

PINC Power Picks



Here's the roster for the PINC PowerPicks:

Company	Sector	CMP (Rs)	Market Cap (Rs bn)	TP (Rs)	Upside (%)	P/E (x)		EV/EBITDA (x)		Earnings gr. (%) (FY09-12E)	ROE (%) FY11E	ROCE (%) FY11E
						FY11E	FY12E	FY11E	FY12E			
Apollo Tyres	Auto Ancillary	65	33	89	36	6.6	5.8	4.6	4.3	64.0	22.9	21.1
GESCO	Shipping	291	44	384	32	5.4	3.8	3.8	2.9	(4.1)	13.6	10.9
Glenmark	Pharma	262	71	353	35	16.5	13.9	10.8	9.3	38.0	16.5	12.3
GSPL	Gas Utilities	96	54.3	110	15	23.0	11.7	5.9	5.5	55.7	14.3	18.4
Infosys	IT Services	2,736	1,563	3,100	13	22.2	18.5	16.1	13.1	12.2	24.7	26.5
M&M	Auto	608	344	782	29	15.4	13.9	11.5	10.1	39.2	25.2	26.3
Patel Engg.	Const & Infra	411	28.7	544	32	14.3	11.8	6.8	6.1	4.8	12.3	14.2
Ranbaxy	Pharma	435	183	792	82	14.9	9.9	9.9	6.8	42.7	19.9	17.4
Shree Cement	Cement	2,090	73	2,639	26	9.1	7.9	4.7	3.6	17.1	36.4	26.1
TCS	IT Services	766	1,499	943	23	20.2	16.9	14.9	11.9	19.6	29.9	34.0



PINC POWERPICKS is a list of our high-conviction stock ideas, a choice of stocks from across sectors in our coverage universe.

What moved in and what moved out:

In our June issue of PINC Power Picks, we have replaced Bajaj Auto with Apollo Tyres following a healthy run up in the stock, which leaves a limited upside. We have dropped JSW and introduced Glenmark and Patel Engineering.

APOLLO TYRES: BUY, TP-Rs89 (36% upside)

What's the theme?

Recovery in FY10 helped APTY post a 19% volume growth in the Indian operations. Average realisations have surged from Rs149/kg in Q1FY10 to Rs160/kg in Q4FY10 as the company passed on the hike in rubber prices to consumers. The company has taken two more price increase during Q1FY11 to pass on high rubber prices. On the standalone operations, we expect an 8.5% volume growth and an 11% realisation growth in FY11. The acquisition of VBBV in Europe has contributed positively with acquisition cost lower than our estimates.

What will move the stock?

1) Ramp up at the Chennai facility and commencement of production for truck-Bus radial tyres (TBR)
 2) Correction in natural rubber prices on account of production growth or reduction in import duty on natural rubber as demanded by the tyre industry
 3) Continued strong performance in the European subsidiary, VBBV, which specialises in winter tyres.

Where are we stacked versus consensus?

Our FY11 and FY12 consolidated earnings estimate are Rs9.9 and Rs11.3 respectively. We have a 'BUY' recommendation on the stock with a price target of Rs89, which discounts FY11E earnings by 9x. Our earnings estimate for FY11 is 15% higher than consensus estimate of Rs8.6.

What will challenge our target price?

1) Further increase in natural rubber prices which is a key raw material; 2) Having declared a lock out at its Cochin facility from 11th June, absence of an early resolution could severely affect sales;

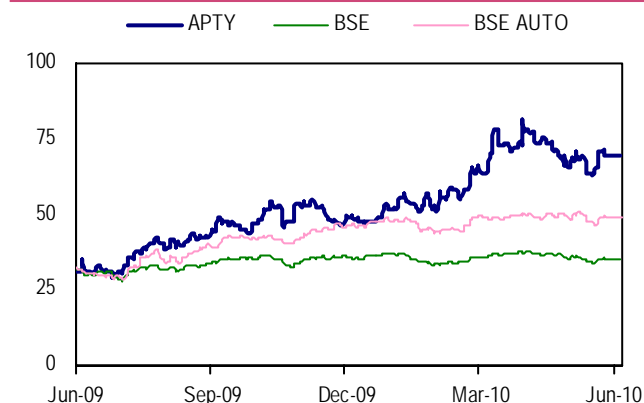
(Rs mn)	FY09	FY10P	FY11E	YoY %	FY12E	YoY %
Net Sales	49,841	81,207	99,290	22.3	108,206	9.0
EBITDA	4,161	11,749	12,342	5.0	13,728	11.2
EBITDA Marg. (%)	8.3	14.5	12.4	(200)bps	12.7	30 bps
Adj. Net Profits	1,286	5,660	4,994	(11.8)	5,673	13.6
Dil. EPS (Rs)	2.6	11.2	9.9	(11.8)	11.3	13.6
PER (x)	25.6	5.8	6.6		5.8	
ROE (%)	10.2	34.2	22.9	(1130)bps	21.4	(150)bps
ROCE (%)	13.5	29.5	21.1	(840)bps	18.5	(250)bps

