

IT SECTOR - RESULT PREVIEW

Strong business momentum, but watch out for currency

We expect the Indian IT industry to close FY07 with strong volumes. Though there has been an appreciation of the rupee against the USD, we expect the impact of the same to be mainly below the operating profit line (in other income) on account of translation losses and the open forward contracts. Hedges taken in the previous quarter will help offset the rupee appreciation effect at the revenue level. Since there has been a sharp appreciation in the rupee against USD in the past two weeks, we expect the guidance to be affected negatively for companies that give.

Our discussions with tier-I players in the Indian IT industry suggest the strong momentum will continue through FY08 as well. Indian tier-I players have continuously invested to build new verticals and service lines, which are gaining traction through their customer base. This has resulted in increasing the share of the Indian IT industry in the global market from a meager 2.3% in FY05 to 3.6% in FY07E.

* Q4FY07: How will it be?

Fourth quarter results of the Indian IT services sector are expected to be steady, which will be led by higher volumes. For Q4FY07, we expect the revenues of companies under our coverage to grow 6.1% Q-o-Q and 38.7% Y-o-Y. The net profit is estimated to grow 7.8% Q-o-Q and 51.8% Y-o-Y. The growth in the net profit is higher on account of increased contribution from high margin product revenues for i-flex. The operating (EBITDA) margins are expected to increase from 25.9% in Q3FY07 to 26.4% in Q4FY07 based on slightly better pricing, improved productivity, and higher billing days. Pricing is expected to remain stable with positive bias from new and renewal business. Our coverage universe comprises of 15 companies across various technology services segments. The total market capitalisation of our coverage universe stands at USD 92.0 bn as at the end of the current quarter, compared with USD 96.3 bn as at the end of the Q3FY07.

We prefer **Infosys** and **TCS** among large-caps; in the mid-tier basket, our top picks are **iGATE Global Solutions**, **Rolta India**, and **Hexaware**.

Table 1: Recommendation table

Company	CMP (INR)	Recommendation
Geometric Software	99	Accumulate
HCL Technologies	272	Buy
Hexaware	168	Buy
i-flex Solutions	2,057	Buy
iGATE Global Solutions	383	Buy
Infosys Technologies	1,921	Buy
Infotech Enterprises	351	Buy
Mastek	302	Buy
Mphasis BFL	275	Buy
Patni Computer	375	Accumulate
Rolta India	325	Buy
Sasken Communication	475	Buy
Satyam Computers	446	Buy
TCS	1,189	Buy
Wipro	518	Accumulate

Source: Edelweiss research

April 2, 2007

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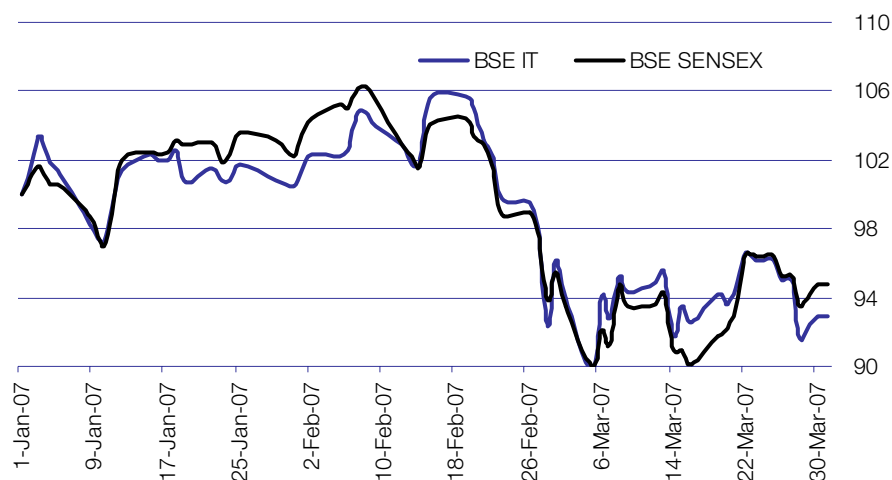
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* **BSE IT underperformed BSE Sensex**

During the quarter-ended March 2007, the BSE IT index was down by 7.1% compared with 5.2% decline in the BSE Sensex. The BSE IT index underperformed the BSE Sensex for major part of the quarter, which was mainly attributed to appreciating rupee, a concern affecting investors as well. However, we expect this to correct once Q4FY07 results and mainly the **guidance from Infosys** for FY08 are out, which will set the base for out performance going forward.

Chart 1: BSE IT versus BSE Sensex



Source: Bloomberg

* **Infosys' guidance: Driver of IT stock prices**

Infosys' guidance, especially in April, is an overrated event. Infosys uses data from client polling as a substantial variable in providing its guidance numbers. This means that only that business where it has visibility from orders and pipeline at the beginning of the year get captured. The orders that it bids for later in the year and are delivered within the same year get low weightage in the entire process. The table below shows the guidance given by the company (revenue and EPS) at the start of the fiscal year and the actual performance delivered by the company for that year. As is evident, Infosys has always been beating its guidance by a significant margin and has substantially outperformed.

The company's philosophy of '**under-promise and over-deliver**' is evident from the table below

Table 2: Infosys guidance (released in April) range for revenues and EPS FY05-07

Revenues	Guided (%)	Actual perf. (%)	Outperformance (%)
FY04	23.2	25.4	33.3
FY05	23.5	24.5	46.9
FY06	24.7	26.6	33.5
FY07	28.7	30.7	46.9

EPS	Guided (%)	Actual perf. (%)	Outperformance (%)
FY04	12.3	13.7	29.9
FY05	19.5	-	50.4
FY06	23.0	24.9	27.9
FY07	26.3	29.3	50.6

Source: Company, Edelweiss research

*(FY07 numbers are annualized)

- We believe that the market is currently waiting for Infosys to give its FY08 guidance, which will give an indication of the momentum witnessed by offshore scale players. The guidance will also be impacted on account of the average rupee rate for the past two weeks, which the company uses for guidance. The rate will look suppressed on account of the sudden appreciation in the same period.
- We expect the company to guide 26-28% growth in revenues and 24-26% EPS growth for FY08.
- We recently met with a few business heads at Infosys and based on discussions with them, believe that the momentum across its business lines continues to be strong. In addition, many of its million dollar accounts (Infosys has 256 USD 1 mn accounts) are in the middle of scale up process. We see Indian scale players such as TCS, Infosys, and Wipro in the middle of large end-user scale up plans and are comfortable with our FY07-09 forecasts.

* **Rupee woes; impact analysis**

During the current quarter, the rupee appreciated against the USD by 1.8%, against the Euro by 0.2%, and depreciated by 0.1% against the GBP, based on average rates for the quarter. However, this kind of appreciation in the rupee had been taken into account while giving guidance, by those who give for the March quarter.

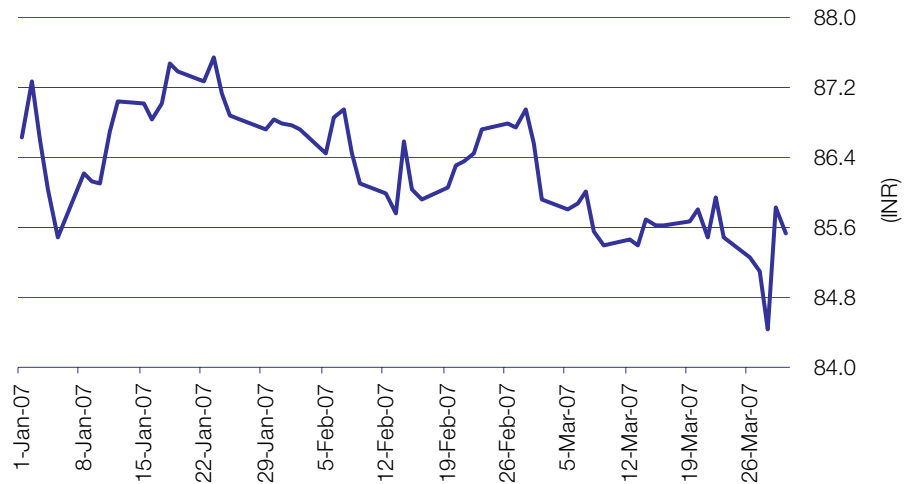
- **Guidance:** We expect the rupee’s sharp appreciation to negatively impact the guidance for FY08, as most companies either use the closing rate of the previous quarter or past two week’s average rate for guidance in rupee terms.
- **Current quarter numbers:** We expect the appreciation of the rupee during the quarter to mainly impact the other income, below the operating level. This will be on account of the fact the open hedge positions will have to be marked to market rate on the balance sheet date. Working capital items such as debtors, cash etc., to the extent they are in foreign currency, will also be translated into Indian rupee at the closing rate resulting in a further hit. The INR/USD at the close of third quarter (December 29) was at 44.26 and during the current quarter (March 30) it is at 43.47.

Chart 2: Rupee movement against USD during the current quarter



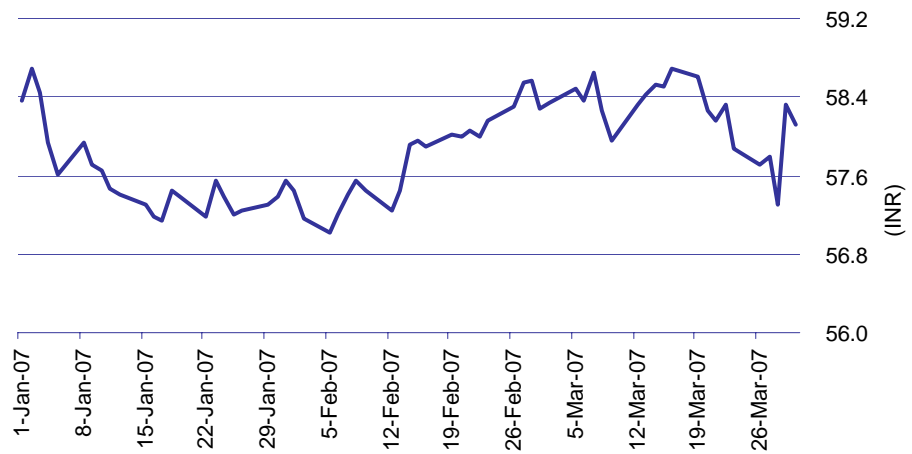
Source: Bloomberg

Chart 3: Rupee movement against GBP during the current quarter



Source: Bloomberg

Chart 4: Rupee movement against Euro during the current quarter



Source: Bloomberg

Table 3: Hedge position of various companies as at the end of December 2006 quarter

Company	Amount hedged	Remarks
TCS	USD 1,100 mn	USD 425 mn in forward contracts, USD 825mn in options
	USD 150* mn	
Infosys	USD 293 mn	USD 76mn in forward contract and USD 284 mn worth in options
	GBP 31 mn	
	Euro 5 mn	
Wipro	USD 188 mn	
Satyam	USD 254 mn	USD 86mn in forward contracts, USD 167.5mn in options
HCL Tech	USD 515 mn	Entirely in forwards
i-flex	USD 132 mn	Of the whole, USD 115mn and Euro 2.25mn in forward contracts, the rest in options
	Euro 4 mn	
Hexaware	USD 41 mn	
Mastek	USD 8 mn	
	GBP 3 mn	

Source: Companies *Equivalent taken in other currencies

* Expected numbers

Table 4: Revenue and net profit estimates

	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %
Revenues (INR mn)					
TCS	51,425	48,605	5.8	37,328	37.8
Infosys	38,696	36,550	5.9	26,240	47.5
Wipro	41,532	39,636	4.8	30,542	36.0
Satyam	17,611	16,611	6.0	13,136	34.1
HCL Tech	14,651	13,795	6.2	10,542	39.0
Patni	7,341	6,840	7.3	5,750	27.7
i-flex	6,529	5,502	18.7	4,577	42.6
Mphasis	3,244	3,060	6.0	2,505	29.5
Hexaware	2,627	2,402	9.4	1,762	49.2
Mastek	2,121	2,064	2.8	1,774	19.6
iGATE	2,139	2,107	1.5	1,674	27.8
Infotech	1,522	1,430	6.4	1,078	41.2
Sasken	1,434	1,310	9.4	781	83.7
Geometric	1,145	1,067	7.3	639	79.2
Rolta	1,792	1,681	6.6	1,419	26.3
Total	193,808	182,661	6.1	139,746	38.7

