

February 12, 2007

FOR PRIVATE CIRCULATION

**Equity**

	9 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	14,539	(0.8)	3.4	9.5
Nifty	4,187	(0.9)	3.3	9.2
Banking	7,560	(0.5)	2.4	12.2
IT	3,900	(1.1)	5.6	17.0
Healthcare	3,843	(1.5)	(0.7)	2.0
FMCG	1,901	(0.5)	(1.4)	(8.3)
PSU	6,303	(0.8)	1.4	4.2
CNX Midcap	5,292	(2.2)	1.2	6.5
<b>World indices</b>				
Nasdaq	2,459.8	(1.2)	(1.7)	2.9
Nikkei	17,292	0.0	2.6	8.6
Hangseng	20,678	(0.3)	5.0	9.0

**Value traded (Rs cr)**

	9 Feb 07	% Chg - 1 Day
Cash BSE	4,194	(11.3)
Cash NSE	9,175	(4.2)
Derivatives	32,219	11.8

**Net inflows (Rs cr)**

	8 Feb 07	% Chg	MTD	YTD
FII	698.9	28.1	(599.2)	(599.2)
Mutual Fund	(193.1)	(410.2)	(70.2)	194.7

**FII open interest (Rs cr)**

	8 Feb 07	% chg
FII Index Futures	13,066.7	1.4
FII Index Options	7,406.5	5.4
FII Stock Futures	18,295.5	(2.0)
FII Stock Options	31.0	4.8

**Advances/Declines (BSE)**

	9 Feb 07	A	B1	B2	Total	% Total
Advances	34	104	177	315	20	
Declines	177	525	518	1,220	78	
Unchanged	2	5	15	22	1	

**Commodity**

	9 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	59.2	(1.1)	11.8	(0.6)
Gold (US\$/OZ)	666.9	1.0	6.2	6.0
Silver (US\$/OZ)	13.9	0.7	7.7	6.4

**Debt/forex market**

	9 Feb 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.82	7.76	7.72	7.61
Re/US\$	44.11	44.13	44.39	44.55

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- The UPA Government is planning to slash petrol and diesel prices. According to sources, the Government would cut petrol prices by Rs.2 per liter and diesel by Re.1 per liter, once the proposal is approved. (ET)
- The Government may reduce the minimum investment limit for corporate bonds from Rs.1,000,000 to Rs 100,000. The move is aimed at activating the corporate bond market. (ET)
- Economists warned that inflation is likely to hover around the 6.5% mark over the next two months with liquidity also poised to get tighter. Demand side pressures, along with existing supply side pressures, have contributed to fuelling inflation past the 6.5% mark. (ET)
- Hundreds of people could lose their jobs, if the Finance Ministry has its way in scrapping 120 central sector schemes in the coming 11th Five Year Plan. (BS)
- The Government is yet to achieve a number of targets outlined in Budget 2006-07, which it was expected to in this fiscal. The schemes include the flagship primary education program, Sarva Siksha Abhiyan, which has only partly achieved its targets. (BS)

**CORPORATE NEWS**

- **Hindalco** has sealed a \$6 bn all-cash deal to acquire the Atlanta-based Novelis. Novelis is a world-class technology company and supplier of key products such as aluminum sheets for Jaguar and beverage cans for Coke. (ET)
- **HDFC Bank** has hiked its prime lending rate by 100 bps from 13% to 14%. (ET)
- **NTPC** is keen to venture into power equipment/spares manufacturing and servicing power equipment. (ET)
- The pricing of Rajasthan crude could become a critical issue between IOC and **Cairn India**. IOC has said any commitment from it on the quantity of crude to be purchased from Cairn would depend on the economic viability of the deal. (BL)
- Mitsui & Co, **Sesa Goa's** Japanese promoter, has set a deadline of February 19 for suitors to submit bids for its 51% stake. Aditya Birla Group Chairman Kumar Mangalam Birla said his group was in the fray for the company. (BS)
- The **Tata group** is looking to spin off its bottled water business into a separate company. The group's bottled water business currently includes a 30% stake in US' third largest bottled water company Energy Brands Inc (Glaceau). (BS)
- The board of Tata group-controlled **VSNL** is slated to meet to decide on acquiring the 26.12% government stake in the company. The board meeting is to take a decision on whether it should exercise the call option to acquire the residual stake. (BS)
- **Glenmark Pharmaceuticals** will soon enter the European market by acquiring a front-end pharmaceutical company for about Rs.1 bn. The target company is in Central Europe and the deal is likely to be through before the end of March. (ET)
- The Mumbai Port Trust board cleared **Gammon India's** bid for the port's ambitious offshore container terminal that will add an additional capacity of 15 MT. (BS)
- British telecom giant Vodafone has emerged as the frontrunner to buy a 67% stake in **Hutchison Essar** at an enterprise value of \$19.3 bn (Rs.860 bn). Hutchison Telecom is expected to issue a formal announcement on Monday. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

