

April 9, 2007

FOR PRIVATE CIRCULATION

Equity

	5 Apr 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	12,856	0.5	1.3	(7.2)
Nifty	3,752	0.5	2.6	(5.8)
Banking	6,372	1.9	0.3	(10.9)
IT	3,463	0.2	(0.7)	(5.8)
Healthcare	3,647	0.0	8.3	(5.3)
FMCG	1,720	0.4	1.2	(8.2)
PSU	5,917	0.5	8.2	(3.7)
CNX Midcap	4,808	1.2	3.8	(7.8)

World indices

	5 Apr 07	1 Day	1 Mth	3 Mths
Nasdaq	2,471.3	0.5	3.6	1.5
Nikkei	17,485	(0.0)	3.2	2.7
Hangseng	20,003	0.9	8.3	(0.0)

Value traded (Rs cr)

	5 Apr 07	% Chg - 1 Day
Cash BSE	3,036	(2.6)
Cash NSE	6,946	(0.4)
Derivatives	24,961	13.1

Net inflows (Rs cr)

	4 Apr 07	% Chg	MTD	YTD
FII	(2)	(99)	1,403	4,520
Mutual Fund	(105)	(265)	(1,944)	(2,861)

FII open interest (Rs cr)

	4 Apr 07	% chg
FII Index Futures	13,334	3.8
FII Index Options	5,068	7.3
FII Stock Futures	14,292	2.7
FII Stock Options	28	6.7

Advances/Declines (BSE)

	5 Apr 07	A	B1	B2	Total	% Total
Advances	150	455	540	1,145	65	
Declines	62	240	281	583	33	
Unchanged	1	18	24	43	2	

Commodity

	5 Apr 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	64.3	(0.2)	5.9	14.2
Gold (US\$/OZ)	675.0	0.1	3.3	9.4
Silver (US\$/OZ)	13.7	(0.3)	5.4	9.2

Debt/forex market

	5 Apr 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	8.19	8.19	8.03	7.50
Re/US\$	42.9	-	44.2	44.4

Sensex


Source: Bloomberg

ECONOMY NEWS

- With GDP growing at over 8%, the government is now focusing on the agriculture sector to ensure even more rapid and inclusive growth. (ET)
- RBI has urged the government to review FEMA regulations to check volatility on account of short-term portfolio inflows (ET)
- Cold-rolled steel manufacturers are contemplating an imminent price increase in the range of Rs 2,000-3,000 per tonne across the board (BL)
- An empowered Group of Ministers is slated to discuss several unresolved concerns of the draft Pharmaceutical Policy, including keeping medicine prices under control this week. (BL)
- Policy makers are vetting a proposal to allow financial intermediaries to offer a product that will enable local investors to invest in stocks of foreign companies up to an annual limit of \$50,000. (ET)
- Unlisted SMEs will be exempted from the proposed new company laws's requirement to reserve one-third of the board seats for independent directors. (ET)

CORPORATE NEWS

- **Reliance Industries** hopes that it will be able to finalise the selling price for natural gas from its deep-sea fields in the east coast by July. (BS)
- **Tata Motors**, the country's second largest automobile major, is planning a foray into the second-hand car market. (BS)
- **Bharat Heavy Electricals Ltd (Bhel)** is unlikely to pick up equity in the 400-MW Shri Maheshwar Hydel Power Project. However, the company's plan to supply equipment to the project is likely to face the Narmada Bachao Andolan's ire. (BS)
- Larsen & Toubro Urban Infrastructure Ltd (L&T UIL), a division of **Larsen & Toubro's** subsidiary L&T IDP, has formed three special purpose vehicles (SPVs) to develop an integrated township with Chennai-based realty firm Arun Excello. (BS)
- **Petronet LNG Ltd (PLL)** is all set to float a shipping subsidiary to haul gas to its liquefied natural gas (LNG) terminals. (BL)
- **Moser Baer Photovoltaic Ltd (MBPV)** is looking at the possibility of setting up its own unit for manufacturing wafers that would be used in turn to produce solar cells. (BL)

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

FROM OUR RESEARCH TEAM

RESULTS PREVIEW

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QUARTERLY RESULTS PREVIEW: SOFTWARE INDUSTRY

For the January-March 2007 quarter, we expect the companies under our coverage to achieve a volume-driven revenue growth of 6.3% QoQ. EBIDTA is expected to rise at a slightly higher pace leading to almost stable EBIDTA margins. Company specific issues relating to other income and tax are expected to lead to a net profit growth of about 4.8% QoQ.

