4.6
EV / Sales	1.1	1.2	1.0	0.9
EV / FCF	9.6	(3.7)	10.6	11.7
P/E (After ESOP Charges)	10.5	9.9	12.9	9.1
<b>Operating Ratio</b>				
Software Development Expenses/Sales (%)	61.6	62.3	65.0	66.0
SG&A/Sales (%)	16.5	16.4	15.4	14.8
Other Income / PBT (%)	(10.9)	(27.5)	(46.5)	(10.4)
Effective Tax Rate (%)	10.1	15.3	20.5	25.3
NWC / Total Assets (%)	13.0	6.8	17.6	23.7
Fixed Asset Turnover (x) on average	4.4	2.8	2.0	2.2
Receivables (days) on average	74	79	86	87
Payables (days) on average	0	0	0	0
D/E Ratio (x) on average	0.0	0.7	0.5	0.4
<b>Return/Profitability Ratio (%)</b>				
Recurring Net Income Margins	13.5	10.5	7.6	9.9
RoIC (Based on Avg)	44.1	25.6	13.5	16.9
RoCE (Based on Avg)	20.1	15.9	9.2	11.4
RoNW (Based on Avg)	21.1	21.3	14.6	16.9
Dividend Payout Ratio	68.7	50.0	37.2	39.4
Dividend Yield	5.5	4.3	2.5	3.7
EBITDA Margins	22.2	21.3	19.6	19.2

Source: Company data, I-Sec Research

# Infosys Technologies

**BUY**
**Upgrade from HOLD**
**Rs1,548**

## In its own league

Reason for report: Recommendation change

Despite our cautious optimism on IT and Infosys' higher BFSI contribution, the company is one of our top picks in the sector as it can maintain margins in a challenging environment. Also, Infosys' EPS visibility is still strong. Increasing focus on consulting-led business model will strengthen the business and help sustain superior long-term growth, leading to faster pick-up in revenue growth post FY10. We upgrade Infosys to BUY from Hold. Also, we raise price target to Rs1,760 (from Rs1,380) on 16x FY11E EPS, which is sustainable in the medium-to-long term given that the worst of the global recession may be behind and due to best return ratios and high free cashflow generation, which deserves a premium to peers. Key risks are: i) client specific issues, especially in BFSI, ii) higher-than-expected slowdown in volume growth, iii) deteriorating financials of top client and iv) sharp rupee appreciation.

- **FY10 EBITDA margin guidance of 300bps decline conservative** as margin pressure from 6-6.5% pricing decline and lower utilisation will likely be partly offset by higher offshoring and SG&A leverage. Higher flexibility in variable pay and fixed-price contribution will lead to relatively better earnings visibility than peers. However, rupee appreciation is the key risk to earnings.
- **BFSI client consolidation – Advantage Infosys.** Infosys' key BFSI clients were on the acquiring side during the recent BFSI client consolidation. Hence, we believe that this will lead to greater opportunities in the long term as these are material accounts for Infosys. The company's lower capital market exposure at ~6% versus peers (Tata Consultancy Services' ~12%) is likely to reduce BFSI client specific risks for Infosys.
- **Infosys deserves premium over peers on EV/FCF during uncertainty.** With the current rally in the sector, the valuation gap on EV/FCF has narrowed down significantly versus peers. We strongly believe that Infosys deserves the highest premium due to better EBITDA margin, higher EVA and clean balance sheet.
- **High cash to help Infosys maintain business discipline and growth.** We believe vendors with low treasury on books are prone to more risky deals for volume growth and tend to restrict business investment versus peers. However, higher treasury on books will allow Infosys to invest for growth (organic/inorganic) once the global economy stabilises. No special dividend in FY09 indicates management's increasing focus on investments.

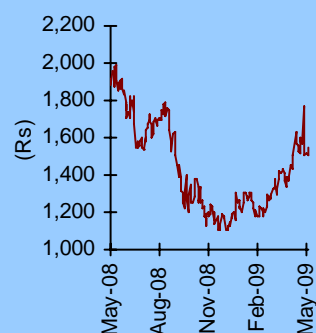
## Technology

### Shareholding pattern

	Sep '08	Dec '08	Mar '09
Promoters	16.5	16.5	16.5
Institutional investors	41.0	41.6	42.6
MFs and UTI	3.9	4.0	3.7
Insurance Cos.	4.5	4.7	4.0
FIs	32.5	33.0	34.9
Others	42.5	41.9	40.6

Source: www.nseindia.com

### Price chart


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Market Cap	Rs886.5bn/US\$18.5bn
Reuters/Bloomberg	INFY.BO/INFO IN
Shares Outstanding (mn)	572.8
52-week Range (Rs)	2047/1040
Free Float (%)	83.5
FII (%)	34.9
Daily Volume (US\$'000)	57,390
Absolute Return 3m (%)	25.7
Absolute Return 12m (%)	(17.8)
Sensex Return 3m (%)	52.8
Sensex Return 12m (%)	(16.5)

Year to March	FY08	FY09	FY10E	FY11E
Revenue (Rs mn)	166,920	216,930	221,831	241,059
Net Income (Rs mn)	45,684	58,640	60,021	63,014
EPS (Rs)	79.9	102.4	104.7	109.9
% Chg YoY	19.5	28.2	2.2	4.9
P/E (x)	19.4	15.1	14.8	14.1
CEPS (Rs)	90.0	115.6	119.5	125.9
EV/E (x)	15.5	11.0	10.5	9.3
Dividend Yield	2.1	1.5	1.7	1.8
RoCE (%)	36.8	36.9	29.6	25.6
RoE (%)	36.5	36.6	29.4	25.5

