

Rupee! Rupee! Rupee!

The 7% rupee appreciation in 1Q08 should keep the focus on the extent by which the players can offset the impact on 1Q08 margins and FY08 guidance. However, also look for pointers for medium-term outlook. Infosys, TCS and Satyam are our key Buy ideas.

Key recommendations & forecasts

	Reuters	Year end	Recom	Price	Target price	EPS 1fcst	PE 1fcst
Infosys Tech ¹	INFY.BO	Mar 2008	Buy	Rs1916.55	Rs2440.00	82.5	23.2
Tata Consultcy ¹	TCS.BO	Mar 2008	Buy	Rs1109.75	Rs1460.00	51.4	21.6
Wipro ¹	WIPR.BO	Mar 2008	Buy	Rs504.20	Rs633.00	22.6	22.3
Satyam Computer ¹	SATY.BO	Mar 2008	Buy	Rs464.15	Rs543.00	24.2	19.2
HCL Tech ¹	HCLT.BO	Jun 2007	Buy	Rs329.35	Rs375.00	15.1	21.8
Patni Computer ¹	PTNI.BO	Dec 2007	Hold	Rs493.40	Rs447.00	30.6	16.1
KPIT Cummins ¹	KPIT.BO	Mar 2008	Hold	Rs137.10	Rs140.00	7.7	17.9
Tech Mahindra ¹	TEML.BO	Mar 2008	Sell	Rs1403.90	Rs1520.00	61.8	22.7
NIIT Tech ¹	NITT.BO	Mar 2008	Buy	Rs514.30	Rs635.00	34.5	14.9

1. Normalised EPS - Post-goodwill amortisation and pre-exceptional items
Source: Company data, ABN AMRO forecasts

We expect robust volume growth and healthy realisation gains

We estimate 7.9% qoq USD revenue growth in 1Q08 (1.2% in rupee terms) for our IT services universe, driven by volumes. We expect 8.8% qoq growth in billed effort for the top four players (TCS, Infosys, Wipro and Satyam). We also see healthy realisation gains from 2-3% hikes in MSA renewals and new client adds at 5-7% higher pricing in the last few quarters. Of course, this would be more centric to the larger players; we estimate qoq onsite/offshore realisation growth of 0.9%/0.6% for the top four players.

Costs and operations management key to dilute currency impact

The 1Q08 Rs/US\$ average was 6.6% lower qoq, and the quarter-close was 5.8% lower than assumed by Infosys. The traditional levers of utilisation, onsite/offshore mix, employee rotation and scale efficiencies should kick in, but with a lag. For 1Q08, lower effective visa costs and variable payouts should provide a cushion, besides realisation and volume growth. Thus, the key differentiator should be how quickly the companies manage costs. We find Infosys well placed here. Overall, we expect a 23-387bp qoq decline in EBITDA margins. We estimate those with scheduled wage hikes (Infosys, TCS, Tech Mahindra, NIIT Tech and KPIT) will show a higher qoq decline of 281-387bp. We expect the EPS impact to be diluted by higher yields on cash/investments.

FY08 outlook - three data-points to focus on

Currency movement aside, the operating performance in 1H08 should provide key inputs for building FY08-10F outlook. We believe investors should focus on three issues: 1) volume growth and employee addition in 1Q08 - we expect modest hiring with focus on improving utilisation to manage margins, so a stronger add would be positive; also note the fall in the number of large deal wins in the last two quarters; 2) qoq growth in realisation. 1Q08 should be more reflective of the impact, as the USD has been largely stable vs the GBP and the euro. We will look more closely at 2Q08 to see if rupee appreciation impacted new client pricing in 1Q08; 3) changes in gross margins ex-salary impact, to get a sense on how the players are managing the staffing mix and onsite/offshore rotation. While we believe the companies have levers to dilute the currency impact (assuming rupee at current levels), we expect marginal cuts in FY08 rupee EPS guidance of Infosys and Satyam as they take a cautious stand. We reiterate our bias to large caps Infosys, TCS and Satyam.

India

Sector performance

	(1M)	(3M)	(12M)
Absolute	-29.3	112.1	1078.4
Absolute %	-0.6	2.4	28.4
Rel market %	-2.2	-12.7	-7.3

Source: Bloomberg

India Bse 30 Sensitive: 14806.51
BSE IT: 4879.12

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

Priced at close of business 5 July 2007.

This note should be read along with our sector report (Rupee! Rupee! Rupee!, 5 July 2007) for a better understanding of the investment argument.

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1Q08F: earnings preview

Table 1 : IT services coverage universe: key financial estimates, Apr-Jun 2007

	ABN AMRO estimates			Guidance - Lower end			Guidance - Upper end			
	1Q08F	qoq	yoy	1Q08F	qoq	yoy	1Q08F	qoq	yoy	
Infosys										
Revenue (US\$ m)	943	9.2%	42.8%	904	4.7%	37.0%	908	5.2%	37.6%	Factors in 9.6% volume growth in IT services
Revenue (Rs m)	38,333	1.6%	27.1%	38,960	3.3%	29.2%	39,130	3.7%	29.8%	We estimate a 470bp impact on FY08 EBITDA margin, which could be partly neutralised (Table 10)
EBITDA margin	28.9%	-281bp	-56bp	-	-	-	-	-	-	
PAT (Rs m)	9,788	-4.0%	22.4%	10,190	-0.1%	27.4%	10,190	-0.1%	27.4%	
TCS										
Revenue (US\$ m)	1,307	10.4%	45.2%	-	-	-	-	-	-	Builds in 9.3% volume growth
Revenue (Rs m)	53,214	3.4%	28.4%	-	-	-	-	-	-	Higher utilisation (+205bp qoq) and offshore (+50bp) key margin levers
EBITDA margin	24.9%	-345bp	42bp	-	-	-	-	-	-	
PAT (Rs m)	10,777	-8.1%	24.9%	-	-	-	-	-	-	
Wipro Consolidated										
Revenue (US\$ m)	1,025	1.9%	50.1%	-	-	-	-	-	-	Seasonally weak 1Q for Wipro Infotech could affect cons. results
Revenue (Rs m)	42,023	-3.0%	34.2%	-	-	-	-	-	-	Reported top-line numbers would also include forex gains not built into our forecasts
EBITDA margin	20.6%	-118bp	-320bp	-	-	-	-	-	-	
PAT (Rs m)	7,329	-14.9%	20.1%	-	-	-	-	-	-	
Wipro Technologies										
Revenue (\$ m)	734	6.2%	36.0%	711	2.9%	31.8%	711	2.9%	31.8%	We estimate a greater hit to BPO margins (-279bp qoq) from FX; 143bp qoq decline in IT services
Revenue (Rs m)	30,086	-0.9%	22.7%	-	-	-	-	-	-	
EBITDA margin	25.1%	-154bp	-260bp	-	-	-	-	-	-	
Satyam										
Revenue (US\$ m)	444	9.6%	41.1%	425.8	5.0%	35.3%	427.9	5.5%	35.9%	We estimate 9.6% and 0.4% qoq growth in volume and realisation
Revenue (Rs m)	18,065	1.5%	25.2%	18,010	1.2%	24.8%	18,100	1.7%	25.4%	Factors in 113bp impact from RSU charges
EBITDA margin	23.1%	7bp	-147bp	-	-	-	-	-	-	
PAT (Rs m)	3,949	0.3%	11.5%	3,956	0.5%	11.7%	3,990	1.4%	12.7%	
HCL Technologies										
Revenue (\$ m)	391	7.9%	43.5%	-	-	-	-	-	-	Builds in 6.4% qoq growth in IT services in US\$ terms
Revenue (Rs m)	15,908	0.9%	26.9%	-	-	-	-	-	-	17.4% growth in revenue and 107bp margin expansion in IMS
EBITDA margin	21.0%	-23bp	32bp	-	-	-	-	-	-	
PAT(Rs m)	2,675	-11.2%	26.0%	-	-	-	-	-	-	
Patni										
Revenue (US\$ m)	164	5.4%	15.0%	163.0	4.5%	14.0%	163.0	4.5%	14.0%	Factors in higher utilisation (+120bp qoq); realisation (+40bp)
Revenue (Rs m)	6,673	-0.8%	1.7%	-	-	-	-	-	-	65% qoq growth in other income
EBITDA margin	17.4%	-372bp	-263bp	-	-	-	-	-	-	
PAT (Rs m)	958	-20.2%	-750.4%	969.8	-19.2%	nm	991.4	-17.4%	nm	
Tech Mahindra										
Revenue (US\$ m)	228	15.4%	75.9%	-	-	-	-	-	-	12.5% growth in BT business
Revenue (Rs m)	9,409	7.6%	60.3%	-	-	-	-	-	-	Margins hit from higher onsite and wage hikes
EBITDA margin	22.1%	-331bp	-21bp	-	-	-	-	-	-	
PAT (Rs m)	1,698	-13.4%	59.4%	-	-	-	-	-	-	
NIIT Technologies										
Revenue (US\$ m)	61	10.2%	45.0%	-	-	-	-	-	-	Strong hiring in 4Q07 should drive volume growth (8.3% qoq)
Revenue (Rs m)	2,506	2.9%	31.2%	-	-	-	-	-	-	Margins hit from higher onsite and wage hikes
EBITDA margin	18.0%	-387bp	-97bp	-	-	-	-	-	-	
PAT (Rs m)	303	-34.1%	38.5%	-	-	-	-	-	-	
KPIT Cummins										
Revenue (US\$ m)	32	9.0%	40.5%	-	-	-	-	-	-	Reported top-line numbers would also include forex gains not built into our forecasts
Revenue (Rs m)	1,305	0.2%	27.6%	-	-	-	-	-	-	
EBITDA margin	12.6%	-321bp	-234bp	-	-	-	-	-	-	
PAT (Rs m)	112	-20.5%	8.0%	-	-	-	-	-	-	

Notes: All number are consolidated Indian GAAP number except for TCS, Wipro and Patni, which are consolidated US GAAP. Estimates do not factor in the impact of forex gains/losses on the other income for the quarter. PAT guidance for Infosys and Satyam is derived from EPS guidance multiplied by 4Q07-end basic shares. Source: ABN AMRO forecasts

Table 2 : IT services coverage universe – EBITDA margin and EPS revisions

	EBITDA margin						Basic EPS					
	Old		New		Change		Old		New		Change	
	FY08F	FY09F	FY08F	FY09F	FY08F	FY09F	FY08F	FY09F	FY08F	FY09F	FY08F	FY09F
TCS	26.1%	25.2%	26.1%	25.7%	8bp	51bp	52.5	64.1	51.4	62.2	-2.0%	-3.0%
Infosys	31.6%	31.6%	31.4%	31.2%	-19bp	-39bp	87.3	113.2	83.3	104.8	-4.6%	-7.4%
Wipro	21.5%	21.2%	20.7%	19.9%	-83bp	-130bp	24.4	30.3	22.8	27.1	-6.6%	-10.6%
Satyam	22.7%	22.3%	21.7%	21.2%	-100bp	-117bp	26.7	33.5	24.9	30.4	-6.7%	-9.0%
HCL Technologies	21.1%	20.6%	20.2%	18.7%	-93bp	-190bp	20.5	25.1	19.3	22.1	-5.8%	-12.1%
Patni	19.7%	18.3%	19.3%	17.8%	-41bp	-54bp	31.4	33.9	30.8	33.1	-1.8%	-2.5%
Tech Mahindra	20.4%	19.0%	21.7%	20.0%	121bp	103bp	66.9	87.1	66.2	91.7	-1.0%	5.0%
NIIT Technologies	19.3%	19.0%	18.0%	17.7%	-129bp	-128bp	36.0	41.5	34.2	41.5	-5.0%	0.1%

Source: ABN AMRO forecasts

Table 3 : IT services coverage universe – valuations and target price revisions

	BB code	Recommendation	Target price				*P/E at current price		P/E at target price	
			Old	New	Change	Upside	FY08F	FY09F	FY08F	FY09F
			FY08F	FY09F	FY08F	FY09F	FY08F	FY09F	FY08F	FY09F
TCS	TCS IN	Buy	1,640	1,460	-11.0%	32%	21.6	17.9	28.4	23.5
Infosys	INFO IN	Buy	2,660	2,440	-8.3%	27%	23.0	18.3	29.3	23.3
Wipro	WPRO IN	Buy	690	633	-8.3%	26%	22.1	18.6	27.8	23.3
Satyam	SCS IN	Buy	577	543	-5.9%	17%	18.6	15.2	21.8	17.8
HCL Tech	HCLT IN	Buy	385	375	-2.6%	14%	17.0	14.9	19.4	17.0
Patni	PATNI IN	Hold	465	447	-3.9%	-9%	16.0	14.9	14.5	13.5
Tech Mahindra	TECHM IN	Hold	1,560	1,520	-2.6%	9%	21.1	15.2	23.0	16.6
NIIT Tech.	NITEC IN	Buy	520	635	22.1%	23%	15.0	12.4	18.6	15.3

Note: Price data as on 5th July 2007-07, * basic EPS

Source: ABN AMRO forecasts, Bloomberg

Table 4 : Hedge position of the top five IT services companies

(US\$ m)	Infosys	TCS	Wipro	Satyam	HCL Tech
Total hedged position at end-4Q07	470	1,086	600	453	900
- Forward covers	184	61	510*	100	898
- Options	286	1,025	90*	353	2
Increased hedge position announced in 1Q08	700	1,500	600	650	900
Net foreign cash flows					
Foreign currency revenues (E)	4,129	5,218	3,307	1,916	1,741
Total foreign currency costs (E)	1,533	2,068	1,178	698	610
Net foreign cash inflows (E)	2,596	3,149	2,130	1,218	1,131
4Q07 hedge position/FY08F net cash inflows (E)	18%	34%	28%	37%	80%
Latest hedge position/ FY08F net cash inflows (E)	27%	48%	28%	53%	80%

*/E: Estimates

Source: Company data, ABN AMRO estimates

Infosys, TCS and Satyam increased their hedged position during the quarter

Wipro was non-committal on the changes, while HCLT was already significantly covered

As per our estimates, HCLT has the maximum cover of cash in-flow exposure among the Top five players

Table 5 : IT services coverage universe – the other income impact

	Liquid assets (on 31 st Mar 2007)		Annualised yield (Jan-Mar)	Other income to PAT	
	Rs m	(US\$ m)		Jan-Mar	Apr-Jun F
TCS	12,291	283	19.3%	7.5%	5.2%
Infosys	58,960	1,356	12.3%	11.7%	15.1%
Wipro	52,060	1,198	9.3%	11.4%	14.9%
Satyam	39,914	918	7.2%	17.9%	17.7%
HCL Tech.	20,893	481	4.4%	6.5%	11.6%
Patni	12,719	293	4.8%	12.9%	26.5%
Tech Mahindra	1,647	38	23.3%	3.8%	2.1%
NIIT Tech.	2,388	55	2.4%	2.5%	6.9%

Note: Exchange rate as on 31 March 2007

Source: Company data, ABN AMRO forecasts

We expect higher yields on cash/investments in 1Q08 due to rising interest rates

IT companies typically follow a passive policy with majority of investments in debt instruments

Infosys yield has been typically 100-150bp higher than SBI's 366 days term deposit rate over the last 16 quarters

Table 6 : Results calendar and key issues

	Result date	Three key issues to focus on
Infosys	11 July 2007	1. FY08 and 2Q08 guidance - rupee closed the quarter 5.8% above 1Q08 guidance assumption 2. Growth in BFSI vertical, especially in the Banking and Financial services space after last quarter's slowdown 3. Changes in employee attrition trend – attrition has picked up over the last few quarters
TCS	16 July 2007	1. Subsidiaries' performance, especially margins for Diligenta 2. Potential announcement of large deals - 10 deals were under negotiation last quarter 3. Management view on pricing, especially the currency impact for MSAs renegotiated during the quarter
KPIT Cummins	17 July 2007	1. Organic revenue growth – reported numbers also include the hedging gains 2. Growth in the non-Cummins business and in BPO services 3. Utilisation growth – has been working to hire engineering graduates from NIIT/C-DAC to lower billability cycle
Satyam	18 July 2007	1. FY08 and 2Q08 guidance - rupee closed the quarter 4.1% above 1Q08 guidance assumption 2. Qoq realisation growth and management view on pricing, especially for MSAs renegotiated during the quarter 3. Manpower addition and movement in utilisation
Tech Mahindra	19 July 2007	1. Growth in the AT&T business; performance of non-BT, non-AT&T accounts 2. Effective increase in average per-person employee costs; share of sub-contracted manpower base 3. Update on progress on the BTGS contract and joint go-to-market initiatives
Wipro	19 July 2007	1. Outlook on the telecom vertical that underperformed in FY07 due to inorganic activities among key clients 2. Recruitment in the BPO services business 3. Performance of other subsidiaries, especially Wipro Infotech – note any reduction in business cyclicality
NIIT Tech	3 rd week, July 2007	1. Increase in the pending order book and its position vs executable over the next 12 months 2. Recruitment in the BPO services business that has seen manpower rationalisation over the last two quarters 3. Update on Adecco joint venture and GIS subsidiary
Patni	25 July 2007*	1. Management's reaction to media reports on potential stake sale by certain promoters 2. Improvement in average realisation and utilisation 3. Plans for setting up SEZs/status of the Navi Mumbai campus
HCL Tech	12 August 2007*	1. Outlook for FY08 (this being year-end), especially on capex and hiring plans 2. Ramp-ups and margins in large deals won over the last four quarters 3. Share of export services in the infrastructure services business

*Tentative

Source: Company data, ABN AMRO

Table 7 : Select IT services companies – margin sensitivity of key variables

	TCS	Infosys	Wipro Tech	Satyam	HCL Tech
Change in EBITDA margin for every 1% change in:					
Exchange rate (Rs/USD)					
– ABN AMRO's earnings model sensitivity	-40bp	-39bp	-44bp	-42bp	-51bp
– Company estimates	-35bp	-50bp	-40-50bp	-30bp	-36bp
Operating variables					
Utilisation	55bp	57bp	64bp	69bp	68bp
Blended average realisation	45bp	48bp	50bp	59bp	54bp
Onsite:offshore delivery mix	-21bp	-38bp	-25bp	-23bp	-12bp
Manpower costs	-46bp	-44bp	-51bp	-59bp	-54bp
Other direct costs	-8bp	-9bp	-13bp	-3bp	-9bp
SG&A share of revenues	-19bp	-14bp	-8bp	-16bp	-15bp
Change in net margin for 1% change in:					
EBITDA margin	88bp	90bp	87bp	89bp	91bp
Depreciation	-2bp	-3bp	-2bp	-2bp	-4bp
Tax rate	-27bp	-31bp	-22bp	-22bp	-20bp

Source: ABN AMRO forecasts

Table 8 : April-June 2007 – stock and rupee performance

	30-Mar-07	30-Jun-07	Change
Sensex	13072.1	14650.5	12.1%
ABN IT services universe (Rs)			
TCS	1,231.2	1,149.2	-6.7%
Infosys	2,012.6	1,929.1	-4.1%
Wipro	558.4	518.5	-7.1%
Satyam	470.1	467.3	-0.6%
HCL Tech	291.2	344.0	18.2%
Patni Computers	386.9	518.1	33.9%
Tech Mahindra	1,427.9	1,415.4	-0.9%
KPIT Cummins	131.55	138.7	5.4%
NIIT Technologies	436.3	516.3	18.3%
Currency movement			
Rs/USD- period average	44.16	41.26	-6.6%
Rs/USD - period end	43.47	40.70	-6.4%
Rs/GBP- period average	86.28	81.93	-5.1%
Rs/GBP - period end	85.55	81.81	-4.4%
Rs/Euro - period average	57.86	55.62	-3.9%
Rs/Euro - period end	58.05	55.15	-5.0%
USD/GBP - period average	1.96	1.99	1.6%
USD/Euro - period average	1.31	1.35	2.8%

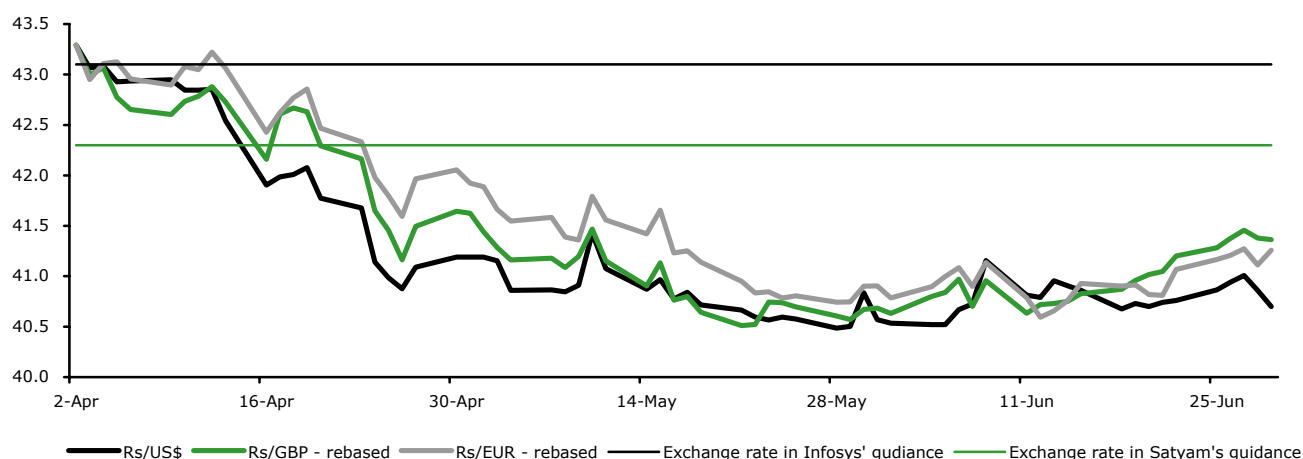
Source: Bloomberg

BSE IT Index underperformed the Sensex by 12.7% in the April-June quarter

Large caps were down 4-7% over the quarter

Mid/small caps performed better - Patni moved on media reports of ownership change, while NIIT Tech and KPIT moved on rerating potential