## FROM OUR RESEARCH TEAM

### COMPANY UPDATE

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## WIPRO LTD (Rs.642, FY08E PE 25x, HOLD)

**We attended the analyst meet of Wipro held recently. The company indicated that the global environment remains conducive for Indian IT companies and Wipro is taking several initiatives to become a Top 10 player globally in the IT/BPO services space over the next three to five years' timeframe.**

- The company is taking several initiatives with a view to take a larger market share, globally. These include expanding the breadth of services, increasing domain expertise, penetrating existing clients deeper, targeting larger deals, exploring newer geographies (revenue-wise as well as delivery-related), bringing more non-linearity into revenue growth and strategic acquisitions.
- The management indicated that margins will remain within a narrow range as the impact of salary hikes and new investments are negated by increasing offshore, increasing utilization, broadening the employee pyramid base and optimal utilization of employee resources (rotation and skills/experience matching).
- Wipro has one of the widest ranges of service offerings among domestic service providers. It is also one of the few Indian companies having the relevant hardware expertise to develop competencies in embedded services and R&D services.
- In addition to organic growth, Wipro has also pursued the inorganic route to develop domain expertise in select verticals. In the past few quarters, Wipro acquired mPower, Newlogic, cMango, Enabler, Saraware, Quantech, Hydrauto Group, 3D Networks and Planet PSG. We expect their full benefits to accrue going forward.
- We maintain our earnings estimates for FY07 and FY08. We expect the company to report revenues of Rs.149 bn and Rs.196 bn in FY07 and FY08, respectively. The EPS is expected at Rs.19.9 in FY07 and further at Rs.25.3 in FY08. At the current price levels, the stock is quoting at 25x our FY08E earnings.
- We have a price target of Rs.674 based on our FY08 estimates. At our target price, the stock will be valued at 26.5x our FY08E earnings, a marginal discount to our target valuations for Infosys. The valuations of Wipro do not point to a significant upside from the current price levels, given our estimated FY08 earnings. Consequently, we recommend a **HOLD** on the stock.

**We recommend a HOLD on the stock with a price target of Rs.674**

The main takeaways of the meeting are as under:

### Conducive macro environment

According to the management, the demand scenario continues to remain robust with several large corporations buying the India story and existing clients increasing their commitments with Indian IT vendors.

The company also echoed the views of several other large Indian vendors by indicating that there is an increase in the number of large deals being pursued by Indian vendors, resulting in improved market share.

### Indian companies replacing incumbents, in several deals

Wipro indicated that it has been successful in convincing customers to break up large outsourcing deals into smaller projects. These large deals are currently with the incumbent consulting players but smaller projects are now being increasingly awarded to Indian companies, who have developed significant brand equity.

Customers are breaking up large deals to reduce their dependence on one vendor and also to induce competition among vendors, leading to better value.

### **Aiming high...**

Wipro plans to become a Top-10 IT/BPO services company globally over the next three to five years. It is currently ranked No.16 according to the management. To achieve this goal, Wipro has taken several initiatives like expanding the breadth of services, increasing domain expertise, penetrating existing clients deeper, targeting larger deals, exploring newer geographies (revenue-wise as well as delivery-related), bringing more non-linearity into revenue growth and strategic acquisitions.

### **...through more consultancy-led revenues...**

Also, the company plans to become more consultancy-led. This may lead to a significantly higher proportion of revenues coming from consultancy, though not comparable to the incumbent consulting companies. Currently, about 7% of the revenues of Wipro come from consulting. Wipro currently has about 1700 consultants of which, 350 are based in India.