Please refer to important disclosures at the end of this report

## Financial Summary (Consolidated Indian GAAP)

Table 1: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Operating Revenues (Sales)</b>	<b>166,920</b>	<b>216,930</b>	<b>221,831</b>	<b>241,059</b>
of which Exports	164,232	213,407	217,213	239,695
of which Domestic	2,688	3,523	4,618	1,363
<b>Operating Expenses</b>	<b>114,226</b>	<b>144,980</b>	<b>152,274</b>	<b>167,763</b>
<b>EBITDA</b>	<b>52,694</b>	<b>71,950</b>	<b>69,557</b>	<b>73,296</b>
% margins	31.6	33.2	31.4	30.4
Depreciation & Amortisation	5,980	7,610	8,760	9,189
Gross Interest	0	0	0	0
Other Income	7,040	4,570	10,875	15,658
<b>Recurring PBT</b>	<b>53,754</b>	<b>68,910</b>	<b>71,671</b>	<b>79,765</b>
Add: Extraordinaries exps / (Inc)	(906)	(1,240)	0	0
Less: Taxes	8070	10270	11650	16751
- Current tax	10,060	11,430	13,080	16,751
- Deferred tax / MAT Credit	(1,990)	(1,160)	(1,430)	0
<b>Net Income (Reported)</b>	<b>46,590</b>	<b>59,880</b>	<b>60,021</b>	<b>63,014</b>
<b>Recurring Net Income</b>	<b>45,684</b>	<b>58,640</b>	<b>60,021</b>	<b>63,014</b>

Source: Company data, I-Sec Research

Table 2: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	130,180	166,463	221,287	283,676
of which cash and deposits with FI	82,350	109,933	167,069	216,341
Total Current Liabilities & Provisions	41,910	38,720	49,839	74,645
<b>Net Current Assets</b>	<b>88,270</b>	<b>127,743</b>	<b>171,448</b>	<b>209,031</b>
<b>Investments</b>	<b>720</b>	<b>1</b>	<b>1,251</b>	<b>1,501</b>
of which Strategic/Group	0	1	1	1
of which Other Marketable	720	0	1,250	1,500
<b>Net Fixed Assets</b>	<b>34,530</b>	<b>46,770</b>	<b>44,510</b>	<b>50,320</b>
Intangibles	0	0	0	0
Goodwill	6,890	6,890	6,890	6,890
<b>Capital Work-in-Progress</b>	<b>13,240</b>	<b>6,770</b>	<b>6,500</b>	<b>7,500</b>
<b>Total Assets</b>	<b>136,760</b>	<b>181,284</b>	<b>223,709</b>	<b>268,353</b>
of which cash and equivalents	83,070	109,933	168,319	217,841
<b>Liabilities</b>				
Borrowings	0	0	0	0
Deferred Tax Liability	(1,190)	(1,260)	(1,543)	(1,543)
Minority Interest	0	0	0	0
Equity Share Capital	2,860	2,864	2,866	2,867
Face Value per share (Rs)	5	5	5	5
Preference Share Capital	0	0	0	0
Reserves & Surplus*	135,090	179,680	222,386	267,029
<b>Net Worth</b>	<b>137,950</b>	<b>182,544</b>	<b>225,252</b>	<b>269,895</b>
<b>Total Liabilities</b>	<b>136,760</b>	<b>181,284</b>	<b>223,709</b>	<b>268,353</b>

#excluding revaluation reserves

Source: Company data, I-Sec Research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Jun-08	Sep-08	Dec-08	Mar-09
Net sales	48,540	54,180	57,860	56,350
% growth (YoY)	28.7	32.0	35.5	24.1
Recurring EBITDA	14,790	17,940	20,310	18,910
Margin (%)	30.5	33.1	35.1	33.6
Other income	1,170	660	220	2,520
Extraordinaries Inc / (Loss)	310	0	780	150
Recurring Net Income	12,710	14,320	15,630	15,980

Source: Company data, I-Sec Research

Table 3: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Operating Cash flow before W Cap changes</b>	<b>52,830</b>	<b>67,633</b>	<b>70,704</b>	<b>73,296</b>
Working Capital Inflow/Outflow	(11,590)	(13,620)	(563)	(5,499)
Capex	(14,940)	(13,410)	(6,230)	(16,000)
<b>Free Cash flow</b>	<b>26,300</b>	<b>40,603</b>	<b>63,911</b>	<b>51,797</b>
<b>Cash Flow from other Invest Act (Ex Capex)</b>	<b>3,740</b>	<b>11,280</b>	<b>9,625</b>	<b>15,408</b>
Proceeds from Issue of Share Capital	580	640	243	61
Inc/(Dec) in Borrowings	0	0	0	0
Dividend paid	(8,350)	(24,940)	(16,643)	(17,994)
Others	0	0	0	0
<b>Increase/(Decrease) in Cash</b>	<b>22,270</b>	<b>27,583</b>	<b>57,136</b>	<b>49,272</b>

Source: Company data, I-Sec Research

Table 4: Key Ratios

(Year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring - Weighted Avg)	79.9	102.4	104.7	109.9
Fully Diluted Recurring EPS	79.4	101.9	104.3	109.6
Recurring Cash EPS	90.0	115.6	119.5	125.9
Dividend per share (DPS)	33.3	23.5	26.2	27.5
Book Value per share (BV)	241.2	318.7	393.0	470.8
<b>Growth Ratios (%)</b>				
Operating Income (Sales)	20.1	30.0	2.3	8.7
EBITDA	20.0	36.5	(3.3)	5.4
Recurring Net Income	22.6	28.4	2.4	5.0
Diluted Recurring EPS	22.6	28.4	2.4	5.0
Diluted Recurring CEPS	22.1	28.6	3.5	5.4
<b>Valuation Ratios (x)</b>				
P/E	19.4	15.1	14.8	14.1
P/CEPS	17.2	13.4	12.9	12.3
P/BV	6.4	4.9	3.9	3.3
EV / EBITDA	15.5	11.0	10.5	9.3
EV / Sales	4.9	3.6	3.3	2.8
EV / FCF	31.0	19.4	11.4	13.2