Of late, issues like imposition of MAT, FBT on Esops and a sharp rupee appreciation have led to increased investor focus on the sector and reduced stock prices. We believe the current prices largely discount these negatives. While MAT is expected to impact profits post FY09, Esops are likely to be either taxed as fringe benefits at a lower rate (as compared to 33%) or taxed in the hands of the employees.

While the rupee has appreciated more than 2% in the past fortnight, we believe it may retrace back a large portion of the recent gains once the liquidity/inflation concerns subside. We have been assuming the rupee will appreciate to Rs.43 per US dollar by FY08 end and maintain that assumption.

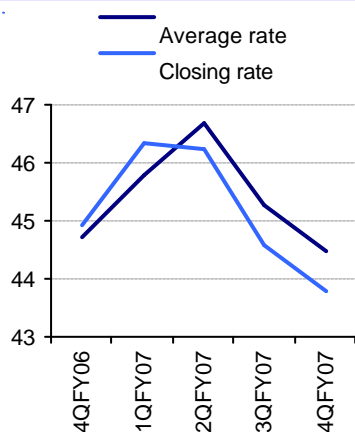
On a more fundamental side, we believe the demand environment and pricing power remain fairly stable v/s the previous quarter. This makes us believe there may be a limited downside to stock prices from current levels. We maintain our preference for large caps and select mid-caps. Our top picks are Infosys, Wipro, HCL Technologies, Megasoftware, Subex and Zensar Technologies.

Risks to our recommendation are a stronger-than-expected rupee and a sharp deceleration/recession in the US economy.

Primary observations on Q4FY07 results

- We expect revenues of companies under our coverage to grow about 6.3% QoQ, driven mainly by higher volumes. We expect marginal hikes in average realizations on a sequential basis.
- The rupee, on an average, appreciated about 1.8% during the quarter (Rs.44.16 per US dollar in Q4FY07 v/s Rs.44.96 in Q3FY07), which is expected to impact revenue growth. However, we note that the average rate of Rs.44.16 per US dollar is very near the rate at which companies had given guidance at the end of the previous quarter. Q3FY07 had witnessed a 3% QoQ appreciation in the average value of the rupee.
- Within our universe, the top tier companies (Top Five companies), as a set, are expected to grow at a pace similar to the set of the balance companies.
- EBIDTA margins for the group are expected to be marginally higher on the back of higher number of working days for all companies v/s the previous quarter and due to specific issues for companies like NIIT, i-flex, Aztec, etc.
- The average net profit growth for all companies is expected to be about 5%, after accounting for company specific issues of other income and taxes.

Quarterly exchange rate (INR/US\$)



Source: Bloomberg

MAT and Esops

- In the recent Budget, the Finance Minister has proposed an imposition of MAT on income earned by companies from STPI units wef FY08. Also, the Government had proposed the imposition of FBT on the companies wef FY08 at the time of exercise of Esops on the difference between the exercise price and the then prevalent market price of the stock.
- Our interactions with company managements make us believe that MAT will impact only the cash flows from FY08. Companies will be allowed to carry forward this impact and set it off against taxes paid at normal levels from FY10.

- On FBT, the impact will be known only when further information is available on the rate at which this has to be paid and the responses of the companies thereafter. It is also possible that the burden of this tax may be shifted to the employee.
- However, in response to this proposal, most companies have encouraged employees to convert most of their exercisable options before March 2007. This may lead to a marginal dilution in equity capital of companies, thereby impacting EPS guidance, if any, for FY08.

We will look for ...

- Comments by companies on their outlook for FY2008, based on their interactions with their customers. This assumes importance in light of the concerns related to a potential recession in the US economy and should provide a good feel of the volume growth going forward.
- Also, comments on potential billing rate increases in FY08 will be of interest to us. Billing rate hikes are expected to provide hedges in the future against margin pressures coming from salary hikes and rupee appreciation, if any.

Guidance will be an important short-term price determinant

- Guidance - especially full year guidance from Infosys - will decide the near-term movement of IT stocks, in our opinion. While the recent rupee appreciation, status of the US economy, MAT and FBT proposals may prompt Infosys to give a conservative guidance, we will watch out for the implied volume growth guidance.
- While the same pattern may not be followed, we do note that several times in the past actual performances have significantly outperformed the initial guidance given by IT companies at the beginning of the fiscal.