### **...increasing domain competencies...**

Wipro has taken several initiatives to increase the domain expertise within the organization. The company has set targets for training and re-training of employees through various certification courses. Focus on domain expertise was evident in all areas including enterprise solutions, package implementation services, testing as well as BPO.

Wipro is also recruiting an increasing number of laterals with a view to gain vertical expertise. During 9MFY07, Wipro added more than 9000 laterals and about 6500 from campuses.

Also, Wipro has been acquiring companies and will continue to do so, with a view to fill in gaps present in its offerings. These will also allow it to increase domain capabilities.

### **...beefing up local presence in various geographies...**

With a view to become a global player, the company plans to significantly increase the number of local employees in various geographies, both at the junior and management levels. Acquisitions have and will help the company in attaining this goal.

While this will allow greater comfort to customers, it will also help Wipro in becoming a truly global delivery company and in reducing the geographical risks associated with concentration of centers in a particular location.

### **...and targeting large accounts**

According to the management, the company has identified 25 of the existing customers from which it plans to scale up annual revenues to more than \$100 mn. These accounts are monitored regularly in order to take corrective steps, if necessary. Also, Wipro is targeting several customers, which can become growth accounts for the company in the future.

Wipro is increasingly targeting mega deals, either with infrastructure or without it. According to the management, it has a very good pipeline of these deals.

These accounts are expected to lead the company's efforts of becoming a Top 10 global player in the long term.

### **Targeting higher non-linearity in revenue growth**

Wipro has brought in some non-linearity in revenue growth through its R&D division. The company has filed for several patents for IPs developed by it. In the BPO space, Wipro has developed/acquired platforms based on which, the company can achieve non-linear growth. The R&D business is now focusing on new areas like embedded services in the aerospace and medical devices areas.

Also, the company has started increasingly focusing on output-based pricing and transaction-based pricing in BPO.

## BPO — once again at a takeoff stage

Growth in BPO revenues for Wipro has been lackluster in the previous four quarters as the company was in the process of restructuring operations with a view to making it more profitable. The division has almost completed the process with margins at about 23% currently.

Wipro is now focusing more and more on transformational services along with the other business units of Wipro. The sales force has accordingly been restructured. According to industry research, transformational deals will form 60% of the overall BPO pie in 2010 as against 29% currently.

Also, it has taken the product approach and developed/acquired platforms, which will allow it to move to output-based pricing in future contracts. Also, Wipro's dependence on voice-based BPO has reduced and the pipeline includes contracts with low voice content.

The division now plans to aggressively grow its revenues organically as well as through inorganic means. The management indicated that it is looking increasingly at buying companies in the BPO space to fill-in strategic gaps or add new competencies.

## Margins — levers for improvement exist

The management indicated that margins are expected to remain within a narrow range as the impact of salary hikes and new investments are negated by increasing offshore proportion, increasing utilization, broadening the employee pyramid base and optimal utilization of employee resources (rotation and skills/experience matching).

A very important data point was that the company currently has more than 5,000 employees who have been with Wipro for between five to 10 years and more than 600 employees who have been with Wipro for between 10 to 25 years. In our opinion, this provides Wipro a base to scale up at a rapid pace in the future.

## Financial prospects

We maintain our financial estimates for Wipro.

<b>Financials</b>					
<b>(Rs mn)</b>	<b>FY06</b>	<b>FY07E</b>	<b>% Chg</b>	<b>FY08E</b>	<b>% Chg</b>
<b>Turnover</b>	<b>106,259</b>	<b>148,996</b>	<b>40.2</b>	<b>195,986</b>	<b>31.5</b>
Expenditure	80,655	114,563		151,477	
<b>EBIDTA</b>	<b>25,603</b>	<b>34,433</b>	<b>34.5</b>	<b>44,509</b>	<b>29.3</b>
Depreciation	3,097	3,934		4,714	
<b>EBIT</b>	<b>22,507</b>	<b>30,499</b>	<b>35.5</b>	<b>39,795</b>	<b>30.5</b>
Interest	-1,272	-2,332		-2,820	
<b>PBT</b>	<b>23,779</b>	<b>32,831</b>	<b>38.1</b>	<b>42,615</b>	<b>29.8</b>
Tax	3,391	4,487		6,605	
	20,388	28,344	39.0	36,010	27.0
Share of profit	288	346		500	
Minority interest	-1	4		0	
PAT	20,675	28,694	38.8	36,510	27.2
<b>EPS (Rs)</b>	<b>14.50</b>	<b>19.93</b>		<b>25.34</b>	
EBIDTA (%)	24.1	23.1		22.7	
EBIT (%)	21.2	20.5		20.3	
Net Profit (%)	19.2	19.0		18.4	