## Operating Ratio

Software Development Expenses/Sales (%)	55.0	54.2	56.4	57.6
SG&A/Sales (%)	13.5	12.6	12.3	12.0
Other Income / PBT (%)	13.1	6.6	15.2	19.6
Effective Tax Rate (%)	15.0	14.9	16.3	21.0
NWC / Total Assets (%)	49.4	58.1	62.7	60.9
Fixed Asset Turnover (x) on average	5.3	5.3	4.9	5.1
Receivables (days) on average	63	59	61	61
Payables (days) on average	44	45	44	43
D/E Ratio (x)	0.0	0.0	0.0	0.0

## Return/Profitability Ratio (%)

Recurring Net Income Margins	27.4	27.0	27.1	26.1
RoIC (Based on Avg)	73.0	85.9	78.6	92.9
RoCE (Based on Avg)	36.8	36.9	29.6	25.6
RoNW (Based on Avg)	36.5	36.6	29.4	25.5
Dividend Payout Ratio	47.8	26.3	29.3	29.3
Dividend Yield	2.1	1.5	1.7	1.8
EBITDA Margins	31.6	33.2	31.4	30.4

Source: Company data, I-Sec Research



# Patni Computer Systems

**BUY**

Upgrade from HOLD

**Rs213**

## Signs of stability

Reason for report: Recommendation change

We believe Patni has seen the worst as regards revenue growth. Further, increasing management focus on cost efficiency will likely contain negative surprise on margin and earnings; hence, the valuation downside is limited. With impending business stability, Patni is likely to get re-rated. We still believe that the risk of higher client concentration exists. However, as per our interaction with the management, Patni is unlikely to majorly underperform versus large-caps peers going forward. We upgrade Patni to BUY from Hold with raised price target of Rs250 on 7x CY10E core EPS (excluding other income) and idle cash (net of intangibles) of Rs98/share. Our target price implies just 2.5x CY10E EV/E and 1x CY08 sales.

- **Revenue growth challenges behind.** Patni's CQoQ growth through Q1CY07-Q1CY09 was flat versus Infosys' 3.3% growth during the same period. Patni derives ~20% of its revenues from its top two clients. We believe that discretionary project ramp-downs are behind for these clients. Patni is confident of emerging a winner in case of any vendor consolidation among these clients. Even in the remaining top 2-10 client accounts (which contribute ~27% to revenues), Patni believes that there are no client-specific risks relating to sub-prime or client consolidation. Q2CY09 sales guidance of US\$158-159mn (1-1.7% growth versus peers such as Infosys and Wipro guiding for 2-5% decline) and US\$26.5-27mn PAT, excluding hedging G/L, was also heartening. As per the management, it has 90-95% visibility to achieve the guidance.
- **Pricing decline expectations lower than peers** besides management confidence on volume stabilisation in the forthcoming quarters. However, we believe that renewal of master service agreement with some top clients is due in Q4CY09/Q1CY10, wherein the risk of rate pressure may exist, which Patni believes will get compensated by higher offshoring and fixed-price contribution.
- **Margin levers indicate improved earnings visibility.** Patni seems confident of maintaining margins with levers of utilisation through better bench control, higher employee base covered under variable pay structure, increased focus on higher fixed-price implementation and offshoring.
- **Risks** are: i) higher client concentration, ii) risks relating to inorganic opportunities and iii) rupee appreciation; but natural hedge is higher on higher onsite revenues.

Market Cap	Rs27.3bn/US\$571mn
Reuters/Bloomberg	PTNI.BO/PATNI IN
Shares Outstanding (mn)	128.42
52-week Range (Rs)	284/94
Free Float (%)	73.6
FII (%)	5.1
Daily Volume (US\$'000)	1,080
Absolute Return 3m (%)	118.1
Absolute Return 12m (%)	(22.1)
Sensex Return 3m (%)	52.8
Sensex Return 12m (%)	(16.5)

Year to December	CY07	CY08	CY09E	CY10E
Revenue (Rs mn)	26,950	31,991	31,433	32,542
Net Income (Rs mn)	4,643	3,671	3,125	3,527
EPS (Rs)	33.4	27.1	24.3	27.5
% Chg YoY	29.3	(19.0)	(10.1)	12.9
P/E (x)	6.4	7.9	8.8	7.8
CEPS (Rs)	42.6	37.7	34.5	38.5
EV/E (x)	3.3	2.7	2.4	2.0
Dividend Yield (%)	1.4	1.3	0.8	1.1
RoCE (%)	18.0	12.6	9.9	10.0
RoE (%)	18.7	13.5	10.5	10.6

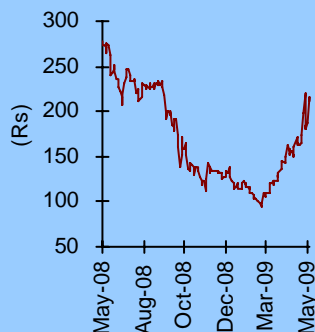
## Technology

### Shareholding pattern

	Sep '08	Dec '08	Mar '09
Promoters	25.5	25.9	26.4
Institutional investors	17.6	16.4	16.1
MFs and UTI	2.3	1.8	9.8
Ins.Cos./Others	1.1	1.1	1.2
FIs	14.2	13.5	5.1
Others	56.9	57.7	57.5

Source: www.nseindia.com

### Price chart

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## Financial Summary (Consolidated US GAAP)

Table 1: Profit and Loss Statement

(Rs mn, year ending December 31)