Sector: Auto Ancillary

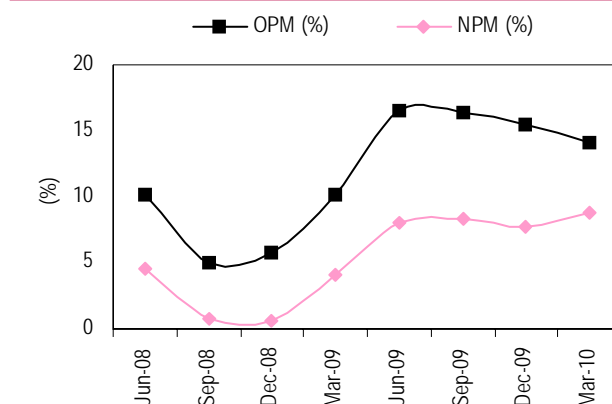
CMP: Rs65; Mcap: Rs33bn

Bloomberg: APTY IN; Reuters: APLO.BO

Price performance



Sales Volumes Trend



G E Shipping: BUY, TP-Rs384 (32% upside)

What's the theme?

G E Shipping (GESCO) has been expanding its offshore fleet and will expand its fleet by adding ten offshore assets in FY10-11E and six bulk carriers and 3 tankers in FY11-12E.

What will move the stock?

GESCO would benefit from improvement in tanker day rates after the tanker index doubled from the lows of 450 in Apr-Aug 2009, led by oil demand in the US and Asia. China's robust iron ore imports boosted dry bulk carrier demand, which should remain strong, driven by global growth. Increased E&P activities, aided by higher crude oil prices, should improve realizations for offshore assets. We expect GESCO to record 27% earnings CAGR to Rs11.8bn over FY10-12E. Additionally, IPO of the offshore division would unlock value for the firm through deleveraging by ~USD80-100mn.

Where are we stacked versus consensus?

Our FY11E EPS of Rs54 is 19% higher than consensus estimates of Rs45.2. We expect a stable tanker index and enhanced global trade data to reflect in higher earnings for the company. We believe shipping NAV has bottomed out and expansion of offshore fleet would boost earnings growth. Our SOTP valuation of Rs384 discounts FY12E EPS 5x and EBITDA 3.6x.

What will challenge our target price?

1) Lower-than-expected demand recovery due to the ongoing turmoil in the Eurozone ; 2) higher-than-expected net vessel supply; 3) subdued E & P activities.

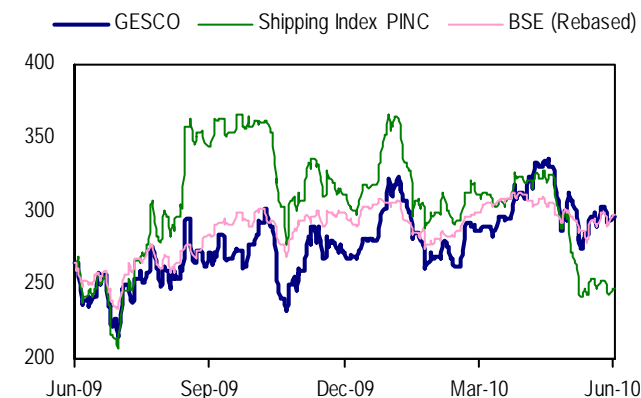
(Rs mn)	FY09	FY10P	FY11E	YoY %	FY12	YoY %
Net Sales	37,916	28,565	30,233	5.8	40,092	32.6
EBITDA	15,404	9,401	13,722	46.0	18,936	38.0
EBITDA Marg. (%)	40.6	32.9	45.4	1250 bps	47.2	180 bps
Adj. Net Profits	14,090	7,271	8,220	13.1	11,792	43.4
Dil. EPS (Rs)	87.9	47.8	54.0	13.1	77.4	43.4
PER (x)	3.3	6.1	5.4	-	3.8	-
ROE (%)	28.0	13.3	13.6	30 bps	17.2	360 bps
ROCE (%)	23.7	11.3	10.9	(50)bps	13.1	230 bps

Sector: Shipping

CMP: Rs291; Mcap: Rs44bn

Bloomberg: GESCO IN ; Reuters: GESC.BO

Price performance



GESCO - SOTP Valuation

Shipping

Current NAV Rs/share 267

Fair Value Rs/share 267

Offshore

FY11E EPS Rs/share 19.5

PE Multiple (x) 6.0

Fair Value Rs/share 117

Price Target Rs/share 384

GLENMARK: BUY, TP-Rs353 (35% upside)

What's the theme?