Recommendation

- Due to the abovementioned factors and the recent rupee appreciation, IT stocks have witnessed a decline in prices. We believe the prices adequately discount the current concerns.
- On a more fundamental side, in the backdrop of a slower growth in the US economy (and not a recession) and increasing strategic importance of offshoring, we believe Indian IT companies should be able to sustain the volume growth, at least in the foreseeable future. Billing rates may also see an up-tick as clients have become sympathetic to increasing costs of Indian vendors and also to the value provided by them.
- This makes us believe there may be a limited downside to stock prices from the current levels. Our preference for large caps and select mid-caps remains. Our top picks are Infosys, Wipro, HCL Technologies, Megasoft, Subex and Zensar Technologies. There may be potential downsides to stocks like Aztec, solely on the basis of the quarterly results.
- Risks to our recommendation are a stronger-than-expected rupee and a sharp deceleration /recession in the US economy. In either of these scenarios, the large cap companies will be relatively better placed as compared to mid and small caps.

Company	Quarterly estimates - Software (Jan - Mar 07)																
	Revenues (Rs mns)				EBIDTA (%)				PAT (Rs mns)				EPS (Rs)				
	4QFY07E	3QFY07	QoQ (%)	4QFY06	YoY (%)	4QFY07E	3QFY07	4QFY06	4QFY07E	3QFY07	QoQ (%)	4QFY06	YoY (%)	4QFY07E	3QFY07	QoQ (%)	4QFY06
Infosys	39,270	36,550	7.4	26,240	49.7	32.8	32.7	31.7	10,303	9,840	4.7	6,730	53.1	18.5	17.7	4.7	24.4
Wipro	42,144	39,790	5.9	31,132	35.4	22.5	22.3	24.3	7,883	7,656	3.0	6,180	27.6	5.5	5.4	3.0	4.3
TCS	51,356	48,605	5.7	37,234	37.9	28.5	28.3	26.4	11,729	11,047	6.2	7,958	47.4	12.0	11.3	6.2	8.1
Satyam	17,747	16,611	6.8	13,136	35.1	23.9	24.7	25.5	3,435	3,372	1.9	2,846	20.7	5.2	5.1	1.9	4.4
HCL Tech *	15,467	14,651	5.6	11,220	37.9	22.3	22.1	22.3	2,774	2,863	(3.1)	1,929	43.8	4.3	4.4	(3.1)	3.0
TOTAL	165,983	156,207	6.3	118,962	39.5				36,125	34,778	3.9	25,643	40.9				
Patni **	6,902	6,805	1.4	5,776	19.5	20.6	20.6	17.7	1,089	1,135	(4.1)	643	69.5	7.9	8.2	(4.1)	4.6
I-flex ***	6,070	5,502	10.3	4,577	32.6	20.2	19.3	28.7	925	773	19.7	1,169	(20.9)	11.4	9.5	19.7	15.3
Mphasis	3,254	3,060	6.4	2,505	29.9	19.9	19.2	20.5	444	358	24.1	352	26.2	2.7	2.2	24.1	2.2
Infotech Ent	1,546	1,430	8.1	1,078	43.4	22.3	22.6	18.4	240	188	27.7	166	44.6	5.0	3.9	27.7	3.5
NIIT Ltd ^	2,456	2,250	9.2	1,149	113.8	11.4	7.9	14.4	201	108	86.0	82	143.6	10.4	5.6	86.0	4.3
NIIT Tech	2,422	2,315	4.6	1,662	45.7	21.7	21.2	20.0	365	346	5.4	192	90.0	9.4	8.9	5.4	5.0
TOTAL	22,651	21,362	6.0	16,746	35.3				3,263	2,907	12.2	2,603	25.3				
KPIT	1,277	1,171	9.1	902	41.7	16.5	15.2	16.9	149	137	8.5	103	45.0	2.0	1.8	8.5	7.1
Geometric \$	1,278	1,067	19.7	639	100.0	17.0	15.9	25.3	116	105	10.4	107	9.1	1.9	1.7	10.4	1.9
Zensar	1,578	1,480	6.6	1,252	26.0	13.0	12.5	17.4	147	132	11.1	172	(14.6)	6.2	5.5	11.4	7.7
Aztec	691	713	(3.2)	550	25.7	19.0	20.3	26.5	78	112	(30.5)	105	(26.4)	1.8	2.5	(30.5)	2.4
Subex \$\$	1,110	1,062	4.5	494	124.8	24.2	20.7	26.8	215	192	12.4	84	156.0	6.2	5.5	12.4	2.4
Allsec ^^	304	272	11.6	259	17.2	27.7	29.3	28.3	73	70	4.4	63	14.9	4.6	4.4	4.4	4.0
R Systems ^^^	596	560	6.3	441	35.0	6.6	7.0	10.3	21	(66)	(131.8)	33	(36.5)	1.5	(4.8)	-	2.4
Megasoft ^^^	679	618	9.9	359	89.2	28.3	30.3	23.8	108	78	38.9	75	44.8	2.4	1.8	38.7	1.7
TOTAL	7,513	6,945	8.2	4,896	53.5				907	760	19.3	742	22.3				
TOTAL	196,147	184,514	6.3	140,605	39.5				40,295	38,445	4.8	28,988	39.0				