Companies with higher Europe exposure (Tech Mahindra/NIIT Tech) would also have been affected as the rupee has appreciated by 5% and 3.9% against the GBP and the euro respectively from 4Q07

Chart 1 : Rupee movement against major currencies - April to June 2007

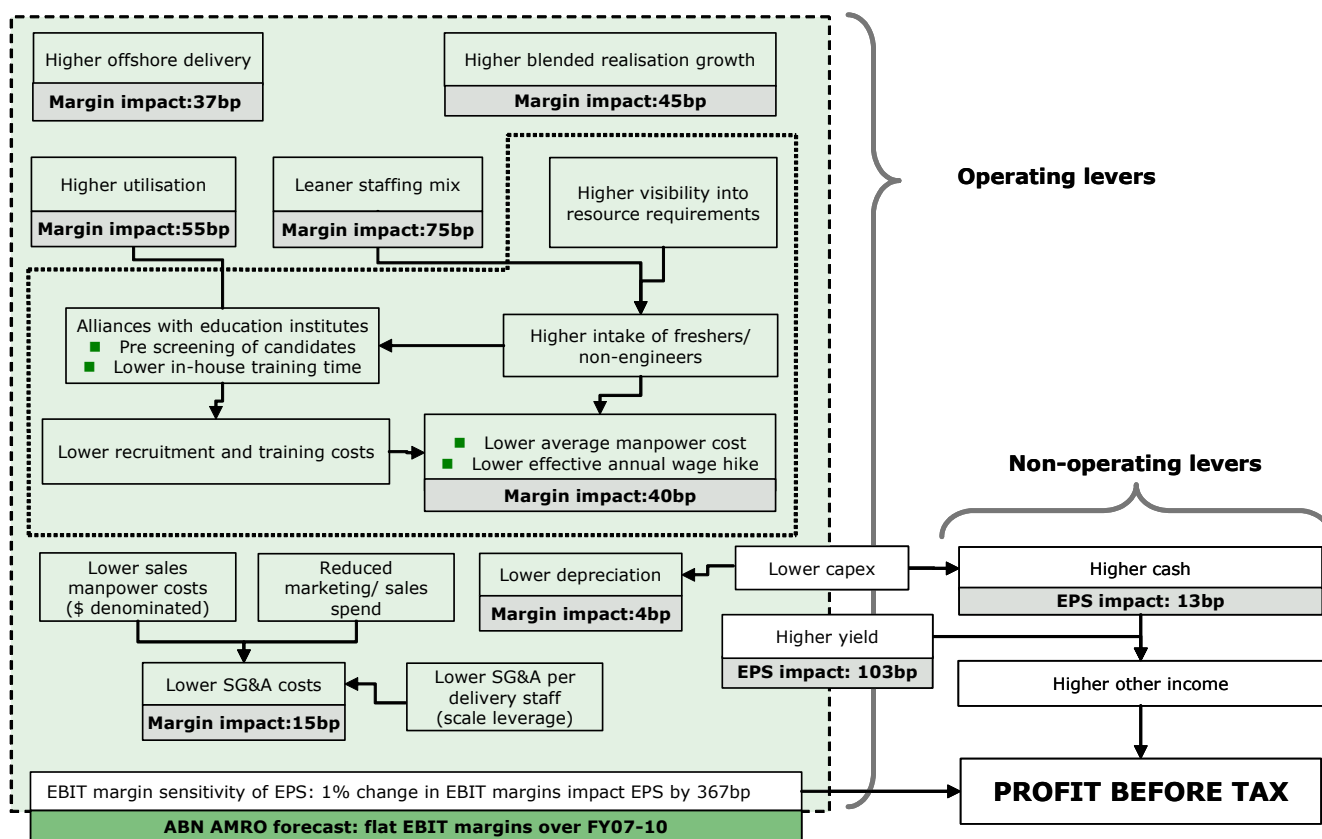
Source: Bloomberg, Company data

Table 9 : IT services coverage universe – important events/media reports during the quarter

Infosys	<ul style="list-style-type: none"> Plans investment of US\$75.1m (Rs3.1bn) in a 8,000-seat development centre in Thiruvananthapuram; also setting up a 400-seat facility in Brno, Czech Republic and a 300-people centre in Mexico. Introduced a non-compete agreement in employee contracts, barring the employee to work for the same client at a defined set of competing firms for a period of six months after their job termination at Infosys.
TCS	<ul style="list-style-type: none"> Bought out the joint-venture partner's stake in the Brazil subsidiary for US\$33.4m; inaugurated a new 500-seat centre in Mexico; targeting 5,000 employees in Mexico over the next five year. Integrated its financial services solutions (organic and from FNS acquisition) into a new SBU, TCS Financial Solutions.
Satyam	<ul style="list-style-type: none"> Launched a 4,500-sq ft near-shore development centre in Brazil; a 150-seat centre in Sydney (third in Australia); plans development centre in Vietnam by April 2009. Announced extension of its existing contract with the Nestle group for a further three years; we estimate the current relationship at an annual run-rate of US\$15m, that could go to US\$25m. We estimate the pricing increase at about 3% in the renewed contract.
HCL Tech	<ul style="list-style-type: none"> Launched a 100-seat centre in Poland, its second in East Europe. US\$15m contract win from Alenia Aeronautica.
NIIT Tech	<ul style="list-style-type: none"> The joint venture with Adecco gets operational from July 2007; the JV has already won one client (a customer of Adecco).
KPIT Cummins	<ul style="list-style-type: none"> Setting up ODC for Dialog Semiconductor; currently has 10 people working for Dialog

Source: Companies, media reports

Chart 2 : Where IT services players can focus on - key margin/non-operating levers and sensitivities



Note: Margin impact refers to the impact from every 1% change in each variable on the EBIT margin
 Source: ABN AMRO estimates

Table 10 : Infosys – how operating leverage can play out

	Guided impact	Estimated impact	
		No operating leverage	With operating leverage
Rs/USD - average for 4Q07	43.71	43.71	43.71
Rs/USD - effective	43.10	40.77	40.77
Change	-140bp	-673bp	-673bp
Rupee appreciation	-70bp	-337bp	-269bp
Scheduled wage hikes	-300bp	-300bp	-280bp
Visa costs	-80bp	-80bp	-74bp
Total	-450bp	-717bp	-643bp
SG&A & operational efficiencies	160bp	160bp	185bp
Utilisation	90bp	90bp	110bp
Average blended realisation	0bp	0bp	48bp
Total	250bp	250bp	343bp
Net impact on margin	-200bp	-467bp	-280bp
Non operating costs/income	0bp	0bp	27bp
Tax provisions	100bp	100bp	100bp
Net margin	-100bp	-367bp	-153bp

7% lower effective visa costs due to USD depreciation

Partial impact of cost controls
 At a 2.5% growth in net utilisation
 (vs 2% factored in the guidance)
 At a 1% qoq growth in blended realisation

Yield at 10% pa on cash and investments

Source: ABN AMRO estimates, company guidance

Company profiles

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HCL Technologies

6-12% EPS impact from currency

We revise our earnings forecasts and target price to factor in the change in our FY08-10 exchange rate forecasts following the 7% rise in the rupee in the April-June quarter. We believe operating levers should marginalise the impact, though with a lag. Buy.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Rsm)	33694.0	44007.0	60124.1	75989.7	94829.8
EBITDA (Rsm)	7722.3	9162.8	12450.1	15312.7 ▼	17767.0 ▼
Reported net profit (Rsm)	6104.1	7091.5	10586.4	12837.7 ▼	14652.7 ▼
Normalised net profit (Rsm) ¹	6104.1	7091.5	10586.4	12837.7	14652.7
Normalised EPS (Rs)	9.66	10.4	15.1	18.0 ▼	20.5 ▼
Dividend per share (Rs)	8.00	8.00	8.00	8.00	8.00
Dividend yield (%)	2.43	2.43	2.43	2.43	2.43
Normalised PE (x)	34.1	31.8	21.8	18.3 ▲	16.1 ▲
EV/EBITDA (x)	25.9	21.8	15.8	12.7	10.9
Price/book value (x)	5.55	5.25	4.54	3.99	3.46
ROIC (%)	53.6	33.9	41.5	42.4	40.7

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: US GAAP
Source: Company data, ABN AMRO forecasts

year to Jun, fully diluted

We adjust our earnings forecasts due to revised Rs/US\$ rate forecasts

We have changed our effective Rs/US\$ exchange rate for FY08-10 by 5-10% to factor in the latest exchange rate forecasts of our economists. We have adjusted our models and reviewed our operating metrics assumptions accordingly. We now project a 25.9% CAGR in rupee revenues (a 31.2% CAGR in US\$ terms) and a 14.1% CAGR in PAT over FY07-10. We also build in an 8% increase (from our earlier estimate) in the effective tax rate in FY10 to factor in the scheduled phase-out of the STPI tax benefit.

Investment thesis and operating outlook remain intact

We maintain the demand environment remains strong and that realisation growth is materialising. Qoq realisation improvement contributed 200bp to top-line growth and 75bp to the EBIT margin in 3Q07, due, we believe, to: 1) large deals (contributing over 10% of revenue) won in the last few quarters at high price points; 2) higher reward-sharing in the new deals; and 3) contract renewals. The deal pipeline remains strong, with five US\$25m-50m deal wins and one >US\$50m deal win in the last quarter. However, we believe the large-deal focus will keep HCL Tech's quarterly performance volatile. The top-line jump in BPO services came from strong hiring last quarter, but this should moderate in 4Q07F. Hiring should improve software services too, but realisation growth may moderate. We believe managing employee utilisation will be critical - note the 100bp negative impact of lower utilisation in the Infrastructure Management Services division. We also see a near-term margin impact from a faster increase in support manpower share (already the highest among peers) in 4Q07F.

Buy maintained; target price reduced to Rs375

We cut our DCF-based target price to Rs375 (from Rs385). Our nine to 12 month target values the stock at 19.4x FY08F and 17.0x FY09F basic EPS and implies 14% potential upside. The stock has been among the better performers in our universe; up 2% YTD vs a 9% decline in the BSE IT Index. We expect cues from the 4Q07 results and management outlook on FY08 to drive near-term stock movement. We reiterate our Buy rating.

Priced at close of business 5 July 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (Rupee! Rupee! Rupee!, 5 July 2007) for a better understanding of the investment argument.

Mafatlal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Buy

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Software & Services

India

Price

Rs329.35

Target price

Rs375.00 (from Rs385.00)

Market capitalisation

Rs218.58bn (US\$5.40bn)

Avg (12mth) daily turnover

Rs80.91m (US\$1.85m)

Reuters

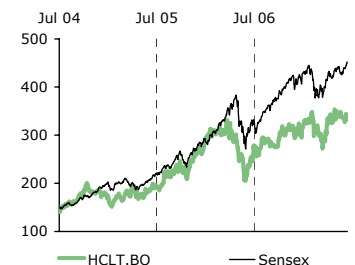
HCLT.BO

Bloomberg

HCLT IN

Price performance (1M) (3M) (12M)

	(1M)	(3M)	(12M)
Price (Rs)	340.6	287.5	254.1
Absolute %	-3.3	14.6	29.6
Rel market %	-5.8	-1.6	-7.1
Rel sector %	-1.5	10.1	3.1



Stock borrowing: n/a

Volatility (30-day): 24%

Volatility (6-month trend): ↓

52-week range: 365.75-241.03

Sensex: 14880.24

BBG AP Software: 323.74

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

HCL TECHNOLOGIES: KEY FINANCIAL DATA

Income statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	33694.0	44007.0	60124.1	75989.7	94829.8
Cost of sales	-21162	-28265	-38479	-49231	-63450
Operating costs	-4810.2	-6579.0	-9194.8	-11446	-13613
EBITDA	7722.3	9162.8	12450.1	15312.7	17767.0
DDA & Impairment (ex gw)	-1554.9	-2032.0	-2523.6	-2843.0	-3434.7
EBITA	6167.4	7130.8	9926.5	12469.6	14332.3
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	6167.4	7130.8	9926.5	12469.6	14332.3
Net interest	0.00	0.00	0.00	0.00	0.00
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	1079.4	579.0	1699.4	1963.0	2110.4
Reported PTP	7246.8	7709.8	11625.9	14432.6	16442.6
Taxation	-673.7	-596.3	-967.8	-1509.9	-1692.8
Minority interests	-441.6	-16.0	-65.7	-85.1	-97.1
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	-27.4	-6.00	-6.00	0.00	0.00
Reported net profit	6104.1	7091.5	10586.4	12837.7	14652.7
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	6104.1	7091.5	10586.4	12837.7	14652.7

Source: Company data, ABN AMRO forecasts

year to Jun

Balance sheet

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	19899.1	18799.0	22121.2	23514.5	25627.4
Other current assets	9759.0	13199.0	18570.4	23500.3	29329.0
Tangible fixed assets	6595.5	8742.0	10548.1	13331.5	17241.8
Intang assets (incl gw)	8422.8	8394.0	8103.0	8103.0	8103.0
Oth non-curr assets	1565.3	1311.0	1219.0	1219.0	1219.0
Total assets	46241.7	50445.0	60561.7	69668.3	81520.2
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	6633.1	8953.0	11141.8	13537.5	16851.3
Long term debt (3)	1308.1	83.0	75.0	75.0	75.0
Oth non-current liab	318.8	745.0	995.0	995.0	995.0
Total liabilities	8260.0	9781.0	12211.8	14607.5	17921.3
Total equity (incl min)	37981.7	40664.0	48349.9	55060.8	63598.8
Total liab & sh equity	46241.7	50445.0	60561.7	69668.3	81520.2
Net debt (2+3-1)	-18591	-18716	-22046	-23440	-25552

Source: Company data, ABN AMRO forecasts

year ended Jun

Cash flow statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	7722.3	9162.8	12450.1	15312.7	17767.0
Change in working capital	-1605.0	-1120.1	-3182.6	-2534.2	-2514.8
Net interest (pd) / rec	1079.4	579.0	1699.4	1963.0	2110.4
Taxes paid	-673.7	-596.3	-967.8	-1509.9	-1692.8
Other oper cash items	-449.8	-103.4	257.3	-85.1	-97.1
Cash flow from ops (1)	6073.2	7922.0	10256.4	13146.5	15572.6
Capex (2)	-3415.8	-4178.5	-4329.7	-5626.5	-7345.0
Disposals/(acquisitions)	-5667.9	28.8	291.0	0.00	0.00
Other investing cash flow	161.9	761.9	13.0	0.00	0.00
Cash flow from invest (3)	-8921.8	-3387.8	-4025.7	-5626.5	-7345.0
Incr / (decr) in equity	6895.2	1401.5	3068.0	85.1	97.1
Incr / (decr) in debt	-72.7	-1225.1	-8.00	0.00	0.00
Ordinary dividend paid	-5644.8	-5810.7	-5968.4	-6211.8	-6211.8
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	1177.7	-5634.3	-2908.5	-6126.7	-6114.7
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	-1670.9	-1100.1	3322.2	1393.3	2112.9
Equity FCF (1+2+4)	2657.4	3743.5	5926.7	7520.0	8227.6

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Jun

HCL TECHNOLOGIES: PERFORMANCE AND VALUATION

Standard ratios	HCL Tech					Infosys Technologies			Satyam Computer		
Performance	FY05A	FY06A	FY07F	FY08F	FY09F	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F
Sales growth (%)	31.2	30.6	36.6	26.4	24.8	23.2	25.1	22.6	25.2	28.1	25.9
EBITDA growth (%)	48.4	18.7	35.9	23.0	16.0	22.4	24.2	21.8	14.8	24.7	20.2
EBIT growth (%)	51.7	15.6	39.2	25.6	14.9	21.5	23.8	21.7	16.1	24.2	19.5
Normalised EPS growth (%)	n/a	7.30	46.1	18.7	14.1	25.9	25.8	13.1	16.6	22.3	9.60
EBITDA margin (%)	22.9	20.8	20.7	20.2	18.7	31.4	31.2	31.0	21.7	21.2	20.2
EBIT margin (%)	18.3	16.2	16.5	16.4	15.1	27.5	27.3	27.0	19.9	19.3	18.3
Net profit margin (%)	18.1	16.1	17.6	16.9	15.5	27.8	28.0	25.8	20.5	19.5	17.0
Return on avg assets (%)	15.5	14.7	19.2	19.8	19.5	30.3	28.9	25.3	22.2	22.4	20.3
Return on avg equity (%)	18.1	18.1	23.9	24.9	24.8	36.2	34.5	30.2	26.0	26.2	23.9
ROIC (%)	53.6	33.9	41.5	42.4	40.7	77.0	79.1	73.4	74.4	67.9	59.8
ROIC - WACC (%)	38.7	19.1	26.6	27.6	25.8	62.8	64.8	59.2	59.5	53.0	44.9
				<i>year to Jun</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Valuation											
EV/sales (x)	5.94	4.54	3.27	2.57	2.04	5.90	4.56	3.56	3.27	2.47	1.90
EV/EBITDA (x)	25.9	21.8	15.8	12.7	10.9	18.8	14.6	11.5	15.0	11.7	9.42
EV/EBITDA @ tgt price (x)	29.8	25.1	18.2	14.7	12.6	24.4	19.1	15.2	18.0	14.0	11.4
EV/EBIT (x)	32.4	28.0	19.8	15.6	13.5	21.4	16.7	13.2	16.4	12.8	10.4
EV/invested capital (x)	10.3	9.11	7.47	6.17	5.07	15.6	12.6	10.4	10.3	8.01	6.13
Price/book value (x)	5.55	5.25	4.54	3.99	3.46	7.37	5.61	4.42	4.54	3.75	3.16
Equity FCF yield (%)	1.28	1.66	2.57	3.20	3.50	3.32	4.27	5.02	2.28	3.33	3.07
Normalised PE (x)	34.1	31.8	21.8	18.3	16.1	23.2	18.5	16.3	19.2	15.7	14.3
Norm PE @tgt price (x)	38.8	36.2	24.8	20.9	18.3	29.6	23.5	20.8	22.5	18.4	16.8
Dividend yield (%)	2.43	2.43	2.43	2.43	2.43	0.78	0.99	1.15	1.08	1.51	2.15
				<i>year to Jun</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Per share data											
Tot adj dil sh, ave (m)	632.0	684.3	699.1	714.3	714.3						
Reported EPS (INR)	9.66	10.4	15.1	18.0	20.5						
Normalised EPS (INR)	9.66	10.4	15.1	18.0	20.5						
Dividend per share (INR)	8.00	8.00	8.00	8.00	8.00						
Equity FCF per share (INR)	4.20	5.47	8.48	10.5	11.5						
Book value per sh (INR)	59.3	62.7	72.6	82.6	95.3						
				<i>year to Jun</i>							
Solvency											
Net debt to equity (%)						-48.9	-46.0	-45.6	-42.6	-40.2	
Net debt to tot ass (%)						-40.2	-37.1	-36.4	-33.6	-31.3	
Net debt to EBITDA						-2.41	-2.04	-1.77	-1.53	-1.44	
Current ratio (x)						4.47	3.57	3.65	3.47	3.26	
Operating CF int cov (x)						-5.25	-13.7	-5.60	-6.47	-7.18	
Dividend cover (x)						1.08	1.22	1.77	2.07	2.36	
										<i>year to Jun</i>	

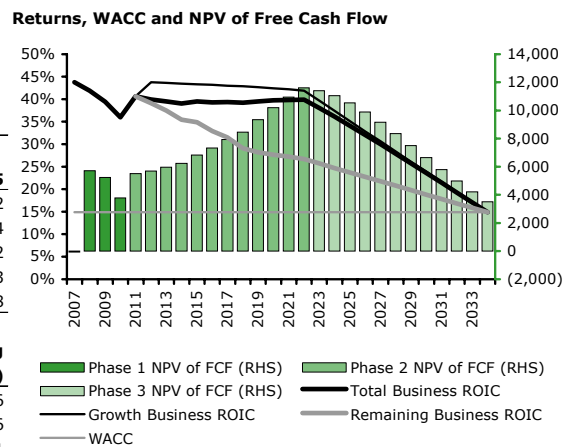
Priced as follows: HCLT.BO - Rs329.35; INFY.BO - Rs1916.55; SATY.BO - Rs464.15
Source: Company data, ABN AMRO forecasts

HCL TECHNOLOGIES: VALUATION METHODOLOGY

Economic Profit Valuation	INR m	%	Discounted Cash Flow Valuation	INR m	%
Adjusted Opening Invested Capital	29327.9	13	Value of Phase 1: Explicit (2007 to 2010)	14651.1	6
NPV of Economic Profit During Explicit Period	19159.9	8	Value of Phase 2: Value Driver (2011 to 2022)	96025.2	42
NPV of Econ Profit of Remaining Business (1, 2)	39140.7	17	Value of Phase 3: Fade (2023 to 2034)	93033.7	41
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	139663.7	61	Terminal Value	23561.4	10
Enterprise Value	227292.3	100	Enterprise Value	227271.5	100
Plus: Other Assets	789.0	0	FCF Grth Rate at end of Phs 1 implied by DCF Valuation		12.8
Less: Minorities	149.0	0	FCF Grth Rate at end of Phs 1 implied by Current Price		28.3
Less: Net Debt (as at 05 Jul 2007)	-20818.0	-9			
Equity Value	248750.3	109			
No. Shares (millions)	663.7				
Per Share Equity Value	375.00				
Current Share Price	329.35				

Sensitivity Table	WACC	No of Years in Fade Period				
		15	18	20	23	25
	12.9%	509.68	546.15	570.27	606.16	629.92
	13.9%	448.99	477.33	495.85	523.10	540.94
	14.9%	397.73	419.79	434.04	454.79	468.22
	15.9%	354.26	371.46	382.45	398.28	408.43
	16.9%	317.27	330.69	339.18	351.29	358.98

Performance Summary	2007	2008	2009	Phase 2 Avg (2011 - 2022)
Invested Capital Growth (%)	20.3	19.5	19.7	19.6
Operating Margin (%)	16.5	16.4	15.1	14.6
Capital Turnover (x)	2.6	2.8	2.9	3.1



Source: ABN AMRO

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

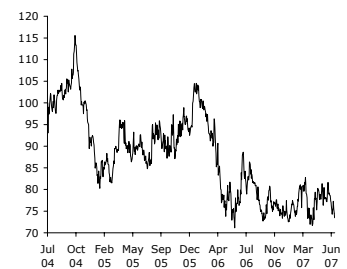
HCL Technologies

Company description

HCL Tech is the fifth-largest Indian IT services company. An early entrant in the infrastructure business, it has been gradually shifting focus from domestic product-led sales to a global-services-led business model. In BPO services, it is the third-largest offshore service provider, with a strong relationship with British Telecom and SBC. The company leverages an extensive offshore infrastructure and its global network of offices in 17 countries to deliver solutions across select verticals, including banking, insurance, retail and consumer, aerospace, automotive, semiconductors, telecom and life sciences. HCL Technologies has 236 clients across different verticals and a workforce of more than 40,000 people.