	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %
Net profits (INR mn)					
TCS	12,172	11,047	10.2	8,094	50.4
Infosys	10,601	9,830	7.8	6,730	57.5
Wipro	7,724	7,450	3.7	5,975	29.3
Satyam	3,483	3,372	3.3	1,249	178.9
HCL Tech	2,597	2,300	12.9	1,651	57.3
Patni	1,017	1,495	(32.0)	706	44.0
i-flex	1,402	773	81.4	1,169	20.0
Mphasis	406	358	13.4	352	15.4
Hexaware	360	325	10.6	260	38.2
Mastek	242	218	11.0	173	40.0
iGATE	184	160	15.2	47	290.2
Infotech	223	187	19.0	166	34.4
Sasken	133	119	12.4	63	112.2
Geometric	127	105	20.0	107	18.6
Rolta	435	409	6.4	330	32
Total	41,106	38,149	7.8	27,072	51.8

	Q4FY07E	Q3FY07	Inc/(dec.)	Q4FY06	Inc/(dec.)
EBITDA Margins (%)					
TCS	29.5	28.3	1.2	27.2	2.4
Infosys	33.5	32.7	0.8	31.7	1.8
Wipro	22.6	22.6	0.0	23.1	(0.5)
Satyam	22.7	24.7	(2.0)	25.5	(2.8)
HCL Tech	22.1	21.7	0.5	22.5	(0.4)
Patni	17.9	21.5	(3.6)	17.5	0.4
i-flex	28.5	19.3	9.2	28.7	(0.1)
Mphasis	18.7	19.2	(0.5)	20.5	(1.7)
Hexaware	15.9	14.9	1.0	16.7	(0.8)
Mastek	17.8	18.0	(0.2)	18.2	(0.4)
iGATE	14.6	12.7	1.9	9.6	5.0
Infotech	21.4	22.6	(1.1)	18.4	3.0
Sasken	16.7	14.8	1.9	13.5	3.2
Geometric	19.6	16.1	3.5	25.3	(5.7)
Rolta	41.2	40.2	1.0	41.0	0.2

Source: Edelweiss research

* Valuations at a glance

Table 5: Comparative Valuations

	EPS (INR)		P/E (x)		EV/EBITDA (x)		EV/Revenue (x)		Mcap/Revenue (x)	
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
TCS	56.2	70.6	21.1	16.8	16.4	12.1	4.6	3.5	4.7	3.7
Infosys	86.9	112.3	22.1	17.1	16.0	11.1	5.3	3.8	5.7	4.3
Wipro	25.3	31.1	20.5	16.7	14.9	11.2	3.5	2.6	3.9	3.1
Satyam	26.5	32.8	16.8	13.6	12.1	9.1	2.9	2.1	3.5	2.6
HCL Tech	19.4	24.1	14.1	11.3	10.3	8.5	2.3	1.9	2.3	1.8
Patni	31.2	35.7	12.0	10.5	6.6	4.8	1.4	1.0	1.6	1.4
i-flex	57.9	72.5	35.5	28.4	25.3	19.7	5.5	4.3	5.9	4.6
Mphasis	11.7	14.0	23.5	19.6	14.7	11.3	2.8	2.2	2.9	2.4
Mastek	37.2	43.7	8.1	6.9	4.0	3.1	0.8	0.6	1.0	0.8
Hexaware	11.5	14.5	14.6	11.6	10.7	8.1	1.7	1.3	1.9	1.4
Geometric	9.9	14.9	10.0	6.6	4.9	3.3	0.9	0.6	0.8	0.6
iGATE	29.8	40.8	12.9	9.4	6.5	4.3	1.0	0.7	1.2	1.0
Infotech	23.7	31.3	14.8	11.2	12.1	8.4	2.0	1.4	2.2	1.7
Sasken	34.6	44.2	13.7	10.8	8.8	6.8	2.1	1.6	1.9	1.5
Rolta	29.2	39.9	11.1	8.1	6.0	4.1	2.4	1.6	2.7	2.0

Source: Edelweiss research

GEOMETRIC SOFTWARE SOLUTIONS

INR 99



Shifting gears

ACCUMULATE

* **Expected numbers**

We expect Geometric to close Q4FY07 with revenues of INR 1.1 bn (Q-o-Q growth of 7.3%) and net profit of INR 127 mn (Q-o-Q growth of 20.0%). The growth in the net profits is higher on account of absence of integration costs in the current quarter.

* **Change in Chief Financial Officer (CFO)**

During the quarter, Geometric announced the appointment of Mr. G Ravishankar as its CFO. He will be succeeding Mr. Shashank Patkar, who will now assume the dual responsibility of managing Investor Relations and vice presidency of Strategic Initiatives for Geometric. This shift in the management is intended to achieve the aggressive growth plan laid out in the 2010 strategy. Mr. Ravishankar joins in from GE Healthcare, South Asia, where he was the CFO and has 15 years of experience in the Finance and Accounting domains.

* **SG&A investments underway**

Geometric is currently undertaking big-ticket investments for strengthening its direct sales infrastructure and creating a strong brand recall. Also it is taking initiatives in upgrading its delivery facilities for better capacity utilization. Though these may lead to a short term impact, they will be instrumental in sustaining improved margins from the latter half of FY08.

* **Vision 2010 strategy in place**

Geometric has now charted out its 2010 strategy, and has set a goal of USD 275-300 mn of revenues with an operating profit margin of 18-20%. With the strategy in place, induction of new members in the management team, and integration of Modern Engineering, we remain positive on the company and will track it closely for any opportunity to revisit the recommendation.

* **Valuations**

At CMP of INR 99, the stock trades at P/E of 10.0x and 6.6x and EV/EBITDA of 4.9x and 3.3x for its FY08E and FY09E earnings, respectively. We maintain our '**ACCUMULATE**' recommendation on the stock.

April 2, 2007

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Reuters : GEOM.BO

Bloomberg : GMSS IN

Market Data

52-week range (INR) : 145 / 73

Share in issue (mn) : 61.9

M cap (INR bn/USD mn) : 6.1 / 141.5

Avg. Daily Vol. BSE/NSE ('000) : 750.2

Share Holding Pattern (%)

Promoters : 28.2

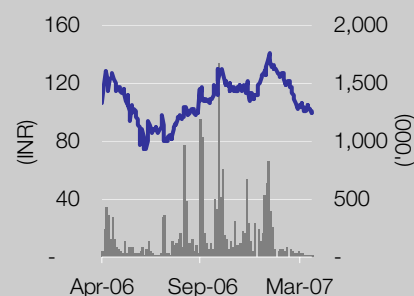
MFs, FIs & Banks : 14.6

FIs : 13.6

Others : 43.6

Financials

Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	1145	1067	7.3	639	79.2	3733	6716
Gross profit (INR mn)	455	410	10.8	278	63.8	1492	2707
EBITDA (INR mn)	225	172	30.4	162	38.7	717	1216
Net profit (INR mn)	127	105	20.0	107	18.6	396	608
EPS basic (INR)	2.1	1.7	19.9	1.9	9.4	6.5	9.9
P/E (x)						15.2	10.0
EV/EBITDA (x)						8.4	4.9
Market cap/Revenues (x)						1.5	0.8



Financials snapshot								(INR mn)
Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E	FY09E
Total revenues	1145	1067	7.3	639	79.2	3,733	6,716	8,865
Direct cost	690	657	5.0	362	91.0	2,241	4,009	5,333
Gross profit	455	410	10.8	278	63.8	1,492	2,707	3,532
Sales & mktg expenses	55	52	6.6	35	58.5	193	416	541
Admin expenses	175	186	(6.1)	81	116.3	581	1074	1312
SG & A expenses	230	238	(3.3)	116	98.9	774	1491	1853
EBITDA	225	172	30.4	162	38.7	717	1216	1679
Depreciation & ammortization	55	54	2.5	44	25.6	204	308	410
EBIT	170	118	43.1	118	43.5	513	908	1269
Other income	23	44	(47.6)	35	(33.7)	56	45	70
Interest	16	16	0.0	0	0.0	32	70	55
PBT	177	146	20.8	153	15.5	537	883	1284
Tax	30	22	37.0	28	6.6	76	141	226
Adjusted net profit	147	124	17.9	125	17.5	461	742	1058
Minority interest	20	19	6.2	18	11.3	65	134	134
Reported net profit	127	105	20.0	107	18.6	396	608	924
Adjusted EPS basic	2.1	1.7	19.9	1.9	9.4	6.5	9.9	14.9
as % of net revenues								
Gross profit	39.7	38.4	0.0	43.4	0.0	40.0	40.3	39.8
SG & A expenses	20.1	22.3	0.0	18.1	0.0	20.7	22.2	20.9
EBITDA	19.6	16.1	0.0	25.3	0.0	19.2	18.1	18.9
Reported net profit	11.1	9.9	0.0	16.7	0.0	10.6	9.0	10.4
Tax rate	17.0	15.0	0.0	18.4	0.0	14.1	16.0	17.6

HCL TECHNOLOGIES

INR 272



Sustaining momentum

BUY

* Expected numbers

We expect HCL Technologies to report Q3FY07 revenues of INR 14.6 bn, a growth of 6.2% Q-o-Q and Y-o-Y growth of 39%. Net profit estimates stand at INR 2.6 bn (Q-o-Q growth of 12.9%).

* Improving margins in IMS and BPO services

We expect marginally better margins for IMS and BPO services. This is reflected in our expectations of better EBITDA margins of about 22% in Q3FY07, up 130bps from Q1FY07. Over time, we also expect recent deals in IMS and BPO to contribute higher share of profits to the overall business.

* Software services margins to sustain

We expect margins in IT services to sustain, going forward. Currently, EBITDA margins for IT services are in the 22-23% range, which, along with growing large accounts, will have a steady-to-upward bias despite our assumption of steady billing rates. However, at the same time, we expect the additional margin to be reinvested in the business to fund future growth.

* Improved client mining ability

HCL Technologies has, in the past year, won large deals which are at the initial start up stage. With its superior ability to mine clients, we believe these accounts will drive the growth momentum for the company going forward. We will look for continued evidence of this in the company's commentary on quarterly results.

* Below-the-operating line items may pull back bottomline

We expect HCL Technologies to report EBITDA of INR 3.5 bn (7.6% growth Q-o-Q), but reported net income is likely to be sequentially flat due to: (a) our assumptions that the company will bear a slightly higher charge towards non-cash stock-based compensation (including RSUs) in Q3FY07; and (b) higher tax outgo at effective rate of 7.5% versus 6.6% in Q2FY07.

* Valuations

At CMP of INR 272, the stock currently trades at a P/E of 14.1x and 11.3x and EV/EBITDA of 10.3x and 8.5x for our FY08E and FY09E earnings, respectively. We retain our 'BUY' recommendation.