* - HCL Tech results are for 3QFY07

** - Patni results are for 1QCY07.

*** - I-flex's 3QFY07 results include Mantas's financials

^ - Element K consolidated WEF 2QFY07

\$ - Consolidation of Modern WEF October 2006

\$\$ - Consolidation of Azure WEF 2QFY07

^^ - EPS based on fully diluted equity, post placement to Carlyle

^^^ - Estimates are for 1QCY07

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
5-Apr	Amar Remedie	Bsma Limited	S	215,000	32.07
5-Apr	Artill Bio-I	Yashpal Nimani	S	20,000	3.91
5-Apr	Ashco Indust	Ayodhyapati Investment Pv	B	29,950	40.81
5-Apr	Ashco Indust	Anil Amrutlal Gandhi	S	30,000	40.80
5-Apr	Asian Oilfie	Aap Investments	B	55,000	38.25
5-Apr	Axon Infotec	N.H.Banka	B	5,000	283.00
5-Apr	Bihar Tubes	Pankaj Sharma	B	20,128	118.30
5-Apr	Cerebra Int	Sukanya Nagesh Patil	B	50,000	13.49
5-Apr	Goldstn Tele	Sana Investment Service	S	73,397	27.78
5-Apr	Indbul Real	Merrill Lynch Capital Mar	S	1,300,000	264.04
5-Apr	Jagjanani	Anand Yogesh Shares And C	B	82,875	22.65
5-Apr	Jagjanani	Harsiddh Online	S	82,875	22.55
5-Apr	Kothari Prod	K.Girdharlal Intl.Pvt. Lt	B	270,605	500.00
5-Apr	Lawreshwar	Sanjog Realty Pvt Lyd	B	104,000	11.20
5-Apr	Media Matrix	Rose Vally Software Sol P	S	306,000	4.25
5-Apr	Mefcom Agr I	Cosmo Corporate Services	S	15,000	36.50
5-Apr	Numeri Po Sy	M M Murarka Share And Sec	B	38,400	333.00
5-Apr	Numeri Po Sy	Raghuvalika Trading Pvt L	S	38,400	333.00
5-Apr	Rts Power Co	Bib Cables And Conductor	S	150,000	120.01
5-Apr	Sanguine Md	Pannalal L Dassani	B	44,500	40.65
5-Apr	Sql Star Int	Wall Street Capital Marke	B	100,001	45.50
5-Apr	Tripex Over	Sanjaykumar Jethala Soni	B	50,000	42.24
5-Apr	Vanasth Text	Nileshbhai Shah	B	191,014	12.83
5-Apr	Vanasth Text	Anand Yogesh Shares And C	B	191,014	12.83
5-Apr	Vanasth Text	Vikram K Chavda	S	190,864	12.83
5-Apr	Vanasth Text	Harsiddh Online	S	190,864	12.83
5-Apr	Vertex Secur	Haresh Mohanlal Thobhani	S	50,000	24.75

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Tata Steel	466	6.3	3.1	7.7
ICICI Bank	839	2.2	3.1	0.8
SAIL	115	2.5	2.2	10.0
Losers				
Reliance Ind	1,359	(0.3)	(1.2)	1.2
TCS	1,194	(0.4)	(0.8)	0.6
ONGC	846	(0.2)	(0.6)	0.7

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
9-12 Apr	SEBI hosts 32nd IOSCO annual conference in Mumbai
11-Apr	Mastek, iGate Global earnings expected
12-Apr	Ballarpur Industries earnings expected
13-Apr	Infosys earnings expected
16-Apr	HCL Technologies to announce earnings and dividend
17-Apr	UTI Bank to announce earnings and dividend
18-Apr	ACC earnings expected
20-Apr	Exide Industries to announce earnings and dividend
23-Apr	Power Finance earnings expected

Source: Bloomberg

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