Buy

Price relative to country



Strategic analysis

Average SWOT company score: 3

Shareholding

Strengths

Large offshore IT services provider with established client base and strong presence in key service areas/verticals.

3

Weaknesses

Lack of credible global brand/presence. Full benefits from attempted diversification in revenue stream have yet to come in.

2

Opportunities

Growing market opportunity for Indian offshore IT and BPO services; offshore is becoming mainstream.

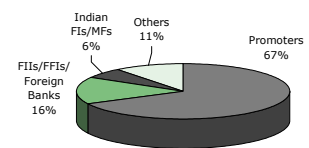
4

Threats

Global vendors setting up capacities in India; depreciating US dollar, new entrants raising wages and other costs reducing the cost arbitrage in the offshore sector.

2

Scoring range is 1-5 (high score is good)



Source: Company data

Market data

Headquarters

A 10-11, Sector-III, Noida - 201 301

Website

www.hcltech.com

Shares in issue

663.7m

Freefloat

32%

Majority shareholders

Promoters (68%), HSBC Global Investment Funds (4%), Life Insurance Corp of India (3%)

India

Country view

Neutral

Country rel to Asia Pacific

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 3-

Broker recommendations

Supplier power

Bargaining power shifting to employees due to an increase in the available options in the Indian IT landscape: MNC product vendors, MNC IT services capacities, client insourcing, etc.

3-

Barriers to entry

Low entry barriers to the offshore IT services business. MNCs are ramping up their capacities and employee strength.

2-

Customer power

Increasing customer bargaining power due to offshoring becoming mainstream and traditional service offerings becoming commoditised. New intermediaries are helping better price discovery.

2-

Substitute products

Other offshore locations, such as Eastern Europe, the Philippines and China. However, this will have an impact only in the medium to long term.

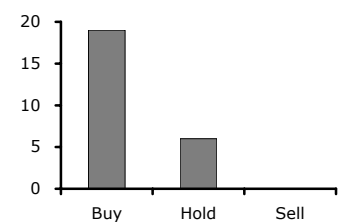
4+

Rivalry

Intense rivalry due to similar commoditised offerings and same 'low-cost, little-differentiation' positioning.

2-

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Infosys Technologies

4-7% EPS impact from currency

We revise our earnings forecasts and target price to factor in the change in our FY08-10 exchange-rate forecasts following the 7% rise in the rupee in the April-June quarter. We believe operating levers will marginalise the impact, though with a lag. Buy.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	95215.9	138930	171117	213996	262460
EBITDA (Rsm)	30918.1	43910.0	53727.1▼	66745.1▼	81295.6▼
Reported net profit (Rsm)	24585.7	38560.0	47573.4	59839.5▼	67661.8▼
Normalised net profit (Rsm) ¹	24585.7	37260.0	47573.4	59839.5	67661.8
Normalised EPS (Rs)	43.8	65.5	82.5	103.7▼	117.3▼
Dividend per share (Rs)	22.5	11.5	15.0▼	19.0▼	22.0▼
Dividend yield (%)	1.17	0.60	0.78	0.99	1.15
Normalised PE (x)	43.8	29.3	23.2	18.5▲	16.3▲
EV/EBITDA (x)	34.3	23.6	18.8	14.6	11.5
Price/book value (x)	15.5	9.75	7.37	5.61	4.42
ROIC (%)	63.0	94.6	77.0	79.1	73.4

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

We adjust our earnings on our new Rs/US\$ rate forecasts

Our effective Rs/US\$ exchange rate has changed by 5-10% for FY08-10 to factor in the latest exchange rate forecasts of our economist. We have adjusted our models and reviewed our operating metrics assumptions accordingly. We now project a 23.6% CAGR in rupee revenues (30.3% CAGR in USD terms) and a 21.9% CAGR in PAT (pre-extraordinaries) over FY07-10. We also built in a 8% increase in the effective tax rate in FY10 to factor in the scheduled phase-out of the STPI tax benefit.

Investment thesis and operating outlook remain intact

We believe the demand environment remains strong and realisation growth is materialising. Infosys's blended realisation grew 1.7% qoq and 4.9% yoy in FY07, as client mining and rationalisation improved. Revenue per active client was up 32% for FY07. We also expect new client contracts and MSA renewals in FY08 to factor in the sharp currency appreciation. Utilisation headroom of 5-7% over the 4Q07 level is another margin lever, in our view. Offshore wage hikes of 15% are in line with last year's level, but management concedes the salaries of freshers are now likely to see a 10% annual increase. The increased hiring of non-engineers should partly offset this. We also expect the increasing yield on cash/investments to dilute the impact at the PAT level.

Buy maintained; target price reduced to Rs2,440

We cut our DCF-based target price to Rs2,440 (from Rs2,660). Our nine to 12-month target values the stock at 29.3x FY08F and 23.3x FY09F basic EPS and implies 27% potential upside. Note that the stock has significantly underperformed: it is down 14% YTD vs a 7% increase in the BSE Sensex, largely on investor fears of the near-term impact of the sharp rupee appreciation. We expect the 1Q08 results and management outlook on FY08 to provide clues for further movement. We reiterate Buy and Infosys remains one of our top sector picks.

Buy

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Software & Services

India

Price

Rs1916.55

Target price

Rs2440.00 (from Rs2660.00)

Market capitalisation

Rs1.09t (US\$27.04bn)

Avg (12mth) daily turnover

Rs562.93m (US\$12.79m)

Reuters

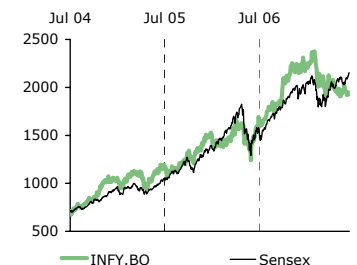
INFY.BO

Bloomberg

INFO IN

Price performance (1M) (3M) (12M)

	1M	3M	12M
Price (Rs)	1941.8	1992.3	1595.2
Absolute %	-1.3	-3.8	20.1
Rel market %	-3.9	-17.3	-13.9
Rel sector %	0.5	-7.5	-4.5



Stock borrowing: n/a

Volatility (30-day): 17.41%

Volatility (6-month trend): ↓

52-week range: 2439.00-1541.10

Sensex: 14880.24

BBG AP Software: 323.74

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

Priced at close of business 5 July 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (Rupee! Rupee! Rupee!, 5 July 2007) for a better understanding of the investment argument.

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Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

INFOSYS TECHNOLOGIES: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	95215.9	138930	171117	213996	262460
Cost of sales	-50654	-74580	-92382	-116726	-144974
Operating costs	-13643	-20440	-25008	-30525	-36190
EBITDA	30918.1	43910.0	53727.1	66745.1	81295.6
DDA & Impairment (ex gw)	-4371.0	-5140.0	-6633.6	-8425.5	-10313
EBITA	26547.1	38770.0	47093.5	58319.7	70982.1
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	26547.1	38770.0	47093.5	58319.7	70982.1
Net interest	0.00	0.00	0.00	0.00	0.00
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	0.00	1300.0	0.00	0.00	0.00
Other pre-tax items	1385.2	3700.0	6875.2	9873.6	13595.1
Reported PTP	27932.3	43770.0	53968.7	68193.2	84577.2
Taxation	-3131.6	-5100.0	-6395.3	-8353.7	-16915
Minority interests	-215.0	-110.0	0.00	0.00	0.00
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	-0.01	0.00
Reported net profit	24585.7	38560.0	47573.4	59839.5	67661.8
Normalised Items Excl. GW	0.00	1300.0	0.00	0.00	0.00
Normalised net profit	24585.7	37260.0	47573.4	59839.5	67661.8

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	34290.0	58710.0	85429.7	119921	160774
Other current assets	29050.0	36500.0	45702.8	56432.2	68440.6
Tangible fixed assets	22260.0	37710.0	47497.1	56805.9	70492.5
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	8200.0	1170.0	1170.0	1170.0	1170.0
Total assets	93800.0	134090	179800	234329	300877
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	9340.0	14690.0	17689.7	21682.3	27050.6
Long term debt (3)	0.00	0.00	0.00	0.00	0.00
Oth non-current liab	14120.0	6810.0	11970.8	15365.3	23585.7
Total liabilities	23460.0	21500.0	29660.5	37047.6	50636.2
Total equity (incl min)	70340.0	112590	150139	197281	250241
Total liab & sh equity	93800.0	134090	179800	234329	300877
Net debt (2+3-1)	-34290	-58710	-85430	-119921	-160774

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	30918.1	43910.0	53727.1	66745.1	81295.6
Change in working capital	3548.8	-9410.0	-1042.3	-3342.2	1580.2
Net interest (pd) / rec	1395.8	5020.0	6875.2	9873.6	13595.1
Taxes paid	-3337.9	-5370.0	-6395.3	-8353.7	-16915
Other oper cash items	-225.6	-1430.0	0.00	0.00	0.00
Cash flow from ops (1)	32299.2	32720.0	53164.6	64922.8	79555.5
Capex (2)	-10890	-20590	-16421	-17734	-24000
Disposals/(acquisitions)	0.00	-1300.0	0.00	0.00	0.00
Other investing cash flow	4557.8	7300.0	0.00	0.00	0.00
Cash flow from invest (3)	-6331.7	-14590	-16421	-17734	-24000
Incr / (decr) in equity	4927.1	11003.1	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-12360	-7313.1	-10024	-12697	-14702
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	-7433.3	3690.0	-10024	-12697	-14702
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	18534.2	21820.0	26719.7	34491.1	40853.1
Equity FCF (1+2+4)	21409.7	12130.0	36744.0	47188.5	55555.5

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

INFOSYS TECHNOLOGIES: PERFORMANCE AND VALUATION

Standard ratios	Infosys Tech					Tata Consultancy Services			Wipro		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F
Sales growth (%)	33.5	45.9	23.2	25.1	22.6	25.6	23.2	22.2	27.9	26.0	24.2
EBITDA growth (%)	32.4	42.0	22.4	24.2	21.8	20.5	21.1	20.4	16.1	21.2	22.8
EBIT growth (%)	29.6	46.0	21.5	23.8	21.7	20.2	20.2	19.8	15.0	21.6	23.2
Normalised EPS growth (%)	30.6	49.5	25.9	25.8	13.1	21.7	20.9	15.9	11.8	19.0	16.8
EBITDA margin (%)	32.5	31.6	31.4	31.2	31.0	26.1	25.7	25.3	20.7	19.9	19.6
EBIT margin (%)	27.9	27.9	27.5	27.3	27.0	23.9	23.3	22.8	18.0	17.4	17.2
Net profit margin (%)	25.8	26.8	27.8	28.0	25.8	21.5	21.1	20.0	17.4	16.4	15.5
Return on avg assets (%)	30.8	32.8	30.3	28.9	25.3	33.3	30.9	28.2	21.6	22.5	22.3
Return on avg equity (%)	40.3	40.9	36.2	34.5	30.2	47.1	42.2	37.7	30.3	31.1	31.4
ROIC (%)	63.0	94.6	77.0	79.1	73.4	56.2	56.2	55.1	54.9	48.0	48.3
ROIC - WACC (%)	48.7	80.4	62.8	64.8	59.2	41.9	42.0	40.9	40.7	33.7	34.1
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Valuation											
EV/sales (x)	11.1	7.46	5.90	4.56	3.56	4.53	3.60	2.88	3.62	2.85	2.29
EV/EBITDA (x)	34.3	23.6	18.8	14.6	11.5	17.3	14.0	11.4	17.5	14.3	11.6
EV/EBITDA @ tgt price (x)	44.0	30.4	24.4	19.1	15.2	22.9	18.6	15.2	22.3	18.3	14.8
EV/EBIT (x)	39.9	26.7	21.4	16.7	13.2	19.0	15.4	12.6	20.1	16.4	13.3
EV/invested capital (x)	29.4	19.2	15.6	12.6	10.4	10.5	8.77	7.22	9.39	7.94	6.49
Price/book value (x)	15.5	9.75	7.37	5.61	4.42	8.76	6.61	5.18	6.31	5.43	4.72
Equity FCF yield (%)	1.99	1.11	3.32	4.27	5.02	3.20	4.10	4.49	1.72	3.62	3.66
Normalised PE (x)	43.8	29.3	23.2	18.5	16.3	21.6	17.9	15.4	22.3	18.8	16.1
Norm PE @tgt price (x)	55.7	37.3	29.6	23.5	20.8	28.4	23.5	20.3	28.0	23.6	20.2
Dividend yield (%)	1.17	0.60	0.78	0.99	1.15	1.26	1.62	1.98	1.98	2.38	2.98
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	561.4	569.1	576.9	576.9	576.9	Net debt to equity (%)	-48.7	-52.1	-56.9	-60.8	-64.2
Reported EPS (INR)	43.8	67.8	82.5	103.7	117.3	Net debt to tot ass (%)	-36.6	-43.8	-47.5	-51.2	-53.4
Normalised EPS (INR)	43.8	65.5	82.5	103.7	117.3	Net debt to EBITDA	-1.11	-1.34	-1.59	-1.80	-1.98
Dividend per share (INR)	22.5	11.5	15.0	19.0	22.0	Current ratio (x)	6.78	6.48	7.41	8.13	8.47
Equity FCF per share (INR)	38.1	21.3	63.7	81.8	96.3	Operating CF int cov (x)	-24.5	-6.59	-7.66	-6.42	-6.10
Book value per sh (INR)	123.4	196.5	260.2	341.9	433.7	Dividend cover (x)	1.99	5.79	5.55	5.51	5.38
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: INFY.BO - Rs1916.55; TCS.BO - Rs1109.75; WIPR.BO - Rs504.20
Source: Company data, ABN AMRO forecasts

INFOSYS TECHNOLOGIES: VALUATION METHODOLOGY

Economic Profit Valuation	INR m	%	Discounted Cash Flow Valuation	INR m	%
Adjusted Opening Invested Capital	60,190	4.5	Value of Phase 1: Explicit (2008 to 2010)	87418.1	7
NPV of Economic Profit During Explicit Period	93,430	7.0	Value of Phase 2: Value Driver (2011 to 2022)	657510.8	49
NPV of Econ Profit of Remaining Business (1, 2)	263,565	19.8	Value of Phase 3: Fade (2023 to 2034)	517162.0	39
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	916,722	68.7	Terminal Value	71814.7	5
Enterprise Value	1,333,907	100.0	Enterprise Value	1333905.5	100
Plus: Other Assets	0	0.0	FCF Grth Rate at end of Phs 1 implied by DCF Valuation		11.3
Less: Minorities	0	0.0	FCF Grth Rate at end of Phs 1 implied by Current Price		10.4
Less: Net Debt (as at 05 Jul 2007)	-58,960	-4.4			
Equity Value	1,392,867	104			
No. Shares (millions)	571				
Per Share Equity Value	2,440				
Current Share Price	1,916.55				

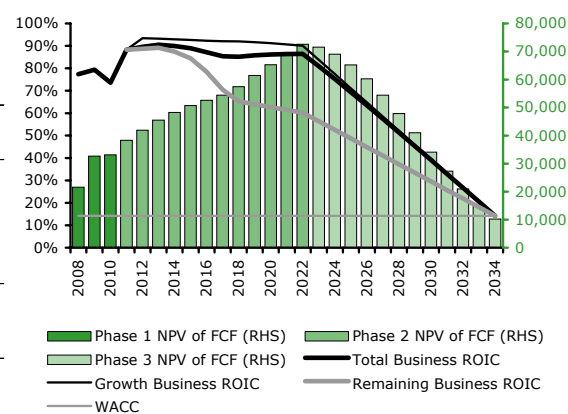
Sensitivity Table	No of Years in Fade Period				
	15	18	20	23	25
WACC					
12.3%	3405	3768	4019	4409	4679
13.3%	3005	3293	3489	3791	3997
14.3%	2665	2894	3048	3283	3441
15.3%	2375	2558	2680	2863	2985
16.3%	2127	2273	2370	2513	2607

Performance Summary	2008	2009	2010	Phase 2 Avg (2011 - 2022)
Invested Capital Growth (%)	20.2	19.6	15.7	20.8
Operating Margin (%)	27.5	27.3	27.0	26.4
Capital Turnover (x)	3.2	3.3	3.4	3.8

Source: ABN AMRO forecasts

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

Returns, WACC and NPV of Free Cash Flow

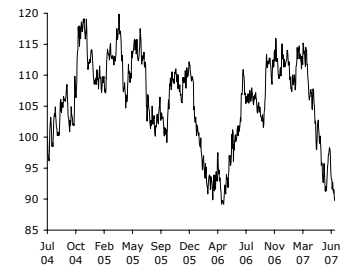


Infosys Technologies

Company description

Infosys is one of the largest Indian IT services providers, with over 72,000 employees. It is also among the fastest-growing IT services organisations in the world and a leader in offshore services space. Infosys has 500 active clients spread across verticals such as Banking, Financial Services, Insurance, Retail, Manufacturing and Utilities, across the Americas, Europe and the Asia Pacific region. It also has a core banking application, Finacle, that is used by leading banks in India, the Middle East, Africa and Europe. Besides IT services, its subsidiaries are: Infosys BPO (earlier called Progeon), provides business processes and analytics outsourcing services; and Infosys Consulting, provides high-end IT consulting services.

