

February 26, 2007

FOR PRIVATE CIRCULATION

**Equity**

	23 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	13,633	(2.8)	(4.6)	(0.5)
Nifty	3,939	(2.5)	(5.0)	(0.3)
Banking	6,760	(3.4)	(9.2)	(5.5)
IT	3,704	(3.2)	(2.0)	3.8
Healthcare	3,611	(2.6)	(5.1)	(3.6)
FMCG	1,786	(3.4)	(8.5)	(10.7)
PSU	5,876	(2.1)	(7.1)	(6.6)
CNX Midcap	5,000	(2.0)	(6.0)	(1.1)
<b>World indices</b>				
Nasdaq	2,515.1	(0.4)	3.3	2.2
Nikkei	18,188	0.4	4.9	16.2
Hangseng	20,712	(0.5)	1.2	6.6

**Value traded (Rs cr)**

	23 Feb 07	% Chg - 1 Day	
Cash BSE	4,348	9.5	
Cash NSE	10,337	(11.8)	
Derivatives	36,422	(34.2)	

**Net inflows (Rs cr)**

	22 Feb 07	% Chg	MTD	YTD
FII	(225)	(462)	3,950	4,110
Mutual Fund	1	(96)	(1,174)	(2,516)

**FII open interest (Rs cr)**

	22 Feb 07	% chg	
FII Index Futures	11,574	6.0	
FII Index Options	4,859	3.2	
FII Stock Futures	15,194	(1.5)	
FII Stock Options	30	203.9	

**Advances/Declines (BSE)**

	23 Feb 07	A	B1	B2	Total	% Total
Advances	22	49	133	204	13	
Declines	192	585	543	1,320	86	
Unchanged	1	4	11	16	1	

**Commodity**

	23 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	61.1	0.3	11.1	3.2
Gold (US\$/OZ)	682.6	0.8	6.3	7.6
Silver (US\$/OZ)	14.6	2.6	9.7	9.0

**Debt/forex market**

	23 Feb 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.95	7.94	7.88	7.44
Re/US\$	44.16	44.25	44.22	44.70

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- ❑ India Inc may soon lose the freedom of saving on tax by investing through special purpose vehicles registered in Mauritius. Mauritius is all set to tighten its laws to prevent abuse of the tax treaty with India and check 'round-tripping'. (ET)
- ❑ The Government is falling short of its target of adding 32,804 MW of power generating capacity during the Tenth Plan period that ends in March. The Power Ministry's revised estimate shows that only 23,250 MW will be added during the Plan period ending March 31. (ET)
- ❑ The Government's revenues from direct taxes so far this fiscal have jumped 39.5% to Rs.1634.23 bn, from Rs.1171.48 bn a year ago, on the back of buoyancy in corporate net profits. (ET)
- ❑ The Government is considering going ahead with 'truncated labor reforms' in the absence of a consensus between employers and employees on a number of contentious issues like lay-offs and retrenchment. (BS)
- ❑ Relocation of major industries from urban areas to industrially backward districts is likely to get fresh incentives since the Government is preparing for relocation in order to free urban space. (BL)

**CORPORATE NEWS**

- ❑ The **Reliance** board has approved allotment of 120 mn warrants to Chairman Mukesh Ambani and his associates. The warrants on conversion of equal shares will scale up promoters' stake by 4% to 54.65%. (BS)
- ❑ **Reliance Industries'** decision to build a new cracker and petrochemical complex is meant to ward off long-term threats from West Asia and China and tie in with the company's long-term position to be a global manufacturing outsourcing hub. (ET)
- ❑ The **Bharti Group** has informed the Government that its joint venture with Wal-Mart would start operations in August or September this year. Recruitment, negotiations with potential customers and market surveys are now on for the project. (ET)
- ❑ **Hindustan Lever** plans to unfurl an initiative for the growth of its foods business in 2007. HLL executives announced that this year "will see the building blocks put in place for the company's long-term food strategy". (BS)
- ❑ **TCS** is negotiating about 5-10 IT services deals of \$50-100 mn each. The \$50-100 mn deals offer flexibility of outcomes as values delivered to the customer could be measured in shorter timeframes ranging between one to three years. (ET)
- ❑ LN Mittal-controlled Mittal Investment may have cornered a large 49% chunk of the revived Bathinda refinery project but the other contender for the stake, Government-owned **Oil India**, has asked for the Petroleum Ministry's intervention to secure 26% ownership of the project. (BS)
- ❑ Dabur Foods, a 100% subsidiary of **Dabur India**, is looking at re-launching 'Real Junior', the fruit juice brand targeted at junior schoolchildren. The company is targeting 'Real Junior' presence inside more than 200 school canteens in the form of small kiosks or simply counter presence. (BS)
- ❑ **Tata Steel** may opt for a rights issue to raise funds to finance its \$13.13 bn purchase of the Corus group. The option of a global depository issue is not finding much favor, as it would dilute promoters' equity. (BS)

