

May 24, 2007

FOR PRIVATE CIRCULATION

Equity

	23 May 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,363	(0.6)	3.1	5.4
Nifty	4,246	(0.7)	3.9	7.8
Banking	7,590	(0.9)	10.3	12.3
IT	3,696	(0.9)	(0.9)	(0.2)
Healthcare	3,758	(0.5)	0.5	4.1
FMCG	1,897	(1.2)	6.5	6.2
PSU	6,738	(0.5)	6.1	14.7
CNX Midcap	5,581	(0.8)	8.0	11.6

World indices

Nasdaq	2,577.1	(0.4)	2.1	2.5
Nikkei	17,705	0.1	1.3	(2.8)
Hangseng	20,844	-	1.1	0.4

Value traded (Rs cr)

	23 May 07	% Chg - 1 Day
Cash BSE	5,144	0.3
Cash NSE	10,716	(5.8)
Derivatives	33,963.2	1.6

Net inflows (Rs cr)

	22 May 07	% Chg	MTD	YTD
FII	451	(6)	82	13,050
Mutual Fund	(48)	(115)	632	(1,722)

FII open interest (Rs cr)

	22 May 07	% chg
FII Index Futures	14,254	(1.3)
FII Index Options	7,600	2.8
FII Stock Futures	19,162	0.1
FII Stock Options	106	1.7

Advances/Declines (BSE)

	23 May 07	A	B1	B2	Total	% Total
Advances	67	210	295	572	33	
Declines	143	481	491	1,115	64	
Unchanged	2	14	31	47	3	

Commodity

	23 May 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)		65.8	0.4	(0.2)
Gold (US\$/OZ)		661.8	0.4	(3.1)
Silver (US\$/OZ)		13.0	0.4	(5.1)

Debt/forex market

	23 May 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.2	8.2	8.0	7.9
Re/US\$	40.6	40.6	41.7	44.2

Sensex


Source: Bloomberg

ECONOMY NEWS

- The Government is today likely to consider a proposal to increase foreign direct investment (FDI) cap in joint sector refinery projects to 74% from 26% - a move that would allow L N Mittal to pick up 49% in state-run HPCL's Bhatinda project. (BS)
- The Government has pledged to step up its spending on roads in rural areas, where it wants to boost sluggish farm growth and raise hundreds of millions of people from abject poverty. The Prime Minister said Rs.480 bn would now be spent on a four-year project ending in 2009 to connect 66,000 villages. (FE)
- The Government does not have any plan to allow public sector insurance companies to raise money through the stock market for meeting capital requirements and expansion plans, a senior official said. (FE)
- Each family displaced in the course of a jumbo land acquisition for an SEZ may get 20% of its total compensation in the form of equity shares of the company that actually develops the SEZ. The proposal is under the active consideration of the empowered Group of Ministers on SEZ. (ET)
- Global crude steel production touched 109.3 MT in April 2007 marking an increase of 7.6% compared with April 2006. (BL)

CORPORATE NEWS

- **Alembic** has entered into a licensing agreement with Belgium-based UCB for its novel drug delivery platform for Keppra XR (Levetiracetam extended release tablets). (BS)
- Rating agency **ICRA** has reported an increase of 34% in its net profit for the quarter ended March 31 to Rs.43.5 mn as against Rs.32.5 mn in the year ago period. For the year ended March 31, net profit of the company rose to Rs.161 mn as against Rs.126.5 mn a year ago. Total income for the fiscal was Rs.467.6 mn compared to Rs.386 mn a year ago. (ET)
- Europe's top-end car maker **Volvo** and **Ford India Ltd** are planning a joint strategy under which Volvo will cater to the high-end market, while Ford will feed the mid-size segment, as it did with the Ikon earlier and does now with the Fiesta. (BS)
- The National Pharmaceutical Pricing Authority is planning to issue show-cause notices to drug companies for increasing the maximum retail prices of 331 drug packs beyond the permissible limit. **Dr Reddy's Laboratories**, **Emcure**, **Torrent** and **Cadilla** are among the major drug companies whose products figure in the list. (BS)
- Television broadcaster **NDTV**, which has announced plans to float lifestyle and entertainment channels, will raise Rs.4 bn through a mix of debt and equity. The company's board of directors has approved the fund-raising scheme through preferential issue, qualified institutional placement, follow-on issue, or rights issue constituting a combination of equity shares, convertible debentures, convertible preference shares and warrants etc. (BS)

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

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PRICE : Rs.520
PRICE TARGET: Rs.574