Financials

Year to June	Q3FY07E	Q2FY07	Growth %	Q3FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	14,651	13,795	6.2	10,542	39.0	60,002	77,480
Gross profit (INR mn)	5,544	5,087	9.0	3,978	39.4	22,415	28,999
EBITDA (INR mn)	3,241	2,989	8.4	2,377	36.3	13,201	17,141
Net profit (INR mn)	2,597	2,300	12.9	1,651	57.3	10,015	12,636
Adj. EPS basic (INR)	4.4	3.9	14.3	2.8	56.7	15.4	19.4
P/E (x)						17.7	14.1
EV/EBITDA (x)						13.1	10.3
Market cap / Revenue (x)						2.9	2.3

April 2, 2007

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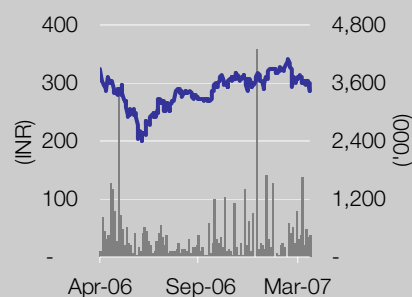
Reuters : HCLT.BO
Bloomberg : HCLT IN

Market Data

52-week range (INR) : 715 / 283
Share in issue (mn) : 657.0
M cap (INR bn/USD mn) : 178.9 / 4,136.6
Avg. Daily Vol. BSE/NSE ('000) : 888.8

Share Holding Pattern (%)

Promoters : 69.0
MFs, Fls & Banks : 9.9
Fls : 13.9
Others : 7.2



Financials snapshot								(INR mn)
Year to June	Q3FY07E	Q2FY07	Growth %	Q3FY06	Growth %	FY07E	FY08E	FY09E
Total revenues	14,651	13,795	6.2	10,542	39.0	60,002	77,480	96,849
Direct cost	9,107	8,708	4.6	6,564	38.7	37,587	48,480	60,554
Gross profit	5,544	5,087	9.0	3,978	39.4	22,415	28,999	36,295
SG&A expenses	2,303	2,098	9.8	1,601	43.8	9,214	11,858	14,721
EBITDA	3,241	2,989	8.4	2,377	36.3	13,201	17,141	21,574
Depreciation	623	557	11.8	493	26.4	2,458	3,161	4,130
EBIT	2,618	2,432	7.6	1,884	39.0	10,743	13,981	17,444
Other income	481	290	65.9	143	236.4	1,301	1,350	1,500
Profit before tax	3,099	2,722	13.9	2,027	52.9	12,044	15,331	18,944
Tax provision	206	219	(5.9)	203	1.5	954	1,518	2,179
Profit after tax	2,893	2,503	15.6	1,824	58.6	11,090	13,812	16,766
Share in equity investment	(7.0)	4.0	(275.0)	(7.0)	-	4.0	15.7	20.0
Minority Interest	(23.0)	(5.0)	360.0	(6.0)	283.3	(41.0)	(40.0)	(40.0)
Adjusted net profit	2,863	2,502	14.4	1,811	58.1	11,053	13,788	16,746
Stock based sales incentives	266.0	202.0	-	160.0	-	1,038.5	1,152.0	960.0
Reported net profit	2,597	2,300	12.9	1,651	57.3	10,015	12,636	15,786
Adjusted EPS	4.4	3.9	14.3	2.8	56.7	15.4	19.4	24.1
as % of net revenues								
Gross profit	37.8	36.9		37.7		37.4	37.4	37.5
SG&A expenses	15.7	15.2		15.2		15.4	15.3	15.2
EBITDA	22.1	21.7		22.5		22.0	22.1	22.3
EBIT	17.9	17.6		17.9		17.9	18.0	18.0
Net profit	17.7	16.7		15.7		16.7	16.3	16.3

HEXAWARE TECHNOLOGIES

INR 168

Steady gains with the right focus

BUY



* Expected numbers

We expect Hexaware to begin Q1CY07 with revenues of INR 2.6 bn (Q-o-Q growth of 9.4%) and net profit of INR 360 mn (Q-o-Q growth of 10.6%). This is in line with the guidance of the company of INR 2.65 bn and net profit INR of INR 352 mn.

* Margins set to improve from Q4CY06

We expect the company's EBITDA margins to improve from 15.0% in the previous quarter to 16% in the current quarter. In the past quarter, margins were impacted on account of the rupee appreciation and one-time costs of acquisition of FocusFrame. Notably, the company had factored in some rupee appreciation in guiding for Q1CY07 and hence, does not expect a strengthening rupee to meaningfully impact its guidance. Hexaware has sufficient levers for margin improvement, which includes higher offshoring, broadening of the employee pyramid, and leverage in SG&A expenses as a percentage of revenues. We expect utilization to remain in the range 70-72% over the next few quarters, in line with historical trends, though the company has indicated that it could improve by a further 200bps.

* Focus on FocusFrame

The integration process of FocusFrame into Hexaware will likely continue through the quarter till the end of CY07. With FocusFrame leading the company's traction in testing services, momentum from this segment will likely build up over the coming quarters. We believe some of the progress points in the integration would be the ability to win and scale-up projects through this channel.

* Deepening the penetration in enterprise solutions

Hexaware has indicated that it will seek to deepen penetration in enterprise solutions through acquisition of small niche firms in SAP, Oracle, and in those areas of enterprise applications where domain knowledge is relatively limited.

* Valuations

At CMP of INR 168, the stock trades at P/E of 14.6x and 11.6x and EV/EBITDA of 10.7x and 8.1x for its CY07E and CY08E earnings, respectively. We retain our **'BUY'** recommendation.

Financials

Year to December	Q1CY07E	Q4CY06	Growth %	Q1CY06	Growth %	CY07E	CY08E
Revenue (INR mn)	2,627	2,402	9.4	1,762	49.2	11,944	15,885
Gross profit (INR mn)	1,012	901	12.3	681	48.5	4,517	5,888
EBITDA (INR mn)	418	357	16.9	294	42.2	1,865	2,519
Net profit (INR mn)	360	325	10.6	260	38.2	1,555	2,114
Adj. EPS basic (INR)	2.7	2.5	8.1	2.2	21.9	11.5	14.5
P/E (x)						14.6	11.6
EV/EBITDA (x)						10.7	8.1
Mkt.cap/Rev. (x)						1.9	1.4

April 2, 2007

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Bloomberg : HEXW IN

Market Data

52-week range (INR) : 205 / 110
Share in issue (mn) : 132.1
M cap (INR bn/USD mn) : 22.2 / 512.5
Avg. Daily Vol. BSE/NSE ('000) : 346.7

Share Holding Pattern (%)

Promoters : 25.7
MFs, FIs & Banks : 7.1
FIs : 53.2
Others : 14.0



Financials snapshot								(INR mn)
Year to December	Q1CY07E	Q4CY06	Growth %	Q1CY06	Growth %	CY06	CY07E	CY08E
Total revenues	2,627	2,402	9.4	1,762	49.2	8,482	11,944	15,885
Direct costs	1,616	1,501	7.6	1,080	49.6	5,318	7,428	9,997
Gross profit	1,012	901	12.3	681	48.5	3,164	4,517	5,888
SG&A expenses	594	544	9.2	388	53.2	1,842	2,652	3,368
EBITDA	418	357	16.9	294	42.2	1,322	1,865	2,519
Depreciation	59	53	12.0	46	28.6	200	269	357
Other income	50	79	(36.9)	35	44.4	241	220	300
PBT	409	384	6.5	282	44.7	1,363	1,817	2,462
Tax	49	46	6.1	22	121.7	120	224	308
Adjusted net profit	360	338	6.5	260	38.2	1,242	1,593	2,154
Preference dividend	-	12	-	-	-	34	37	40
Reported net profit	360	325	10.6	260	38.2	1,208	1,555	2,114
Adjusted EPS basic (INR)	2.7	2.5	8.1	2.2	21.9	9.5	11.5	14.5
as % of net revenues								
Direct costs	61.5	62.5		61.3		62.7	62.2	62.9
Gross margin	38.5	37.5		38.7		37.3	37.8	37.1
SG&A costs	22.6	22.6		22.0		21.7	22.2	21.2
EBITDA margin	15.9	14.9		16.7		15.6	15.6	15.9
Net profit margin	13.7	13.5		14.8		14.2	13.0	13.3
Tax rate	12.0	12.0		7.8		8.8	12.3	12.5

I-FLEX SOLUTIONS

INR 2,057



Quarter of the products

BUY

* **Expected numbers**

We expect i-flex Solutions (i-flex) to close Q4FY07 with revenues of INR 6.5 bn (Q-o-Q growth of 18.7%) and net profit of INR 1.4 bn (Q-o-Q growth of 81.4%).

* **Product license fees likely to surge**

Q4 of a financial year has historically been the best quarter for products, particularly license revenues, which we believe will be the case this quarter as well. We expect license revenues to grow 60% sequentially on a quarterly basis comprising 38% of overall product revenues. Revenues from AMC for Q4FY07 could decline slightly, though we expect AMC revenues to clock over 45% revenue growth in FY07 over FY06. The company's product tank size, as of the past quarter, stood at USD 73.6 mn, an all-time high.

* **Update on Mantas acquisition**

We are keen to know if i-flex has already incurred substantial acquisition-related expenses pertaining to its acquisition of Mantas last August. We expect the margin impact of this acquisition to be neutral-to-positive going forward.

* **Offshore services revenues likely to surge**

The past quarter (Q3FY07) has seen i-flex's offshore services revenues register significant sequential quarterly decline; this impacted EBITDA margins of this segment as well. We believe there will be growth in Q4FY07 with beneficial impact on EBITDA margins as well.

* **Recent product wins sustain comfort**

In the January-March quarter, i-flex announced several product wins for specific functionalities. The company has also won from Firstbank of Nigeria, independent orders for its anti-money laundering solution acquired from Mantas. PT Bank Danamon Indonesia (Bank Danamon), the second-largest private national bank in Indonesia, has commenced the implementation of FLEXCUBE® as the core banking solution for its retail and corporate banking operations.

* **Other focus areas**

Demand has perked up in capital markets and treasury segments. We believe that i-flex will likely gain from increased activity in this space. Also, the company has outlined its focus on solutions for private banking, an entirely organic effort.

* **Valuations**

At a CMP of INR 2,057, the stock currently trades at a P/E of 35.5x and 28.4x and EV/EBITDA of 25.3x and 19.7x for our FY08E and FY09E, respectively. We retain our 'BUY' recommendation.

Financials

Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	6,529	5,502	18.7	4,577	42.6	21,593	28,619
Gross profit (INR mn)	3,230	2,410	34.0	2,298	40.5	9,862	13,300
EBITDA (INR mn)	1,864	1,064	75.1	1,313	41.9	4,834	6,242
Net profit (INR mn)	1,402	773	81.4	1,169	20.0	3,871	4,814
EPS basic (INR)	17.2	9.5	80.3	15.5	10.8	42.8	57.9
P/E (x)						48.0	35.5
EV/EBITDA (x)						36.5	25.3
Market cap/ Revenue (x)						7.9	5.9

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Bloomberg : IFLEX IN

Market Data

52-week range (INR) : 2,174 / 840
Share in issue (mn) : 83.2
M cap (INR bn/USD mn) : 171.2 / 3,954.3
Avg. Daily Vol. BSE/NSE ('000) : 220.0

Share Holding Pattern (%)