	CY07	CY08	CY09E	CY10E
<b>Operating Revenues (Sales)</b>	<b>26,950</b>	<b>31,991</b>	<b>31,433</b>	<b>32,542</b>
of which Exports	26,950	31,991	31,433	32,542
of which Domestic	0	0	0	0
<b>Operating Expenses</b>	<b>22,047</b>	<b>26,712</b>	<b>26,152</b>	<b>27,368</b>
<b>EBITDA</b>	<b>4,903</b>	<b>5,279</b>	<b>5,281</b>	<b>5,173</b>
% margins	18.2	16.5	16.8	15.9
Depreciation & Amortisation	1,008	1,142	1,200	1,445
Gross Interest	0	0	0	0
Other Income	1,638	106	(214)	958
<b>Recurring PBT</b>	<b>5,533</b>	<b>4,242</b>	<b>3,867</b>	<b>4,686</b>
Add: Extraordinaries	0	873	0	0
Less: Taxes	890	572	742	1,159
- Current tax	1,162	870	851	1,125
- Deferred tax	(272)	(298)	(109)	34
<b>Net Income (Reported)</b>	<b>4,643</b>	<b>4,544</b>	<b>3,125</b>	<b>3,527</b>
<b>Recurring Net Income</b>	<b>4,643</b>	<b>3,671</b>	<b>3,125</b>	<b>3,527</b>

Source: Company data, I-Sec Research

Table 2: Balance Sheet

(Rs mn, year ending December 31)

	CY07	CY08	CY09E	CY10E
<b>Assets</b>				
Total Current Assets	9,228	10,306	13,665	15,488
of which cash and deposits	1,286	2,922	4,920	5,421
Total Current Liabilities & Provisions	4,639	6,965	6,654	7,036
<b>Net Current Assets</b>	<b>4,588</b>	<b>3,341</b>	<b>7,011</b>	<b>8,451</b>
<b>Investments</b>	<b>11,868</b>	<b>12,062</b>	<b>12,135</b>	<b>13,635</b>
of which Strategic/Group	135	135	135	135
of which Other Marketable	11,733	11,928	12,000	13,500
<b>Net Fixed Assets</b>	<b>10,626</b>	<b>11,820</b>	<b>12,075</b>	<b>11,777</b>
Intangibles	1,256	1,315	1,323	1,148
Goodwill	2,629	3,173	3,318	2,965
<b>Other Long Term Assets</b>	<b>965</b>	<b>970</b>	<b>916</b>	<b>1,687</b>
<b>Total Assets</b>	<b>28,047</b>	<b>28,193</b>	<b>32,137</b>	<b>35,550</b>
of which cash and equivalents	13,019	14,849	16,920	18,921
<b>Liabilities</b>				
Borrowings	0	0	0	0
Deferred Tax Liability	(692)	(1,300)	(1,409)	(1,375)
Other liabilities	1,902	1,756	1,994	1,990
Equity Share Capital	278	257	257	257
Face Value per share (Rs)	2	2	2	2
Preference Share Capital	0	0	0	0
Reserves & Surplus*	26,559	27,480	31,294	34,677
<b>Net Worth</b>	<b>26,837</b>	<b>27,737</b>	<b>31,551</b>	<b>34,934</b>
<b>Total Liabilities</b>	<b>28,047</b>	<b>28,193</b>	<b>32,137</b>	<b>35,550</b>

Source: Company data, I-Sec Research

\*excluding revaluation reserves

Table 5: Quarterly trends

(Rs mn, year ending December 31)

	Jun-08	Sep-08	Dec-08	Mar-09
Net sales	7,837	8,523	8,570	7,955
% growth (YoY)	18.2	26.5	24.9	12.7
EBITDA	1,205	1,399	1,619	1,432
Margin (%)	15.4	16.4	18.9	18.0
Other income	285	197	(435)	(202)
Extraordinaries Inc / (Loss)	0	873	0	0
Recurring Net Income	1,037	1,129	780	761

Source: Company data, I-Sec Research

Table 3: Cash Flow Statement

(Rs mn, year ending December 31)

	CY07	CY08	CY09E	CY10E
<b>Operating Cash flow before W Cap changes</b>	<b>5,584</b>	<b>5,603</b>	<b>4,446</b>	<b>5,413</b>
Working Capital Inflow / (Outflow)	(929)	896	(664)	(1,198)
Capex (including related investment)	(4,552)	(1,920)	(1,257)	(1,917)
<b>Free Cash flow</b>	<b>103</b>	<b>4,580</b>	<b>2,525</b>	<b>2,298</b>
<b>Cash Flow from other Invst Act (Ex Capex)</b>	<b>(573)</b>	<b>194</b>	<b>(72)</b>	<b>(1,500)</b>
Proceeds from Issue of Share Capital	145	(2,568)	0	0
Inc/(Dec) in Borrowings	(17)	(14)	(4)	(4)
Divided paid	(470)	(556)	(450)	(293)
<b>Increase/(Decrease) in Cash</b>	<b>(812)</b>	<b>1,636</b>	<b>1,999</b>	<b>501</b>

Source: Company data, I-Sec Research

Table 4: Key Ratios

(Year ending December 31)

	CY07	CY08	CY09E	CY10E
<b>Per Share Data (in Rs.)</b>				
EPS(Basic Recurring)	33.4	27.1	24.3	27.5
Diluted Recurring EPS	32.2	26.0	23.4	26.4
Recurring Cash EPS	42.6	37.7	34.5	38.5
Dividend per share (DPS)	3.0	2.8	1.8	2.3
Book Value per share (BV)	193	200	227	251
<b>Growth Ratios (%)</b>				
Operating Income (Sales)	3.2	18.7	(1.7)	3.5
EBITDA	0.2	7.7	0.0	(2.1)
Recurring Net Income	30.0	(20.9)	(14.9)	12.9
Recurring EPS	29.3	(19.0)	(10.1)	12.9
Diluted Recurring CEPS	36.6	(11.6)	(8.4)	11.4
<b>Valuation Ratios</b>				
P/E	6.4	7.9	8.8	7.8
P/CEPS	5.0	5.7	6.2	5.5
P/BV	1.1	1.1	0.9	0.8
EV / EBITDA	3.3	2.7	2.4	2.0
EV / Sales	0.6	0.4	0.4	0.3
EV / FCF	157.6	3.1	4.9	4.5
<b>Operating Ratio</b>				
Software Development Expenses/Sales (%)	65.2	66.1	65.2	66.7
SG&A/Sales (%)	16.4	17.1	17.9	17.3
Other Income / PBT (%)	29.6	2.5	(5.5)	20.4
Effective Tax Rate (%)	16.1	13.5	19.2	24.7
NWC / Total Assets (%)	14.0	9.5	18.1	19.8
Fixed Asset Turnover (x) on average	2.8	2.9	2.6	2.7
Receivables (days) on average	72	62	67	69
Payables (days) on average	8	6	6	6
D/E Ratio (x)	0.0	0.0	0.0	0.0