Buy Price relative to country



Strategic analysis

Average SWOT company score: **4**

Strengths

The world's leading offshore services provider with a credible management team and a proven delivery track record. **5**

Weaknesses

Full-service capabilities are still evolving. The integration of subsidiaries such as Progeon, Infosys Australia, Infosys China and Infosys Consulting is also still evolving. **3**

Opportunities

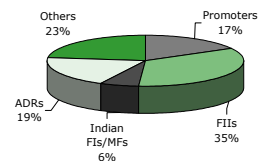
Growing market acceptance for offshoring of larger (US\$100m-plus) deals and services such as infrastructure management. **4**

Threats

Industry-wide wage inflation could affect operating margins. An appreciating rupee could also affect top-line growth and profitability. **3**

Scoring range is 1-5 (high score is good)

Shareholders



Source: Company data

Market data

Headquarters
44 Electronics City, Hosur Road,
Bangalore-561229

Website
www.infosys.com

Shares in issue
571.2m

Freefloat
83%

Majority shareholders
Promoters (17%), Life Insurance Corp of India (2%), Cophall Mauritius (2%)

India

Country view

Neutral

Country rel to Asia Pacific

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: **3-**

Broker recommendations

Supplier power

Bargaining power is shifting towards employees due to increasing options in the Indian IT landscape, including MNC product vendors, MNC IT services capacities and clients. **2-**

Barriers to entry

Low entry barriers in the offshore IT services business. MNCs are ramping up capacity and employee strength. **2-**

Customer power

Increasing customer bargaining power with offshoring becoming mainstream and key offerings being commoditised. New intermediaries are helping to highlight price differences. **2-**

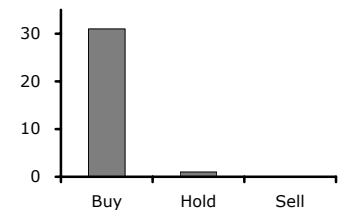
Substitute products

Other offshore locations such as Eastern Europe, the Philippines and China. However, this should have an impact only in the medium to long term. **5+**

Rivalry

Intense rivalry due to similar commoditised offerings and same 'low-cost, little-differentiation' positioning. **2-**

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

NIIT Technologies

5% EPS impact from currency

We revise our earnings forecasts and target price to factor in the change in our FY08-10 exchange rate forecasts following the 7% rise in the rupee in the April-June quarter. We believe operating levers should marginalise the impact, though with a lag. Buy.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	6075.3	8858.6	10800.9	13195.1	16119.5
EBITDA (Rsm)	1155.7	1802.6	1947.4▼	2335.3	3176.2
Reported net profit (Rsm)	662.9	1292.4	1336.8	1623.7	1753.8
Normalised net profit (Rsm) ¹	662.9	1292.4	1336.8	1623.7	1753.8
Normalised EPS (Rs)	17.1	33.3	34.5	41.9	45.2
Dividend per share (Rs)	6.00	6.50	8.00	8.00	9.00
Dividend yield (%)	1.17	1.26	1.56	1.56	1.75
Normalised PE (x)	30.1	15.4	14.9	12.3	11.4
EV/EBITDA (x)	16.4	10.3	9.30	7.49	5.17
Price/book value (x)	7.46	5.46	4.33	3.41	2.78
ROIC (%)	41.6	72.7	58.4	54.6	45.2

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

We adjust our earnings forecasts due to revised Rs/US\$ rate forecasts

We revise our estimates to factor in better-than-expected realisation growth in 4Q07, headcount addition guidance and latest FX forecasts of our economist. We have also built in explicit forecast for FY10, including a 7% yoy increase in the effective tax rate to factor in the scheduled phase-out of the STPI tax benefit. We now project a 22.1% CAGR in rupee revenues (28.9% CAGR in USD terms) and a 10.4% CAGR in PAT over FY07-10.

Investment thesis and operating outlook remain intact

We maintain our view that the organic business pipeline for NTL has improved, with new ventures (ROOM acquisition, BPO and GIS subsidiaries and the JV with Adecco) providing upside. Employee addition in FY07 was healthy at 26% and management has guided for even higher FY08 recruitment. Also, 4Q07 order intake at US\$72m was the highest for any quarter, with the 12-month forward executable order book at US\$103m. However, we maintain our cautious outlook on margins. We believe realisation improvement over 2Q-4Q07 was partly due to USD depreciation vs GBP/euro; thus, a relatively stable USD in 1Q08 should check qoq growth. This, along with the scheduled annual wage hikes and rupee appreciation, could affect 1Q08 margin. While we believe NTL's recruitment policies help it manage utilisation and wage costs, we retain our conservative assumptions on their financial impact. We have built in a 2.6% margin decline over FY07-09; we expect recovery in FY10 from lower lease rental costs as the operations move to owned premises. We also expect the increasing yield on cash/investments to dilute the impact on PAT.

Buy maintained; target price raised to Rs635

We raise our DCF-based target price to Rs635 (from Rs520), building in our revised forecasts. We also introduce FY10F numbers. Our nine to 12-month target values the stock at 18.4x FY08F and 15.2x FY09F diluted EPS, and implies 24% upside. The stock is up 69% YTD and is trading at 15x FY08F EPS, the top-end of its historical band and in line with 13-15x for mid-tier IT players under our coverage, probably restricting potential rerating. We expect the 1Q08 result and management outlook on FY08 to provide cues to potential upgrades and further stock movement. Buy.

Priced at close of business 5 July 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (Rupee! Rupee! Rupee!, 5 July 2007) for a better understanding of the investment argument.

Buy

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Software & Services

India

Price

Rs514.30

Target price

Rs635.00 (from Rs520.00)

Market capitalisation

Rs20.11bn (US\$497.10m)

Avg (12mth) daily turnover

Rs78.61m (US\$1.84m)

Reuters

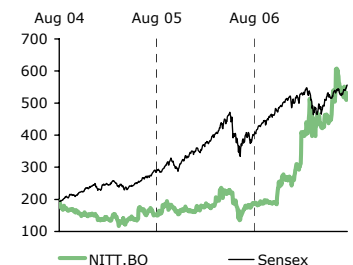
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Bloomberg

NITEC IN

Price performance (1M) (3M) (12M)

Price (Rs)	564.8	421.6	174.9
Absolute %	-8.9	22.0	194.1
Rel market %	-11.3	4.8	110.8
Rel sector %	-7.2	17.3	133.8



Stock borrowing: Impossible

Volatility (30-day): 49.51%

Volatility (6-month trend): ↑

52-week range: 638.00-170.50

Sensex: 14880.24

BBG AP Software: 323.74

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional Equities Team

NIIT TECHNOLOGIES: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	6075.3	8858.6	10800.9	13195.1	16119.5
Cost of sales	-3750.3	-5600.2	-7125.3	-8814.5	-10848
Operating costs	-1169.2	-1455.8	-1728.1	-2045.2	-2095.5
EBITDA	1155.7	1802.6	1947.4	2335.3	3176.2
DDA & Impairment (ex gw)	-389.5	-434.7	-397.8	-468.7	-995.9
EBITA	766.2	1367.9	1549.6	1866.6	2180.3
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	766.2	1367.9	1549.6	1866.6	2180.3
Net interest	0.00	0.00	0.00	0.00	0.00
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	23.4	147.6	32.8	58.6	80.2
Reported PTP	789.6	1515.5	1582.5	1925.2	2260.5
Taxation	-114.8	-185.3	-205.7	-269.5	-474.7
Minority interests	-12.0	-37.8	-40.0	-32.0	-32.0
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	662.9	1292.4	1336.8	1623.7	1753.8
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	662.9	1292.4	1336.8	1623.7	1753.8

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	1573.2	2388.0	2642.7	2999.9	3968.8
Other current assets	1809.2	2455.0	2935.5	3586.2	4381.0
Tangible fixed assets	949.1	1530.0	2037.9	2489.6	2686.6
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	46.1	80.0	80.0	80.0	80.0
Total assets	4377.5	6453.0	7696.1	9155.7	11116.4
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	1184.0	1808.0	2191.8	2614.7	3304.4
Long term debt (3)	420.2	793.0	641.5	388.5	285.5
Oth non-current liab	0.17	0.00	0.00	0.00	0.00
Total liabilities	1604.3	2601.0	2833.3	3003.2	3589.9
Total equity (incl min)	2773.2	3852.0	4862.8	6152.5	7526.6
Total liab & sh equity	4377.5	6453.0	7696.1	9155.7	11116.4
Net debt (2+3-1)	-1153.0	-1595.0	-2001.2	-2611.4	-3683.3

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	1155.7	1802.6	1947.4	2335.3	3176.2
Change in working capital	-74.6	-21.8	-96.7	-227.8	-105.2
Net interest (pd) / rec	23.4	147.6	32.8	58.6	80.2
Taxes paid	-141.9	-219.4	-205.7	-269.5	-474.7
Other oper cash items	n/a	n/a	n/a	n/a	n/a
Cash flow from ops (1)	962.5	1709.0	1677.9	1896.6	2676.4
Capex (2)	-384.3	-1015.6	-905.7	-920.4	-1192.8
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	2.10	47.9	0.00	0.00	0.00
Cash flow from invest (3)	-382.2	-967.7	-905.7	-920.4	-1192.8
Incr / (decr) in equity	10.4	-11.9	0.00	0.00	0.00
Incr / (decr) in debt	n/a	n/a	n/a	n/a	n/a
Ordinary dividend paid	-264.4	-287.4	-366.0	-366.0	-411.7
Preferred dividends (4)	-119.5	372.8	-151.5	-253.0	-103.0
Other financing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from fin (5)	-373.4	73.6	-517.5	-619.0	-514.7
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Incr/(decr) cash (1+3+5+6)	207.0	814.8	254.7	357.2	968.9
Equity FCF (1+2+4)	458.8	1066.2	620.7	723.2	1380.6

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

NIIT TECHNOLOGIES: PERFORMANCE AND VALUATION

Standard ratios	NIIT Tech					KPIT Cummins Infosystems			Patni Computer Systems		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F	FY07F	FY08F	FY09F
Sales growth (%)	11.8	45.8	21.9	22.2	22.2	35.7	37.4	29.2	8.75	14.2	16.4
EBITDA growth (%)	20.8	56.0	8.04	19.9	36.0	33.4	33.2	21.7	7.43	5.10	2.26
EBIT growth (%)	30.3	78.5	13.3	20.5	16.8	36.1	37.0	22.6	6.10	3.52	-1.07
Normalised EPS growth (%)	12.9	95.0	3.43	21.5	8.02	56.5	42.4	27.6	62.5	7.36	1.97
EBITDA margin (%)	19.0	20.3	18.0	17.7	19.7	15.2	14.7	13.8	19.3	17.8	15.6
EBIT margin (%)	12.6	15.4	14.3	14.1	13.5	12.8	12.8	12.2	15.9	14.4	12.3
Net profit margin (%)	10.9	14.6	12.4	12.3	10.9	11.3	11.4	10.9	15.3	14.4	12.6
Return on avg assets (%)	16.2	24.6	19.5	19.6	17.6	16.6	18.8	18.9	14.3	13.6	12.2
Return on avg equity (%)	26.5	40.3	31.9	30.6	26.6	29.4	30.0	28.3	17.5	16.2	14.6
ROIC (%)	41.6	72.7	58.4	54.6	45.2	27.8	32.3	31.9	37.1	30.9	26.1
ROIC - WACC (%)	26.1	57.2	43.0	39.2	29.8	13.1	17.6	17.2	21.7	15.4	10.7
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Dec</i>	
Valuation											
EV/sales (x)	3.12	2.09	1.68	1.33	1.02	1.68	1.20	0.90	1.94	1.64	1.35
EV/EBITDA (x)	16.4	10.3	9.30	7.49	5.17	11.1	8.15	6.52	10.1	9.23	8.66
EV/EBITDA @ tgt price (x)	20.5	12.9	11.7	9.51	6.66	11.4	8.39	6.72	8.88	8.09	7.55
EV/EBIT (x)	24.7	13.5	11.7	9.37	7.53	13.1	9.36	7.43	12.2	11.4	11.0
EV/invested capital (x)	11.7	8.20	6.33	4.94	4.27	3.46	2.77	2.21	4.47	3.75	3.24
Price/book value (x)	7.46	5.46	4.33	3.41	2.78	4.06	3.09	2.38	2.61	2.28	2.04
Equity FCF yield (%)	2.30	5.35	3.11	3.63	6.92	2.26	2.56	3.34	2.41	4.05	4.61
Normalised PE (x)	30.1	15.4	14.9	12.3	11.4	17.7	12.4	9.75	16.1	15.0	14.7
Norm PE @tgt price (x)	37.1	19.0	18.4	15.2	14.0	18.2	12.8	10.0	14.6	13.6	13.4
Dividend yield (%)	1.17	1.26	1.56	1.56	1.75	0.59	0.74	0.92	0.61	1.01	1.42
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Dec</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	38.8	38.8	38.8	38.8	38.8	Net debt to equity (%)	-41.6	-41.4	-41.2	-42.4	-48.9
Reported EPS (INR)	17.1	33.3	34.5	41.9	45.2	Net debt to tot ass (%)	-26.3	-24.7	-26.0	-28.5	-33.1
Normalised EPS (INR)	17.1	33.3	34.5	41.9	45.2	Net debt to EBITDA	-1.00	-0.88	-1.03	-1.12	-1.16
Dividend per share (INR)	6.00	6.50	8.00	8.00	9.00	Current ratio (x)	2.86	2.68	2.55	2.52	2.53
Equity FCF per share (INR)	11.8	27.5	16.0	18.7	35.6	Operating CF int cov (x)	-46.2	-12.1	-56.4	-36.0	-38.3
Book value per sh (INR)	68.9	94.2	118.8	150.8	184.9	Dividend cover (x)	2.51	4.50	3.65	4.44	4.26
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: NIIT.BO - Rs514.30; KPIT.BO - Rs137.10; PTNI.BO - Rs493.40
Source: Company data, ABN AMRO forecasts

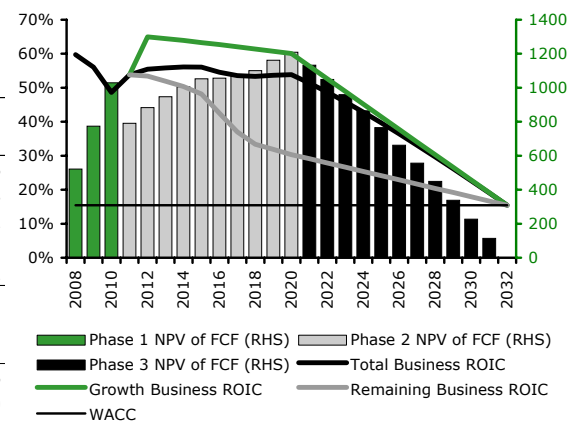
NIIT TECHNOLOGIES: VALUATION METHODOLOGY

Economic Profit Valuation			INR m		%		Discounted Cash Flow Valuation			INR m		%	
Adjusted Opening Invested Capital			2,585		11.1		Value of Phase 1: Explicit (2008 to 2010)			2325.8		10	
NPV of Economic Profit During Explicit Period			2,526		10.8		Value of Phase 2: Value Driver (2011 to 2020)			10276.3		44	
NPV of Econ Profit of Remaining Business (1, 2)			4,604		19.7		Value of Phase 3: Fade (2021 to 2032)			7119.7		30	
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)			13,657		58.4		Terminal Value			3652.2		16	
Enterprise Value			23,373		100.0		Enterprise Value			23374.1		100	
Plus: Other Assets			0		0.0		FCF Grth Rate at end of Phs 1 implied by DCF Valuation			10.1			
Less: Minorities			149		0.6		FCF Grth Rate at end of Phs 1 implied by Current Price			8.7			
Less: Net Debt (as at 05 Jul 2007)			-1,595		-6.8								
Equity Value			24,819		106								
No. Shares (millions)			39										
Per Share Equity Value			635										
Current Share Price			514.30										
Sensitivity Table			No of Years in Fade Period										
			15	18	20	23	25						
WACC	13.5%		844	922	976	1059	1116						
	14.5%		760	824	867	933	978						
	15.5%		687	739	774	827	862						
	16.5%		623	666	694	737	765						
	17.5%		568	603	626	660	682						
Performance Summary						Phase 2 Avg							
			2008	2009	2010	(2011 - 2020)							
Invested Capital Growth (%)			26.8	23.7	8.5	18.6							
Operating Margin (%)			14.3	14.1	13.5	12.0							
Capital Turnover (x)			4.8	4.6	4.6	4.7							

Source: ABN AMRO

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

Returns, WACC and NPV of Free Cash Flow



NIIT Technologies

Company description

NIIT Technologies, an Rs6bn IT services firm, offers services in application development and maintenance, enterprise integration and business process management to organisations in the financial services, transportation, retail and government sectors. It also offer business process management and GIS solutions through its subsidiaries - NIIT SmartServe Limited and NIIT GIS Limited, respectively. Its major global customers include British Airways, Channel 4, Holcim Group, ING Group, Office Depot, SEI Investments, Singapore Airlines and Toyota Motors.

Buy

Price relative to country



Strategic analysis

Average SWOT company score: **3**

Shareholders, March 2007

Strengths

Established client base in insurance and transport verticals and an early-mover advantage in the European market. 2

Weaknesses

Lack of credible global brand/presence as well as full-service capabilities, due to NIIT Tech's limited skill sets. 3

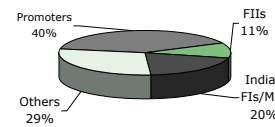
Opportunities

Growing market opportunity for Indian offshore IT and IT-enabled services and offshore becoming mainstream. 4

Threats

Global vendors setting up capacities in India, a depreciating US dollar, new entrants raising wages and other costs are reducing cost arbitrage in the offshore sector. 3

Scoring range is 1-5 (high score is good)



Source: Company

Market data

Headquarters

8, Balaji Estate, Sudarshan Munjal Marg, Kalkaji, New Delhi 110 019 India.

Website

+(91) 11-2620-3333

Shares in issue

39.1m

Freefloat

60%

Majority shareholders

Promoters (40%), HSBC Global Investment (4%), The India Fund, Inc

India

Country view

Neutral

Country rel to Asia Pacific

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: **2-**

Broker recommendations

Supplier power

Bargaining power shifting to employees, due to rising job options in the Indian IT landscape, including MNC product vendors, MNC IT services capacities, client insourcing, etc. 2-

Barriers to entry

Low entry barriers in the offshore IT services business. MNCs are ramping up capacity and employee strength. 2-

Customer power

Increasing customer bargaining power, with offshoring becoming mainstream and key service offerings becoming commoditised. New intermediaries are helping better price discovery. 2-

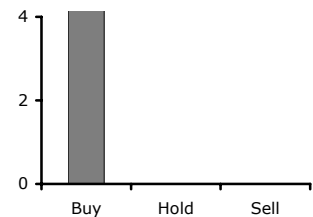
Substitute products

Other offshore locations, such as Eastern Europe, the Philippines and China. However, this will have an impact only in the medium to long term, in our view. 4+

Rivalry

Intense rivalry due to similar commoditised offerings and same 'low-cost, little differentiation' positioning. 2-

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Patni Computer Systems

2-3% EPS impact from currency

We revise our earnings forecasts and target price to factor in the change in our FY08-10 exchange rate forecasts following the 7% rise in the rupee in the April-June quarter. We believe operating levers should marginalise the impact, though with a lag. Hold.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Rsm)	20242.5	25533.1	27767.0	31700.6	36914.0
EBITDA (Rsm)	3849.6	4988.0	5358.4 ▼	5631.5 ▼	5758.5 ▼
Reported net profit (Rsm)	2736.0	2613.6	4261.3	4575.2	4665.4 ▼
Normalised net profit (Rsm) ¹	2736.0	2613.6	4261.3	4575.2	4665.4
Normalised EPS (Rs)	21.5	18.8	30.6	32.8	33.5 ▼
Dividend per share (Rs)	2.50	3.00	3.00	5.00	7.00
Dividend yield (%)	0.51	0.61	0.61	1.01	1.42
Normalised PE (x)	23.0	26.2	16.1	15.0	14.7 ▲
EV/EBITDA (x)	14.3	11.1	10.1	9.23	8.66
Price/book value (x)	3.19	3.05	2.61	2.28	2.04
ROIC (%)	43.8	34.5	37.1	30.9	26.1

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: US GAAP
Source: Company data, ABN AMRO forecasts

year to Dec, fully diluted

We adjust our earnings forecasts due to revised Rs/US\$ rate forecasts

Our effective Rs/US\$ exchange rate estimates have changed by 5-10% for FY08-10 to factor in the latest exchange rate forecasts of our economists. We have adjusted our models and reviewed our operating metrics assumptions accordingly. We now project a 13.1% CAGR in rupee revenue (18.4% CAGR in USD terms) and a 21.3% CAGR in PAT over 2006-09. We have also built in a 1.5% increase (from our previous estimate) in the effective tax rate in 2009 to factor in the scheduled phase-out of the STPI tax benefit.

Investment thesis and operating outlook remain intact

We maintain that the near-term operating outlook for Patni remains challenging even though the demand environment is strong. Attrition remains a concern (it at an all-time high of 29% in 1Q07) and is affecting near-term operating metrics. Utilisation fell 90bp qoq in 1Q07 and average salary hikes for FY07 are guided by management to be higher than at peers (18-20% offshore vs 15-16% at other players). We believe the recently announced acquisition of Logan Orviss International (LOI) will allow Patni to build up client access/competencies in Europe, where it has had limited exposure. It should also help client diversification in the telecom space; its current exposure is primarily concentrated around AT&T where it is seeing declining qoq growth, as AT&T has been shifting work to another Indian telecom-focused player. However, we have not built the proposed Logan acquisition into our explicit forecasts, pending transaction details. Near term, a strong cash position could be the saviour, in our view. Patni has US\$295m of cash and equivalents, and we see higher interest income ahead due to rising yields.

Hold maintained; target price reduced to Rs447

We have cut our DCF-based target price for Patni to Rs447 (from Rs465). Our nine to 12-month target price values the stock at 14.5x FY07F and 13.5x FY08F basic EPS, and implies 9.4% potential downside. The stock has been volatile recently due to media reports of an impending stake sale by promoters. We expect management clarification on this issue during the results presentation to provide cues to further stock movement. We reiterate our Hold recommendation.