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

### ANALYST MEET UPDATE

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**We continue to recommend a BUY on Zensar with a price target of Rs.317**

## ZENSAR TECHNOLOGIES LTD (Rs.230, FY08E P/E: 7.5x, BUY)

**We attended the analyst meet of Zensar to get details of the acquisition of ThoughtDigital (TD) and the future growth plans of the company.**

We believe the acquisition of TD will add strategic value to the company and also be earnings accretive for Zensar. In addition to becoming a Top 10 Oracle partner in the world, the acquisition is expected to help Zensar penetrate deeper into TD's large clients.

On an organic basis, Zensar has been able to build up a base of good enterprise clients over the past few quarters. It is also penetrating the accounts through ITS as well as new services like BI, BPO, etc. A sustained focus on increasing offshore component in overall revenues and cost control has helped it in improving margins in the past four quarters. It is expected to restrict the impact of salary hikes on margins in the future.

We remain positive on Zensar, based on several parameters like deeper penetration into existing large clients, significant client additions, success in new business initiatives and potential for improved profitability in the BPO business.

At the current levels, the stock trades at 7.5x FY08E estimates. We arrive at a DCF-based price target of Rs.317 for the company. We continue to recommend a **BUY**.

### Acquisition of ThoughtDigital

Zensar has announced the completion of its 100% acquisition of ThoughtDigital, through its 100% subsidiary. The transaction is valued at about \$25 mn and is an all-cash deal. For the year ended December 2006, TD had revenues of \$27 mn with an EBIDTA margin of 10% and a net profit margin of about 8.5%.

SOA Software owned TD and it is a leading systems integrator specializing in Oracle Apps. The company has about 120 Oracle consultants and a strong client base.

TD had been facing increasing demands from clients for an offshore delivery base and also other services, which Zensar will be able to provide. The strategic reasons for the acquisition of TD by Zensar are:

- Within the enterprise applications space, Zensar is focused largely on Oracle and the addition of TD's expertise and client base. Zensar will become a Top 10 global partner for Oracle. This is expected to bring in larger deals to Zensar in the Oracle space.
- While Zensar is present on the west coast of the US, TD is largely present in the east coast. The integration is expected to make Zensar a pan-American player.
- While Zensar has focused on the hi-tech, manufacturing, retail and transportation verticals, TD is strong in media/communications, financial services and consumer products and services verticals. Thus, the acquisition will add totally new verticals for Zensar.
- TD has reputed clients like Gartner, Cingular Wireless, York Water Company, Intelsat, Swiss Re, Anteon, etc. Zensar can potentially cross-sell its existing services to these large accounts.
- Zensar plans to increase the offshore content in TD's business with a view to increase margins in its operations. Also, potentially higher rates for providing Zensar's services to TD's clients can improve profitability for Zensar.

## SBP and Global Delivery Platform

In the non-EAS (enterprise application services) business, Zensar is finding increasing acceptance for its global delivery platform (GDP) model. Initially, in SBP, the designing work was done in Pune.

In GDP, the company does the project design work at any of the near-shore locations along with the client's staff. The development work is done at any of the remote locations with the help of SBP. SBP reduces the requirements of engineers as most of the work is automated. Zensar is also able to utilize the services of functional experts spread across the world who are not necessarily its own employees. The project testing work is done on-site.

This allows the company to scale up its business without undue pressure of recruiting its own employees.

## Future prospects

- We have incorporated the financials of TD in our estimates. We expect the consolidated entity to achieve revenues of Rs.8.5 bn in FY08 of which, TD is expected to contribute about Rs.1.2 bn. The organic growth thus, is expected to be 23%.
- EBITDA margins are expected to be stable despite better profitability in the BPO and ITS businesses. Lower profitability in TD, rupee appreciation (43 per US dollar by FY08 end) and salary increases are expected to impact profitability.
- We expect interest expense to increase to Rs.47 mn in FY08 due to the \$15-mn debt Zensar proposes to raise to part-fund the TD acquisition. Thus, PAT is expected grow to Rs.739 mn in FY08, resulting into an EPS of Rs.31.