A 33% underperformance to the BSE Healthcare Index has made Glenmark's valuations cheaper. This underperformance was driven by disappointments in the NCE R&D pipeline as well as slowing growth in the generic business. As growth comes back, we believe Glenmark is poised for a re-rating.

What will move the stock?

1) Growth in the US as product approvals for niche products (Dermatology, controlled substances, modified releases, hormones) 2) Improved profitability in the RoW markets and volume growth remains strong and currencies have stabilized; 3) News flow around the innovative research program. 4) Improvement in the balance sheet with falling leverage and lower working capital requirements.

Where are we stacked versus consensus?

Our estimates are amongst the highest on the street because we are more sanguine about the return of high growth phase in the US market (more niche product launches v/s the existing vanilla generic product portfolio) and the RoW markets (volume growth and stabilizing currencies). Given the near term uncertainty over the NCE R&D pipeline and milestones thereon a cost basis method is more appropriate way to value the NCE R&D effort. We add back the NCE R&D expense to arrive at an EPS of Rs18.9 and Rs21.8 for FY11E and FY12E respectively.

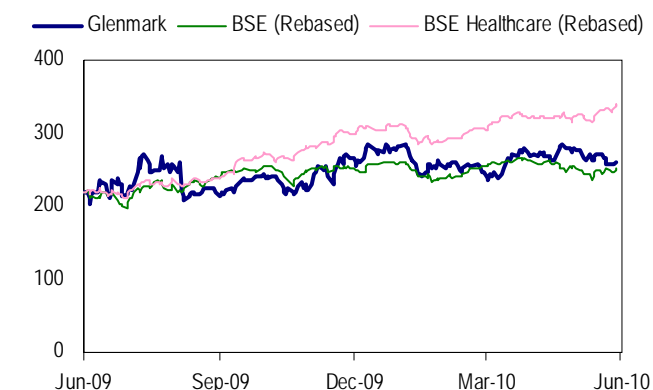
What will challenge our target price?

1) Inability to launch differentiated products in the US generic market due to delays in getting approvals from the US FDA; 2) Inability to sustain growth in RoW markets.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	21,160	24,653	29,661	20.3	33,837	14.1
EBITDA	4,549	5,969	7,825	31.1	8,834	12.9
EBITDA Marg. (%)	21.5	24.2	26.4	217 bps	26.1	(27)bps
Adj. Net Profits	1,916	3,123	4,292	37.4	5,088	18.6
Dil. EPS (Rs)	7.1	11.6	15.9	37.5	18.8	18.6
PER (x)	36.9	22.7	16.5	-	13.9	-
ROE (%)	12.3	15.8	16.5	69 bps	16.4	(6)bps
ROCE (%)	10.4	11.8	12.3	54 bps	12.7	32 bps

Sector: Pharmaceuticals
 CMP: Rs262; Mcap: Rs71bn
 Bloomberg: GNP IN; Reuters: GLEN.BO

Price performance



ANDA Pipeline for US

ANDAs filled (inc partners)	Till FY09	Launched till FY09	Yet to be launched
Dermatology	18	3	15
Controlled Substance	6	3	3
Modified Release	4	0	4
Hormones	7	0	7
First to file (Para IV)	9	1	8
Immediate release	43	39	4
Total	87		

GSPL: BUY, TP-Rs110 (15% upside)

What's the theme?

Gujarat State Petronet Ltd. (GSPL) registered excellent performance over the past two quarters; we believe performance over the next few quarters would be incrementally stronger, underpinned by ~37% surge in the commercial supply of natural gas in the country.

What will move the stock?

1) Abeyance of payment of social contribution to the Gujarat government; 2) Imminent grant of clearance for two trunk pipelines that would extend GSPL's reach to markets outside Gujarat; 3) Tariff approval by Petroleum and Natural Gas Regulatory Board (PNGRB).

Where are we stacked versus consensus?

Our DCF suggests a fair price of Rs94 for FY11E if social contribution were to be paid. However, since Government of India has rejected inclusion of this contribution for tax deduction, the mandate of social contribution is unlikely to go through. We estimate the target price at Rs110 for FY11E, factoring in the repeal of GSEDS contribution. Our estimate is in line with consensus estimate of Rs109. From current levels, this suggests 22% potential upside.

What will challenge our target price?

1) Unclear ambit of the authority of (PNGRB) leading to uncertainties on pricing of transmission tariff and investment in trunk pipelines: 2) An adverse ruling on GSEDS.