Promoters : 54.8
MFs, FIs & Banks : 1.0
FIs : 0.0
Others : 44.2



Financial snapshot						(INR mn)		
Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E	FY09E
Products	3,785	3,172	19.3	2,619	44.5	12,023	15,805	20,297
Services	2,626	2,222	18.2	1,891	38.9	9,151	12,205	15,378
KPO	118	108	9.0	67	74.8	419	608	821
Total revenues	6,529	5,502	18.7	4,577	42.6	21,593	28,619	36,496
Products	1,300	1,339	(2.9)	841	54.5	4,700	5,945	7,802
Services	1,950	1,683	15.9	1,401	39.2	6,810	9,056	11,303
KPO	49	70	(30.3)	37	33.6	221	318	423
Direct costs	3,299	3,092	6.7	2,279	44.8	11,731	15,319	19,527
Gross profit	3,230	2,410	34.0	2,298	40.5	9,862	13,300	16,969
Products	747	824	(9.3)	627	19.2	2,923	4,291	5,480
Services	230	197	16.7	162	42.1	800	1,087	1,369
KPO	64	62	2.5	57	12.2	234	300	394
Corporate G & A	325	262	23.9	139	133.9	1,071	1,380	1,725
Total Overhead expenditure	1,366	1,346	1.5	985	38.7	5,028	7,058	8,968
EBITDA	1,864	1,064	75.1	1,313	41.9	4,834	6,242	8,001
Products	96	172	(44.2)	76	26.0	436	536	655
Services	77	61	25.6	56	38.2	247	347	460
KPO	22	8	193.1	7	224.5	46	57	75
Corporate	26	19	38.9	13	100.7	78	90	105
Total Depn & Amrtz	221	260	(14.9)	152	45.7	807	1,030	1,295
EBIT	1,643	805	104.1	1,162	41.4	4,027	5,212	6,706
Share of associate company loss	(7)	(3)	107.4	(1)	787.2	(14)	(14)	(15)
Other income	20	(2)	(915.0)	105	(81.0)	342	300	300
Profit before tax	1,670	806	107.2	1,267	31.7	4,384	5,526	7,021
Provision for tax	267	33	712.7	98	171.5	512	712	948
Reported net income	1,402	773	81.4	1,169	20.0	3,871	4,814	6,073
EPS basic (INR)	17.2	9.5	80.3	15.5	10.8	42.8	57.9	72.5
as % of revenue								
Gross profit	49.5	43.8		50.2		45.7	46.5	46.5
SG&A	20.9	24.5		21.5		23.3	24.7	24.6
EBITDA	28.5	19.3		28.7		22.4	21.8	21.9
EBIT	25.2	14.6		25.4		18.7	18.2	18.4
Reported net profit	21.5	14.0		25.5		17.9	16.8	16.6
Tax rate	16.0	4.1		7.8		11.7	12.9	13.5

IGATE GLOBAL SOLUTIONS

INR 383

On a strong footing

BUY



* Expected numbers

We expect iGATE to close Q4FY07 with revenues of INR 2.1 bn, a muted Q-o-Q growth of 1.5% and Y-o-Y growth of 27.8%. Net profit is estimated at INR 184 mn for the current quarter, a growth of 15.2% Q-o-Q (on account of small base). EBITDA margin is expected to increase to 14.6% from 12.7% in the previous quarter, driving net profit growth.

* Phased ramp-up on track

During the current quarter, iGATE inaugurated phase 3 of its corporate campus at Bangalore, with a 900-seater capacity, as an extension of its present workspace for around 3,500 employees. The investments made by the company over the past few years in both ready and under-construction facilities in Chennai, Hyderabad, and Noida are indicative of robust contracts in the pipeline, necessitating greater manpower requirements. As indicated by the management, the company intends to add over 1,500 employees through FY08E, with a greater proportion of the incremental work being offshored.

* Operating margins to improve despite rupee hurting revenue growth

The sharp appreciation of the rupee against the USD during the end of the current quarter will negatively impact revenue growth as iGATE derives about 40% of its quarterly revenues in March. However, the company's EBITDA margin is expected to continue its upward movement, as the company derives increased proportion of its revenues from high-margin clients.

* Focus on high value adding service lines

The investments made in high margin service lines of testing, infrastructure management services and high-end transaction processing is bearing fruit with the revenue composition improving remarkably. We expect these offerings to favorably impact gross margins over the coming quarters.

* Valuations

At CMP of INR 383, the stock trades at P/E of 12.9x and 9.4x and EV/EBITDA of 6.5x and 4.3x for its FY08E and FY09E earnings, respectively. We retain our 'BUY' recommendation.

April 2, 2007

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Bloomberg : IGS IN

Market Data

52-week range (INR) : 432 / 145

Share in issue (mn) : 31.5

M cap (INR bn/USD mn) : 12.1 / 278.7

Avg. Daily Vol. BSE/NSE ('000) : 20.1

Share Holding Pattern (%)

Promoters : 81.8

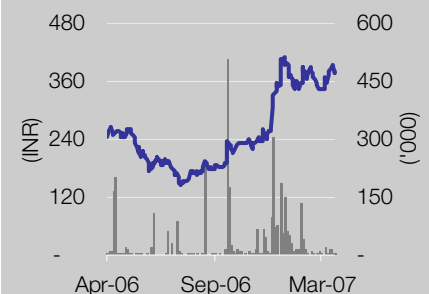
MFs, Fls & Banks : 2.2

Fls : 6.1

Others : 9.9

Financials

Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	2,139	2,107	1.5	1,674	27.8	8,089	9,837
Gross profit (INR mn)	697	658	6.0	502	39.0	2,433	3,266
EBITDA (INR mn)	312	267	17.1	161	93.6	908	1,576
Net profit (INR mn)	184	160	15.2	47	290.2	449	954
EPS basic (INR)	5.8	5.1	13.4	1.5	281.8	14.3	29.8
P/E (x)						26.8	12.9
EV/EBITDA (x)						12.3	6.5
Market cap / Revenue (x)						1.5	1.2



Financials snapshot								(INR mn)
Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E	FY09E
Total revenues	2,139	2,107	1.5	1,674	27.8	8,089	9,837	12,080
Cost of revenues	1,442	1,449	(0.5)	1,172	23.0	5,656	6,571	7,936
Gross profit	697	658	6.0	502	39.0	2,433	3,266	4,143
SG&A expenses	385	391	(1.6)	341	13.1	1,524	1,690	2,078
EBITDA	312	267	17.1	161	93.6	908	1,576	2,066
Depreciation	108	102	5.7	95	14.0	407	482	540
EBIT	204	165	24.2	67	206.7	502	1,094	1,526
Other income	2	(1)	(242.9)	(3)	(169.0)	(4)	18	20
Profit before interest & tax	206	163	26.5	64	223.8	498	1,112	1,546
Interest expense	7	7	(2.8)	8	(12.5)	29	16	3
Profit before tax	199	156	27.8	56	257.8	469	1,096	1,543
Tax provision	29	10	197.9	9	242.9	56	186	270
Adjusted net profit	170	146	16.3	47	260.5	413	910	1,273
Extra ordinary income/(loss)	-	-	-	-	-	(3)	-	-
Minority interest recd.	14	14	-	-	-	39	44	35
Reported net profit	184	160	15.2	47	290.2	449	954	1,308
EPS basic (INR)	5.8	5.1	13.4	1.5	281.8	14.3	29.8	40.8
as % of revenues								
Gross profit	32.6	31.2	-	30.0	-	30.1	33.2	34.3
SG&A	18.0	18.6	-	20.3	-	18.8	17.2	17.2
EBITDA	14.6	12.7	-	9.6	-	11.2	16.0	17.1
Adjusted net profit	7.9	6.9	-	2.8	-	5.1	9.3	10.5
Reported net profit	8.6	7.6	-	2.8	-	5.6	9.7	10.8
Tax rate	14.8	6.4	-	15.4	-	11.9	17.0	17.5

INFOSYS TECHNOLOGIES

INR 1,921



Waning ahead of guidance

BUY

* Expected numbers

We expect Infosys to close Q4FY07 with revenues of INR 38.7 bn (Q-o-Q growth of 5.9%) and net profit of INR 10.6 bn (Q-o-Q growth of 7.8%). EPS estimates stand at INR 18.9 per share. The company has guided INR 37.9–38.0 bn of revenues and EPS of INR 17.9 for the current quarter.

* Guidance to be strong, though affected due to rupee's appreciation

Concerns have been hovering around Infosys' guidance leading to recent underperformance of the stock. The rupee has appreciated sharply against the USD in the past two weeks of the quarter, which will impact FY08 guidance. However, we expect the company to guide 26-28% growth in revenues and 24-26% EPS growth for FY08. We also note that over the past three years the guidance given in April has always been revised upwards as the fiscal progressed. Our discussions with the company's business heads also reinforce the strong growth outlook with IT budgets expected to go up in the 3-6% range.

* Changing revenue mix leading to improved per capita revenue

With competition becoming more cost efficient and pressure from rising salary costs, Infosys has been slowly altering its revenues mix. The contribution from high margin service businesses such as package implementation, products, consulting are gradually increasing, providing a cushion to salary inflation and increased per capita revenue.

* Infosys BPO expanding

Infosys BPO has entered into an alliance with US-based HVS International to offer outsourcing solutions in the hospitality industry and has also partnered Bottomline Technologies for its in-house invoice automation. Infosys BPO has a strong portfolio of horizontal process outsourcing capabilities and these are customized for specific industry verticals to provide domain-specific and company-specific solutions. With this alliance and partnership the company will be able to reach a wider audience and augment its capabilities in this hospitality industry.

* Valuations

At a CMP of INR 1,921, the stock currently trades at a P/E of 22.1x and 17.1x and EV/EBITDA of 16.0x and 11.1x for our FY08E and FY09E, respectively. We retain our 'BUY' recommendation.

Financials

Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	38,696	36,550	5.9	26,240	47.5	139,906	186,485
Gross profit (INR mn)	18,438	17,170	7.4	12,020	53.4	65,278	87,958
EBITDA (INR mn)	12,966	11,960	8.4	8,330	55.7	44,906	61,706
Net profit (INR mn)	10,601	9,830	7.8	6,730	57.5	37,661	49,464
EPS basic (INR)	18.9	17.6	7.4	12.2	54.9	67.8	86.9
P/E (x)						28.3	22.1
EV/EBITDA (x)						22.6	16.0
Market cap / Revenue (x)						7.6	5.7

April 2, 2007

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Bloomberg : INFO IN

Market Data

52-week range (INR) : 3,400 / 1,572

Share in issue (mn) : 559.7

M cap (INR bn/USD mn) : 1,075/ 24,839

Avg. Daily Vol. BSE/NSE ('000) : 1,437.0

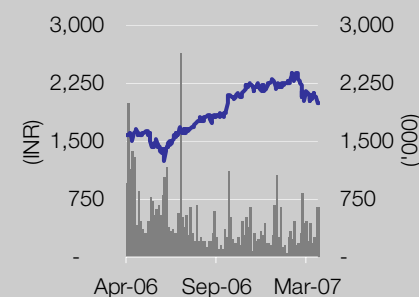
Share Holding Pattern (%)

Promoters : 16.9

MFs, FIs & Banks : 6.4

FIs : 33.9

Others : 42.8



Financials snapshot								(INR mn)
Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E	FY09E
Total revenues	38,696	36,550	5.9	26,240	47.5	139,906	186,485	250,724
Software dev expenses	20,259	19,380	4.5	14,220	42.5	74,629	98,526	132,633
Gross profit	18,438	17,170	7.4	12,020	53.4	65,278	87,958	118,091
Selling & marketing exp	2,478	2,360	5.0	1,520	63.0	9,088	11,465	15,194
General & admin exp	2,993	2,850	5.0	2,170	37.9	11,283	14,787	17,801
Overhead expenditure	5,472	5,210	5.0	3,690	48.3	20,372	26,252	32,995
EBITDA	12,966	11,960	8.4	8,330	55.7	44,906	61,706	85,096
Depreciation	1,690	1,410	19.9	1,440	17.4	5,380	6,713	9,026
EBIT	11,276	10,550	6.9	6,890	63.7	39,526	54,993	76,070
Other expense	-	-		-		30	-	-
Other income	680	590	15.3	720	(5.6)	3,210	2,970	3,500
PBT	11,956	11,140	7.3	7,610	57.1	42,706	57,963	79,570
Tax	1,345	1,300	3.5	810	66.0	4,935	8,453	13,925
Adjusted net profit	10,611	9,840	7.8	6,800	56.0	37,771	49,509	65,645
Minority Interest	(10)	(10)	0.0	(70)		(110)	(45)	(164)
Reported net profit	10,601	9,830	7.8	6,730	57.5	37,661	49,464	65,481
EPS basic (INR)	18.9	17.6	7.4	12.2	54.9	67.8	86.9	112.3
as % of net revenues								
Gross profit	47.6	47.0		45.8		46.7	47.2	47.1
Selling & marketing exp	6.4	6.5		5.8		6.5	6.1	6.1
Admin exp	7.7	7.8		8.3		8.1	7.9	7.1
EBITDA	33.5	32.7		31.7		32.1	33.1	33.9
Adjusted net profit	27.4	26.9		25.9		27.0	26.5	26.2
Reported net profit	27.4	26.9		25.6		26.9	26.5	26.1
Tax rate	11.2	11.7		10.6		11.6	14.6	17.5

INFOTECH ENTERPRISES

INR 351



Expanding wings in engineering services

BUY

* Expected numbers

We expect Infotech to close Q4FY07 with revenue of INR 1.5 bn, a Q-o-Q growth of 6.4% and 41.2% growth Y-o-Y. Net profit is estimated at INR 223 mn, Q-o-Q growth of 19.0% and Y-o-Y growth of 34.4%. Positive profit contribution from the IASI JV will result in higher net profit growth.