## Return/Profitability Ratio (%)

Recurring Net Income Margins	17.2	11.5	9.9	10.8
RoIC (Based on Avg)	25.6	23.6	21.1	16.1
RoCE (Based on Avg)	18.0	12.6	9.9	10.0
RoNW (Based on Avg)	18.7	13.5	10.5	10.6
Dividend Payout Ratio	9.0	8.5	8.0	9.0
Dividend Yield	1.4	1.3	0.8	1.1
EBITDA Margins	18.2	16.5	16.8	15.9

Source: Company data, I-Sec Research

# Tata Consultancy Services

**HOLD**  
 Maintained

Still slow

**Rs624**

Reason for report: Company update

We believe that client-specific issues for Tata Consultancy Services (TCS) still persist given its high exposure to capital markets and troubled clients in auto vertical. Management comments post Q4FY09 results indicate that any shock in existing client accounts would be the biggest concern for FY10 growth. Even as regards margin, we do not see any major margin lever besides offshore revenue contribution in organic business. Increasing base and lower diversification in the business model will affect TCS' revenue growth even in FY10 – we estimate organic dollar revenue to decline ~8%. Even in FY09, TCS' organic revenue growth was the lowest at 5.5% versus peers. Therefore, we believe TCS' valuation discount is unlikely to narrow versus Wipro and Infosys on sustainable basis and prefer Infosys and Wipro over TCS. We reiterate HOLD with revised price target of Rs670/share based on 12x FY11E EPS.

- **Client-specific issues still persist.** Within 42% of revenue contribution from BFSI, TCS' ~12% consolidated contribution comes from capital markets, wherein client consolidation and uncertainty will likely lead to muted growth. Even within Insurance (forming ~13-15% of consolidated revenues), TCS' key clients are likely to witness higher uncertainty. Exposure to troubled US auto majors is likely to provide volume surprise in FY10. TCS too claims that revenue visibility within BFSI, Manufacturing, Telecom and Hi-Tech is weak (forming 71% of revenues).
- **Margin challenges much higher than peers.** Fresher recruitment target of 25,000 in FY10 apart from 35,000 gross additions (largely freshers) in FY09 and lagging revenue growth in FY09 and FY10 will likely lead to decreased flexibility for managing margins. Even with the highest fixed-price contribution and increasing intake of freshers, we believe that headroom to improving employee productivity is lower than peers. As regards variable pay flexibility, headroom for margin levers is lower unless the management significantly changes the salary structure.
- **Maintain HOLD; we prefer Infosys and Wipro.** With challenges on margins, revenue growth in FY10 versus peers, we believe EPS upgrade is unlikely versus peers, which would result in valuation discount continuing/expanding.

Market Cap	Rs611.1bn/US\$12.8bn
Reuters/Bloomberg	TCS.BO/TCS.IN
Shares Outstanding (mn)	978.67
52-week Range (Rs)	1057/415
Free Float (%)	23.8
FII (%)	10.0
Daily Volume (US\$'000)	23,660
Absolute Return 3m (%)	29.3
Absolute Return 12m (%)	(35.6)
Sensex Return 3m (%)	52.8
Sensex Return 12m (%)	(16.5)

Year to March	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	226,176	278,129	277,795	296,556
Net Income (Rs mn)	49,898	51,721	51,378	54,608
EPS (Rs)	51.0	52.9	52.5	55.8
% Chg YoY	22.5	3.7	(0.7)	6.3
P/E (x)	12.2	11.8	11.9	11.2
CEPS (Rs)	54.4	56.4	58.2	64.2
EV/E (x)	10.2	8.2	8.1	7.3
Dividend Yield (%)	2.2	2.3	2.3	2.4
RoCE (%)	43.9	35.0	28.2	25.0
RoE (%)	46.7	36.9	29.5	26.0

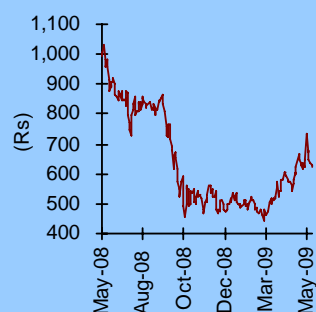
## Technology

### Shareholding pattern

	Sep '08	Dec '08	Mar '09
Promoters	76.4	76.2	76.2
Institutional investors	17.6	17.7	17.9
MFs and UTI	1.8	2.3	2.5
Insurance Cos.	4.7	4.9	5.4
FIs	11.1	10.5	10.0
Others	6.0	6.1	5.9

Source: www.nseindia.com

### Price chart

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## Financial Summary (Consolidated US GAAP)

Table 1: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Operating Revenues (Sales)</b>	<b>226,176</b>	<b>278,129</b>	<b>277,795</b>	<b>296,556</b>
of which Exports	205,679	256,308	253,242	268,159
of which Domestic	20,497	21,821	24,553	28,397
<b>Operating Expenses</b>	<b>169,217</b>	<b>206,348</b>	<b>210,556</b>	<b>226,530</b>
<b>EBITDA</b>	<b>56,960</b>	<b>71,781</b>	<b>67,239</b>	<b>70,026</b>
% margins	25.2	25.8	24.2	23.6
Depreciation & Amortisation	5,746	5,766	7,604	8,229
Other Income	6,888	(4,673)	2,161	7,427
<b>Recurring PBT</b>	<b>58,101</b>	<b>61,342</b>	<b>61,795</b>	<b>69,223</b>
Add: Extraordinaries	293	0	0	0
Less: Taxes	7787	9,012	9,732	13,845
- Current tax	10,168	11,348	11,741	13,845
- Deferred tax	(2,381)	(2,336)	(2,009)	0
Add: Earnings in Affiliates	8	(4)	(4)	(5)
Less: Minority Interest	424	605	681	766
<b>Net Income (Reported)</b>	<b>50,191</b>	<b>51,721</b>	<b>51,378</b>	<b>54,608</b>
<b>Recurring Net Income</b>	<b>49,898</b>	<b>51,721</b>	<b>51,378</b>	<b>54,608</b>