Source: Company, Kotak Securities — Private Client Research

We expect the company to report revenues of Rs.148.9 bn and Rs.196 bn in FY07 and FY08, respectively.

The number of employee in the global IT business is likely to grow to 87,250 by FY08E end as compared to 53,742 at the end of FY06. We expect the rupee to appreciate to 43 per US dollar by FY08 end. Profits are likely to grow to Rs.36.51 bn by FY08, leading to an EPS of Rs.25.3.

**COMPANY UPDATE**

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## SUZLON (Rs.1245, FY08E P/E: 21.1x, HOLD)

### Suzlon makes friendly offer for REpower Systems AG

Suzlon is set to make a friendly tender offer for REpower Systems AG with the support of the Martifer Group. An all-cash offer of 126 euro per REpower share has been made, representing an equity value of 1,021 million euros for REpower. The offer competes with the public tender offer of Areva for REpower, published on February 5 2007. The offer price exceeds the price offered by Areva by 20%. The offer price is higher than any historic share price of REpower. The offer price represents a premium of 76% on the average volume weighted share price of REpower over the last three months prior to the announced offer by Areva on January 22 2007.

### Key Highlights

- **Valuation of REpower:** Based on the price being paid, it appears the buyout is at a stretched valuation. Based on consensus and an EPS of Euro 2.5 for CY07, the deal is valued at 50x CY07 earnings.

While Suzlon-Martifer JV is making the offer, the deal would be completely financed by Suzlon only.

Suzlon plans to finance the deal through a combination of internal accruals and debt. It plans to raise foreign debt for the buyout. REpower does not have significant debt on its books.

Suzlon's current consolidated debt is Rs.40 bn and has a cash worth Rs.7.5 bn. Our estimates indicate that the overall debt-equity ratio post the buyout could be around 2.5.

Thus, the consolidated EPS could be dilutive in the initial years until Suzlon is able to get significant synergies to kick in.

There are question marks regarding the price at which the Suzlon-Martifer JV would buy out the 29.9% stake held by Areva in the company.

- **Scope for Synergies:** The benefits likely to accrue to Suzlon are in terms of market geographies wherein Suzlon is eyeing a greater presence in the EU market, which is the most wind power developed market. The acquisition is also expected to give Suzlon access to the advanced offshore turbines of 5 MW. Currently, Suzlon's portfolio consists of turbines ratings up to 2.1 MW only.

Suzlon is trading at 21.1x FY08 earnings. We maintain a **HOLD** on the stock with a price target of Rs.1355.