* Strategic investments to propel growth

Infotech has investments lined up over the next four to eight quarters for enhancing its domain knowledge where it already has a strong foothold and also for spaces it proposes to enter. We view these investments as being appropriate for enhancing and broadening its customer base in the blooming engineering IT services space, though this means a slight dip in EBITDA margins from the current levels of ~22%.

* Marine engineering development centre announced

During the current quarter, Infotech announced an estimated investment of INR 300 mn on phase I of its development centre at Visakhapatnam. This is its fifth centre after Hyderabad, Bangalore, Noida, and Kakinada and will commence operations by 2009. The unit with a seating capacity for close to 250 employees will provide marine design related services, a space which Infotech has recently entered and is expected to register an encouraging growth of 40-45% over FY08E.

* Likely acquisitions to be positive

We note that the company has been focusing on expanding its presence in fast-growing engineering services. The company is foraying into automotives and intends to get expertise at the earliest to take advantage of the available opportunities through acquisitions. We believe any acquisition in this regard to be a positive driver for the company.

* Valuations

At CMP of INR 351, the stock trades at P/E of 14.8x and 11.2x and EV/EBITDA of 12.1x and 8.4x for its FY08E and FY09E earnings, respectively. We retain our 'BUY' recommendation.

April 2, 2007

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Market Data

52-week range (INR) : 695 / 180
Share in issue (mn) : 46.1
M cap (INR bn/USD mn) : 16.2 / 373.5
Avg. Daily Vol. BSE/NSE ('000) : 149.4

Share Holding Pattern (%)

Promoters : 28.7
MFs, FIs & Banks : 23.0
FIIIs : 11.6
Others : 36.7

Financials

Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	1,522	1,430	6.4	1078	41.2	5,436	7,383
EBITDA (INR mn)	326	323	1.1	199	64.1	1,152	1,562
EBIT (INR mn)	254	257	(1.1)	151	68.8	897	1,271
Net profit (INR mn)	223	187	19.0	166	34.4	811	1,134
EPS basic (INR)	4.8	4.1	15.2	3.6	31.0	17.6	23.7
P/E (x)						19.9	14.8
EV/EBITDA (x)						16.9	12.1
Market cap/Revenue (x)						3.0	2.2



Financials snapshot								(INR mn)
Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E	FY09E
Total revenues	1,522	1,430	6.4	1,078	41.2	5,436	7,383	9,745
Employee cost	711	656	8.4	495	43.8	2,557	3,493	4,658
Travel expenses	133	126	6.0	98	35.6	478	645	799
Cost of purchases	182	168	8.2	161	13.2	653	871	1,169
Operating & admin expenses	170	158	7.5	126	34.9	596	813	1,072
Total expenditure	1,196	1,108	8.0	879	36.0	4,284	5,821	7,699
EBITDA	326	323	1.1	199	64.1	1,152	1,562	2,047
Depreciation & ammortization	72	66	9.4	48	49.7	255	351	410
EBIT	254	257	(1.1)	151	68.8	897	1,271	1,717
Other income	6	0	2900.0	14	(57.1)	54	60	80
Interest expense	4	5	(10.4)	6	(30.6)	16	13	15
PBT	256	252	1.4	158	61.5	935	1,258	1,702
Tax	54	53	2.3	36	50.0	197	256	366
Adjusted net profit	202	200	1.2	123	64.9	739	1,001	1,336
Share of IASI profit	21	(12)	(270.7)	43	(51.6)	72	133	180
Reported net profit	223	187	19.0	166	34.4	811	1,134	1,516
EPS basic (INR)	4.8	4.1	15.2	3.6	31.0	17.6	23.7	31.3
as % of net revenues								
Employee cost	46.7	45.9		45.9		47.0	47.3	47.8
Travel expenses	8.7	8.8		9.1		8.8	8.7	8.2
Cost of purchases	12.0	11.8		14.9		12.0	11.8	12.0
Operating & admin expenses	11.2	11.1		11.7		11.0	11.0	11.0
EBITDA	21.4	22.6		18.4		21.2	21.2	21.0
EBIT	16.7	18.0		14.0		16.5	17.2	17.6
Reported net profit	14.7	13.1		15.4		14.9	15.4	15.6
Tax rate	21.0	20.8		22.6		21.1	20.4	21.5

MASTEK

INR 302

*Exited Deloitte JV***BUY**

* Expected numbers

We expect Mastek to close Q3FY07 with revenue of INR 2.1 bn (Q-o-Q growth of 2.8%) and net profit of INR 242 mn (Q-o-Q growth of 11.0%). The company's guidance, which stands at INR 2.2-2.3 bn for revenue and INR 235-245 mn for net profit will be impacted on account of loss of revenues from the DC JV for one month during the quarter.

* Exit from the DCJV

Mastek announced culmination of its five-year-old joint venture with Deloitte, with the latter acquiring 50% of Mastek's stake in the DCJV. We understand from the company that the valuation of the JV was done at 1x its revenues and Mastek will receive ~ INR 530 mn from this sale. Accordingly, one-time gain of approximately INR 260-270 mn could be recognised in the books during the quarter. Revenues to the extent of INR 1.0 bn, which used to get consolidated, will be lost from FY08.

* M&A agenda underway

We note that the company's NHS contract, which currently contributes ~ 35% to its total revenues, is due to expire in December 2007. Our discussions with the management suggest that the contract will spill over to June 2008. Post that, the ~ 65% the contract revenues that are development related will fade. We believe the company has plans on the M&A front which can fructify during the first half of the next fiscal. Mastek, as of December 2006, had ~ INR 1.3 bn in cash and cash equivalents. Additionally, the company will also receive INR 530 bn on sale of its stake in the JV, apart from the quarterly cash flows.

* Contribution from past quarter wins in US

In the previous quarter, Mastek had won four clients in the US in its insurance vertical. We understand that two of them have already started to contribute to revenues. Going forward, as all these accounts ramp up, we will see higher growth momentum in the insurance vertical.

* Expertise of MajescoMastek's new president

During the quarter, Mr. William S. McCarter has been appointed as the president of MajescoMastek, Mastek's North American unit. Mr. William brings in his expertise in technology for insurance companies and financial institutions, which we expect will provide traction to the financial services vertical going forward.

* Valuations

At a CMP of INR 302, the stock currently trades at a P/E of 8.1x and 6.9x and EV/EBITDA of 4.0x and 3.1x for our FY08E and FY09E, respectively. We retain our **'BUY'** recommendation.

Financials

Year to June	Q3FY07E	Q2FY07	Growth %	Q3FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	2,121	2,064	2.8	1,774	19.6	8,203	8,860
EBITDA (INR mn)	377	371	1.6	322	16.9	1,416	1,658
Rep. net profit (INR mn)	242	218	11.0	173	40.0	888	1,050
EPS basic (INR)	8.6	7.7	11.0	6.2	38.2	31.4	37.2
P/E (x)						9.6	8.1
EV/EBITDA (x)						5.3	4.0
Market Cap / Revenue (x)						1.0	1.0

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Market Data

52-week range (INR) : 419 / 270
Share in issue (mn) : 28.4
M cap (INR bn/USD mn) : 8.6 / 198
Avg. Daily Vol. BSE/NSE ('000) : 64.0

Share Holding Pattern (%)

Promoters : 40.6
MFs, Fls & Banks : 13.5
Fls : 29.4
Others : 16.5



Financials snapshot							(INR mn)		
Year to June	Q3FY07E	Q2FY07	Growth %	Q3FY06	Growth %	FY07E	FY08E	FY09E	
Total revenues	2,121	2,064	2.8	1,774	19.6	8,203	8,860	10,111	
Staff costs	1,287	1,246	3.3	1,071	20.2	5,046	5,377	6,097	
Programming charges	68	-	0.0	67	1.9	204	286	374	
Travel & conveyance	119	115	3.5	102	17.0	452	498	576	
Other costs	270	332	(18.7)	212	27.4	1,086	1,041	1,223	
Total operating expenditure	1,744	1,693	3.0	1,452	20.2	6,787	7,201	8,271	
EBITDA	377	371	1.6	322	16.9	1,416	1,658	1,840	
Depreciation	75	76	(0.8)	71	5.8	314	428	475	
EBIT	302	295	2.2	251	20.1	1,102	1,230	1,365	
Other income	23	34	(31.8)	21	9.5	110	98	120	
Interest	1	4	(66.7)	1	(14.3)	8	16	8	
PBT	324	325	(0.6)	271	19.4	1,204	1,313	1,477	
Tax	50	76	(33.6)	71	(29.6)	212	197	236	
PAT bef. minority interest	273	250	9.4	200	36.9	992	1,116	1,241	
Losses in equity affiliates	6	20	(69.8)	7	(10.4)	34	-	-	
Minority interest	25	12	115.5	20	25.6	71	66	-	
Net profit	242	218	11.0	173	40.0	888	1,050	1,241	
EPS basic (INR)	8.6	7.7	11.0	6.2	38.2	31.4	37.2	43.7	
As % of net revenues									
Total operating expenditure	82.2	82.0		81.8		82.7	81.3	81.8	
EBITDA	17.8	18.0		18.2		17.3	18.7	18.2	
EBIT	14.2	14.3		14.2		13.4	13.9	13.5	
Net profit	11.4	10.6		9.8		10.8	11.9	12.3	
Tax rate	15.5	23.2		26.3		17.6	15.0	16.0	

MPHASIS BFL

INR 275



Building momentum together with EDS

BUY

* Expected numbers

We expect Mphasis to close Q4FY07 with revenues of INR 3.2 bn, Q-o-Q growth of 6.0% and net profit of INR 406 mn, a Q-o-Q growth of 13.4%.

* Focus EDS (India) integration

We believe that focus will be on two key points: (a) size of contracts and/or revenues booked through EDS; and (b) strategic plans for the coming quarters to better align the interest of Mphasis with EDS.

* Optimistic outlook on BPO business

Growth in the BPO business is likely to look up after a reversal of tepid performance in 3QFY07. However, we would look for growth in international accounts as Mphasis, despite having grown domestic accounts, has not been able to realize the desired profitability on such accounts. Also, we are keen to see continued growth of higher-margin non-voice related businesses (technical support, research, HR, and F&A). We believe that some of the technical support work for EDS could transition to Mphasis going forward.

* Estimates do not include EDS (India) numbers

Our current estimates for FY07 and FY08 do not take into account the EDS (India) numbers, as detailed financial numbers for EDS (India) are not available. We have however, worked out the consolidated nos. and given the same in the table on the next page. We note that EDS (India) will likely close FY07 with revenues of about INR 4,500 mn with net profit margin of about 13-14%. Going forward in FY08E and FY09E we estimate the impact on EPS to be accretive by INR 1.6 and INR 2.6 respectively.

