



Economy News

- ▶ Direct tax collections grew by 11% in October 2008 to Rs.197bn. The growth in the April – October 2008 period has been 29.52% to Rs.1669bn. (ET)
- ▶ The study, jointly conducted by CII and PriceWaterhouse Coopers, said that most of the corporates are of the view that although the sub-prime crisis in the US has had a considerable impact on the equity and debt market across the globe, but a slew of measures taken by the RBI will help India weather the storm. (BL)
- ▶ India received foreign direct investment of \$2.56 bn in September this year, showing an increase of 259% over the FDI inflows in the same month in 2007-08, despite the global credit squeeze. (ET)
- ▶ Following a meeting with finance secretary Arun Ramanathan, private banks today indicated that they will cut lending and deposit rates within next 15 days. (BS)
- ▶ Hoteliers will consider taking government suggestion on slashing room tariffs by 10-15% in the face of difficult situations for the tourism industry arising out of the global economic crisis. (BS)

Corporate News

- ▶ **State Bank of India** has said that it expects 40% growth in its net profit in the second half of the current financial year despite fears of an economic slowdown. (BS)
- ▶ **Reliance Industries** has closed five of its seven polyester and petrochemical units near Mumbai. The company had shut down plants for manufacturing polyester filament yarn, polyester staple fibre, paraxylene, purified terephthalic acid and linear alkyl benzene. (BT)
- ▶ **Tata Motors** has said that it will shut down its Jamshedpur unit, the mother plant for its commercial vehicles, for three days due to slump in demand. Lack of auto financing has hit sales of commercial vehicles in the domestic market. (BS)
- ▶ **GMR Infrastructure** is close to acquiring PT Barasentosa Lestari coal mine in Indonesia for over \$100 mn. GMR is lining up debt financing for the acquisition providing it with access to coal assets located on Kalimantan island. (ET)
- ▶ Four public sector banks (PSB) including **Bank of India, Bank of Baroda and Corporation Bank** reduced their benchmark prime lending rate by 50-75 basis points, a day after the bank chiefs met Finance minister P Chidambaram in New Delhi to review liquidity conditions Bank of India also plans to cut the interest rates on deposits by 50 bps across all maturities with effect from Dec. 1. (ET)
- ▶ **Great Offshore** has said it has acquired Andhra Pradesh-based companies KEI-RSOS Maritime and Rajmahendri Shipping and Oilfield Services for Rs 1,600mn. (BS)
- ▶ **Cognizant Technology Solutions** has reported a 17% rise in net profit to \$112.8 million (Rs.5.3bn) for the third quarter in 2008. Revenues for the quarter increased 31% YoY and 7% sequentially to \$734.7mn (Rs.34bn) (BS).
- ▶ **ArcelorMittal**, the world's biggest steelmaker has said that, it plans to cut down production by 30% and temporarily pause its growth plans in the backdrop of falling steel prices and the global financial crisis (ET)

Equity

	5 Nov 08	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	10,120	(4.8)	(14.3)	(32.9)
NIFTY Index	2,995	(4.7)	(16.9)	(33.7)
BANKEX Index	5,634	(1.9)	(12.4)	(21.9)
BSET Index	2,734	(0.6)	(12.1)	(29.5)
BSETCG INDEX	7,592	(4.4)	(25.9)	(38.2)
BSEOIL INDEX	6,112	(9.4)	(27.5)	(39.8)
CNXMcap Index	3,746	(0.9)	(21.9)	(36.1)
BSESMCAP INDEX	3,965	(1.7)	(27.5)	(44.9)
World Indices				
Dow Jones	9,139	(5.0)	(8.2)	(21.6)
Nasdaq	1,682	(5.5)	(9.7)	(29.3)
FTSE	4,531	(2.3)	(1.3)	(17.4)
Nikkei	9,521	4.5	(14.3)	(32.3)
Hangseng	14,840	3.2	(17.2)	(36.6)

Value traded (Rs cr)

	5 Nov 08	% Chg - Day
Cash BSE	4,914	12.7
Cash NSE	13,040	14.2
Derivatives	38,551	14.2

Net inflows (Rs cr)

	4 Nov 08	% Chg	MTD	YTD
FII	(93)	(112)	669	(51,086)
Mutual Fund	(169)	115	(247)	13,906

FII open interest (Rs cr)

	4 Nov 08	% Chg
FII Index Futures	8,195	(2.9)
FII Index Options	12,529	(4.5)
FII Stock Futures	10,184	(6.1)
FII Stock Options	164	3.3

Advances / Declines (BSE)