Priced at close of business 5 July 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (Rupee! Rupee! Rupee!, 5 July 2007) for a better understanding of the investment argument.

Mafatal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Hold

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Software & Services

India

Price

Rs493.40

Target price

Rs447.00 (from Rs465.00)

Market capitalisation

Rs68.26bn (US\$1.69bn)

Avg (12mth) daily turnover

Rs48.90m (US\$1.13m)

Reuters

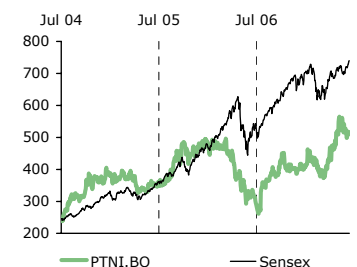
PTNI.BO

Bloomberg

PATNI IN

Price performance (1M) (3M) (12M)

Price (Rs)	540.8	400.8	323.0
Absolute %	-8.8	23.1	52.8
Rel market %	-11.1	5.8	9.5
Rel sector %	-7.1	18.4	21.4



Stock borrowing: n/a

Volatility (30-day): 45.91%

Volatility (6-month trend): ↑

52-week range: 572.95-251.00

Sensex: 14880.24

BBG AP Software: 323.74

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

PATNI COMPUTER SYSTEMS: KEY FINANCIAL DATA

Income statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	20242.5	25533.1	27767.0	31700.6	36914.0
Cost of sales	-12499	-15747	-17890	-21112	-25618
Operating costs	-3893.7	-4797.8	-4518.7	-4956.9	-5537.2
EBITDA	3849.6	4988.0	5358.4	5631.5	5758.5
DDA & Impairment (ex gw)	-683.8	-820.8	-936.9	-1054.5	-1230.5
EBITA	3165.8	4167.3	4421.6	4577.0	4528.0
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	3165.8	4167.3	4421.6	4577.0	4528.0
Net interest	0.00	0.00	0.00	0.00	0.00
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	190.6	550.0	817.8	1036.7	1303.7
Reported PTP	3356.4	4717.2	5239.4	5613.7	5831.7
Taxation	-620.4	-2103.7	-978.1	-1038.5	-1166.3
Minority interests	0.00	0.00	0.00	0.00	0.00
Exceptionals (post-tax)	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	2736.0	2613.6	4261.3	4575.2	4665.4
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	2736.0	2613.6	4261.3	4575.2	4665.4

Source: Company data, ABN AMRO forecasts

year to Dec

Balance sheet

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	13062.0	12769.8	14277.8	16296.0	18392.6
Other current assets	5564.5	7087.9	7774.8	8876.2	10335.9
Tangible fixed assets	3966.6	5547.2	6611.2	7925.1	8789.0
Intang assets (incl gw)	1714.6	2170.1	2123.0	2123.0	2123.0
Oth non-curr assets	589.5	656.2	555.3	634.0	738.3
Total assets	24897.2	28231.3	31342.1	35854.3	40378.9
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	4643.9	5270.6	4420.6	5046.8	5876.8
Long term debt (3)	18.7	17.2	16.4	16.4	16.4
Oth non-current liab	500.2	509.4	554.7	633.3	737.5
Total liabilities	5162.8	5797.2	4991.7	5696.5	6630.7
Total equity (incl min)	19734.4	22434.0	26350.4	30157.7	33748.2
Total liab & sh equity	24897.2	28231.3	31342.1	35854.3	40378.9
Net debt (2+3-1)	-13043	-12753	-14261	-16280	-18376

Source: Company data, ABN AMRO forecasts

year ended Dec

Cash flow statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	3849.6	4988.0	5358.4	5631.5	5758.5
Change in working capital	1548.1	-896.8	-1536.9	-475.2	-629.8
Net interest (pd) / rec	190.6	550.0	817.8	1036.7	1303.7
Taxes paid	-817.8	-2103.7	-978.1	-1038.5	-1166.3
Other oper cash items	n/a	n/a	n/a	n/a	n/a
Cash flow from ops (1)	4770.5	2537.6	3661.3	5154.4	5266.1
Capex (2)	-2267.4	-2401.3	-2000.9	-2368.4	-2094.4
Disposals/(acquisitions)	-128.1	-455.5	47.1	0.00	0.00
Other investing cash flow	-440.3	-57.5	146.2	-0.09	-0.12
Cash flow from invest (3)	-2835.7	-2914.4	-1807.5	-2368.5	-2094.5
Incr / (decr) in equity	4399.4	559.2	115.7	0.00	0.00
Incr / (decr) in debt	1.80	-1.45	-0.83	0.00	0.00
Ordinary dividend paid	-316.9	-473.0	-460.7	-767.8	-1074.9
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	4084.3	84.7	-345.8	-767.8	-1074.9
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	6019.1	-292.1	1508.0	2018.1	2096.7
Equity FCF (1+2+4)	2503.1	136.2	1660.4	2786.0	3171.7

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Dec

PATNI COMPUTER SYSTEMS: PERFORMANCE AND VALUATION

Standard ratios	Patni Computer					HCL Technologies			Satyam Computer			
Performance	FY05A	FY06A	FY07F	FY08F	FY09F	FY07F	FY08F	FY09F	FY08F	FY09F	FY10F	
Sales growth (%)	43.2	26.1	8.75	14.2	16.4	36.6	26.4	24.8	25.2	28.1	25.9	
EBITDA growth (%)	23.3	29.6	7.43	5.10	2.26	35.9	23.0	16.0	14.8	24.7	20.2	
EBIT growth (%)	19.8	31.6	6.10	3.52	-1.07	39.2	25.6	14.9	16.1	24.2	19.5	
Normalised EPS growth (%)	12.1	-12.3	62.5	7.36	1.97	46.1	18.7	14.1	16.6	22.3	9.60	
EBITDA margin (%)	19.0	19.5	19.3	17.8	15.6	20.7	20.2	18.7	21.7	21.2	20.2	
EBIT margin (%)	15.6	16.3	15.9	14.4	12.3	16.5	16.4	15.1	19.9	19.3	18.3	
Net profit margin (%)	13.5	10.2	15.3	14.4	12.6	17.6	16.9	15.5	20.5	19.5	17.0	
Return on avg assets (%)	13.5	9.84	14.3	13.6	12.2	19.2	19.8	19.5	22.2	22.4	20.3	
Return on avg equity (%)	16.8	12.4	17.5	16.2	14.6	23.9	24.9	24.8	26.0	26.2	23.9	
ROIC (%)	43.8	34.5	37.1	30.9	26.1	41.5	42.4	40.7	74.4	67.9	59.8	
ROIC - WACC (%)	28.4	19.1	21.7	15.4	10.7	26.6	27.6	25.8	59.5	53.0	44.9	
			year to Dec				year to Jun				year to Mar	
Valuation												
EV/sales (x)	2.73	2.17	1.94	1.64	1.35	3.27	2.57	2.04	3.27	2.47	1.90	
EV/EBITDA (x)	14.3	11.1	10.1	9.23	8.66	15.8	12.7	10.9	15.0	11.7	9.42	
EV/EBITDA @ tgt price (x)	12.7	9.84	8.88	8.09	7.55	18.2	14.7	12.6	18.0	14.0	11.4	
EV/EBIT (x)	17.4	13.3	12.2	11.4	11.0	19.8	15.6	13.5	16.4	12.8	10.4	
EV/invested capital (x)	8.25	5.73	4.47	3.75	3.24	7.47	6.17	5.07	10.3	8.01	6.13	
Price/book value (x)	3.19	3.05	2.61	2.28	2.04	4.54	3.99	3.46	4.54	3.75	3.16	
Equity FCF yield (%)	3.98	0.20	2.41	4.05	4.61	2.57	3.20	3.50	2.28	3.33	3.07	
Normalised PE (x)	23.0	26.2	16.1	15.0	14.7	21.8	18.3	16.1	19.2	15.7	14.3	
Norm PE @tgt price (x)	20.8	23.8	14.6	13.6	13.4	24.8	20.9	18.3	22.5	18.4	16.8	
Dividend yield (%)	0.51	0.61	0.61	1.01	1.42	2.43	2.43	2.43	1.08	1.51	2.15	
			year to Dec				year to Jun				year to Mar	
Per share data												
Tot adj dil sh, ave (m)	127.5	138.9	139.4	139.4	139.4							
Reported EPS (INR)	21.5	18.8	30.6	32.8	33.5							
Normalised EPS (INR)	21.5	18.8	30.6	32.8	33.5							
Dividend per share (INR)	2.50	3.00	3.00	5.00	7.00							
Equity FCF per share (INR)	19.6	0.98	11.9	20.0	22.8							
Book value per sh (INR)	154.8	161.5	189.0	216.3	242.1							
			year to Dec									
Solvency												
Net debt to equity (%)						-66.1	-56.8	-54.1	-54.0	-54.5		
Net debt to tot ass (%)						-52.4	-45.2	-45.5	-45.4	-45.5		
Net debt to EBITDA						-3.39	-2.56	-2.66	-2.89	-3.19		
Current ratio (x)						4.01	3.77	4.99	4.99	4.89		
Operating CF int cov (x)						-28.3	-7.44	-4.67	-4.97	-3.93		
Dividend cover (x)						9.92	6.30	10.3	6.61	4.82		
											year to Dec	

Priced as follows: PTNI.BO - Rs493.40; HCLT.BO - Rs329.35; SATY.BO - Rs464.15
Source: Company data, ABN AMRO forecasts

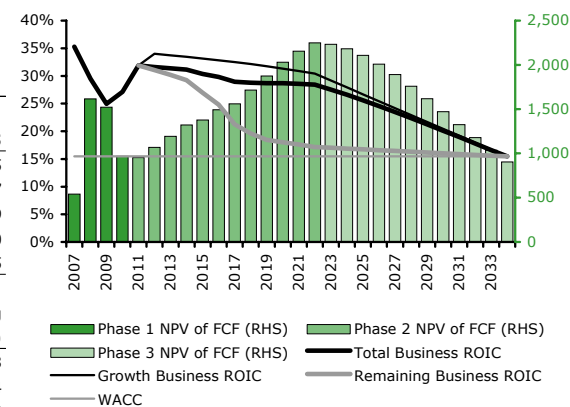
PATNI COMPUTER SYSTEMS: VALUATION METHODOLOGY

Economic Profit Valuation			INR m		%		Discounted Cash Flow Valuation			INR m		%	
Adjusted Opening Invested Capital			12245.8		25		Value of Phase 1: Explicit (2007 to 2010)			4645.0		9	
NPV of Economic Profit During Explicit Period			4759.9		10		Value of Phase 2: Value Driver (2011 to 2022)			18987.2		39	
NPV of Econ Profit of Remaining Business (1, 2)			7351.4		15		Value of Phase 3: Fade (2023 to 2034)			19712.8		40	
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)			24826.7		50		Terminal Value			5844.0		12	
Enterprise Value			49183.8		100		Enterprise Value			49189.0		100	
Plus: Other Assets			0.0		0		FCF Grth Rate at end of Phs 1 implied by DCF Valuation					13.0	
Less: Minorities			0.0		0		FCF Grth Rate at end of Phs 1 implied by Current Price					12.7	
Less: Net Debt (as at 05 Jul 2007)			-12702.4		-26								
Equity Value			61886.2		126								
No. Shares (millions)			138.3										
Per Share Equity Value			447.00										
Current Share Price			493.40										
Sensitivity Table			No of Years in Fade Period										
			15	18	20	23	25						
WACC	13.5%		576.40	600.86	616.58	639.32	653.95						
	14.5%		514.47	532.93	544.67	561.46	572.17						
	15.5%		462.29	476.20	484.95	497.36	505.19						
	16.5%		418.14	428.60	435.12	444.27	450.00						
	17.5%		380.64	388.49	393.33	400.07	404.25						
Performance Summary							Phase 2 Avg (2011 - 2022)						
Invested Capital Growth (%)		2007	2008	2009									
Operating Margin (%)		24.1	14.8	11.0									
Capital Turnover (x)		15.9	14.4	12.3									
		2.7	2.5	2.5									

Source: ABN AMRO forecasts

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

Returns, WACC and NPV of Free Cash Flow



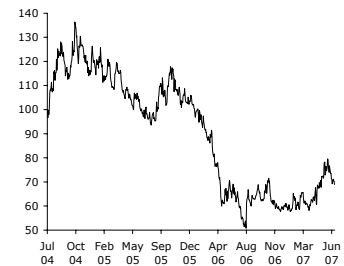
Patni Computer Systems

Company description

Patni is the sixth-largest Indian IT services provider with more than 13,000 employees. Among verticals, it has a sizable presence in insurance, financial services, manufacturing and telecom (after the acquisition of Cymbal, a boutique IT services firm). General Electric is Patni's largest customer, contributing 11% of revenues in calendar 1Q07. Patni has 252 active clients spread across various verticals, with 74 clients billing more than US\$1m in revenues.

Hold

Price relative to country



Strategic analysis

Average SWOT company score: 3

Shareholders, March 2007

Strengths

Niche positioning and capabilities in focus verticals of telecoms, insurance and financial services with marquee client reference.

3

Weaknesses

Lack of credible global brand/presence and lack of full-service capabilities in most verticals due to limitation of skillsets and domain expertise.

2

Opportunities

Growing market opportunity for Indian offshore IT and BPO services. Offshore becoming mainstream.

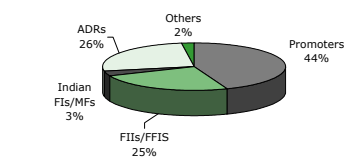
4

Threats

Global vendors setting up capacities in India leads to high employee attrition. Limited pricing power along with depreciating dollar and wage inflation are eroding offshore cost arbitrage - the key driver of profitability.

2

Scoring range is 1-5 (high score is good)



Source: Company

Market data

Headquarters

Akruti, MIDC Cross Road No 21, Andheri (E), Mumbai-400 093.

Website

www.patni.com

Shares in issue

138.3m

Freefloat

56%

Majority shareholders

Promoters (44%), General Atlantic Mauritius (17%), HSBC Global Investment (6%)

India

Country view

Neutral

Country rel to Asia Pacific

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 2-

Broker recommendations

Supplier power

Bargaining power shifting to employees due to increase in the options in Indian IT landscape - MNC product vendors, MNC IT services capacities and client insourcing.

2-

Barriers to entry

Low entry barriers in the offshore IT services business. MNCs are ramping up capacities and employee strength.

2-

Customer power

Increasing customer bargaining power as offshore becomes mainstream and key service offerings are commoditised. New intermediaries are helping better price discovery.

2-

Substitute products

Other offshore locations such as Eastern Europe, the Philippines and China. However, this will have an impact only in the medium to long term.

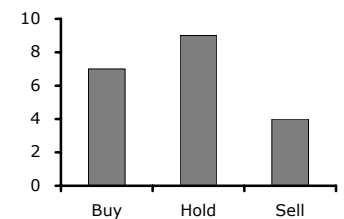
3-

Rivalry

Rivalry due to similar commoditised offerings and same 'low-cost, little differentiation' positioning; however, growing offshore pie has arrested pricing decline.

2-

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Satyam Computer

7-9% EPS impact from currency

We revise our earnings forecasts and target price to factor in the change in our FY08-10 exchange-rate forecasts following the 7% rise in the rupee in the April-June quarter. We believe operating levers will marginalise the impact, though with a lag. Buy.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	47925.9	64850.8	81175.9	103975	130885
EBITDA (Rsm)	11661.8	15377.1	17651.5	22017.6	26472.9
Reported net profit (Rsm)	11417.3	14047.4	16607.5	20307.1	22256.1
Normalised net profit (Rsm) ¹	9819.3	14047.4	16607.5	20307.1	22256.1
Normalised EPS (Rs)	14.8	20.7	24.2	29.6	32.4
Dividend per share (Rs)	3.50	3.00	5.00	7.00	10.0
Dividend yield (%)	0.75	0.65	1.08	1.51	2.15
Normalised PE (x)	31.3	22.4	19.2	15.7	14.3
EV/EBITDA (x)	24.0	17.6	15.0	11.7	9.42
Price/book value (x)	7.24	5.54	4.54	3.75	3.16
ROIC (%)	89.8	95.5	74.4	67.9	59.8

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

We adjust our earnings on our revised Rs/US\$ rate forecasts

Our effective Rs/US\$ exchange rate has changed by 5-10% for FY08-10 to factor in the latest exchange-rate forecasts of our economist. We adjust our model and review our operating metrics assumptions accordingly. We now project a 26.4% CAGR in rupee revenue (33.3% CAGR in US dollar terms) and a 16.6% CAGR in PAT over FY07-10. We also built in a 7% increase in the effective tax rate in FY10 to factor in the scheduled phase out of the STPI tax benefit.

Investment thesis and operating outlook remain intact

We believe the demand environment remains strong and realisation growth is materialising. Satyam's volume growth (ex-domestic business) was 10% qoq in 4Q07, ahead of its peers' 5% growth. We expect the momentum to be sustained, given the 36% manpower addition over FY07. The respective 0.6% and 0.7% qoq increases in onsite and offshore realisation reported in 4Q07 were the highest ever reported by Satyam. Attrition also seems to be on a downtrend, having declined 15.7% in 4Q07, the lowest since FY03. Satyam's FY08 salary-hike guidance is in line with that of its peers. With freshers forming 68% of the net add in the past two years, we think effective wage hikes in July 2007 should be lower. However, unlike Infosys, we see limited room for margin management. Satyam has already factored in 2-3% realisation growth in its FY08 guidance, due largely to a higher share of fixed-price contracts. We believe utilisation is near optimum and, if the hiring share for freshers remains the same in FY08, there would be little scope for improvement.

Buy maintained; Target price reduced to Rs543

We cut our DCF-based target price for Satyam to Rs543 (from Rs577). Our nine to 12-month target price values the stock at 22.5x FY08F and 18.4x FY09F diluted EPS and implies 17% potential upside. The stock has significantly underperformed: it has fallen 4% YTD vs a 7% increase in the BSE Sensex, largely on investor fears of the near-term impact from the sharp rupee appreciation. We expect the 1Q08 results and management outlook on FY08 to provide cues for further movement. We reiterate our Buy recommendation.

Priced at close of business 5 July 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (Rupee! Rupee! Rupee!, 5 July 2007) for a better understanding of the investment argument.