RECOMMENDATION : BUY
FY08E PE : 12x

Highlights

- Q4FY07 results were better than our estimates. Lower-than-expected depreciation and taxation also helped the results exceed expectations.
- Organic (excluding ROOM Solutions) revenue growth of 5% QoQ in Q4FY07 and 28% in FY07.
- Improvement in EBIDTA margins despite the rupee appreciation is encouraging.
- Record order intake of \$72 mn for the quarter.
- Adecco JV to be operational from Q2FY08 - not included in our projections. Upside exists from potential sale of 25% stake held by NIIT Ltd in NIITT.
- We have revised FY08E EPS to Rs.43 and price target to Rs.574. Our target FY08E PE is 13.5x. We maintain **BUY**.
- An accelerated slowdown / recession in major user economies and a sharper-than-expected appreciation in rupee v/s major currencies are key risks.

Q4FY07 Results

(Rs.mn)	Q3FY07	Q4FY07	% Chg	4QFY06	% Chg
Income	2315	2435	5.2	1662	46.5
Expenditure	1824	1902		1330	
Operating Profit	491	533	8.6	332	60.5
Depreciation	105	97		110	
Gross Profit	386	436	13.0	222	96.4
Interest	0	0		0	
Other Income	33	56		11	
PBT	419	492	17.4	233	111.2
Tax	68	20		36	
PAT	351	472	34.5	197	139.6
Minority interest	5	12		5	
Adjusted PAT	346	460	32.9	192	139.6
Shares (mns)	39	39		39	
EPS (Rs)	8.9	11.9		5.0	
OPM (%)	21.2	21.9		20.0	
GPM (%)	16.7	17.9		13.4	
NPM (%)	15.2	19.4		11.9	

Source : Company

Revenue growth in line with expectations

- Revenues grew by 5% on a sequential basis on the back of similar growth rates for the IT services and BPO businesses.
- Higher volumes drove revenue growth as realizations grew marginally. The rupee appreciation impacted revenues by about 1%, according to the company.
- NIITT was impacted to a relatively lower extent by the rupee appreciation v/s the US dollar as a higher proportion of revenues (52% in Q4FY07) came from Europe and most of which are denominated in euros / pounds.
- Offshore revenues formed 37% of Q4FY07 revenues as compared to 36% in the previous quarter indicating the steady transitioning of clients to offshore centers.

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Focus verticals added clients and orders

- During the quarter, NIITT added three significant accounts. While two of these were in Europe, once came from the US.
- NIITT is focused on three verticals - BFSI, travel and transportation (airlines, surface logistics) and manufacturing/retail and already has marquee clients like ING, Guardian, Chubb, Thrivent, British Airways, Singapore Airlines and Saber (a technology provider in the airlines industry).
- The company also had a record order intake of \$72 mn during the quarter as compared to \$56 mn in Q3FY07. With this, the order book executable over the next 12 months increased to \$103 mn.
- For FY07, revenues from these focus verticals formed 79% of revenues and grew by 54% indicating increased traction from clients in these verticals. We note that, FY07 also included revenues of ROOM Solutions.

Europe continues to dominate geographically...

- Consistent with the previous quarter, Europe continued to be a major market for NIITT where it has focused since long.
- For the current quarter Europe brought in close to 52% of revenues whereas the US brought in 30%. Within the Europe geography, NIITT is a substantial player with major clients like British Airways.

BPO business

- BPO revenues during the quarter grew marginally by about 7% as the company improved its capacity utilization.
- However, the company reduced employee strength further during the quarter by 33 and focused on improving profitability.
- The division employed about 829 employees (v/s 862 in Q3FY07) and earned revenues of Rs.152 mn in Q4FY07.
- Within the Fortune 500 account bagged by NIITT in Q3FY07, the company has transitioned one project and is expected to transition more projects once the pilots on the first project are successful. The account has the potential to grow into a multi-million opportunity for NIITT.
- NIITT will not take on any employees on its rolls but will only manage and support the centre. The revenues will be based on infrastructure and support services, supervisors employed and also the number of people under management. At present, there are about 60 employees on the rolls of the client, whom NIITT will manage.

Integration of ROOM Solutions complete

- NIITT has completed integrated ROOM and has also transferred all projects to itself from other offshore vendors in India. In Q4FY07, ROOM had revenues of about Rs.313 mn (5% QoQ growth) with margins of 8% v/s 6.2% in Q3FY07.
- According to the management, including the offshore operations, margins were about 17% (14% in Q3FY07) and are expected to move up to the company average by FY08 end.
- 75% of ROOM Solutions is already owned by NIITT and it is expected to acquire the balance stake by QFY08.