* Valuations

We expect the company to shift to a higher growth trajectory with EDS backing. At INR 275, the stock currently trades at a P/E of 20.7x and 16.6x for our FY08E and FY09E consolidated earnings, respectively. We retain our 'BUY' recommendation.

Financials

Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	3,244	3,060	6.0	2,505	29.5	11,829	15,188
Gross profit (INR mn)	1,130	1,077	4.9	885	27.7	3,940	5,332
EBITDA (INR mn)	608	588	3.3	513	18.5	1,996	2,906
Net profit (INR mn)	406	358	13.4	352	15.4	1,149	1,921
Adj. EPS basic (INR)	2.5	2.2	12.7	2.2	13.8	7.1	11.7
P/E (x) *						38.9	23.5
P/E (x) **						27.1	20.7
EV/EBITDA (x)						21.6	14.7
Market cap / Revenue (x)						3.8	2.9

* Mphasis consolidated

** Mphasis including EDS (India)

April 2, 2007

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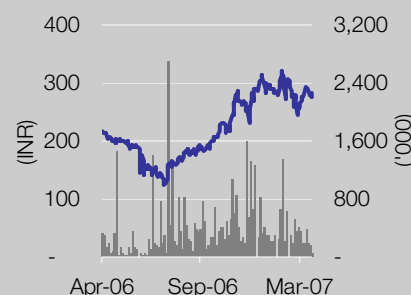
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Market Data

52-week range (INR) : 329 / 121
Share in issue (mn) : 163.4
M cap (INR bn/USD mn) : 44.9 / 1,036.7
Avg. Daily Vol. BSE/NSE ('000) : 1,258.1

Share Holding Pattern (%)

Promoters : 51.1
MFs, Fls & Banks : 9.1
Fls : 13.8
Others : 26.0

(INR mn)

Financials snapshot								
Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E	FY09E
Total revenues	3,244	3,060	6.0	2,505	29.5	11,829	15,188	18,903
Cost of revenues	2,114	1,982	6.6	1,620	30.5	7,889	9,856	12,187
Gross profit	1,130	1,077	4.9	885	27.7	3,940	5,332	6,715
General & admin exp	277	276	0.2	218	26.8	1,060	1,273	1,589
Selling expenses	246	213	15.5	154	59.6	884	1,153	1,423
EBITDA	608	588	3.3	513	18.5	1,996	2,906	3,703
Depreciation	181	161	12.1	140	28.8	649	894	1,164
EBIT	427	427	(0.0)	372	14.6	1,347	2,013	2,539
Other income	34	(50)	(168.6)	22	56.9	(29)	174	140
Profit before tax	461	378	22.1	394	16.9	1,318	2,186	2,679
Tax provision	55	20	178.0	43	29.8	169	265	347
Net profit	406	358	13.4	352	15.4	1,149	1,921	2,332
Adjusted EPS basic (INR)	2.5	2.2	12.7	2.2	13.8	7.1	11.7	14.0
as % of net revenues								
Gross profit	34.8	35.2		35.3		33.3	35.1	35.5
General & admin exp	8.5	9.0		8.7		9.0	8.4	8.4
Selling expenses	7.6	7.0		6.2		7.5	7.6	7.5
EBITDA	18.7	19.2		20.5		16.9	19.1	19.6
Net profit	12.5	11.7		14.0		9.7	12.6	12.3
Tax rate	12.0	5.3		10.8		12.8	12.1	13.0

	Mphasis consolidated			EDS (India)			Combined		
	FY07E	FY08E	FY09E	FY07	FY08E	FY09 E	FY07E	FY08E	FY09 E
Revenues (INR mn)	11,829	15,188	18,904	4,522	6,105	8,241	16,351	21,293	27,145
EBITDA (INR mn)	1,996	2,906	3,704	837	1,114	1,525	2,832	4,020	5,229
Net profits (INR mn)	1,149	1,921	2,333	610	809	1,071	1,759	2,730	3,405
Shares o/s (mn)	162.8	164.5	166.5				173.4	205.3	205.3
EPS (INR)	7.1	11.7	14.0				10.1	13.3	16.6
PE (x)	38.6	23.3	19.4				26.8	20.5	16.4

PATNI COMPUTERS

INR 375

*Attrition, a high concern***ACCUMULATE*** **Expected numbers**

We expect Patni to close Q1CY07 with revenues of INR 7.3 bn, up 7.3% Q-o-Q and 27.7% Y-o-Y. Our net profit estimate for the company stands at INR 1 bn, a Y-o-Y growth of 44%, however, a Q-o-Q decline in growth of 32%.

* **Focus on growing IMS; new business head in**

Dr. Sanjay Savla has been appointed as the senior vice president and business unit head of the IMS SBU. IMS has been a focus area for most of the scale players and it also is a relatively untapped and high potential market. Dr. Savla has 18 years of industry experience and prior to this, was associated with Computer Science Corporation (CSC). We believe this induction will help Patni increase its revenue share from IMS.

* **Product engineering services to remain the fast-growing practice**

Patni's product engineering services division is expecting strong market opportunity and witnessing increased traction. The company aims to generate revenue of USD 500 mn and has a roadmap to it. We believe the company currently has around 2,500 R&D engineers and is looking to double its headcount from this level, which is encouraging.

* **Geographical diversification of revenues, de-concentrating on US**

Patni has been, over the past three-four quarters, growing its revenues from other than US geographies. This has led to reduction in the revenue contribution from the US geography to 78% currently, from 86% two years ago. The company has also been focusing on the Asia Pacific and Japanese markets and continues to invest in marketing infrastructure in these regions.

* **High attrition and forex to put pressure on margins**

During the quarter, we expect the company's margins to decline on account of pressure from factors such as attrition and forex. Patni has the highest attrition rate in the industry of 27.4% (December 2006), which will put pressure in the form of higher employee costs and thereby negatively impact margins.

* **Valuation**

At a CMP of INR 375, the stock currently trades at a P/E of 12.0x and 10.5x and EV/EBITDA of 6.6x and 4.8x for our CY07E and CY08E, respectively. We maintain our 'ACCUMULATE' recommendation.

Financials

Year to Dec	Q1CY07E	Q4CY06	Growth %	Q1CY06	Growth %	CY07E	CY08E
Revenues (INR mn)	7,341	6,840	7.3	5,750	27.7	31,537	37,436
EBITDA (INR mn)	1,314	1,474	(10.9)	1,007	30.5	5,626	7,038
EBIT (INR mn)	1,109	1,474	(24.8)	814	36.2	4,758	6,018
Net profit (INR mn)	1,017	1,495	(32.0)	706	44.0	4,332	5,039
EPS basic (INR)*	7.3	10.8	(32.4)	5.1	42.9	31.2	35.7
P/E (x)						12.0	10.5
EV/EBITDA (x)						6.6	4.8
Market cap/ Revenue (x)						1.6	1.4

* Excluding extra-ordinary charges

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Bloomberg : PATNI IN**Market Data**52-week range (INR) : 511 / 251
Share in issue (mn) : 138.4
M cap (INR bn/USD mn) : 52.0 / 1,200.2
Avg. Daily Vol. BSE/NSE ('000) : 386.5**Share Holding Pattern (%)**Promoters : 44.1
MFs, Fls & Banks : 3.4
Fls : 20.6
Others : 31.9

Financials snapshot								(INR mn)
Year to December	Q1CY07E	Q4CY06	Growth %	Q1CY06	Growth %	CY06	CY07E	CY08E
Total revenues	7,341	6,840	7.3	5,750	27.7	26,080	31,537	37,436
Staff costs	4,184	3,709	12.8	3,224	29.8	14,447	18,093	21,264
SG & A	1,842	1,658	11.2	1,519	21.3	6,219	7,818	9,134
EBITDA	1,314	1,474	(10.9)	1,007	30.5	5,414	5,626	7,038
Depreciation	205	-		193	6.4	600	868	1,020
EBIT	1,109	1,474	(24.8)	814	36.2	4,814	4,758	6,018
Other income	60	159	(62.2)	148	(59.5)	613	240	360
Interest	-	(6)	(100.0)	34	(100.0)	179	-	-
PBT	1,169	1,639	(28.7)	928	26.0	5,247	4,998	6,378
Tax	152	204	(25.4)	222	(31.5)	2,568	665	1,339
Prior period adjustment	-	(60)		-		232	-	-
Net profit	1,017	1,495	(32.0)	706	44.0	2,448	4,332	5,039
EPS basic (INR)*	7.3	10.8	(32.4)	5.1	42.9	29.6	31.2	35.7
as % of net revenues								
Staff costs	57.0	54.2		56.1		55.4	57.4	56.8
SG & A	25.1	24.2		26.4		23.8	24.8	24.4
EBITDA	17.9	21.5		17.5		20.8	17.8	18.8
EBIT	15.1	21.5		14.2		18.5	15.1	16.1
PBT	15.9	24.0		16.1		20.1	15.8	17.0
Net profit	13.9	21.9		12.3		9.4	13.7	13.5
Tax rate	13.0	12.4		23.9		48.9	13.3	21.0

* Excluding extra-ordinary charges for CY06

ROLTA INDIA

INR 325

From strength to strength

BUY

* Expected numbers

We expect Rolta to close Q3FY07 with revenue of INR 1.8 bn, up 6.6% Q-o-Q and 26.3% Y-o-Y. Net profit is estimated at INR 435 mn, up 6.4% Q-o-Q and 31.8% Y-o-Y.

* Change in top management

During the current quarter, Rolta announced the appointment of Mr. Ben Eazzetta as president of International Operations, replacing Mr. A.P. Singh, who assumes the new position as Jt. MD. Mr. Eazzetta comes from Integraph Corporation, where he was the president of the Security, Government, and Infrastructure division. We expect these appointments to give a fillip to Rolta's revenues from international operations and strengthen its global delivery system.

* Likely expansion through the inorganic route

We note that Rolta has plans to increase its penetration in global markets and broaden its client base, for which it is continuously seeking inorganic opportunities. There have been reports in the press on likely closure of a acquisition in the GIS space. Our discussions with management suggest that company is, on an ongoing basis, assessing various target companies and nothing has been finalised as of now. Any closure on this front will be a boost, as no equity dilution is expected and will be EPS accretive.

* Operating margin to improve

Rolta possesses a number of levers for enhancing margins, in the form of improved utilizations, productivity improvements, and combating the rise in wages with better billing rates. There has also been a gradual change in the composition of revenue, with the share of engineering services inching up to 30% of the revenue in Q2FY07, against 27.5% in the corresponding quarter of the previous year. Based on these factors in play, we expect the EBITDA margin to improve from 40.2% in the previous quarter to 41.2% in the current quarter.

* Valuations

At CMP of INR 325, the stock trades at P/E of 11.1x and 8.1x and EV/EBITDA of 6.0x and 4.1x for its FY08E and FY09E earnings, respectively. We retain our 'BUY' recommendation.