Mafatlal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Buy

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Software & Services

India

Price

Rs464.15

Target price

Rs543.00 (from Rs577.00)

Market capitalisation

Rs309.68bn (US\$7.66bn)

Avg (12mth) daily turnover

Rs385.38m (US\$8.68m)

Reuters

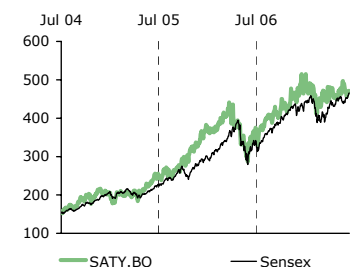
SATY.BO

Bloomberg

SCS IN

Price performance (1M) (3M) (12M)

	1M	3M	12M
Price (Rs)	463.4	455.5	366.7
Absolute %	0.2	1.9	26.6
Rel market %	-2.4	-12.4	-9.3
Rel sector %	2.0	-2.0	0.6



Stock borrowing: n/a

Volatility (30-day): 26.73%

Volatility (6-month trend): ↓

52-week range: 524.90-325.68

Sensex: 14880.24

BBG AP Software: 323.74

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

SATYAM COMPUTER: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	47925.9	64850.8	81175.9	103975	130885
Cost of sales	-28067	-38602	-50633	-66099	-85038
Operating costs	-8197.1	-10872	-12892	-15858	-19374
EBITDA	11661.8	15377.1	17651.5	22017.6	26472.9
DDA & Impairment (ex gw)	-1372.8	-1484.4	-1516.3	-1979.2	-2522.6
EBITA	10289.0	13892.7	16135.2	20038.4	23950.3
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	10289.0	13892.7	16135.2	20038.4	23950.3
Net interest	-55.4	-159.2	-177.5	-177.5	-177.5
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	1733.8	1832.8	2914.4	3480.6	4047.4
Reported PTP	11967.4	15566.3	18872.1	23341.5	27820.2
Taxation	-2074.8	-1520.1	-2264.7	-3034.4	-5564.0
Minority interests	5.50	1.20	0.00	0.00	0.00
Exceptionals (post-tax)	1598.0	0.00	0.00	0.00	0.00
Other post-tax items	-78.8	0.00	0.00	0.00	0.00
Reported net profit	11417.3	14047.4	16607.5	20307.1	22256.1
Normalised Items Excl. GW	1598.0	0.00	0.00	0.00	0.00
Normalised net profit	9819.3	14047.4	16607.5	20307.1	22256.1

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	31117.0	39914.2	46026.4	54497.7	61905.9
Other current assets	14635.3	20377.1	25306.3	31839.8	40637.1
Tangible fixed assets	5572.5	8223.4	10407.2	13503.3	17451.3
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	46.2	436.7	436.7	436.7	436.7
Total assets	51371.0	68951.4	82176.6	100278	120431
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	7129.9	9946.6	10467.3	13725.1	17867.2
Long term debt (3)	1027.1	1478.8	1478.8	1478.8	1478.8
Oth non-current liab	0.00	0.00	0.00	0.00	0.00
Total liabilities	8157.0	11425.4	11946.1	15203.9	19346.0
Total equity (incl min)	43214.0	57526.0	70230.6	85073.6	101085
Total liab & sh equity	51371.0	68951.4	82176.6	100278	120431
Net debt (2+3-1)	-30090	-38435	-44548	-53019	-60427

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	11661.8	15377.1	17651.5	22017.6	26472.9
Change in working capital	-2685.1	-2925.1	-4408.5	-3275.6	-4655.2
Net interest (pd) / rec	n/a	n/a	n/a	n/a	n/a
Taxes paid	-2013.9	-1910.6	-2264.7	-3034.4	-5564.0
Other oper cash items	n/a	n/a	n/a	n/a	n/a
Cash flow from ops (1)	6962.8	10541.4	10978.3	15707.6	16253.7
Capex (2)	-3166.7	-4135.3	-3700.0	-5075.3	-6470.7
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	3966.2	1674.8	2736.9	3303.1	3869.9
Cash flow from invest (3)	799.5	-2460.5	-963.1	-1772.2	-2600.8
Incr / (decr) in equity	1377.9	2890.8	0.00	0.00	0.00
Incr / (decr) in debt	837.9	451.7	0.00	0.00	0.00
Ordinary dividend paid	-2562.4	-2626.2	-3902.9	-5464.1	-6244.7
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	-346.6	716.3	-3902.9	-5464.1	-6244.7
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Incr/(decr) cash (1+3+5+6)	7415.7	8797.2	6112.2	8471.3	7408.2
Equity FCF (1+2+4)	3796.1	6406.1	7278.2	10632.3	9783.0

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

SATYAM COMPUTER: PERFORMANCE AND VALUATION

Standard ratios	Satyam Computer					HCL Technologies			Infosys Technologies		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY07F	FY08F	FY09F	FY08F	FY09F	FY10F
Sales growth (%)	36.1	35.3	25.2	28.1	25.9	36.6	26.4	24.8	23.2	25.1	22.6
EBITDA growth (%)	34.3	31.9	14.8	24.7	20.2	35.9	23.0	16.0	22.4	24.2	21.8
EBIT growth (%)	36.3	35.0	16.1	24.2	19.5	39.2	25.6	14.9	21.5	23.8	21.7
Normalised EPS growth (%)	34.7	39.7	16.6	22.3	9.60	46.1	18.7	14.1	25.9	25.8	13.1
EBITDA margin (%)	24.3	23.7	21.7	21.2	20.2	20.7	20.2	18.7	31.4	31.2	31.0
EBIT margin (%)	21.5	21.4	19.9	19.3	18.3	16.5	16.4	15.1	27.5	27.3	27.0
Net profit margin (%)	20.5	21.7	20.5	19.5	17.0	17.6	16.9	15.5	27.8	28.0	25.8
Return on avg assets (%)	22.2	23.6	22.2	22.4	20.3	19.2	19.8	19.5	30.3	28.9	25.3
Return on avg equity (%)	25.8	27.9	26.0	26.2	23.9	23.9	24.9	24.8	36.2	34.5	30.2
ROIC (%)	89.8	95.5	74.4	67.9	59.8	41.5	42.4	40.7	77.0	79.1	73.4
ROIC - WACC (%)	75.0	80.7	59.5	53.0	44.9	26.6	27.6	25.8	62.8	64.8	59.2
				<i>year to Mar</i>			<i>year to Jun</i>			<i>year to Mar</i>	
Valuation											
EV/sales (x)	5.83	4.18	3.27	2.47	1.90	3.27	2.57	2.04	5.90	4.56	3.56
EV/EBITDA (x)	24.0	17.6	15.0	11.7	9.42	15.8	12.7	10.9	18.8	14.6	11.5
EV/EBITDA @ tgt price (x)	28.5	21.1	18.0	14.0	11.4	18.2	14.7	12.6	24.4	19.1	15.2
EV/EBIT (x)	27.2	19.5	16.4	12.8	10.4	19.8	15.6	13.5	21.4	16.7	13.2
EV/invested capital (x)	21.3	14.2	10.3	8.01	6.13	7.47	6.17	5.07	15.6	12.6	10.4
Price/book value (x)	7.24	5.54	4.54	3.75	3.16	4.54	3.99	3.46	7.37	5.61	4.42
Equity FCF yield (%)	1.24	2.04	2.28	3.33	3.07	2.57	3.20	3.50	3.32	4.27	5.02
Normalised PE (x)	31.3	22.4	19.2	15.7	14.3	21.8	18.3	16.1	23.2	18.5	16.3
Norm PE @tgt price (x)	36.6	26.2	22.5	18.4	16.8	24.8	20.9	18.3	29.6	23.5	20.8
Dividend yield (%)	0.75	0.65	1.08	1.51	2.15	2.43	2.43	2.43	0.78	0.99	1.15
				<i>year to Mar</i>			<i>year to Jun</i>			<i>year to Mar</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	661.5	677.5	687.2	687.2	687.2	Net debt to equity (%)	-69.6	-66.8	-63.4	-62.3	-59.8
Reported EPS (INR)	17.3	20.7	24.2	29.6	32.4	Net debt to tot ass (%)	-58.6	-55.7	-54.2	-52.9	-50.2
Normalised EPS (INR)	14.8	20.7	24.2	29.6	32.4	Net debt to EBITDA	-2.58	-2.50	-2.52	-2.41	-2.28
Dividend per share (INR)	3.50	3.00	5.00	7.00	10.0	Current ratio (x)	6.42	6.06	6.81	6.29	5.74
Equity FCF per share (INR)	5.74	9.46	10.6	15.5	14.2	Operating CF int cov (x)	0.00	0.00	0.00	0.00	0.00
Book value per sh (INR)	64.1	83.7	102.2	123.8	147.1	Dividend cover (x)	3.83	5.35	4.26	3.72	3.56
				<i>year to Mar</i>						<i>year to Mar</i>	

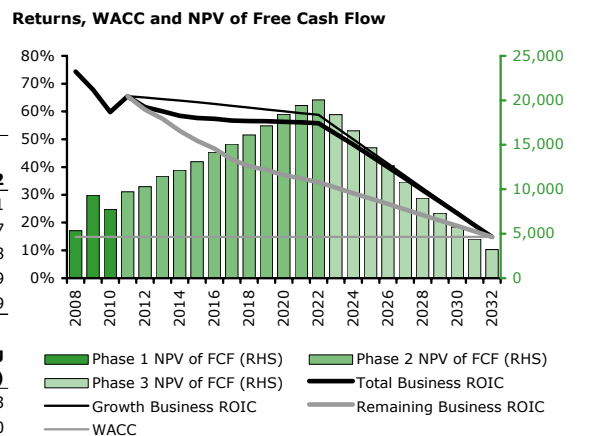
Priced as follows: SATY.BO - Rs464.15; HCLT.BO - Rs329.35; INFY.BO - Rs1916.55
Source: Company data, ABN AMRO forecasts

SATYAM COMPUTER: VALUATION METHODOLOGY

Economic Profit Valuation	INR m	%	Discounted Cash Flow Valuation	INR m	%
Adjusted Opening Invested Capital	22205.5	7	Value of Phase 1: Explicit (2008 to 2010)	22404.8	7
NPV of Economic Profit During Explicit Period	30018.3	9	Value of Phase 2: Value Driver (2011 to 2022)	177092.3	55
NPV of Econ Profit of Remaining Business (1, 2)	62728.3	19	Value of Phase 3: Fade (2023 to 2032)	102825.9	32
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	208994.6	65	Terminal Value	21627.4	7
Enterprise Value	323946.8	100	Enterprise Value	323950.3	100
Plus: Other Assets	0.0	0	FCF Grth Rate at end of Phs 1 implied by DCF Valuation		12.0
Less: Minorities	0.0	0	FCF Grth Rate at end of Phs 1 implied by Current Price		13.0
Less: Net Debt (as at 05 Jul 2007)	-38435.4	-12			
Equity Value	362382.2	112			
No. Shares (millions)	667.2				
Per Share Equity Value	543.00				
Current Share Price	464.15				

Sensitivity Table	No of Years in Fade Period				
	4	7	10	11	12
WACC					
12.9%	560.5	612.6	661.8	677.6	693.1
13.9%	514.4	557.9	598.3	611.1	623.7
14.9%	473.5	509.9	543.1	553.6	563.8
15.9%	437.3	467.7	495.1	503.7	511.9
16.9%	405.0	430.5	453.1	460.1	466.9

Performance Summary	2008	2009	2010	Phase 2 Avg (2011 - 2022)
Invested Capital Growth (%)	34.5	24.8	26.8	20.3
Operating Margin (%)	19.9	19.3	18.3	16.0
Capital Turnover (x)	4.3	4.0	4.1	4.1



Source: ABN AMRO forecasts

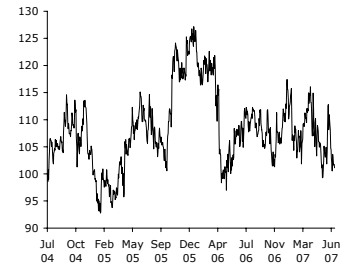
- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

Satyam Computer

Company description

Satyam is the fourth-largest IT solutions provider from India. It is one of the pioneers of offshore IT services delivery. The company has 538 clients and employs more than 38,500 professionals across IT and BPO services. It has domain competencies in verticals such as Manufacturing, Banking and Financial Service, and Insurance among others. More than 42% of its revenue comes from package implementation services.

Buy Price relative to country



Strategic analysis

Average SWOT company score: **3**

Shareholders

Strengths

Large offshore IT outsourcing services provider with an established client base. Entrepreneurial and risk-taking management. **3**

Weaknesses

Lack of credible global brand/presence and lack of full-service capabilities due to the limitation of skill sets. **2**

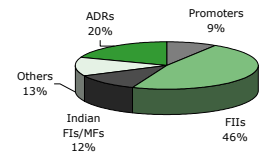
Opportunities

Growing market opportunity for Indian offshore IT and IT-enabled services and offshore becoming mainstream. **4**

Threats

Global vendors setting up capacities in India; depreciating dollar; new entrants increasing wages and other costs are reducing cost arbitrage in the offshore sector. **2**

Scoring range is 1-5 (high score is good)



Source: Company data

Market data

Headquarters

Mayfair Centre, S.P. Road, Secunderabad 500 003, Andhra Pradesh, India

Website

www.satyam.com

Shares in issue

667.2m

Freefloat

91%

Majority shareholders

Promoters & their relatives (9%), JPMorgan Asset Management (3%),

India

Country view

Neutral

Country rel to Asia Pacific

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: **3-**

Broker recommendations

Supplier power

Bargaining power shifting to employees due to an increase in the options in the Indian IT landscape - MNC product vendors, MNC IT services capacities, client insourcing, etc. **2-**

Barriers to entry

Low entry barriers in the offshore IT services business. MNCs are ramping up capacities and employee strength. **2-**

Customer power

Increasing customer bargaining power due to offshoring becoming mainstream and key service offerings becoming commoditised. New intermediaries are helping better price discovery. **2-**

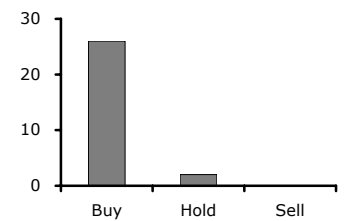
Substitute products

Other offshore locations, such as Eastern Europe, the Philippines and China. However, this will have an impact only in the medium to long term. **5+**

Rivalry

Intense rivalry due to similar commoditised offerings and same 'low-cost little differentiation' positioning. **2-**

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Tata Consultancy Services

2-3% EPS impact from currency

We revise our earnings forecasts and target price to factor in the change in our FY08-10 exchange-rate forecasts following the 7% rise in the rupee in the April-June quarter. We believe operating levers will marginalise the impact, though with a lag. Buy.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	132454	186332	234000	288191	352165
EBITDA (Rsm)	36946.4	50740.0	61154.6	74037.3	89120.2
Reported net profit (Rsm)	29074.0	41313.4	50278.6	60801.8	70464.0
Normalised net profit (Rsm) ¹	29074.0	41313.4	50278.6	60801.8	70464.0
Normalised EPS (Rs)	29.7	42.2	51.4	62.2	72.0
Dividend per share (Rs)	6.75	11.5	14.0	18.0	22.0
Dividend yield (%)	0.61	1.04	1.26	1.62	1.98
Normalised PE (x)	37.4	26.3	21.6	17.9	15.4
EV/EBITDA (x)	29.3	21.3	17.3	14.0	11.4
Price/book value (x)	18.6	12.1	8.76	6.61	5.18
ROIC (%)	95.1	71.4	56.2	56.2	55.1

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: US GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

We adjust our earnings on our revised Rs/US\$ rate forecasts

Our effective Rs/US\$ exchange rate has changed by 5-10% for FY08-10F to factor in the new exchange rate forecasts of our economist. We adjust our model and review our operating metrics assumptions accordingly. We now project a 23.6% CAGR in rupee revenue (30.2% CAGR in US dollar terms) and a 19.5% CAGR in PAT over FY07-10. We have also built in a 4% increase in the effective tax rate in FY10 to account for the scheduled phase out of the STPI tax benefit.

Investment thesis and operating outlook remain intact

We believe the demand environment remains strong and realisation growth is materialising. TCS guides for gross headcount adds at 32,000-plus for FY08, higher than the FY07 level. Adjusting for the 4Q07 attrition, this implies a net add of 24% to the FY07 base. Reported average realisation growth in FY07 was 7.2%, even as offshore effort share rose 560bp. We expect this to continue in the near term, as the full impact of large MSA renewals kicks in. Put together, we believe this sets base top-line growth at 32-35% in US dollar terms for FY08. The deal pipeline looks strong: management says 10 deals are under negotiation (including five worth US\$100m-plus). We also expect new client contracts and MSA renewals in FY08 to factor in the sharp currency appreciation. Utilisation headroom appears limited, but we believe higher offshore delivery share and improved profitability of subsidiaries would be key margin levers. We also expect the increasing yield on cash/investments to dilute the currency impact at the PAT level.

Buy maintained; target price cut to Rs1,460

We cut our DCF-based target price to Rs1,460 (from Rs1,640). Our nine to 12-month target values the stock at 28.4x FY08F EPS and 23.5x FY09F EPS and implies 31.5% potential upside. The stock has fallen 9% YTD vs a 7% increase in the BSE Sensex, largely due to sectoral concerns from the rupee appreciation. We expect the 1Q08 results and management outlook on FY08 to provide cues to further movement. We reiterate Buy and TCS remains one of our top sector picks.

Priced at close of business 5 July 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (Rupee! Rupee! Rupee!, 5 July 2007) for a better understanding of the investment argument.

Buy

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Software & Services

India

Price

Rs1109.75

Target price

Rs1460.00 (from Rs1640.00)

Market capitalisation

Rs1.09t (US\$26.83bn)

Avg (12mth) daily turnover

Rs392.37m (US\$8.94m)

Reuters

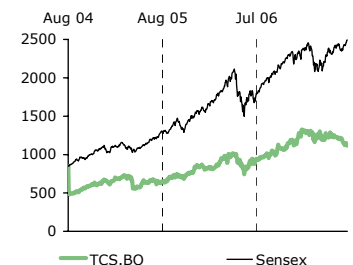
TCS.BO

Bloomberg

TCS IN

Price performance (1M) (3M) (12M)

Price (Rs)	1207.8	1193.8	923.9
Absolute %	-8.1	-7.0	20.1
Rel market %	-10.5	-20.1	-13.9
Rel sector %	-6.4	-10.6	-4.5



Stock borrowing: n/a

Volatility (30-day): 13.1%

Volatility (6-month trend): ↓

52-week range: 1399.00-866.52

Sensex: 14880.24

BBG AP Software: 323.74

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

TATA CONSULTANCY SERVICES: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	132454	186332	234000	288191	352165
Cost of sales	-69684	-100339	-129371	-161495	-199795
Operating costs	-25824	-35253	-43474	-52658	-63249
EBITDA	36946.4	50740.0	61154.6	74037.3	89120.2
DDA & Impairment (ex gw)	-2809.9	-4296.0	-5312.2	-6924.0	-8691.6
EBITA	34136.5	46444.0	55842.4	67113.3	80428.6
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	34136.5	46444.0	55842.4	67113.3	80428.6
Net interest	0.00	0.00	0.00	0.00	0.00
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	190.3	1942.7	3065.5	4950.5	7086.8
Reported PTP	34326.8	48386.7	58908.0	72063.8	87515.4
Taxation	-4989.1	-6700.5	-8247.1	-10810	-16628
Minority interests	-263.7	-372.9	-382.3	-452.5	-423.5
Exceptionals (post-tax)	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	29074.0	41313.4	50278.6	60801.8	70464.0
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	29074.0	41313.4	50278.6	60801.8	70464.0

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	3965.0	12291.4	31018.2	54878.6	78448.7
Other current assets	45635.2	62561.3	77730.0	95567.2	117028
Tangible fixed assets	15071.5	22912.4	31596.5	39324.2	51521.8
Intang assets (incl gw)	8692.1	13977.8	13977.8	13977.8	13977.8
Oth non-curr assets	12262.2	18905.1	18905.1	18905.1	18905.1
Total assets	85626.0	130648	173228	222653	279881
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	23705.7	31960.4	39901.3	48672.1	60190.8
Long term debt (3)	0.00	6022.5	6022.5	6022.5	6022.5
Oth non-current liab	1948.8	883.5	883.5	883.5	883.5
Total liabilities	25654.4	38866.4	46807.3	55578.1	67096.8
Total equity (incl min)	59971.5	91781.6	126420	167075	212785
Total liab & sh equity	85626.0	130648	173228	222653	279881
Net debt (2+3-1)	-3965.0	-6268.9	-24996	-48856	-72426

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	36946.4	50740.0	61154.6	74037.3	89120.2
Change in working capital	-8994.6	-8671.4	-7227.8	-9066.4	-9942.2
Net interest (pd) / rec	190.3	1942.7	3065.5	4950.5	7086.8
Taxes paid	-4989.1	-6700.5	-8247.1	-10810	-16628
Other oper cash items	n/a	n/a	n/a	n/a	n/a
Cash flow from ops (1)	23152.9	37310.8	48745.3	59111.9	69636.9
Capex (2)	-7011.8	-12137	-13996	-14652	-20889
Disposals/(acquisitions)	-8335.5	-5148.1	0.00	0.00	0.00
Other investing cash flow	-4070.5	-8218.6	-382.3	-452.5	-423.5
Cash flow from invest (3)	-19418	-25504	-14379	-15104	-21313
Incr / (decr) in equity	4202.8	3290.6	382.3	452.5	423.5
Incr / (decr) in debt	0.00	6022.5	0.00	0.00	0.00
Ordinary dividend paid	-6605.6	-12794	-16022	-20600	-25178
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	-2402.8	-3480.8	-15640	-20147	-24754
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	1332.3	8326.5	18726.8	23860.4	23570.1
Equity FCF (1+2+4)	16141.1	25174.0	34748.9	44460.2	48747.7

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

TATA CONSULTANCY SERVICES: PERFORMANCE AND VALUATION

Standard ratios	Tata Consultcy					Infosys Technologies			Wipro		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F
Sales growth (%)	36.2	40.7	25.6	23.2	22.2	23.2	25.1	22.6	27.9	26.0	24.2
EBITDA growth (%)	34.6	37.3	20.5	21.1	20.4	22.4	24.2	21.8	16.1	21.2	22.8
EBIT growth (%)	31.9	36.1	20.2	20.2	19.8	21.5	23.8	21.7	15.0	21.6	23.2
Normalised EPS growth (%)	23.9	42.1	21.7	20.9	15.9	25.9	25.8	13.1	11.8	19.0	16.8
EBITDA margin (%)	27.9	27.2	26.1	25.7	25.3	31.4	31.2	31.0	20.7	19.9	19.6
EBIT margin (%)	25.8	24.9	23.9	23.3	22.8	27.5	27.3	27.0	18.0	17.4	17.2
Net profit margin (%)	22.0	22.2	21.5	21.1	20.0	27.8	28.0	25.8	17.4	16.4	15.5
Return on avg assets (%)	43.6	38.5	33.3	30.9	28.2	30.3	28.9	25.3	21.6	22.5	22.3
Return on avg equity (%)	64.3	55.8	47.1	42.2	37.7	36.2	34.5	30.2	30.3	31.1	31.4
ROIC (%)	95.1	71.4	56.2	56.2	55.1	77.0	79.1	73.4	54.9	48.0	48.3
ROIC - WACC (%)	80.9	57.2	41.9	42.0	40.9	62.8	64.8	59.2	40.7	33.7	34.1
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Valuation											
EV/sales (x)	8.17	5.79	4.53	3.60	2.88	5.90	4.56	3.56	3.62	2.85	2.29
EV/EBITDA (x)	29.3	21.3	17.3	14.0	11.4	18.8	14.6	11.5	17.5	14.3	11.6
EV/EBITDA @ tgt price (x)	38.5	28.0	22.9	18.6	15.2	24.4	19.1	15.2	22.3	18.3	14.8
EV/EBIT (x)	31.7	23.2	19.0	15.4	12.6	21.4	16.7	13.2	20.1	16.4	13.3
EV/invested capital (x)	19.3	12.6	10.5	8.77	7.22	15.6	12.6	10.4	9.39	7.94	6.49
Price/book value (x)	18.6	12.1	8.76	6.61	5.18	7.37	5.61	4.42	6.31	5.43	4.72
Equity FCF yield (%)	1.49	2.32	3.20	4.10	4.49	3.32	4.27	5.02	1.72	3.62	3.66
Normalised PE (x)	37.4	26.3	21.6	17.9	15.4	23.2	18.5	16.3	22.3	18.8	16.1
Norm PE @tgt price (x)	49.1	34.6	28.4	23.5	20.3	29.6	23.5	20.8	28.0	23.6	20.2
Dividend yield (%)	0.61	1.04	1.26	1.62	1.98	0.78	0.99	1.15	1.98	2.38	2.98
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	978.6	978.5	978.2	978.2	978.2	Net debt to equity (%)	-6.61	-6.83	-19.8	-29.2	-34.0
Reported EPS (INR)	29.7	42.2	51.4	62.2	72.0	Net debt to tot ass (%)	-4.63	-4.80	-14.4	-21.9	-25.9
Normalised EPS (INR)	29.7	42.2	51.4	62.2	72.0	Net debt to EBITDA	-0.11	-0.12	-0.41	-0.66	-0.81
Dividend per share (INR)	6.75	11.5	14.0	18.0	22.0	Current ratio (x)	2.09	2.34	2.73	3.09	3.25
Equity FCF per share (INR)	16.5	25.7	35.5	45.5	49.8	Operating CF int cov (x)	-146.9	-21.7	-17.6	-13.1	-11.2
Book value per sh (INR)	59.7	91.6	126.7	167.8	214.1	Dividend cover (x)	4.40	3.67	3.67	3.45	3.27
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: TCS.BO - Rs1109.75; INFY.BO - Rs1916.55; WIPR.BO - Rs504.20
Source: Company data, ABN AMRO forecasts