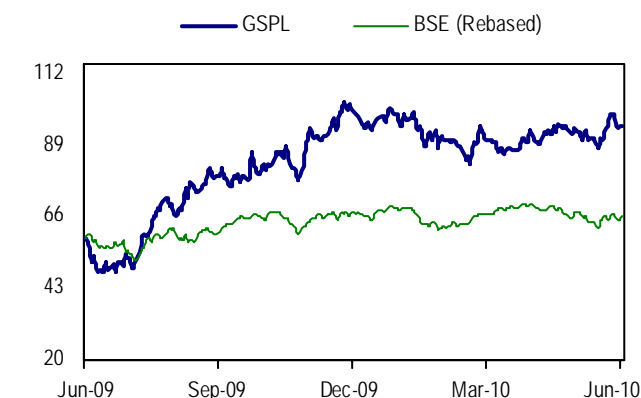
(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	4,875	9,920	11,915	20.1	13,224	11.0
EBITDA	4,245	9,325	10,755	15.3	11,606	7.9
EBITDA Marg. (%)	87.1	94.0	90.3	(374.0)bps	87.8	(250.0)bps
Adj. Net Profits	1,234	4,138	2,366	(42.8)	4,654	96.7
Dil. EPS (Rs)	2.2	7.4	4.2	(42.8)	8.3	96.7
PER (x)	44.0	13.1	23.0	-	11.7	-
ROE (%)	10.5	29.8	14.3	(1544.3)bps	24.0	967.8 bps
ROCE (%)	16.2	33.8	18.4	(1547.3)bps	26.3	798.2 bps

Sector: Gas utilities

CMP: Rs96; Mcap: Rs54.3bn

Bloomberg: GUJS IN; Reuters: GUJS.BO

Price performance



Volume transported in FY14 (MMSCMD)

Terminal rate	58	60	62
0.5%	96	103	109
1.0%	99	107	113
1.5%	103	110	117
2.0%	107	115	121
2.5%	111	119	126
3.0%	115	124	131

INFOSYS: BUY, TP-Rs3,100 (13% upside)

What's the theme?

Infosys will be able to maintain its premium in the IT sector due to its diversified service offerings to large clients, superior pricing and margins, and consistent financial outperformance. We believe Infosys revenue will grow ~24%YoY in FY11 primarily due to higher volumes with marginal uptick in pricing.

What will move the stock?

1) Cyclical upturn in IT investments by large companies in the US and Europe; 2) Premium pricing due to value proposition; 3) Strong dollar revenue and hiring guidance for FY11 indicates confidence of demand recovery 4) Focus on newer markets such as Germany, France and Japan.

Where are we stacked versus consensus?

Our top line estimates vary from consensus by ~0.5% on stronger volume assumption for FY11. Margins are lower than consensus by ~80bps (FY11) as we expect a higher salary increase and rise in S&M expense due to an improved demand scenario. Our EPS estimate is 1.9%, 3.5% higher than consensus for FY11 and FY12.

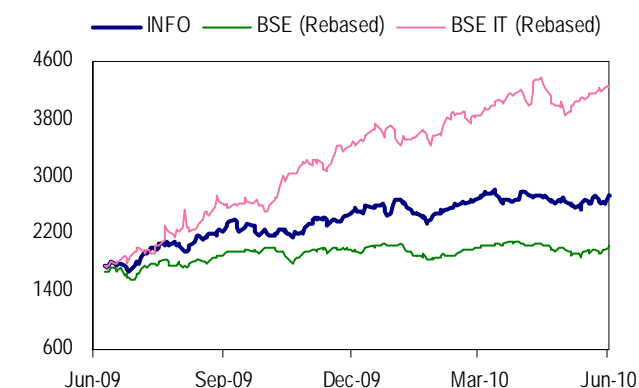
What will challenge our target price?

1) Appreciation of the INR vs. USD; 2) Slower recovery in the US economy; 3) Higher attrition and wage increments.

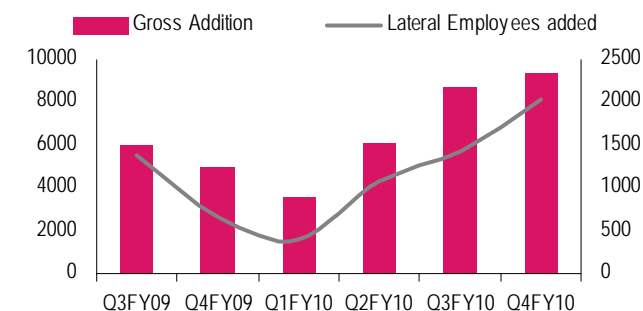
(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	216,930	227,420	265,576	16.8	326,216	22.8
EBITDA	71,950	78,610	88,353	12.4	104,996	18.8
EBITDA Marg. (%)	33.2	34.6	33.3	(130)bps	32.2	(108)bps
Adj. Net Profits	59,880	62,660	70,456	12.4	84,485	19.9
Dil. EPS (Rs)	104.5	109.7	123.4	12.4	147.9	19.9
PER (x)	26.2	24.9	22.2	-	18.5	-
ROE (%)	32.8	27.2	24.7	(248)bps	23.9	(83)bps
ROCE (%)	35.2	30.2	26.5	(365)bps	25.5	(103)bps

Sector: Information Technology
 CMP: Rs2,736; Mcap: Rs1,563bn
 Bloomberg: INFO IN; Reuters: INFY.BO

Price performance



High employee (gross) addition



M&M: BUY, TP-Rs782 (29% upside)

What's the theme?