Financials

Year to June	Q3FY07E	Q2FY07	Growth %	Q3FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	1,792	1,681	6.6	1,419	26.3	6,949	9,667
Gross profit (INR mn)	919	838	9.7	723	27.1	3,494	4,794
EBITDA (INR mn)	738	677	9.1	582	26.9	2,813	3,843
Net profit (INR mn)	435	409	6.4	330	31.8	1,696	2,358
EPS basic (INR)	5.4	5.1	5.7	5.2	4.4	21.2	29.2
P/E (x)						15.3	11.1
EV/EBITDA (x)						8.5	6.0
Market cap / Revenue (x)						3.7	2.7



April 2, 2007

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Reuters : ROLTA.BO
Bloomberg : RLTA IN

Market Data

52-week range (INR) : 385 / 124
Share in issue (mn) : 80.1
M cap (INR bn/USD mn) : 26.0 / 601.3
Avg. Daily Vol. BSE/NSE ('000) : 1,388.7

Share Holding Pattern (%)

Promoters : 40.8
MFs, FIs & Banks : 2.0
FIs : 23.0
Others : 34.3



Financials snapshot								(INR mn)
Year to June	Q3FY07E	Q2FY07	Growth %	Q3FY06	Growth %	FY07E	FY08E	FY09E
Total revenues	1,792	1,681	6.6	1,419	26.3	6,949	9,667	13,195
Software dev expenses	873	843	3.5	696	25.4	3,455	4,873	6,677
Gross profit	919	838	9.7	723	27.1	3,494	4,794	6,518
SG&A	181	161	12.3	142	27.8	681	951	1,319
EBITDA	738	677	9.1	582	26.9	2,813	3,843	5,199
Depreciation	262	239	9.5	175	49.7	990	1,100	1,240
EBIT	476	437	9.0	407	17.1	1,823	2,743	3,959
Other expense	3	0		47		10	5	-
Other income	25	23	8.3	9	173.7	103	56	65
PBT	498	460	8.3	369	35.1	1,916	2,794	4,024
Tax	63	50	24.3	39	63.0	221	364	575
Adjusted net profit	435	409	6.4	330	31.8	1,696	2,430	3,448
Minority Interest	-	-		-		-	(72)	(207)
Reported net profit	435	409	6.4	330	31.8	1,696	2,358	3,242
EPS basic (INR)	5.4	5.1	5.7	5.2	4.4	21.2	29.2	39.9
as % of net revenues								
Gross profit	51.3	49.8		51.0		50.3	49.6	49.4
SG&A	10.1	9.6		10.0		9.8	9.8	10.0
EBITDA	41.2	40.2		41.0		40.5	39.8	39.4
Adjusted net profit	24.3	24.4		23.3		24.4	25.1	26.1
Reported net profit	24.3	24.4		23.3		24.4	24.4	24.6
Tax rate	12.6	11.0		10.4		11.5	13.0	14.3

SASKEN COMMUNICATION TECHNOLOGIES INR 475



Products to deliver

BUY

* Expected numbers

We expect Sasken to close Q4FY07 with revenues of INR 1.4 bn, registering a Q-o-Q growth of 9.4% and Y-o-Y growth of 83.7%. Net profit estimate stands at INR 133 mn for the quarter, a growth of 12.4% Q-o-Q and 112.2% Y-o-Y.

* Product blues to end soon, H1FY08 to give visibility

We expect INR 106 mn of product revenues for the current quarter, up from INR 41 mn in the previous quarter. In the previous quarter, some product milestones had been delayed, which are expected to be recognized in the current quarter. Moreover, most of the phones models (design-wins) are expected to be shipped in the first half of FY08, post which we expect product revenues to grow significantly.

* Forex and client delays to impact services growth

During the current quarter, the rupee appreciated against the USD by 1.8% compared to the average rate in the previous quarter, which will impact revenue growth. We expect revenues from services to grow at 4.7% Q-o-Q in rupee terms, which is low also on account of higher time taken by customers to initiate the project.

* Sasken Application Framework integrated onto TI's OMAP platform

Sasken announced during the quarter the integration of its Application Framework onto Texas Instruments' (TI) LoCosto chipset. We also note that this framework is scalable from low-to mid-tier mobile phones across both the platforms and reusable across TI's wireless solutions. Also, as indicated by the management, there is an encouraging order pipeline for this product line and the company is close to achieving a sign up for the product from a handset customer, which is positive.

* Valuations

At a CMP of INR 475, the stock currently trades at a P/E of 13.7x and 10.8x and EV/EBITDA of 8.8x and 6.8x for our FY08E and FY09E, respectively. We retain our 'BUY' recommendation.

April 2, 2007

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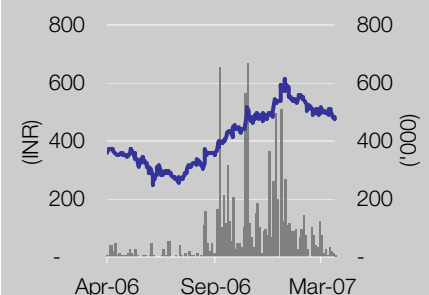
Reuters : SKCT.BO
Bloomberg : SACT IN

Market Data

52-week range (INR) : 624 / 240
Share in issue (mn) : 28.5
M cap (INR bn/USD mn) : 13.5 / 312.7
Avg. Daily Vol. BSE/NSE ('000) : 136.8

Share Holding Pattern (%)

Promoters : 26.8
MFs, Fls & Banks : 5.8
Fls : 17.4
Others : 50.0



Financials

Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	1,434	1,310	9.4	781	83.7	4,831	6,915
EBITDA (INR mn)	239	194	23.1	105	127.4	784	1,635
EBIT (INR mn)	161	133	20.9	57	184.2	542	1,294
Net profit (INR mn)	133	119	12.4	63	112.2	457	970
EPS basic (INR)	4.7	4.2	11.6	2.3	108.7	16.3	34.6
P/E (x)						29.1	13.7
EV/EBITDA (x)						18.2	8.8
Market Cap / Revenue (x)						2.8	1.9

Financials snapshot								(INR mn)
Year to March	Q4FY07E	Q3FY07	Growth(%)	Q4FY06	Growth(%)	FY07E	FY08E	FY09E
Total revenues	1,434	1,310	9.4	781	83.7	4,831	6,915	9,234
Cost of revenues	890	827	7.7	514	73.3	3,024	3,797	5,494
R & D expenses	40	50	(20.5)	22	79.5	162	225	396
SG & A	265	239	10.8	139	90.0	862	1,259	1,210
EBITDA	239	194	23.1	105	127.4	784	1,635	2,134
Depreciation	78	61	28.0	48	61.1	242	341	460
EBIT	161	133	20.9	57	184.2	542	1,294	1,673
Other income	15	31	(53.0)	17	(14.8)	65	18	28
Interest expense	13	10	24.0	0	3,693.8	47	78	65
PBT	163	154	5.7	73	121.4	560	1,234	1,636
Tax	29	35	(16.6)	11	175.5	103	264	393
Net profit	133	119	12.4	63	112.2	457	970	1,244
EPS basic (INR)	4.7	4.2	11.6	2.3	108.7	16.3	34.6	44.2
as % of net revenues								
Cost of revenue	62.1	63.1		65.8		62.6	54.9	59.5
SG & A	18.5	18.2		17.9		17.8	18.2	13.1
EBITDA	16.7	14.8		13.5		16.2	23.7	23.1
PBT	11.3	11.7		9.4		11.6	17.8	17.7
Net profit	9.3	9.1		8.1		9.5	14.0	13.5
Tax rate	18.0	22.8		14.5		18.3	21.4	24.0

SATYAM COMPUTER

INR 446



Traction from major clients

BUY

* Expected numbers

We expect Satyam Computer (Satyam) to close Q4FY07 with revenues of INR 17.6 bn (Q-o-Q growth of 6.0%) and net profit of INR 3.5 bn (Q-o-Q growth of 3.3%).

* Traction from key clients will be a key progress point

Across the past three quarters, revenues from the top-5 and top-10 clients have grown at 2.9% and 4.3%, respectively, significantly behind that of the non-top 10 clients at 10%. We expect to see signs of further mining of the top-5 client base to improve and await commentary from the company in this regard.

* Non-cash expenses will accrue

Satyam has indicated that its recently issued RSUs to senior management and key employees will necessitate a charge of USD 4.5 mn in Q4FY07, factored in by us. The company expects margins to be impacted for the quarter on account of this. Notably, this charge will be recognized and incurred through FY08 and FY09 as well.

* Growth momentum in enterprise integration application (EAI)

Satyam is a leader in the SAP practice with long relationships across diverse industries. With nearly 3,500 people in this practice, Satyam has the most dominant presence among Indian vendors. Additionally, Satyam's presence is almost equally distributed across providing both functional and technical implementation services at about 50% each.

* Momentum in winning large multi-year, multi-million orders

Satyam recently announced a USD 200 mn multi-year contract win from Applied Materials. Satyam will provide application development, maintenance, and support (ADMS) and business transformation core technology services to Applied Materials through a managed services delivery model. The notable feature of this project is that it is entirely fixed-price attesting the company's confidence in taking on fixed-price projects of this magnitude.

* Valuations

At CMP of INR 446, the stock trades at P/E of 16.8x and 13.6x and EV/EBITDA of 12.1x and 9.1x for its FY08E and FY09E earnings, respectively. We retain our 'BUY' recommendation.

April 2, 2007

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Reuters : SATY.BO

Bloomberg : SCS IN

Market Data

52-week range (INR) : 890 / 396

Share in issue (mn) : 652.9

M cap (INR bn/USD mn) : 295.9/6,834.2

Avg. Daily Vol. BSE/NSE ('000) : 1,403.3

Share Holding Pattern (%)

Promoters : 9.1

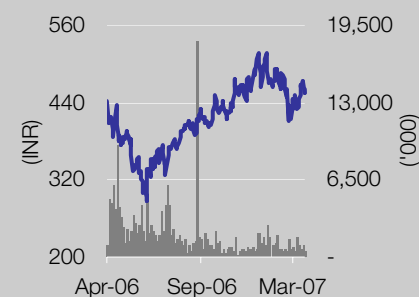
MFs, FIs & Banks : 11.3

FIs : 48.2

Others : 31.4

Financials

Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	17,611	16,611	6.0	13,136	34.1	64,670	84,982
EBITDA (INR mn)	4,000	4,100	(2.4)	3,345	19.6	15,275	20,358
EBIT (INR mn)	3,585	3,706	(3.3)	2,973	20.6	13,729	20,005
Net profit (INR mn)	3,483	3,372	3.3	1,249	178.9	13,594	17,648
EPS basic (INR)	5.4	5.1	5.4	4.4	23.6	20.7	26.5
PE (x)						21.5	16.8
EV/EBITDA (x)						14.1	12.1
Mkt. cap / Rev. (x)						4.5	3.5



Financials snapshot								(INR mn)
Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E	FY09E
Total revenues	17,611	16,611	6.0	13,136	34.1	64,670	84,982	111,231
Employee cost	10,500	9,674	8.5	7,500	40.0	38,317	49,935	66,466
Operating & admin expenses	3,111	2,838	9.6	2,291	35.8	11,078	14,689	18,969
Total expenditure	13,611	12,511	8.8	9,791	39.0	49,395	64,624	85,435
EBITDA	4,000	4,100	(2.4)	3,345	19.6	15,275	20,358	25,796
Depreciation	415	394	5.4	372	11.7	1,546	1,925	2,522
EBIT	3,585	3,706	(3.3)	2,973	20.6	13,729	20,005	25,462
Other income	310	102	204.8	(1,309)	(123.7)	1,439	1,572	2,188
Interest	25	32	(22.6)	17	51.5	110	74	40
PBT	3,870	3,776	2.5	1,648	134.9	15,058	19,931	25,422
Tax	387	403	(4.1)	397	(2.6)	1,465	2,289	3,531
Adjusted net profit	3,483	3,372	3.3	1,250	178.5	13,593	17,641	21,891
Minority interest	-	-	-	2	-	(1)	(7)	-
Reported net profit	3,483	3,372	3.3	1,249	178.9	13,594	17,648	21,891
EPS basic (INR)	5.4	5.1	5.4	4.4	23.6	20.7	26.5	32.8
% of revenues								
Employee cost	59.6	58.2	-	57.1	-	59.3	58.8	59.8
Operating & admin expenses	17.7	17.1	-	17.4	-	17.1	17.3	17.1
EBITDA	22.7	24.7	-	25.5	-	23.6	24.0	23.2
EBIT	20.4	22.3	-	22.6	-	21.2	23.5	22.9
Reported net profit	19.8	20.3	-	9.5	-	21.0	20.8	19.7
Tax rate	10.0	10.7	-	24.1	-	9.7	11.5	13.9

TATA CONSULTANCY SERVICES

INR 1,189



Leading and marching on...