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Employee addition

- The total number of employees grew about 249 to 4448. The IT business added 278 engineers whereas the BPO business saw the headcount reduce by 33. About 60 people were on the rolls of the BPO client but managed by NIITT. We expect the company to add about 1,000 employees in FY08.
- The utilization levels moved up to 83.4% and we believe there is little scope for it to move up. We believe the company may have to invest in building a bench to take advantage of potential large projects in future.
- However, the company also has the advantage of hiring directly trained employees from its group company NIIT Ltd and to that extent, does not need to invest heavily in training freshers.

Margins

- EBIDTA margins during the quarter improved by 68 bps, beyond our estimates. The improvement came about despite the appreciation in the rupee.
- Improved performance in Room's operations and BPO services, along with operating leverage and higher offshore content were the main levers.
- BPO division made higher margins of about 10% (v/s 3.5% QoQ) at EBIDTA levels. The improvement came in as the company secured orders in the areas of its focus and also reduced employee strength. ROOM had margins of about 8% v/s 6.2% QoQ.
- The company had a higher other income component because of a tax refund (Rs.7 mn) and write back of debts written off earlier.

Future prospects

Rs mns	FY06	FY07*	% chg	FY08E	% chg
Revenues	6077.1	8858.7	45.8	10802.7	21.9
Expenditure	4921.6	7056.6		8464.3	
EBDITA	1155.5	1802.0	56.0	2338.4	29.8
Depreciation	389.0	434.0		510.0	
EBIT	766.5	1368.0	78.5	1828.4	33.6
Interest	0.0	0.0		0.0	
Other Income	23.0	148.0		185.0	
PBT	789.5	1516.0	92.0	2013.4	32.8
Tax	115.0	185.0		291.9	
PAT	674.5	1331.0	97.3	1721.4	29.3
Minority interest	11.0	36.0		37.0	
PAT after M I	663.5	1295.0		1684.4	
EPS (Rs)	17.2	33.1		43.1	
Margins (%)					
EBDIT	19.0	20.3		21.6	
EBIT	12.6	15.4		16.9	
Net Profit	11.1	15.0		15.9	

Source : Company, Kotak Securities - Private Client Research * - consolidation of ROOM wef 8/5/06

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Valuation & Recommendation

- We have modified our earnings estimates to accommodate the Q4FY07 results.
- We have assumed the average rupee rate for FY08 at Rs.42 per US dollar.
- We expect BPO revenues to grow to Rs.625 mn in FY08 v/s 553 mn in FY07.
- EBIDTA margins are expected to be sustained at Q4FY07 levels due to the improving profitability in BPO, better profitability in ROOM, higher offshore content and leverage on SG&A expenses. These factors are expected to offset the impact of rupee appreciation and higher salaries.
- Net profits are expected to grow to Rs.1.68 bn in FY08, translating into earnings of Rs.43 per share.

Concerns

- Rupee appreciation beyond our assumed levels of Rs.42 per US dollar for FY08 could provide a downward bias to our earnings estimates.
- A steep deceleration recession in major global economies could impact revenue growth of Indian vendors including NIITT.