Incremental volumes from SCVs (Maxximo and Gio) to aid the automobile segment post volume growth of 21.2% in FY11 on the back of an impressive 30% growth in FY10. The tractor segment is expected to grow by 8.4% in FY11 with an upward bias due to demand from construction and infrastructure sectors.

What will move the stock?

1) Forecast of normal monsoon by Indian meteorological department; 2) Production for JV with Navistar has begun at Chakan plant, the MHCV Good vehicles range will be launched in Q1FY11; 3) Strong demand for small commercial vehicles (SCVs), the fastest-growing CV segment, which M&M has recently entered with the launch of Maximmo and Gio; 4) Consolidating leadership position in the domestic utility vehicles segment with further launches.

Where are we stacked versus consensus?

We expect EPS of Rs39.4 and Rs43.7 in FY11 and FY12 respectively. Our FY11 earnings estimate is 3.4% higher than consensus estimate of Rs38.1. We value M&M using SOTP at Rs782 and the standalone business is discounted at 14x FY11E earnings.

What will challenge our target price?

1) Steep raw material price increases and inability of the company to pass on the same to the customers; 2) Increased competition in UV segment from new launches may affect market share; 3) If GoI accepts the Kirit Parikh report's recommendations, additional excise duty may affect UV demand; 4) Failure of USA launch.

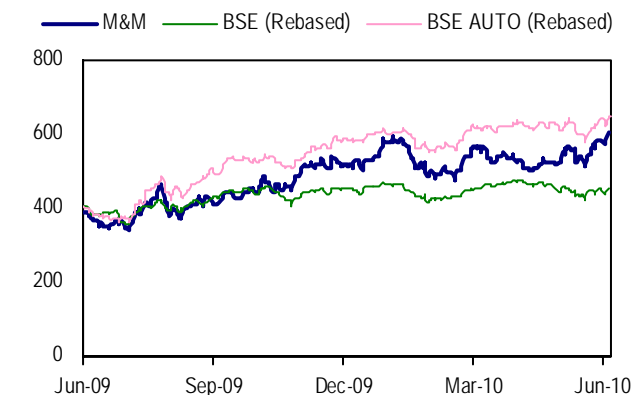
(Rs mn)	FY09	FY10P	FY11E	YoY %	FY12E	YoY %
Net Sales	126,491	183,287	216,357	18.0	240,474	11.1
EBITDA	10,923	29,552	31,235	5.7	34,917	11.8
EBITDA Marg. (%)	8.3	15.9	14.3	(160)bps	14.3	10 bps
Adj. Net Profits	8,287	20,180	22,657	12.3	25,543	12.7
Dil. EPS (Rs)	16.2	36.3	39.4	8.5	43.7	11.0
PER (x)	37.5	16.7	15.4		13.9	
ROE (%)	17.3	30.9	25.2	(570)bps	23.1	(220)bps
ROCE (%)	13.8	28.1	26.3	(170)bps	25.6	(80)bps

Sector: Auto

CMP: Rs608; Mcap: Rs344bn

Bloomberg: MM IN; Reuters: MAHM.BO

Price performance



SOTP Valuation

	Valuation Method	Per share (Rs)	Multiple	Value (Rs)
M&M (Standalone)	P/E	41.8	14	586
Tech Mahindra	CMP	58.6	0.8	47
Mahindra Holidays	CMP	55.9	0.8	45
M&M Financial Services	CMP	41.7	0.8	33
Mahindra Lifespace	CMP	15.0	0.8	12
M&M (Treasury Stocks)	CMP	50.8	0.8	41
Swaraj Engines	CMP	2.3	0.8	2
Mahindra Forgings	CMP	6.9	0.8	5
Mahindra Ugine Steel	CMP	1.7	0.8	1
Mahindra Composites	CMP	1.6	0.8	1
Mahindra Navistar	P/BV	5.8	1.5	9
SOTP Value (Rs)				782

Patel Engg. - BUY, TP- Rs544 (32% upside)

What's the theme?