BUY

* **Expected numbers**

We expect Tata Consultancy Services (TCS) to close Q4FY07 with revenue of INR 51.4 bn, a Q-o-Q growth of 5.8%, and net profit of INR 12.2 bn, a Q-o-Q growth of 10.2%.

* **Improvement in billing rates allied with strong volume growth**

TCS, over the recent past, has become aggressive in demanding higher and better billing rates. The company indicates that it commands a heady 5-10% increase in billing rate from new clients. Combined with robust volume growth (onsite and offshore) we believe that margins are likely to be significantly higher (at least 150bps upwards) than the levels registered in Q3FY07. Our expectations of much improved margins substantially result from improvement in gross margins, which we see as a positive.

* **Strong quarter for the domestic consultancy business**

We expect Q4FY07 to be strongest quarter for the domestic consultancy business, accounting for over 40% of the annual expected contribution of about INR 6.3 bn from this service line.

* **New reporting metrics to improve the quality of viewing progress for investors at large**

Beginning this quarter, TCS will publish a separate 'Operational Results' sheet along with its financial results. The sheet will comprise a list of its on-going projects, benchmarked against 6-7 parameters. They will include details about whether the project was completed on time or not, whether it met with quality expectations, and whether the project cost was within the mentioned budget. The move is an extraction of the company's "Delivery 25" dashboard strategy which comprises 25 different parameters to measure execution performance for clients.

* **One-time gain in Q4FY07**

TCS announced that it has recently concluded an agreement to transfer the ownership of TCS' 40% stake in SITEL India to Sitel Corporation for a consideration of USD 17.7 mn. We have not factored this gain in our estimates of adjusted net profits for the quarter.

* **Valuations**

At a CMP of INR 1,189, the stock currently trades at a P/E of 21.1x and 16.8x and EV/EBITDA of 16.4x and 12.1x for our FY08E and FY09E, respectively. We retain our 'BUY' recommendation.

April 2, 2007

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Reuters : TCS.BO
Bloomberg : TCS IN

Market Data

52-week range (INR) : 2,099 / 900
Share in issue (mn) : 978.6
M cap (INR bn/USD mn) : 1163.3/26,872.5
Avg. Daily Vol. BSE/NSE ('000) : 1,362.7

Share Holding Pattern (%)

Promoters : 82.5
MFs, Fls & Banks : 4.4
Fls : 7.0
Others : 6.2

Financials

Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	51,425	48,605	5.8	37,328	37.8	186,295	245,594
EBITDA (INR mn)	15,177	13,753	10.4	10,137	49.7	51,239	69,021
Net profit (INR mn)	12,172	11,047	10.2	8,094	50.4	41,760	55,052
EPS (INR)	12.4	11.3	10.2	8.3	50.4	42.7	56.2
P/E (x)						27.9	21.1
EV/EBITDA (x)						22.4	16.4
Mkt. cap/ Revenue						6.2	4.7



Financials								(INR mn)
Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E	FY09E
Total revenues	51,425	48,605	5.8	37,328	37.8	186,295	245,594	317,510
Cost of revenues	26,246	25,758	1.9	19,850	32.2	98,955	128,099	163,649
Gross profit	25,179	22,847	10.2	17,479	44.1	87,339	117,495	153,861
SG&A	9,822	8,989	9.3	7,234	35.8	35,621	47,265	59,073
R&D	180	105	72.1	107	67.5	479	1,210	1,750
EBITDA	15,177	13,753	10.4	10,137	49.7	51,239	69,021	93,038
Depreciation and amortization	1,160	1,080	7.4	861	34.7	3,949	5,045	6,918
EBIT	14,017	12,673	10.6	9,276	51.1	47,290	63,976	86,119
Other income	135	300	(55.0)	16	719.7	1,180	720	1,100
PBT	14,152	12,972	9.1	9,293	52.3	48,470	64,696	87,219
Tax	1,868	1,828	2.2	896	108.5	6,380	9,113	17,444
Adjusted net profit	12,284	11,144	10.2	8,397	46.3	42,090	55,582	69,776
Minority interest	(112)	(115)	(2.4)	(103)	8.6	(371)	(530)	(698)
Equity in net earnings of affiliates	-	17		33		40	-	-
Extraordinary income/expense	-	-		(232)		-	-	-
Reported net profit	12,172	11,047	10.2	8,094	50.4	41,760	55,052	69,078
EPS - basic	12.4	11.3	10.2	8.3	50.4	42.7	56.2	70.6
as % of net revenues								
Gross profit	49.0	47.0		46.8		46.9	47.8	48.5
SG&A	19.1	18.5		19.4		19.1	19.2	18.6
EBITDA	29.5	28.3		27.2		27.5	28.1	29.3
Adjusted net profit	23.9	22.9		22.5		22.6	22.6	22.0
Reported net profit	23.7	22.7		21.7		22.4	22.4	21.8
Tax rate	13.2	14.1		9.6		13.2	14.1	20.0

WIPRO

INR 518



Steady performer

ACCUMULATE

* Expected numbers

We expect Wipro to close Q4FY07 with total revenues of INR 41.5 bn, a Q-o-Q growth of 4.8%, and Global IT business to clock revenues of INR 30.2 bn, up 4.5% Q-o-Q. Our net profit estimate stands at INR 7.7 bn, up 3.7% Q-o-Q.

* Wipro Infotech spreading wings in Middle East markets

- * Dubai World, Dubai Islamic Bank (DIB), and Wipro Infotech entered into an agreement to establish a strategic IT services partnership in Dubai. Wipro Infotech, with this strategic initiative, aims to capture the fast-growing requirements in technology solutions and infrastructure from this economy.
- * Wipro Infotech formed a JV in Saudi Arabia with DAR Al Riyadh, a local diversified group having presence in the engineering and IT services. Wipro Infotech will hold 66% in the JV named Wipro Arabia Ltd. We remain positive on Wipro's strategy of penetrating the Middle East market and expect developments to yield results going forward.
- * Wipro's customers in Saudi Arabia include Saudi Telecom, SABIC, Arab National Bank among others.

* Launch of Integrated Publishing Platform (IPP)

Wipro, during the current quarter, launched a solution (IPP) catering to the media, publishing & information aimed at reducing 'time-to-publish' across creation, management and distribution functions in organizations. In a publishing organization, there are a host of products used across various functions of content life cycle. This solution provides an integration platform between discrete systems.

* BPO's strong growth to continue

We expect Wipro's BPO to continue to grow in high single digits, at USD 57.8 mn for the quarter. The BPO business has undergone transformation and client rationalization prior to the previous two quarters, the results of which are seen.

* Valuations

At CMP of INR 518, the stock trades at P/E of 20.5x and 16.7x and EV/EBITDA of 14.9x and 11.2x for its FY08E and FY09E earnings, respectively. We maintain our 'ACCUMULATE' recommendation.

April 2, 2007

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Reuters : WIPRO.BO

Bloomberg : WPRO IN

Market Data

52-week range (INR) : 690 / 383

Share in issue (mn) : 1,445.6

M cap (INR bn/USD mn) : 749.2/17,306.1

Avg. Daily Vol. BSE/NSE ('000) : 1,361.0

Share Holding Pattern (%)

Promoters : 80.6

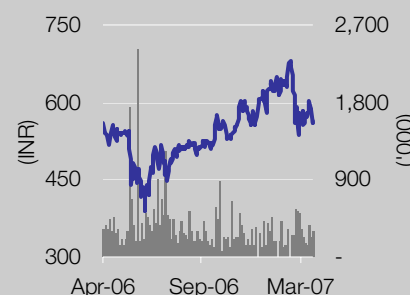
MFs, Fls & Banks : 2.1

Fls : 5.0

Others : 12.3

Financials

Year to March	Q4FY07E	Q3FY07	Growth %	Q1FY06	Growth %	FY07E	FY08E
Revenue (INR mn)	41,532	39,636	4.8	30,542	36.0	147,618	191,256
Gross profit (INR mn)	13,181	12,276	7.4	9,482	39.0	46,884	61,922
EBITDA (INR mn)	9,385	8,945	4.9	7,055	33.0	34,018	44,778
EBIT (INR mn)	8,278	7,849	5.5	6,181	33.9	29,816	39,743
Net profit (INR mn)	7,724	7,450	3.7	5,975	29.3	28,280	36,354
EPS basic (INR)	5.4	5.2	3.5	4.2	27.9	19.8	25.3
P/E (x)						26.2	20.5
EV/EBITDA (x)						20.3	14.9
Market cap / Rev. (x)						5.1	3.9



Financials snapshot								(INR mn)
Year to March	Q4FY07E	Q3FY07	Growth %	Q4FY06	Growth %	FY07E	FY08E	FY09E
Global IT	30,178	28,873	4.5	22,892	31.8	110,743	144,375	183,966
India and AsiaPac IT	7,161	6,734	6.3	5,297	35.2	23,249	29,647	36,976
Consumer care & lighting	2,031	1,931	5.2	1,483	36.9	7,482	9,307	11,262
Others	2,162	2,099	3.0	870	148.5	6,144	7,927	9,513
Revenues	41,532	39,636	4.8	30,542	36.0	147,618	191,256	241,717
Global IT	19,601	19,041	2.9	15,193	29.0	72,719	93,770	119,608
India and AsiaPac IT	5,620	5,250	7.0	4,269	31.6	18,084	22,906	28,178
Consumer care & lighting	1,292	1,260	2.6	933	38.5	4,851	5,919	7,207
Others	1,838	1,809	1.6	665	176.4	5,081	6,738	7,610
Total direct cost	28,351	27,360	3.6	21,060	34.6	100,734	129,334	162,604
Gross profit	13,181	12,276	7.4	9,482	39.0	46,884	61,922	79,113
SG&A	4,741	4,261	11.3	3,212	47.6	16,470	21,424	27,072
R&D	70	76	(8.4)	61	14.8	274	380	450
Amortization	92	90	2.4	28	228.6	324	376	410
EBIT	8,278	7,849	5.5	6,181	33.9	29,816	39,743	51,180
Depreciation	1,015	1,006	0.9	846	20.0	3,878	4,659	5,598
EBITDA	9,385	8,945	4.9	7,055	33.0	34,018	44,778	57,188
Other income	450	770	(41.5)	425	5.9	2,503	2,250	3,100
Foreign exchange gain / (loss)	30	(211)	(114.2)	212	(85.8)	(197)	-	-
Earnings before tax and minority int.	8,758	8,408	4.2	6,818	28.5	32,122	41,993	54,280
Tax	1,139	1,080	5.5	898	26.8	4,266	6,089	10,042
Adj. net income	7,619	7,328	4.0	5,920	28.7	27,857	35,904	44,238
Extraordinary item	-	-	-	-	-	39	-	-
Equity in earnings of affiliates	105	121	(13.5)	55	90.9	384	450	520
Reported net income	7,724	7,450	3.7	5,975	29.3	28,280	36,354	44,758
EPS basic (INR)	5.4	5.2	3.5	4.2	27.9	19.8	25.3	31.1
% of revenue								
Gross profit	31.7	31.0		31.0		31.8	32.4	32.7
SG&A	11.4	10.7		10.5		11.2	11.2	11.2
EBITDA	22.6	22.6		23.1		23.0	23.4	23.7
EBIT	19.9	19.8		20.2		20.2	20.8	21.2
Reported net profit	18.6	18.8		19.6		19.2	19.0	18.5
Tax rate	13.0	12.8		13.2		13.3	14.5	18.5

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INDIA RESEARCH

SECTOR

INSTITUTIONAL SALES

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Sunil Jain - 2286 4308	Alternative & Quantitative	Dipesh Shah - 2286 4434
Yogesh Radke - 2286 4328	Alternative & Quantitative	

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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