Source: Company data, I-Sec Research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	92,689	109,550	153,123	193,806
of which cash and deposits	10,352	25,543	70,065	95,550
Total Current Liabilities & Provisions	41,788	56,352	55,195	67,118
<b>Net Current Assets</b>	<b>50,901</b>	<b>53,197</b>	<b>97,928</b>	<b>126,687</b>
<b>Investments</b>	<b>26,475</b>	<b>17,257</b>	<b>20,000</b>	<b>25,000</b>
of which Other Marketable	26,475	17,257	20,000	25,000
<b>Net Fixed Assets</b>	<b>36,703</b>	<b>64,026</b>	<b>64,422</b>	<b>69,692</b>
Intangibles	3,633	8,274	8,274	8,274
Goodwill	11,105	25,872	25,872	25,872
<b>Capital Work-in-Progress</b>	<b>8,249</b>	<b>7,600</b>	<b>7,500</b>	<b>7,500</b>
<b>Other Long Term Assets</b>	<b>11,701</b>	<b>28,208</b>	<b>16,267</b>	<b>13,416</b>
<b>Total Assets</b>	<b>134,030</b>	<b>170,288</b>	<b>206,116</b>	<b>242,296</b>
of which cash and equivalents	36,827	42,800	90,065	120,550
<b>Liabilities</b>				
Borrowings	7,098	7,913	7,913	7,913
Deferred Tax Liability				
Other Non Current Liabilities	812	2,743	2,743	800
Minority Interest	2,300	3,098	3,779	4,544
Equity Share Capital	979	979	979	979
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	122,841	155,555	190,703	228,060
<b>Net Worth</b>	<b>123,820</b>	<b>156,534</b>	<b>191,681</b>	<b>229,038</b>
<b>Total Liabilities</b>	<b>134,030</b>	<b>170,288</b>	<b>206,116</b>	<b>242,296</b>

Source: Company data, I-Sec Research

\*excluding revaluation reserves

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Jun-08	Sep-08	Dec-08	Mar-09
Net sales	64,107	69,534	72,770	71,718
% growth (YoY)	24.3	25.3	24.1	18.6
EBITDA	15,314	18,197	19,474	18,796
Margin (%)	23.9	26.2	26.8	26.2
Other income	332	(1,784)	(1,847)	(1,374)
Extraordinaries Inc / (Loss)	0	0	0	0
<b>Recurring Net Income</b>	<b>12,436</b>	<b>12,615</b>	<b>13,524</b>	<b>13,144</b>

Source: Company data, I-Sec Research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Operating Cash flow before W Cap changes</b>	<b>52,306</b>	<b>63,201</b>	<b>57,507</b>	<b>56,181</b>
Working Capital Inflow / (Outflow)	(12,433)	(6,867)	(313)	(6,243)
Capex (including Goodwill)	(13,889)	(35,094)	(7,900)	(13,500)
<b>Free Cash flow</b>	<b>25,984</b>	<b>21,239</b>	<b>49,293</b>	<b>36,438</b>
<b>Cashflow from other Invest Activities (Ex Capex)</b>	<b>(13,721)</b>	<b>(1,891)</b>	<b>11,358</b>	<b>5,278</b>
Proceeds from Issue of Share Capital	1,019	39	0	0
Inc/(Dec) in Borrowings	(268)	(378)	0	0
Dividend paid	(14,953)	(16,124)	(16,130)	(16,230)
<b>Increase/(Decrease) in Cash</b>	<b>(1,939)</b>	<b>2,885</b>	<b>44,521</b>	<b>25,486</b>

Source: Company data, I-Sec Research

Table 4: Key ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	51.0	52.9	52.5	55.8
Diluted Recurring EPS	51.0	52.9	52.5	55.8
Recurring Cash EPS	54.4	56.4	58.2	64.2
Dividend per share (DPS)	14.0	14.1	14.2	15.1
Book Value per share (BV)	126.5	160.0	195.9	234.0
<b>Growth Ratios (%)</b>				
Operating Income (Sales)	21.4	23.0	(0.1)	6.8
EBITDA	12.3	26.0	(6.3)	4.1
Recurring Net Income	22.5	3.7	(0.7)	6.3
Diluted Recurring EPS	22.5	3.7	(0.7)	6.3
Diluted Recurring CEPS	16.4	3.5	3.3	10.3
<b>Valuation Ratios (x)</b>				
P/E	12.2	11.8	11.9	11.2
P/CEPS	11.5	11.1	10.7	9.7
P/BV	4.9	3.9	3.2	2.7
EV / EBITDA	10.2	8.2	8.1	7.3
EV / Sales	2.6	2.1	1.9	1.7
EV / FCF	22.4	27.7	11.0	14.0
<b>Operating Ratio</b>				
Software Development Expenses/Sales (%)	54.1	54.2	55.9	57.1
SG&A/Sales (%)	20.7	20.0	19.9	19.3
Other Income / PBT (%)	11.9	(7.6)	3.5	10.7
Effective Tax Rate (%)	13.4	14.7	15.7	20.0
NWC / Total Assets (%)	29.0	23.5	37.5	40.9
Fixed Asset Turnover (x) on average	6.8	5.5	4.3	4.4
Receivables (days) on average	78	75	78	78
Payables (days) on average	22	26	24	20
D/E Ratio (x) on average	0.1	0.1	0.0	0.0