Patel Engineering is an attractive infrastructure and land bank story. Its infrastructure business comprising of high-margin hydro power, irrigation and micro-tunneling are already showing signs of strong order inflows for FY11. In the Real estate segment, one project is about to start revenue while the company has fully pre-sold two residential projects. Valuations have become compelling following the 10.8% correction last month, (25% from the yearly high).

What will move the stock?

1) We believe the core business is undervalued, and are optimistic of enhanced valuations as we believe the order book would grow at ~20.9% CAGR over FY10-12. 2) Order flow from the hydro power segment has been below potential over the past three years at an average of ~Rs15.7bn. Nevertheless, the company has total order backlog of Rs100bn and it has L1 status in hydro power projects of ~Rs15bn. 3) Faster execution of the real estate projects would stimulate stock performance.

Where are we stacked versus consensus?

Our FY11E earnings estimates are among the lowest on the street at Rs28.7, ~11% lower than mean consensus estimates. We expect top-line growth of ~15% at Rs35.4bn for FY11 vs. consensus estimate of ~19.6% at Rs36.8bn. We value Patel Engg on SOTP basis at Rs544 vs. consensus target of Rs525.

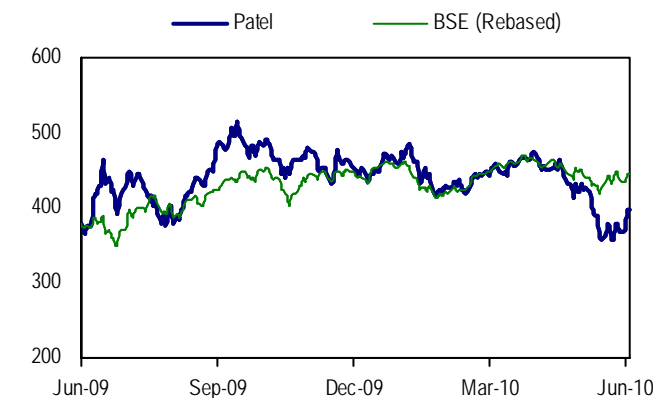
What will challenge our target price?

1) Lower-than-expected order inflow of Rs45bn in FY11. 2) Slowdown in the real estate market.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	24,598	30,811	35,454	15.1	42,518	19.9
EBITDA	3,897	4,894	5,602	14.5	6,675	19.2
EBITDA Marg. (%)	15.8	15.9	15.8	(10)bps	15.7	(10)bps
Adj. Net Profits	1,805	1,933	2,007	3.8	2,428	21.0
Dil. EPS (Rs)	30.3	27.7	28.7	3.8	34.8	21.0
PER (x)	13.6	14.8	14.3	-	11.8	-
ROE (%)	19.4	15.1	12.3	(280)bps	13.2	90 bps
ROCE (%)	14.6	16.0	14.2	(190)bps	14.8	70 bps

Sector: Construction & Infrastructure
 CMP: Rs411; Mcap: Rs28.7bn
 Bloomberg:PEC IN; Reuters:PENG BO

Price performance



SOTP

Particulars	Rs/Share	Percentage
Cons. Construction business	374	68.7%
Real estate projects	55	10.2%
Road BOT	12	2.3%
Land bank valuation	67	12.3%
Power valuation	36	6.6%
Total	544	

RANBAXY: BUY, TP-Rs792 (82% upside)

What's the theme?

Despite the ~51% run up in the past 12 months, we believe Ranbaxy has more steam left. Some of the triggers have played out. More triggers will likely play out over the next two years as Ranbaxy transitions from an aggressive Indian MNC focused on top-line growth to a conservative Japanese company focused on profitability.

What will move the stock?

1) Partial resolution of the USFDA issue at the Dewas facility; 2) Margin improvement in the base business; 3) Greater clarity from Daiichi on the roadmap to tap the Japanese generics market; 4) Clarity on the alliances; 5) Monetizing/separating the innovative R&D effort; and 6) Progress on the resolution of Poanta Sahib.

Where are we stacked versus consensus?

Our estimates are the highest on the street because we are optimistic about an eventual resolution of the USFDA issue at Dewas facility in H2CY10. Moreover, we expect the base business margins to improve substantially. Our 18-month target price of Rs792 is also the highest on the street.

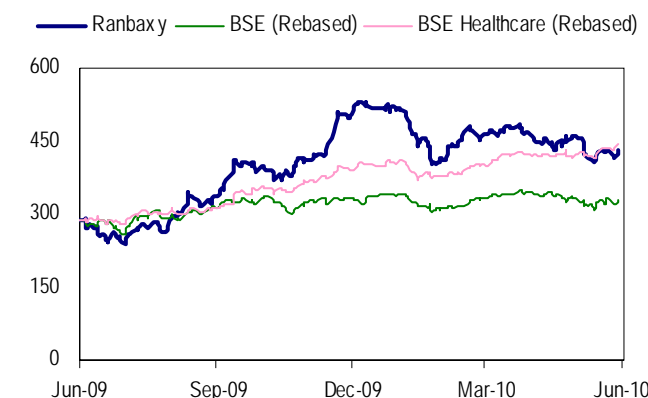
What will challenge our target price?