TATA CONSULTANCY SERVICES: VALUATION METHODOLOGY

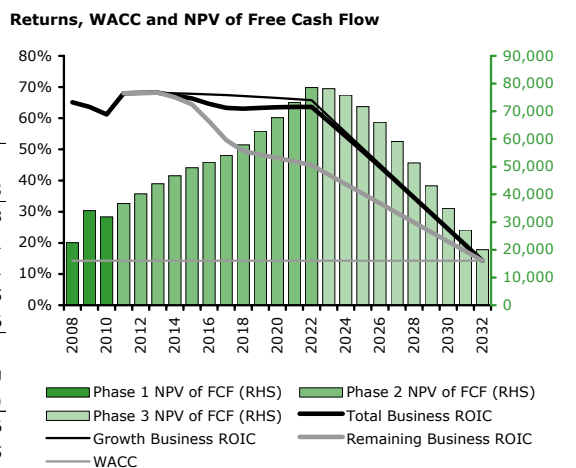
Economic Profit Valuation			INR m		%		Discounted Cash Flow Valuation			INR m		%	
Adjusted Opening Invested Capital			83026.4		6		Value of Phase 1: Explicit (2008 to 2010)			88648.4		6	
NPV of Economic Profit During Explicit Period			101034.8		7		Value of Phase 2: Value Driver (2011 to 2022)			663104.8		47	
NPV of Econ Profit of Remaining Business (1, 2)			266146.5		19		Value of Phase 3: Fade (2023 to 2032)			527366.1		37	
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)			969556.1		68		Terminal Value			140669.7		10	
Enterprise Value			1419763.7		100		Enterprise Value			1419789.0		100	
Plus: Other Assets			0.0		0		FCF Grth Rate at end of Phs 1 implied by DCF Valuation					11.6	
Less: Minorities			2120.8		0		FCF Grth Rate at end of Phs 1 implied by Current Price					11.1	
Less: Net Debt (as at 05 Jul 2007)			-5665.8		0								
Equity Value			1423308.7		100								
No. Shares (millions)			978.2										
Per Share Equity Value			1460.00										
Current Share Price			1109.75										

Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	12.3%	2258.54	2528.85	2718.06	3015.97	3224.33
	13.3%	1969.44	2182.61	2329.91	2558.91	2717.11
	14.3%	1725.60	1894.14	2009.16	2185.82	2306.41
	15.3%	1519.11	1652.71	1742.80	1879.56	1971.85
	16.3%	1343.59	1449.76	1520.53	1626.75	1697.66

Performance Summary				Phase 2 Avg (2011 - 2022)	
	2008	2009	2010		
Invested Capital Growth (%)	21.6	18.7	20.8		22.6
Operating Margin (%)	23.9	23.3	22.8		22.5
Capital Turnover (x)	3.2	3.2	3.3		3.4

Source: ABN AMRO forecasts

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

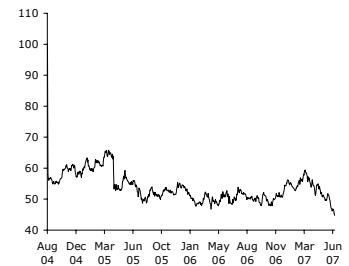


Tata Consultancy Services

Company description

TCS is India's largest IT company, and one of its oldest. It is part of the diversified TATA Group, one of the largest conglomerates in Asia. It has more than 89,000 employees, including those at its subsidiaries, and operates across more than 50 countries and has more than 175 offices across the globe. It provides a comprehensive range of IT services to industries such as banking and financial services, insurance, manufacturing, telecommunications, retail and transportation.

Buy Price relative to country



Strategic analysis

Average SWOT company score: **4**

Shareholders

Strengths

A large resource base - 89,000 employees including those at subsidiaries in 4Q07; recognised technical skills - 3% of revenues derived through IP assets; experience in executing large projects; marquee client list - 780 active global clients as of 4Q07.

5

Weaknesses

The platform-based outsourcing model is still evolving. Further, the pace of integration of subsidiaries such as Diligenta, TCS Chile and Tata Infotech has been slower than anticipated.

3

Opportunities

Growing market acceptance for offshore in large (US\$100m-plus) deals. Leverage on onsite/offshore mix could help improve financial performance. Emerging services such as IMS and SI, where it has strong execution experience in the domestic market.

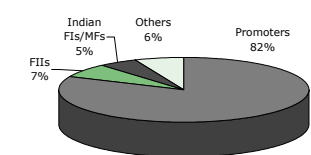
5

Threats

Expansion of offshore operations by global vendors could keep wage pressures high. Expanding presence in non-Indian delivery locations introduces country-specific risks. Adverse exchange rate movement.

3

Scoring range is 1-5 (high score is good)



Source: Company data

Market data

Headquarters

11th floor, Air India Building, Nariman Point, Mumbai 400 021

Website

www.tcs.com

Shares in issue

978.2m

Freefloat

18%

Majority shareholders

Tata Sons Ltd. (78%), Life Insurance Corp of India (2%)

India

Country view

Neutral

Country rel to Asia Pacific

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: **3-**

Broker recommendations

Supplier power

Bargaining power shifting to employees due to increased employment options - MNC product vendors, MNC IT services capacities and client insourcing.

2-

Barriers to entry

Low entry barrier to offshore IT services business. MNCs are ramping up capacities and employee strength. However, for large deals, size is a differentiator.

2-

Customer power

Increasing customer bargaining power as offshore becomes mainstream and key service offerings are commoditised. New intermediaries are aiding better price discovery.

2-

Substitute products

Other offshore locations such as those in Eastern Europe, the Philippines and China. However, we believe this should have an impact only in the medium to long term.

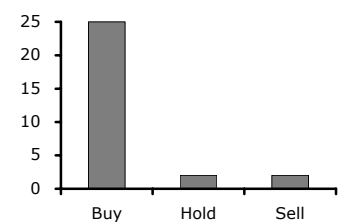
5+

Rivalry

Intense rivalry due to similar commoditised offerings and same 'low-cost, little differentiation' positioning.

2-

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Tech Mahindra

Rationality returns

We upgrade the stock to **Hold (from Sell)**, as we believe valuations have returned to a rational level. Near-term margin pressure from currency remains, but fundamental business drivers seem intact and should marginalise the impact over the medium term, in our view.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	12426.7	29290.2	44747.8	63558.9	84612.3
EBITDA (Rsm)	2678.7	7366.1	9690.9▼	12736.6	15294.4
Reported net profit (Rsm)	2353.8	1213.7	8027.6	11114.9	12624.7
Normalised net profit (Rsm) ¹	2353.8	6123.7	8027.6	11114.9	12624.7
Normalised EPS (Rs)	18.7	47.1	61.8	85.5▲	97.1
Dividend per share (Rs)	10.0	1.50	3.00▼	5.00	8.00
Dividend yield (%)	0.71	0.11	0.21	0.36	0.57
Normalised PE (x)	75.0	29.8	22.7	16.4▼	14.5
EV/EBITDA (x)	62.7	22.9	16.5	11.9	9.24
Price/book value (x)	28.5	19.9	10.9	6.71	4.72
ROIC (%)	83.1	157.1	100.9	157.4	136.3

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Indian GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

Earnings momentum remains strong

We have increased our revenue growth forecasts, building in 4Q07 headcount addition that was ahead of our estimate. We have also built in explicit forecasts for FY10. We project a 50.4% CAGR in US\$ revenue (42.4% in rupee terms) over FY07-10. Our net profit CAGR is 27.3% (ex extraordinary). We have also built in an 8.5% yoy increase in the effective tax rate in FY10 to factor in the scheduled phase out of the STPI tax benefit.

Investment thesis and operating outlook remain intact

We believe the demand momentum remains strong, and that 50%+ top-line growth (in US\$ terms) should be sustained, especially after the US\$1bn+ five-year deal win from BT GS. Headcount addition in FY07 was at 88%. We believe business flow from the joint 'go-to-market' strategy with BT GS could start from 3Q08, giving additional potential upside. However, near-term profitability could remain under strain from increased onsite delivery, as transition work related to the BT GS contract started in 1Q08. Management expects profitability in this deal to recover to the corporate level over 18-24 months. We believe the timeline could stretch further, as the deal requires TML to start building delivery capabilities beyond India, which should entail initial set-up costs. Besides, we believe wage pressures and G&A costs are likely to be higher in FY08 than in FY07. Also note that BT and Alcatel contracts are due for renewal in early 2008, while AT&T contract comes up for renewal in 2010.

Upgrade to Hold

The stock has depreciated 16% YTD and is trading at 16.4x FY09F diluted EPS vs 22-23x six months back. We upgrade to Hold (from Sell). However, we lower our DCF-based target price to Rs1,520 (from Rs1,560) on FY08F EPS reduction. Our nine to 12-month target price values the stock at 24.6x FY08F and 17.8x FY09F diluted EPS, a discount of 24% to Infosys and 3% to Satyam. We maintain that while the business visibility partly neutralises the concentrated business risk, a discount to larger peers (with a more diversified business and client mix) is warranted.

Priced at close of business 4 July 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (Rupee! Rupee! Rupee!, 5 July 2007) for a better understanding of the investment argument.

Mafatal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Hold (from Sell)

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Software & Services

India

Price

Rs1403.90

Target price

Rs1520.00 (from Rs1560.00)

Market capitalisation

Rs170.18bn (US\$4.21bn)

Avg (12mth) daily turnover

Rs770.54m (US\$17.49m)

Reuters

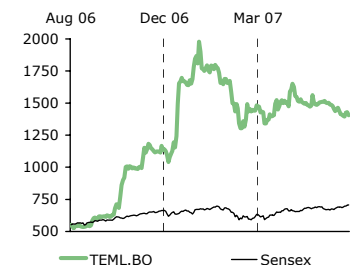
TEML.BO

Bloomberg

TECHM IN

Price performance (1M) (3M) (12M)

Price (Rs)	1507.4	1370.1	n/a
Absolute %	-6.9	2.5	n/a
Rel market %	-9.3	-11.9	n/a
Rel sector %	-5.1	-1.5	n/a



Stock borrowing: Difficult

Volatility (30-day): 23.71%

Volatility (6-month trend): ↓

52-week range: 2049.80-520.60

Sensex: 14880.24

BBG AP Software: 323.74

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

TECH MAHINDRA: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	12426.7	29290.2	44747.8	63558.9	84612.3
Cost of sales	-7396.5	-17536	-28420	-41606	-57303
Operating costs	-2351.5	-4388.0	-6637.1	-9216.0	-12015
EBITDA	2678.7	7366.1	9690.9	12736.6	15294.4
DDA & Impairment (ex gw)	-397.5	-516.0	-767.1	-966.1	-1027.4
EBITA	2281.2	6850.1	8923.8	11770.5	14267.0
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	2281.2	6850.1	8923.8	11770.5	14267.0
Net interest	0.00	0.00	0.00	0.00	0.00
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	149.9	-115.0	0.00	0.00	0.00
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	190.2	130.0	146.9	932.2	1713.6
Reported PTP	2621.4	6865.1	9070.7	12702.7	15980.6
Taxation	-267.6	-741.4	-1043.1	-1587.8	-3355.9
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	0.00	-4910.0	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	2353.8	1213.7	8027.6	11114.9	12624.7
Normalised Items Excl. GW	0.00	-4910.0	0.00	0.00	0.00
Normalised net profit	2353.8	6123.7	8027.6	11114.9	12624.7

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	2264.5	1647.4	10358.2	19040.5	28879.5
Other current assets	4818.0	9783.0	12834.3	17354.4	23099.4
Tangible fixed assets	2031.3	3411.9	4261.7	5084.7	6043.7
Intang assets (incl gw)	866.8	1008.9	1008.9	1008.9	1008.9
Oth non-curr assets	111.7	74.3	74.3	74.3	74.3
Total assets	10092.4	15925.5	28537.3	42562.8	59105.8
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	3937.7	6454.6	11634.4	15254.1	20306.9
Long term debt (3)	0.00	170.1	0.00	0.00	0.00
Oth non-current liab	0.00	0.00	0.00	0.00	0.00
Total liabilities	3937.7	6624.8	11634.4	15254.1	20306.9
Total equity (incl min)	6154.6	9300.7	16902.9	27308.7	38798.8
Total liab & sh equity	10092.4	15925.5	28537.3	42562.8	59105.8
Net debt (2+3-1)	-2264.5	-1477.3	-10358	-19041	-28879

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	2678.7	7366.1	9690.9	12736.6	15294.4
Change in working capital	-331.0	-2448.1	2128.5	-900.4	-692.2
Net interest (pd) / rec	132.6	123.9	146.9	932.2	1713.6
Taxes paid	-245.5	-704.0	-1043.1	-1587.8	-3355.9
Other oper cash items	n/a	n/a	n/a	n/a	n/a
Cash flow from ops (1)	2234.7	4337.9	10923.2	11180.6	12960.0
Capex (2)	-590.5	-1890.5	-1616.8	-1789.1	-1986.5
Disposals/(acquisitions)	-866.5	-26.6	0.00	0.00	0.00
Other investing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from invest (3)	-1456.9	-1917.2	-1616.8	-1789.1	-1986.5
Incr / (decr) in equity	124.2	2023.7	0.00	0.00	0.00
Incr / (decr) in debt	0.00	170.1	-170.1	0.00	0.00
Ordinary dividend paid	-1185.1	-206.7	-425.5	-709.1	-1134.5
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	-1060.9	1987.1	-595.6	-709.1	-1134.5
Forex & disc ops (6)	149.9	-5025.0	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-133.2	-617.1	8710.8	8682.4	9839.0
Equity FCF (1+2+4)	1644.3	2447.4	9306.4	9391.4	10973.5

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

TECH MAHINDRA: PERFORMANCE AND VALUATION

Standard ratios

	Tech Mahindra					HCL Technologies			Satyam Computer		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY07F	FY08F	FY09F	FY08F	FY09F	FY10F
Sales growth (%)	31.4	135.7	52.8	42.0	33.1	36.6	26.4	24.8	25.2	28.1	25.9
EBITDA growth (%)	98.4	175.0	31.6	31.4	20.1	35.9	23.0	16.0	14.8	24.7	20.2
EBIT growth (%)	121.7	200.3	30.3	31.9	21.2	39.2	25.6	14.9	16.1	24.2	19.5
Normalised EPS growth (%)	108.7	151.8	31.0	38.5	13.6	46.1	18.7	14.1	16.6	22.3	9.60
EBITDA margin (%)	21.6	25.1	21.7	20.0	18.1	20.7	20.2	18.7	21.7	21.2	20.2
EBIT margin (%)	18.4	23.4	19.9	18.5	16.9	16.5	16.4	15.1	19.9	19.3	18.3
Net profit margin (%)	18.9	20.9	17.9	17.5	14.9	17.6	16.9	15.5	20.5	19.5	17.0
Return on avg assets (%)	27.9	47.1	36.1	31.3	24.8	19.2	19.8	19.5	22.2	22.4	20.3
Return on avg equity (%)	42.7	79.8	61.8	50.5	38.3	23.9	24.9	24.8	26.0	26.2	23.9
ROIC (%)	83.1	157.1	100.9	157.4	136.3	41.5	42.4	40.7	74.4	67.9	59.8
ROIC - WACC (%)	68.0	141.9	85.8	142.2	121.2	26.6	27.6	25.8	59.5	53.0	44.9

year to Mar

year to Jun

year to Mar

Valuation

EV/sales (x)	13.5	5.76	3.57	2.38	1.67	3.27	2.57	2.04	3.27	2.47	1.90
EV/EBITDA (x)	62.7	22.9	16.5	11.9	9.24	15.8	12.7	10.9	15.0	11.7	9.42
EV/EBITDA @ tgt price (x)	67.9	24.8	17.9	13.0	10.2	18.2	14.7	12.6	18.0	14.0	11.4
EV/EBIT (x)	73.6	24.6	17.9	12.8	9.90	19.8	15.6	13.5	16.4	12.8	10.4
EV/invested capital (x)	43.2	21.6	24.4	18.3	14.2	7.47	6.17	5.07	10.3	8.01	6.13
Price/book value (x)	28.5	19.9	10.9	6.71	4.72	4.54	3.99	3.46	4.54	3.75	3.16
Equity FCF yield (%)	0.93	1.34	5.10	5.15	6.01	2.57	3.20	3.50	2.28	3.33	3.07
Normalised PE (x)	75.0	29.8	22.7	16.4	14.5	21.8	18.3	16.1	19.2	15.7	14.3
Norm PE @tgt price (x)	81.2	32.2	24.6	17.8	15.7	24.8	20.9	18.3	22.5	18.4	16.8
Dividend yield (%)	0.71	0.11	0.21	0.36	0.57	2.43	2.43	2.43	1.08	1.51	2.15

year to Mar

year to Jun

year to Mar

Per share data

	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	125.7	129.9	130.0	130.0	130.0
Reported EPS (INR)	18.7	9.34	61.8	85.5	97.1
Normalised EPS (INR)	18.7	47.1	61.8	85.5	97.1
Dividend per share (INR)	10.0	1.50	3.00	5.00	8.00
Equity FCF per share (INR)	13.1	18.8	71.6	72.2	84.4
Book value per sh (INR)	49.2	70.7	129.1	209.2	297.6

year to Mar

Solvency

	FY06A	FY07A	FY08F	FY09F	FY10F
Net debt to equity (%)	-36.8	-15.9	-61.3	-69.7	-74.4
Net debt to tot ass (%)	-22.4	-9.28	-36.3	-44.7	-48.9
Net debt to EBITDA	-0.85	-0.20	-1.07	-1.49	-1.89
Current ratio (x)	1.80	1.77	1.99	2.39	2.56
Operating CF int cov (x)	-17.7	-39.7	-80.5	-12.7	-8.52
Dividend cover (x)	2.26	33.7	22.1	18.3	13.0

year to Mar

Priced as follows: TEML.BO - Rs1403.90; HCLT.BO - Rs329.35; SATY.BO - Rs464.15
Source: Company data, ABN AMRO forecasts

TECH MAHINDRA: VALUATION METHODOLOGY

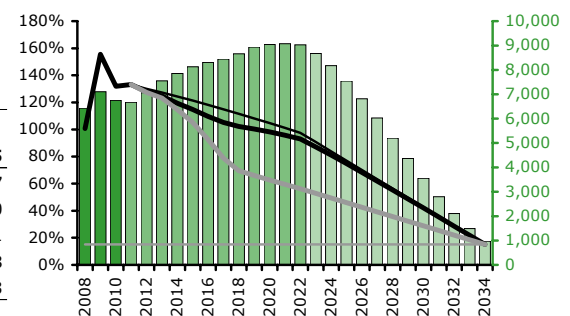
Economic Profit Valuation

	INR m	%
Adjusted Opening Invested Capital	8,056	4.4
NPV of Economic Profit During Explicit Period	19,459	10.6
NPV of Econ Profit of Remaining Business (1, 2)	36,199	19.8
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	119,559	65.2
Enterprise Value	183,273	100.0
Plus: Other Assets	0	0.0
Less: Minorities	0	0.0
Less: Net Debt (as at 05 Jul 2007)	-1,477	-0.8
Equity Value	184,750	101
No. Shares (millions)	121	
Per Share Equity Value	1,520.0	
Current Share Price	1,403.9	8%

Discounted Cash Flow Valuation

	INR m	%
Value of Phase 1: Explicit (2008 to 2010)	20284.2	11
Value of Phase 2: Value Driver (2011 to 2022)	98803.9	54
Value of Phase 3: Fade (2023 to 2034)	57740.3	32
Terminal Value	6446.0	4
Enterprise Value	183274.4	100
FCF Grth Rate at end of Phs 1 implied by DCF Valuation	10.6	
FCF Grth Rate at end of Phs 1 implied by Current Price	66.9	

Returns, WACC and NPV of Free Cash Flow



Sensitivity Table

	WACC	No of Years in Fade Period				
		15	18	20	23	25
13.2%		2037	2200	2310	2476	2587
14.2%		1818	1948	2035	2164	2250
15.2%		1631	1735	1803	1904	1971
16.2%		1469	1553	1607	1687	1738
17.2%		1330	1397	1441	1503	1543

Performance Summary

	2008	2009	2010	Phase 2 Avg (2011 - 2022)
Invested Capital Growth (%)	-16.3	26.3	20.0	21.8
Operating Margin (%)	19.9	18.5	16.9	13.7
Capital Turnover (x)	5.7	9.7	10.2	8.6

Source: ABN AMRO forecasts

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

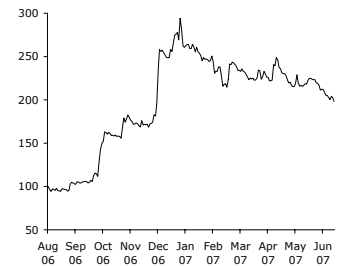
Tech Mahindra

Company description

Tech Mahindra is the eighth-largest Indian IT services vendor, focused upon the telecommunications industry. Majority owned by Mahindra & Mahindra, in partnership with BT Group Plc (BT), Tech Mahindra has a headcount of more than 17,700 across 11 development centers in India, Singapore and the UK. Tech Mahindra's global customers include Alcatel, Alltel, BT, BSNL, Convergys, Ericsson, Motorola, O2 and Vodafone.