## Return/Profitability Ratio (%)

Recurring Net Income Margins	22.1	18.6	18.5	18.4
RoIC (Based on Avg)	61.2	48.7	45.2	49.2
RoCE (Based on Avg)	43.9	35.0	28.2	25.0
RoNW (Based on Avg)	46.7	36.9	29.5	26.0
Dividend Payout Ratio	32.0	31.2	31.6	31.6
Dividend Yield	2.2	2.3	2.3	2.4
EBITDA Margins	25.2	25.8	24.2	23.6

Source: Company data, I-Sec Research



## Wipro

**HOLD**  
 Maintained

## Ahead of the pack

**Rs374**

Reason for report: Company update

We believe that with Wipro's recent outperformance versus the market and peers (including Infosys), valuations are unlikely to provide any favourable risk-reward as based on EV/FCF, Wipro is now trading at a premium to peers. Therefore, we maintain HOLD on Wipro with Rs385 target price based on FY11E target P/E of 14x. We estimate Wipro's revenues and earnings growth through FY09-FY11E to be at the higher end versus peers. However, current valuations factor in this upside. Wipro is our second top pick in the sector after Infosys.

- **Diversified business model leading to growth outperformance.** Wipro underperformed as regards FY08 organic revenue growth in Global IT revenues (excluding Infocrossing and the erstwhile Wipro Asia-Pacific Infotech) with 33% growth versus peers' >35%. However, based on Wipro's 'string of pearls' strategy for acquiring capabilities within different verticals and technologies through FY06-FY07, the company has started demonstrating more resilience than peers to global slowdown by posting 15% organic revenue growth in FY09 (Infosys 11.7%, TCS 5.5%). We expect this outperformance to continue in FY10 due to rich diversification in services, verticals and geographies despite the year being the most difficult for IT in terms of organic growth. The combined revenue contribution of >33% from capital markets and technology/R&D continues to be a risk.
- **Earnings visibility better than peers.** Wipro has successfully implemented fixed-price projects, leading to 2.2% revenue productivity in FY09 versus Infosys reporting 3.1% decline (Infosys too witnessed higher fixed-price contribution). We believe that based on higher headroom on fixed-price contribution – supported by management comments of flat-to-5% pricing decline versus peers guiding for low-to-mid single digit pricing decline – and SG&A leverage, Wipro's earnings growth will likely be higher than peers besides revenue growth.
- **Reiterate HOLD; we prefer Wipro over TCS.** With more than 80% absolute return in the past three months, we believe that any major P/E re-rating in the short term is unlikely; hence we reiterate HOLD and recommend entering at lower levels. However, considering higher revenue and earnings visibility versus peers, we prefer Wipro over TCS.

Market Cap	Rs547.4bn/US\$11.4bn
Reuters/Bloomberg	WIPR.BO/WPRO.IN
Shares Outstanding (mn)	1,463.7
52-week Range (Rs)	538/180
Free Float (%)	20.7
FII (%)	5.9
Daily Volume (US\$'000)	11,805
Absolute Return 3m (%)	80.2
Absolute Return 12m (%)	(23.8)
Sensex Return 3m (%)	52.8
Sensex Return 12m (%)	(16.5)

Year to March	FY08	FY09	FY10E	FY11E
Revenue (Rs mn)	197,428	254,564	273,072	310,290
Net Income (Rs mn)	32,322	37,655	39,544	41,666
EPS (Rs)	22.1	25.7	26.9	28.3
% Chg YoY	13.4	16.3	4.7	4.9
P/E (x)	16.9	14.5	13.9	13.2
CEPS (Rs)	24.3	28.7	30.7	33.6
EV/E (x)	13.9	10.7	9.4	8.1
Dividend Yield	1.6	1.1	1.2	1.5
RoCE (%)	22.8	19.4	17.3	15.7
RoE (%)	28.0	26.9	23.8	20.8

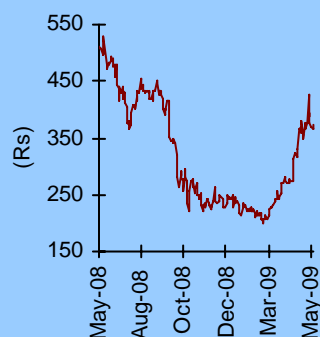
## Technology

## Shareholding pattern

	Sep '08	Dec '08	Mar '09
Promoters	79.4	79.3	79.3
Institutional investors	7.9	7.6	7.9
MFs and UTI	0.5	0.5	0.7
Insurance Cos.	1.2	1.3	1.3
FIs	6.2	5.8	5.9
Others	12.7	13.1	12.8

Source: www.nseindia.com

## Price chart



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## Financial Summary (Consolidated US GAAP)

Table 1: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Operating Revenues (Sales)</b>	<b>197,428</b>	<b>254,564</b>	<b>273,072</b>	<b>310,290</b>
of which IT services and products	170,754	246,533	265,764	303,542
of which other	26,674	8,031	7,308	6,748
<b>Operating Expenses</b>	<b>158,504</b>	<b>203,772</b>	<b>218,820</b>	<b>250,957</b>
<b>EBITDA</b>	<b>38,924</b>	<b>50,792</b>	<b>54,252</b>	<b>59,333</b>
% margins	19.7	20.0	19.9	19.1
Depreciation & Amortisation	5,975	8,352	9,232	10,208
Other Income	2,932	177	673	2,484
<b>Recurring PBT</b>	<b>35,881</b>	<b>42,617</b>	<b>45,693</b>	<b>51,609</b>
Add: Extraordinaries	(81)	(3,242)	215	525
Add: Share of profit from associates	257	362	260	299
Less: Taxes	3,792	5,225	6,285	10,187
Less: Minority Interest	(24)	(99)	(125)	(55)
<b>Recurring Net Income</b>	<b>32,322</b>	<b>37,655</b>	<b>39,544</b>	<b>41,666</b>