1) Ranbaxy's inability to secure USFDA clearance for the Dewas facility; 2) Outstanding forex hedges of USD1bn over the next eight years leading to significant volatility in near-term earnings.

(Rs mn)	CY08	CY09	CY10E	YoY %	CY11E	YoY %
Net Sales	74,214	71,566	82,729	15.6	96,003	16.0
EBITDA	2,370	9,597	15,025	56.6	19,999	33.1
EBITDA Marg. (%)	3.2	13.4	18.2	475 bps	20.8	267 bps
Adj. Net Profits	(2,019)	4,837	9,134	88.8	13,731	50.3
Dil. EPS (Rs)	(4.3)	10.3	19.4	88.8	29.2	50.3
PER (x)	(67.5)	28.2	14.9	-	9.9	-
ROE (%)	(5.8)	11.5	19.9	838 bps	24.9	501bps
ROCE (%)	3.9	11.9	17.4	552 bps	19.4	206 bps

Sector: Pharmaceuticals
 CMP: Rs435; Mcap: Rs183bn
 Bloomberg: RBXY IN; Reuters: RANB.BO

Price performance



Potential upside from Carbapenems

(USD mn)	CY10E	CY11E
Meropenem - US	25.4	57.1
Imipenem - US	22.5	33.8
Meropenem - EU	30.2	67.9
Imipenem -EU	22.5	33.8
Total	100.6	192.5
INR/USD	42.0	42.0
IN INR	4,224	8,086

SHREE CEMENT: BUY, TP-Rs2,639 (26% upside)

What's the theme?

Shree Cement will increase cement capacity to 12 mn MT by end-FY11 by commissioning three grinding units. It has already commissioned a 1.8 mn MT unit at Suratgarh, Rajasthan and a 1 mn MT unit at Roorkee. Another 1.5 mn MT in Jaipur is to be commenced by Nov'10. It is also raising clinker capacity at Ras by 1 mn MT by Q3FY11. It is adding 600MW in the power business, of which it will commission 300 MW at Beawar, Rajasthan, in two tranches of 150 MW each by Mar'11 and Sep'11. Recently, Shree Cement announced to invest Rs20bn in Karnataka in setting up a 3 mn MT cement plant and a 100 MW thermal power plant. This would help the company increase its national presence.

What will move the stock?

1) 13% cement sales growth in FY11E, supported by spending on Commonwealth Games, and pick-up in real estate driving demand in the Northern region; 2) Increase in contribution of power sales to ~20% in FY12E from ~6% in FY10E sustaining OPM of >35% despite expected pressure on cement realisations.

Where are we stacked versus consensus?

Our FY11 EPS estimate of Rs292 is 30% higher than consensus median estimate of Rs224. We are upbeat on better contribution of the power business and strong demand growth in cement moderating the impact of a 4% decline in realisations in FY11E to Rs3,300/MT.

What will challenge our target price?

1) Delays in infrastructure spending; 2) Faster commissioning of new cement plants engendering glut.

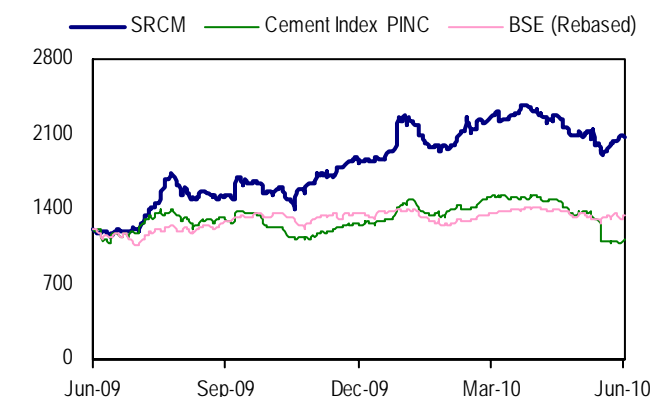
(Rs mn)	FY09	FY10P	FY11E	YoY %	FY12	YoY %
Net Sales	27,150	36,321	40,998	12.9	48,733	18.9
EBITDA	9,377	15,057	14,925	(0.9)	17,881	19.8
EBITDA Marg. (%)	34.3	41.3	36.2	(510)bps	36.5	30 bps
Adj. Net Profits	5,780	7,396	7,986	8.0	9,278	16.2
Dil. EPS (Rs)	165.9	212.3	229.2	8.0	266.3	16.2
PER (x)	12.6	9.8	9.1	-	7.9	-
ROE (%)	61.4	48.6	36.4	(1220)bps	31.2	(520)bps
ROCE (%)	33.7	30.6	26.1	(460)bps	27.0	90 bps