**We maintain HOLD on the stock with a price target of Rs.1355**

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
9-Feb	Aftek Ltd	Morgan Stanley and Co Int	B	1,250,000	90.42
9-Feb	Alfavi Overs	Jethmal Agarchand Kothari	B	20,623	26.85
9-Feb	Ashco Indust	Anil Amrutlal Gandhi	B	48,425	81.45
9-Feb	Autoind	Prindhi Estates Private Ltd.	B	100,000	413.95
9-Feb	Autoind	Savitri Minerals Pvt Ltd.	B	100,000	413.40
9-Feb	Autoind	Jigneshbhai Hiralal Shah	S	73,270	413.95
9-Feb	Blissgvs Ph	Bharat Shah	S	87,995	58.50
9-Feb	Blissgvs Ph	Aruna Sanjay Goratela	S	41,585	59.22
9-Feb	Chamatkar.Nt	Chandra Fin. Ser. Pvt. Ltd	B	400,000	23.65
9-Feb	Chamatkar.Nt	Sainath Herbalcare Market	S	397,000	23.65
9-Feb	Commit Cap S	M K Consultants Pvt Ltd.	S	25,000	16.86
9-Feb	Commit Cap S	Commiment Securities	S	40,000	16.86
9-Feb	Cupid Ltd	Trimurty Equity and Finance	B	99,000	38.55
9-Feb	Cupid Ltd	A V Investments Corporation	B	100,000	38.55
9-Feb	Elpro Intern	Lotus Global Investments	B	30,000	270.00
9-Feb	Empower Inds	Nilpa Kalpeshbhai Patel	B	50,000	10.78
9-Feb	Fem Care Pha	Ruane Cunniff and Goldfar	B	16,200	360.31
9-Feb	Gemstone Inv	Hemant Madhusudan Sheth	B	54,300	23.00
9-Feb	Gemstone Inv	Sharman Appliances Pvt Ltd	S	50,000	23.00
9-Feb	Gravity Ind	Beni Prasad Jain	B	53,560	12.56
9-Feb	Gravity Ind	SPJ stockbroker	S	56,521	12.72
9-Feb	H.S.India	Chetan Dogra	B	70,350	49.25
9-Feb	Ion Exchange	Rajesh Sharma	B	196,567	150.91
9-Feb	K S Oils Ltd	Goldman Sachs Investments	B	320,000	313.00
9-Feb	KLK Capi Ser	Narayana Swaroop V	B	20,000	22.00
9-Feb	Lakshm El Co	Geojit Financial Services	B	26,700	311.25
9-Feb	Lloyd Ele En	Morgan Stanley Dean Witte	B	500,000	190.00
9-Feb	Mohit Indust	Hemraj Sinh Vaghela	B	40,200	66.36
9-Feb	Northgate Te	Lehman Brothers Asia Fund	B	147,975	979.90
9-Feb	Northgate Te	Merrill Lynch Capital Mar	S	115,600	980.00
9-Feb	Pochiraju In	Jain Manish Tilokchand	B	94,000	53.13
9-Feb	Pochiraju In	UBS Securities Asia Ltd.	S	116,997	57.00
9-Feb	Pochiraju In	Credit Suisse Singapore	S	163,158	57.04
9-Feb	Pochiraju In	Somerset India Fund Rhode	S	296,315	54.86
9-Feb	Pochiraju In	Angular Trading Pvt Ltd	S	108,632	46.94
9-Feb	Prajay Eng S	Lehman Brothers Asia Ltd	B	413,643	279.75
9-Feb	Prajay Eng S	Goldman Sachs Investment	B	107,141	279.62
9-Feb	Prajay Eng S	FNIL Ac Cophall Mauritius	S	107,403	280.00
9-Feb	Prajay Eng S	Morgan Stanley Dean Witte	S	292,600	280.00
9-Feb	SREI Infra	T Rowe Price Internationa	B	938,720	66.33
9-Feb	Sujana Metal	Goldman Sachs Investments	B	557,118	119.40
9-Feb	Sujana Metal	HSBC Financial Services	S	250,000	119.25
9-Feb	Sumeet Indus	Master Finlease Ltd	B	195,586	24.69
9-Feb	Vertex Secur	Vinayak Maruti Bhanage	B	30,000	21.00
9-Feb	Vinay Ceme L	BR Financial Services	B	50,000	33.00

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Wipro	643	1.2	2.2	0.5
Zee Ent	361	5.5	1.6	7.8
Bajaj Auto	3,061	1.7	1.0	0.7
<b>Losers</b>				
Bharti Airtel	752	(1.9)	(5.6)	0.5
Reliance Com	476	(2.6)	(5.3)	6.3
ONGC	884	(1.1)	(4.3)	0.9

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
12-14 Feb	Initial Public Offer of Indus Fila opens
12-15 Feb	Initial Public Offer of Idea Cellular, Evinix Accessories opens
14-23 Feb	Initial Public Offer of Raj Television Network opens
14-22 Feb	Initial Public Offer of Astral Poly Technik opens
15-23 Feb	Initial Public Offer of Jagjanani Textiles, AMD Metplast opens
15-Feb	Hexaware Tech to announce earnings and dividend
16-Feb	ABB, Glaxo SmithKline Pharma to announce earnings and dividend
20-Feb	HLL to announce earnings and dividend
22-Feb	Wockhardt to announce 4th quarter earnings and dividend

Source: Bloomberg

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