## Key financials

(Rs mn)	FY06	FY07E	YoY (%)	FY08E*	YoY (%)
<b>Income</b>	<b>4,288.5</b>	<b>5,917.3</b>	<b>38.0</b>	<b>8,496.3</b>	<b>43.6</b>
Expenditure	3,746.8	5,139.0		7,382.6	
<b>EBDITA</b>	<b>541.7</b>	<b>778.3</b>	<b>43.7</b>	<b>1,113.7</b>	<b>43.1</b>
Depreciation	154.7	156.9		242.0	
<b>EBIT</b>	<b>387.0</b>	<b>621.4</b>	<b>60.6</b>	<b>871.7</b>	<b>40.3</b>
Interest	16.1	14.3		47.2	
Other inc	46.3	81.1		83.9	
<b>PBT</b>	<b>417.2</b>	<b>688.2</b>	<b>65.0</b>	<b>908.4</b>	<b>32.0</b>
Tax	54.6	141.0		165.2	
Minority Interest	-4.8	-2.3		4.0	
<b>PAT</b>	<b>367.4</b>	<b>549.5</b>	<b>49.6</b>	<b>739.3</b>	<b>34.5</b>
E.O items	-27.5	0.0		0.0	
EPS (Rs.)	15.7	23.2		31.3	
<b>Margins (%)</b>					
EBDITA	12.6	13.2		13.1	
EBIT	9.0	10.5		10.3	
Net Profit	8.6	9.3		8.7	

\* - Including Thought Digital's financials; Source: Company, Kotak Securities - Private Client Research

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
23-Feb	Advani Hot R	Fast Track Impex Pvt Ltd	S	125,000	177.85
23-Feb	Alchemist Lt	HSBC Financial Services M	S	1,500,000	19.00
23-Feb	Ceejay Finan	Mamta Sancheti	B	20,000	12.00
23-Feb	Ceejay Finan	Arun Kumar Sancheti HUF	S	20,000	12.00
23-Feb	Cerebra Int	Suresh Kumar Agarwal	S	33,336	14.87
23-Feb	Gemstone Inv	Prem Mohanlal Parikh	B	45,000	23.49
23-Feb	Gemstone Inv	Sharman Appliances Pvt Ltd.	S	43,600	23.50
23-Feb	Indo Borax C	Nisha Suman Jain	B	22,412	51.21
23-Feb	Integra Hind	Kiran Mittal	B	12,840	290.00
23-Feb	Integra Hind	Kiran Anilkumar Mittal	S	12,840	290.00
23-Feb	Jetking Info	Ruane Cunniff and Goldfar	B	13,423	347.81
23-Feb	Kadamb Const	Laxmi Choudhary	S	15,000	21.75
23-Feb	Karut Net L	HSBC Financial Services M	S	25,000	235.49
23-Feb	Koff Br Pict	Ketan Bhailal Shah	S	28,000	20.69
23-Feb	Logix Micro	Amita R Sheth	B	225,000	222.97
23-Feb	Logix Micro	Ravi Sheth	S	115,483	223.00
23-Feb	Logix Micro	Kanaiyalal Sheth	S	64,517	225.00
23-Feb	Mahar Polybu	Simran Sunil Raheja	S	123,300	13.74
23-Feb	Minax Textil	Mukeshkumar Anitbhai Shah	S	53,466	29.50
23-Feb	Nitco Tiles	Standard Chartered Mutual	S	180,000	225.02
23-Feb	Patel Airtem	Mittal Securities and Fin	B	50,000	40.10
23-Feb	Patel Airtem	Jayesh H Patel	S	100,000	40.10
23-Feb	PondyOxides	Master Finlease Ltd	B	144,228	24.99
23-Feb	PondyOxides	Purshottam Khandelwal	S	233,520	25.15
23-Feb	RadhaMadhav	Laxminarayan J Garg	B	160,000	57.76
23-Feb	Raipur All S	Winro Commercial India Ltd	B	80,462	147.77
23-Feb	Simplex Trad	Parvati Mineral	B	2,650	160.13
23-Feb	Sujana Metal	HSBC Financial Services M	S	500,000	110.00
23-Feb	Sumeet Indus	Purshottam Khandelwal	B	134,000	30.02
23-Feb	Sumeet Indus	Master Finlease Ltd	S	190,131	28.53

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
GAIL India	278	2.3	1.1	0.8
Tata Steel	460	1.2	0.6	6.2
Suzlon Energy	1,048	0.8	0.5	0.9
<b>Losers</b>				
Bharti Airtel	756	(5.6)	(17.0)	2.1
ONGC	830	(2.9)	(10.7)	1.8
Wipro	623	(4.1)	(7.7)	1.0

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
26-Feb	India to present Railway Budget for year 2007-08
27-Feb	India to announce economic survey for year ending March 2007; DBS Chola Mutual Fund organises the launch of Hedged Fund
28-Feb	India to unveil Federal Budget for year 2007-08; Alfa Laval to announce earnings and dividend; BCCI hosts live Union Budget viewing session with experts; FICCI hosts live Union Budget discussion in New Delhi
6-Mar	GAIL India to announce special interim dividend

Source: Bloomberg

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