Hold

Price relative to country



Strategic analysis

Average SWOT company score: 3

Shareholders, March 2007

Strengths

Strong execution experience on the back of BT relationship. Marquee client relationships - BT, AT&T, Motorola and Alcatel - provide strong referrals. **4**

Weaknesses

Concentrated business model with high client dependence. Service and client portfolio diversification strategies are still evolving. **3**

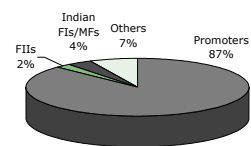
Opportunities

Growing market opportunity for offshore IT services. Telecom vertical is projected to grow ahead of the overall market for IT services. **4**

Threats

Global vendors scaling capacities in India, appreciating rupee and potential demand-supply mismatch could affect profitability; these are the key threats. **2**

Scoring range is 1-5 (high score is good)



Source: Company

Market data

Headquarters
Sharda Centre, Off karve Road,
Erandwane, Pune-411 004

Website
www.techmahindra.com

Shares in issue
121.2m

Freefloat
13%

Majority shareholders
Mahindra and Mahindra Ltd (44%), BT Plc (31%), Mahindra ST, Mauritius (8%)

India

Country view

Neutral

Country rel to Asia Pacific

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 3-

Broker recommendations

Supplier power

Bargaining power is shifting to employees as demand for manpower, especially those with three to five years of experience, is increasing. **3-**

Barriers to entry

Moderate in enterprise applications support services. High in product design and support services. **3+**

Customer power

Moderate to high given limited differentiation among offshore vendors. However, as the relationship matures, client has high exit barriers due to interdependence. **2-**

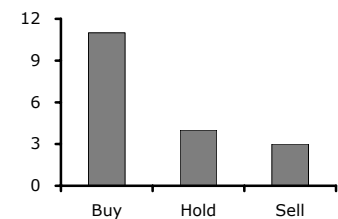
Substitute products

Other low-cost locations such as Eastern Europe, the Philippines and China. However, none except China offer scale comparable to India. **3+**

Rivalry

Moderate to high in services where players have little differentiation. Low in services such as product design and support that require expertise in specific product lines. **3-**

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

7-11% EPS impact from currency

We revise our earnings forecasts and target price to factor in the change in our FY08-10 exchange rate forecasts following the 7% rise in the rupee in the April-June quarter. We believe operating levers should marginalise the impact, though with a lag. Buy.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	106107	149430	191077	240802	299027
EBITDA (Rsm)	25398.4	33993.4	39473.5▼	47843.3▼	58736.0▼
Reported net profit (Rsm)	20283.5	29167.8	33238.9▼	39562.0▼	46216.8▼
Normalised net profit (Rsm) ¹	20283.5	29167.8	33238.9	39562.0	46216.8
Normalised EPS (Rs)	14.3	20.2	22.6▼	26.9▼	31.4▼
Dividend per share (Rs)	5.00	6.00	10.0	12.0	15.0
Dividend yield (%)	0.99	1.19	1.98	2.38	2.98
Normalised PE (x)	35.2	25.0	22.3▲	18.8▲	16.1▲
EV/EBITDA (x)	27.4	20.2	17.5	14.3	11.6
Price/book value (x)	9.08	7.18	6.31	5.43	4.72
ROIC (%)	65.4	65.7	54.9	48.0	48.3

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: US GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

We adjust our earnings forecasts due to revised Rs/US\$ rate forecasts

Our effective Rs/US\$ exchange rate estimates have changed by 5-10% for FY08-10 to factor in the latest exchange rate forecasts of our economist. We have adjusted our models and reviewed our operating metrics assumptions accordingly. We now project a 26% CAGR in rupee revenues (32.4% CAGR in USD terms) and a 16.6% CAGR in PAT over FY07-10. We have also built in a 3.5% increase in the effective tax rate in FY10 to factor in the scheduled phase-out of the STPI tax benefit.

Investment thesis and operating outlook remain intact

We maintain that the demand environment remains strong and realisation growth is materialising. Revenue per active client was up 5.4% qoq and business from non-Top-10 clients grew 8.4% qoq vs 6.1% for top-10 clients in 4Q07. Acquisition performance is also improving with 9% net margin in 4Q07 (1.7% qoq growth). FY07 headcount growth of 33% was broadly in line with peers. We also expect new client contracts and MSA renewals in FY08 to factor in the sharp currency appreciation. IT services utilisation also has room to improve. Importantly, growth for Wipro consolidated is becoming more broad-based. The APAC IT business (18% of consolidated top line) grew 16% qoq in 4Q07, while the BPO business grew 12.5%. We also expect the increasing yield on cash/investments to dilute the impact on PAT.

Buy maintained; target price reduced to Rs633

We cut our DCF-based target price to Rs633 (from Rs690). Our nine to 12-month target price values the stock at 27.8x FY08F and 23.3x FY09F basic EPS and implies 25.5% potential upside. Note the stock has significantly underperformed; it is down 17% YTD compared to a 7% increase in the BSE Sensex, largely on investor fears of the near-term impact of the sharp rupee appreciation. We expect the 1Q08 result and management outlook on FY08 to provide a cue to further movement. We believe growth in global IT services, which has remained constrained by uncertainty due to M&A among key telecom clients, is significant to stock movements. We reiterate our Buy recommendation.

Priced at close of business 5 July 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (Rupee! Rupee! Rupee!, 5 July 2007) for a better understanding of the investment argument.

Mafatlal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Buy

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Software & Services

India

Price

Rs504.20

Target price

Rs633.00 (from Rs690.00)

Market capitalisation

Rs735.63bn (US\$18.17bn)

Avg (12mth) daily turnover

Rs149.66m (US\$3.41m)

Reuters

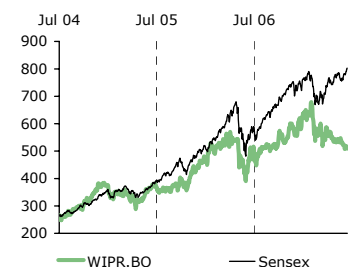
WIPR.BO

Bloomberg

WPRO IN

Price performance (1M) (3M) (12M)

Price (Rs)	535.2	551.3	496.6
Absolute %	-5.8	-8.5	1.5
Rel market %	-7.9	-20.9	-25.4
Rel sector %	-3.5	-11.2	-19.0



Stock borrowing: n/a

Volatility (30-day): 16.75%

Volatility (6-month trend): ↓

52-week range: 690.00-441.25

Sensex: 14861.89

BBG AP Software: 321.62

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

WIPRO: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	106107	149430	191077	240802	299027
Cost of sales	-68817	-98741	-129048	-165702	-208198
Operating costs	-11892	-16696	-22556	-27257	-32093
EBITDA	25398.4	33993.4	39473.5	47843.3	58736.0
DDA & Impairment (ex gw)	-3194.9	-4112.5	-5114.7	-6056.0	-7243.5
EBITA	22203.5	29880.9	34358.8	41787.3	51492.5
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	22203.5	29880.9	34358.8	41787.3	51492.5
Net interest	0.00	0.00	0.00	0.00	0.00
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	-288.0	-235.7	0.00	0.00	0.00
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	1346.0	2888.3	4561.6	4846.3	5372.0
Reported PTP	23261.5	32533.5	38920.4	46633.6	56864.5
Taxation	-3265.0	-3722.6	-5838.1	-7228.2	-10804
Minority interests	287.0	317.9	156.6	156.6	156.6
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	39.1	0.00	0.00	0.00
Reported net profit	20283.5	29167.8	33238.9	39562.0	46216.8
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	20283.5	29167.8	33238.9	39562.0	46216.8

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	39186.0	52060.5	47785.3	54167.0	55714.5
Other current assets	32651.0	49037.8	59935.9	74292.3	91271.6
Tangible fixed assets	17777.0	26541.4	34740.5	43108.6	56884.8
Intang assets (incl gw)	8335.0	15368.5	15368.5	15368.5	15368.5
Oth non-curr assets	2317.0	3093.9	3093.9	3093.9	3093.9
Total assets	100266	146102	160924	190030	222333
Short term debt (2)	705.0	2921.8	2921.8	2921.8	2921.8
Trade & oth current liab	20402.0	39601.2	38253.8	48281.4	59972.0
Long term debt (3)	0.00	859.3	859.3	859.3	859.3
Oth non-current liab	395.0	1251.9	1251.9	1251.9	1251.9
Total liabilities	21502.0	44634.1	43286.7	53314.4	65005.0
Total equity (incl min)	78764.0	101468	117637	136716	157328
Total liab & sh equity	100266	146102	160924	190030	222333
Net debt (2+3-1)	-38481	-48279	-44004	-50386	-51933

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	25398.4	33993.4	39473.5	47843.3	58736.0
Change in working capital	-3723.0	5029.1	-12245	-4328.8	-5288.7
Net interest (pd) / rec	1346.0	2888.3	4561.6	4846.3	5372.0
Taxes paid	-3085.0	-3741.1	-5838.1	-7228.2	-10804
Other oper cash items	287.0	317.9	156.6	156.6	156.6
Cash flow from ops (1)	20223.4	38487.5	26108.2	41289.2	48171.6
Capex (2)	-7770.9	-12877	-13314	-14424	-21020
Disposals/(acquisitions)	-2357.0	-7033.5	0.00	0.00	0.00
Other investing cash flow	-1001.0	98.6	0.00	0.00	0.00
Cash flow from invest (3)	-11129	-19812	-13314	-14424	-21020
Incr / (decr) in equity	9880.1	3242.6	0.00	0.00	0.00
Incr / (decr) in debt	0.00	859.3	0.00	0.00	0.00
Ordinary dividend paid	-8128.6	-9706.3	-17070	-20483	-25604
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	1751.5	-5604.5	-17070	-20483	-25604
Forex & disc ops (6)	-288.0	-196.6	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	10558.0	12874.5	-4275.2	6381.6	1547.5
Equity FCF (1+2+4)	12452.5	25610.6	12794.4	26865.1	27151.9

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

WIPRO: PERFORMANCE AND VALUATION

Standard ratios	Wipro					Infosys Technologies			Tata Consultancy Services		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F
Sales growth (%)	30.4	40.8	27.9	26.0	24.2	23.2	25.1	22.6	25.6	23.2	22.2
EBITDA growth (%)	24.2	33.8	16.1	21.2	22.8	22.4	24.2	21.8	20.5	21.1	20.4
EBIT growth (%)	24.2	34.6	15.0	21.6	23.2	21.5	23.8	21.7	20.2	20.2	19.8
Normalised EPS growth (%)	26.2	41.1	11.8	19.0	16.8	25.9	25.8	13.1	21.7	20.9	15.9
EBITDA margin (%)	23.9	22.7	20.7	19.9	19.6	31.4	31.2	31.0	26.1	25.7	25.3
EBIT margin (%)	20.9	20.0	18.0	17.4	17.2	27.5	27.3	27.0	23.9	23.3	22.8
Net profit margin (%)	19.1	19.5	17.4	16.4	15.5	27.8	28.0	25.8	21.5	21.1	20.0
Return on avg assets (%)	23.2	23.4	21.6	22.5	22.3	30.3	28.9	25.3	33.3	30.9	28.2
Return on avg equity (%)	29.9	32.4	30.3	31.1	31.4	36.2	34.5	30.2	47.1	42.2	37.7
ROIC (%)	65.4	65.7	54.9	48.0	48.3	77.0	79.1	73.4	56.2	56.2	55.1
ROIC - WACC (%)	51.1	51.4	40.7	33.7	34.1	62.8	64.8	59.2	41.9	42.0	40.9
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Valuation											
EV/sales (x)	6.57	4.60	3.62	2.85	2.29	5.90	4.56	3.56	4.53	3.60	2.88
EV/EBITDA (x)	27.4	20.2	17.5	14.3	11.6	18.8	14.6	11.5	17.3	14.0	11.4
EV/EBITDA @ tgt price (x)	34.8	25.7	22.3	18.3	14.8	24.4	19.1	15.2	22.9	18.6	15.2
EV/EBIT (x)	31.4	23.0	20.1	16.4	13.3	21.4	16.7	13.2	19.0	15.4	12.6
EV/invested capital (x)	17.3	12.9	9.39	7.94	6.49	15.6	12.6	10.4	10.5	8.77	7.22
Price/book value (x)	9.08	7.18	6.31	5.43	4.72	7.37	5.61	4.42	8.76	6.61	5.18
Equity FCF yield (%)	1.74	3.52	1.72	3.62	3.66	3.32	4.27	5.02	3.20	4.10	4.49
Normalised PE (x)	35.2	25.0	22.3	18.8	16.1	23.2	18.5	16.3	21.6	17.9	15.4
Norm PE @tgt price (x)	44.2	31.3	28.0	23.6	20.2	29.6	23.5	20.8	28.4	23.5	20.3
Dividend yield (%)	0.99	1.19	1.98	2.38	2.98	0.78	0.99	1.15	1.26	1.62	1.98
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	1417.8	1444.5	1472.3	1472.3	1472.3	Net debt to equity (%)	-48.9	-47.6	-37.4	-36.9	-33.0
Reported EPS (INR)	14.3	20.2	22.6	26.9	31.4	Net debt to tot ass (%)	-38.4	-33.0	-27.3	-26.5	-23.4
Normalised EPS (INR)	14.3	20.2	22.6	26.9	31.4	Net debt to EBITDA	-1.52	-1.42	-1.11	-1.05	-0.88
Dividend per share (INR)	5.00	6.00	10.0	12.0	15.0	Current ratio (x)	3.40	2.38	2.62	2.51	2.34
Equity FCF per share (INR)	8.78	17.7	8.69	18.2	18.4	Operating CF int cov (x)	-16.3	-13.6	-6.00	-9.01	-9.98
Book value per sh (INR)	55.6	70.2	79.9	92.9	106.9	Dividend cover (x)	2.50	3.01	1.95	1.93	1.81
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: WIPR.BO - Rs504.20; INFY.BO - Rs1916.55; TCS.BO - Rs1109.75
Source: Company data, ABN AMRO forecasts

WIPRO: VALUATION METHODOLOGY

Economic Profit Valuation		INR m	%	Discounted Cash Flow Valuation		INR m	%
Adjusted Opening Invested Capital		63603.1	7	Value of Phase 1: Explicit (2008 to 2010)		42141.2	5
NPV of Economic Profit During Explicit Period		57678.2	7	Value of Phase 2: Value Driver (2011 to 2022)		368689.6	42
NPV of Econ Profit of Remaining Business (1, 2)		148270.4	17	Value of Phase 3: Fade (2023 to 2034)		372758.6	43
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)		604996.9	69	Terminal Value		90953.4	10
Enterprise Value		874548.6	100	Enterprise Value		874542.8	100
Plus: Other Assets		0.0	0	FCF Grth Rate at end of Phs 1 implied by DCF Valuation			12.0
Less: Minorities		0.0	0	FCF Grth Rate at end of Phs 1 implied by Current Price			11.7
Less: Net Debt (as at 05 Jul 2007)		-48279.5	-6				
Equity Value		922828.0	106				
No. Shares (millions)		1459.0					
Per Share Equity Value		633.00					
Current Share Price		504.20					

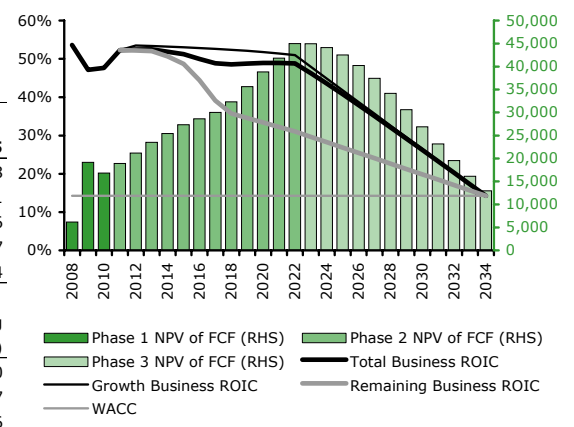
Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	12.3%	892.11	980.05	1040.18	1132.66	1195.88
	13.3%	780.62	849.52	896.06	966.76	1014.51
	14.3%	686.60	740.72	776.83	831.05	867.26
	15.3%	607.02	649.62	677.71	719.42	746.97
	16.3%	539.40	573.00	594.91	627.10	648.14

Performance Summary				Phase 2 Avg
				(2011 - 2022)
	2008	2009	2010	
Invested Capital Growth (%)	37.6	17.0	21.8	22.0
Operating Margin (%)	18.0	17.4	17.2	15.7
Capital Turnover (x)	3.5	3.2	3.4	3.6

Source: ABN AMRO

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

Returns, WACC and NPV of Free Cash Flow



Wipro

Company description

Wipro is India's leading IT and BPO outsourcing services provider. Besides global IT services exports, it also has a presence in computer hardware, consumer lighting and consumer care. Its strengths are in telecom R&D services and infrastructure management services. Its global IT services business has over 67,000 employees, including around 17,000 employees in BPO services.

Buy

Price relative to country



Strategic analysis

Average SWOT company score: **3**

Shareholders, March 2007

Strengths

Leading offshore services provider with the widest range of service offerings and technical capabilities. Entrepreneurial and risk-taking management. **4**

Weaknesses

Lack of a credible global brand and a lack of deep domain capabilities in the large IT spending verticals of banking, financial services and manufacturing. **2**

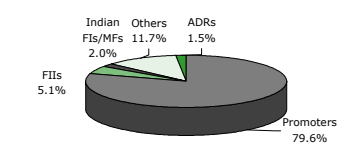
Opportunities

Increasing market opportunity for Indian offshore IT and IT-enabled services and offshore to become mainstream. **4**

Threats

Global vendors setting up capacities in India; depreciating dollar, new entrants raising wages and other costs are reducing cost arbitrage in the offshore business. **2**

Scoring range is 1-5 (high score is good)



Source: Company

Market data

Headquarters
Doddakanneli, Sarjapur Rd, Bangalore-560 035.

Website
www.wipro.com

Shares in issue
1459.0m

Freefloat
20%

Majority shareholders
Promoters & family (80%)

India

Country view

Neutral

Country rel to Asia Pacific

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: **3-**

Broker recommendations

Supplier power

Bargaining power shifting to employees due to increasing options in Indian IT landscape - MNC product vendors, MNC IT services capacities, clients, etc. **2-**

Barriers to entry

Low entry barriers in the offshore IT services business. MNCs are ramping up their capacities and employee strength in India. **2-**

Customer power

Increasing customer bargaining power due to offshoring becoming mainstream and key offering becoming commoditised. New intermediaries are helping better price discovery. **2-**

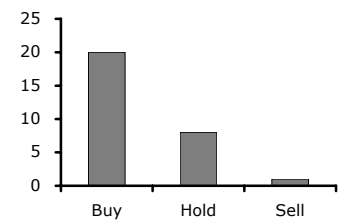
Substitute products

Other offshore locations like Eastern Europe, the Philippines and China. However, this will impact only in the medium to long term. **5+**

Rivalry

Intense rivalry due to similar commoditised offerings and same 'low cost, little differentiation' positioning. **2-**

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

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