Sector: Cement

CMP: Rs2,090; Mcap: Rs73bn

Bloomberg: SRCM IN; Reuters: SHCM BO

Price performance



Shree Cement's Power Story

	FY08	FY09	FY10P	FY11E	FY12E
Rated Power Cap (MW)	102	119	214	265	564
Effective Power Cap (MW)	75	124	178	265	471
Captive Power Cons (MW)	75	107	128	127	174
Surplus Power Available (MW)	-	17	51	137	297
Surplus Power Sold (Mn units)	-	118	350	950	2,055
Power Sales Revenue (Rs Mn)	-	806	2,129	5,225	10,275
% of Net Sales	-	3.0	5.8	12.6	21.5
% of EBITDA	-	3.0	7.0	19.1	34.5

TCS: BUY, TP-Rs943 (23% upside)

What's the theme?

TCS will continue to exhibit strong growth driven by recovery in key segments of BFSI and US. The impact of weak EUR will have impact on dollar revenue but in rupee terms the impact will be limited as the rupee has depreciated against the dollar.

What will move the stock?

1) BFSI still leads the growth trajectory, currently contributing 45% of revenue; 2) Emerging markets provide untapped opportunity due increasing focus on IT spending; 3) Positive uptick in offshore IT budgets for CY10; 4) Strong emphasis on client mining increasing volumes.

Where are we stacked versus consensus?

Our top line estimates vary from Consensus by ~9.5% underpinned by stronger volumes and a modest uptick in the pricing for FY12. EBITDA Margins are lower than consensus by ~90bps as we expect a moderate salary hike due to the high variable payout structure for TCS. Our EPS estimate is 3% higher than consensus for FY12.

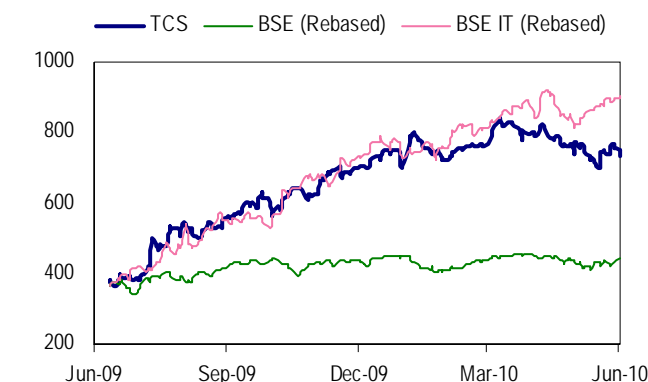
What will challenge our target price?

1) Slower recovery in the US economy; 2) Appreciation of INR vs USD; 3) Increase in tax rates after the sunset clause; 4) Higher attrition and wage increments 5) Project delays and cancellations in government contracts.

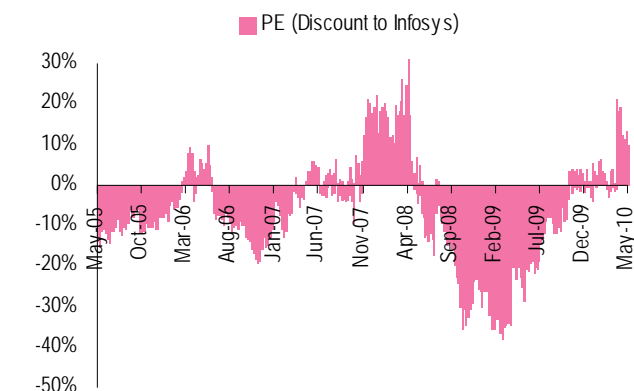
(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	278,128	300,289	357,032	18.9	444,312	24.4
EBITDA	73,384	86,799	97,984	12.9	118,901	21.3
EBITDA Marg. (%)	26.4	28.9	27.4	(146)bps	26.8	(68)bps
Adj. Net Profit	51,708	68,728	74,316	8.1	88,917	19.6
Dil. EPS (Rs)	13.2	35.1	38.0	8.1	45.4	19.6
PER (x)	29.0	21.8	20.2	-	16.9	-
ROE (%)	32.3	32.9	29.9	(295)bps	29.1	(76)bps
ROCE (%)	40.0	35.6	34.0	(164)bps	33.8	(19)bps

Sector: Information Technology
 CMP: Rs766; Mcap: Rs1,499bn
 Bloomberg: TCS IN; Reuters: TCS.BO

Price performance



PER-Discout to Infosys



T E A M

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