Source: Company data, I-Sec Research

Table 2: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	112,747	144,902	165,403	217,700
of which cash and deposits	39,270	49,116	79,125	97,869
Total Current Liabilities & Provisions	45,169	75,357	60,451	92,507
<b>Net Current Assets</b>	<b>67,578</b>	<b>69,545</b>	<b>104,952</b>	<b>125,194</b>
<b>Investments</b>	<b>16,506</b>	<b>18,188</b>	<b>27,008</b>	<b>37,008</b>
of which Strategic/Group	1,698	2,008	2,008	2,008
of which Other Marketable	14,808	16,180	25,000	35,000
<b>Net Fixed Assets</b>	<b>94,459</b>	<b>123,650</b>	<b>117,433</b>	<b>126,124</b>
Intangibles	12,480	17,604	16,217	14,942
Goodwill	38,943	49,502	49,502	49,502
<b>Capital Work-in-Progress</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Assets</b>	<b>178,543</b>	<b>211,383</b>	<b>249,393</b>	<b>288,326</b>
of which cash and equivalents	54,078	65,296	104,125	132,869
<b>Liabilities</b>				
Borrowings	47,767	60,751	64,155	66,704
Deferred Tax Liability	1,308	215	2,612	3,779
Minority Interest	114	235	360	415
Equity Share Capital	2,923	2,930	2,931	2,948
Face Value per share (Rs)				
Preference Share Capital	0	0	0	0
Reserves & Surplus*	126,431	147,252	179,335	214,481
<b>Net Worth</b>	<b>129,354</b>	<b>150,182</b>	<b>182,266</b>	<b>217,429</b>
<b>Total Liabilities</b>	<b>178,543</b>	<b>211,383</b>	<b>249,393</b>	<b>288,326</b>

\*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Jun-08	Sep-08	Dec-08	Mar-09
Net sales	59,622	64,095	65,387	65,460
% growth (YoY)	42.5	35.6	24.9	17.0
EBITDA	12,066	12,574	12,433	13,719
Margin (%)	20.2	19.6	19.0	21.0
Other income	(169)	164	605	(423)
Extraordinaries Inc / (Loss)	(706)	(1,242)	(721)	(573)
<b>Recurring Net Income</b>	<b>8,845</b>	<b>9,465</b>	<b>9,700</b>	<b>9,646</b>

Source: Company data, I-Sec Research

Table 3: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Operating Cash flow before W</b>				
<b>Cap changes</b>	<b>37,325</b>	<b>37,832</b>	<b>48,352</b>	<b>49,499</b>
Working Capital Inflow / (Outflow)	(12,760)	(341)	(1,193)	(6,750)
Capex	(14,195)	(16,234)	(6,000)	(14,500)
<b>Free Cash flow</b>	<b>10,370</b>	<b>21,257</b>	<b>41,160</b>	<b>28,249</b>
<b>Cash Flow from other Invst Act (Ex Capex)</b>	<b>18,479</b>	<b>(4,780)</b>	<b>(8,147)</b>	<b>(7,516)</b>
Proceeds from Issue of Share Capital	815	458	233	2,844
Inc/(Dec) in Borrowings	35,376	6,419	3,404	2,549
Dividend paid	(5,393)	(6,829)	(6,856)	(7,908)
<b>Others</b>	<b>(32,789)</b>	<b>(6,679)</b>	<b>215</b>	<b>525</b>
<b>Increase/(Decrease) in Cash</b>	<b>26,858</b>	<b>9,846</b>	<b>30,009</b>	<b>18,744</b>

Source: Company data, I-Sec Research

Table 4: Key Ratios

(Year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	22.1	25.7	26.9	28.3
Fully Diluted Recurring EPS	22.0	25.6	26.9	28.3
Recurring Cash EPS	24.3	28.7	30.7	33.6
Dividend per share (DPS)	6.0	4.0	4.6	5.7
Book Value per share (BV)	79.0	95.2	113.2	135.6
<b>Growth Ratios (%)</b>				
Operating Income (Sales)	32.1	28.9	7.3	13.6
EBITDA	14.0	30.5	6.8	9.4
Recurring Net Income	13.6	16.5	5.0	5.4
Diluted Recurring EPS	13.6	16.5	5.0	5.4
Diluted Recurring CEPS	8.7	18.7	6.9	9.9
<b>Valuation Ratios (x)</b>				
P/E	16.9	14.5	13.9	13.2
P/CEPS	15.4	13.0	12.2	11.1
P/BV	4.7	3.9	3.3	2.8
EV / EBITDA	13.9	10.7	9.4	8.1
EV / Sales	2.7	2.1	1.9	1.6
EV / FCF	52.2	25.5	12.3	17.0
<b>Operating Ratio</b>				
Software Development Expenses/Sales (%)	70.5	70.0	70.6	71.6
SG&A/Sales (%)	9.8	10.1	9.5	9.3
Other Income / PBT (%)	8.2	0.4	1.5	4.8
Effective Tax Rate (%)	10.6	12.3	13.8	19.7
NWC / Total Assets (%)	30.2	24.3	33.9	32.9
Fixed Asset Turnover (x) on average	2.9	2.3	2.3	2.5
Receivables (days) on average	62	61	62	61
Payables (days) on average	27	28	29	30
D/E Ratio (x)	0.4	0.4	0.4	0.3

## Return/Profitability Ratio (%)

Recurring Net Income Margins	16.4	14.8	14.5	13.4
RoIC (Based on Avg)	30.0	25.9	26.3	28.4
RoCE (Based on Avg)	22.8	19.4	17.3	15.7
RoNW (Based on Avg)	28.0	26.9	23.8	20.8
Dividend Payout Ratio	27.2	17.0	17.0	20.0
Dividend Yield	1.6	1.1	1.2	1.5
EBITDA Margins	19.7	20.0	19.9	19.1

Source: Company data, I-Sec Research

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