Bulk deals

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Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
23-May	ANJANI FABRI	ANUNAY FAB LTD.	B	50000	18.55
23-May	DYNAMIC INDU	SHREEJI SECURITY	B	18930	100.19
23-May	DYNAMIC INDU	SHREEJI SECURITY	S	17886	99.47
23-May	DYNAMIC INDU	ATULKUMAR M SHAH	S	20000	100
23-May	EDUCOMP SOLN	DEUTSCHE SECURITIES MAURITIUS	B	151000	1874.75
23-May	FLAP PROD EQ	SUNDARAM MUTUAL FUND	B	30863	350
23-May	GOLDSTON TEC	SHRIPRAKASH VINAYKR SARDESA	S	74755	81.15
23-May	GOLDSTON TEC	AVN STOCK & SECUTIEIES BROKERS	S	146460	82.3
23-May	ICRA	NIRMAL KUMAR AGARWAL HUF	B	62045	954.39
23-May	ICRA	NIRMAL KUMAR AGARWAL HUF	S	62045	955.38
23-May	IFL PRMOTER	NIRANJAN LAL GUPTA	B	17000	23.5
23-May	JAGJANANI	ADITYA A BHANSALI	B	150000	19.84
23-May	JAGJANANI	MAHENDRA P RATHOD	B	282278	20.59
23-May	JAGJANANI	KIRTI SHANTILAL SHAH	B	383081	20.23
23-May	JAGJANANI	PIYUSH SUBODH JHAVERI	B	197787	17.56
23-May	JAGJANANI	RAJESH NAVINCHANDRA SHAH	B	149790	19.91
23-May	JAGJANANI	ADITYA A BHANSALI	S	150000	20.35
23-May	JAGJANANI	MAHENDRA P RATHOD	S	282278	18.23
23-May	JAGJANANI	KIRTI SHANTILAL SHAH	S	383081	18.33
23-May	JAGJANANI	PIYUSH SUBODH JHAVERI	S	374378	19.73
23-May	JAGJANANI	HIREN KR PARSHOTTAM BHAI PATEL	S	92080	20.04
23-May	JAGJANANI	RAJESH NAVINCHANDRA SHAH	S	149790	18.92
23-May	JAISAL SECUR	CANOX TRADING PVT LTD.	B	50000	26
23-May	JETKING INFO	BATRA NEERAJ	S	19351	383.94
23-May	KALPTARU	CHAUHAN PARESH R	B	33999	72.25
23-May	KALPTARU	ASHLESH GUNVANTBHAI SHAH	B	125091	71.49
23-May	KALPTARU	N C JAIN	B	24513	72.09
23-May	KALPTARU	ASHLESH GUNVANTBHAI SHAH	S	125090	72.1
23-May	KALPTARU	N C JAIN	S	24513	71.6
23-May	MAHARAstra	VINAY JAIN	B	100001	120.11
23-May	MAHARAstra	SJ SECURITIES PVT LTD	B	56495	118.81
23-May	MAHARAstra	MUKESH KUMAR	S	82424	119.25
23-May	MOHIT INDUST	SHAH MANISH RATILAL	B	26500	28.44
23-May	MOHIT INDUST	SHAH MANISH RATILAL	S	26500	28.39
23-May	MOHIT INDUST	BELA ZAVERI	S	26500	28.44
23-May	NIHAR INFO	HIREN MOHANLAL SHAH	S	34210	11
23-May	NUTRAPLUS PR	NITI NILESH SHAH	B	20488	6.13
23-May	ORIENTAL	PARI STOCK TRADING PVT. LTD	B	122638	23.69
23-May	ORIENTAL	SHAILESH VED	S	145450	23.73
23-May	ORIENTAL	PARI STOCK TRADING PVT. LTD	S	125887	23.63
23-May	PASARI SPIN	HARDIK M MITHANI	B	100119	9.07
23-May	PASARI SPIN	PASARI EXPORT LTD	S	100000	9.08
23-May	PRATIBHA IND	RAJESH PRAVIN BHANUSHALI	B	93227	229.59
23-May	PRATIBHA IND	RAJESH PRAVIN BHANUSHALI	S	92725	229.35
23-May	PRUDEN PHARM	MERCURY FUND MANAGEMENT	S	100000	14.51
23-May	PYRAMID SAIM	MAHENDRA P RATHOD	B	222034	333.7
23-May	PYRAMID SAIM	MERRILL LYNCH CAPITAL MKTS ESP	B	190000	326.34
23-May	PYRAMID SAIM	RAJESH NAVINCHANDRA SHAH	B	184806	336.4
23-May	PYRAMID SAIM	MAHENDRA P RATHOD	S	222034	331.33
23-May	PYRAMID SAIM	RAJESH NAVINCHANDRA SHAH	S	196376	329.47

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Tata Steel	660	4.9	3.7	7.7
HLL	199	2.0	1.7	3.2
Bhel	2,713	1.3	1.6	0.8
Losers				
Reliance Industries	1,756	(1.3)	(6.3)	1.6
ONGC	914	(1.4)	(5.3)	0.9
Reliance Communications	512	(2.3)	(4.7)	6.8

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
24-May	Centurion Bank of Punjab, BPCL to announce earnings and dividend
25-May	IndusInd Bank to announce earnings, ITC to announce earnings and dividend
28-May	Mahindra & Mahindra, Indian Oil Corp to announce earnings and dividend
29-May	HPCL to announce earnings and dividend, L&T to announce earnings and dividend
30-May	Madras Cements, Tata Power, NTPC to announce earnings
31-May	Ranbaxy Laboratories holds shareholders meeting, Cummins to announce earnings
1-June	Tata Tea to announce earnings and dividend

Source: Bloomberg

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