	5 Nov 08	A	B	S	Total	% total
Advances	59	633	165	857	37	
Declines	145	999	256	1,400	60	
Unchanged	1	41	16	58	3	

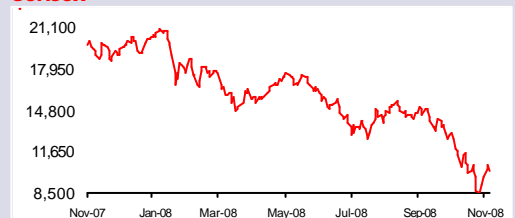
Commodity

		5 Nov 08	1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US\$/BBL)	65.0	(0.4)	(25.9)	(45.2)
Gold	(US\$/OZ)	740.4	(3.0)	(13.9)	(15.9)
Silver	(US\$/OZ)	10.3	1.0	(7.0)	(38.0)

Debt / forex market

	5 Nov 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.76	7.71	8.35	9.18
Re/US\$	47.44	47.74	47.81	42.24

Sensex



RESULT UPDATE**Dipen Shah**dipen.shah@kotak.com
+91 22 6621 6301**SUBEX AZURE LIMITED (SUBEX)****PRICE: Rs.40****TARGET PRICE: Rs.65****RECOMMENDATION: REDUCE****FY09E P/E: 3.5x**

Continue to recommend REDUCE on every rise because of uncertain macro scenario. Uncertainty over FCCB conversion remains. Our earnings estimates do not include MTM losses on FCCBs.

- ❑ 2QFY09 results came in below expectations. While EBIDTA was marginally higher, lower other income component impacts net profits.
- ❑ MTM loss on foreign borrowings at Rs.706mn for the quarter.
- ❑ Order booking higher QoQ but we remain concerned about the macro headwinds.
- ❑ Management maintains FY09 products revenue guidance of Rs.5bn and \$125mn (exchange rate assumption is surprising). Maintenance of INR guidance despite the significant rupee depreciation indicates reduction in expected USD revenues, negative in our view.
- ❑ PAT guidance including services business at \$12mn (excludes impact of MTM losses).
- ❑ The unpredictability of Subex's model prevents us from becoming bullish. The overall macro scenario in telecom and related verticals makes us cautious.
- ❑ We tweak our lower-than-guidance FY09 EPS estimates with an expected EPS of Rs.12.1.
- ❑ Our DCF-based price target works out to Rs.65 (Rs.127 earlier).
- ❑ Stock has corrected significantly post our previous Reduce recommendation. Continue to recommend REDUCE due to uncertainty over the US economy. Forex loss on FCCBs (notional, as of now) and potential equity dilution arising from FCCB conversion are the other variables.
- ❑ We may review the recommendation in case of sustained improvement in performance in future quarters.

Summary table

(Rs mn)	FY07	FY08	FY09E
Sales	3,409	4,853	6,040
Growth (%)	88.1	42.4	24.5
EBITDA	401	(626)	1,033
EBITDA margin (%)	11.8	(12.9)	17.1
Net profit (excl EO)	676	-681	421
Net cash (debt)	(7,539)	(9040)	(11,257)
EPS (Rs)*	19.4	-	12.1
Growth (%)	72.7	-	-
CEPS	23.0	-14.6	19.2
DPS (Rs)	3.5	0.0	0.0
ROE (%)	13.3	-8.6	6.6
ROCE (%)	7.1	-1.5	5.0
EV/Sales (x)	0.4	0.3	0.2
EV/EBITDA (x)	3.5	-	1.3
P/E (x)	2.1	-	3.3
P/Cash Earnings	1.7	-	2.1
P/BV (x)	0.8	0.2	0.2

Source: Company, Kotak Securities - Private Client Research

2QFY09 results

(Rs mn)	1QFY09	2QFY09	% QoQ	2QFY08	% YoY
Revenues	1,359.3	1,420.9	4.5	1,029.9	38.0
Expenditure	1,302.4	1,215.1		1,320.5	
EBDITA	56.9	205.8	261.5	-290.6	-
Depreciation	54.7	63.5		42.3	
EBIT	2.3	142.3	-	-332.9	-
Interest	101.8	104.1		71.5	
Other Income	61.8	1.2		144.8	
Provisions	0.0	0.0		50.0	
PBT	-37.8	39.3	-	-309.5	-
Tax	0.0	17.9		38.7	
PAT	-37.8	21.4	-	-348.3	-
EO items	-609.2	-738.3		0.0	
PAT after EO items	-647.0	-716.9		-348.3	
Shares (mns)	34.8	34.8		34.8	
EPS (Rs.)	-1.1	0.6		-10.0	
OPM (%)	4.2	14.5		-28.2	
GPM (%)	0.2	10.0		-32.3	
NPM (%)	-2.8	1.5		-33.8	

Source : Company

Product revenues

- Product revenues grew by 7% on a QoQ basis. License revenues formed 50% of the revenues, customization revenues formed 24%, managed services brought in 18% and the balance was contributed by support services.
- The company indicated that while there were integration issues with Syndesis, the same were already solved.

Order bookings and order pipeline

- In terms of order bookings and pipeline, the company had an order backlog of about \$60mn (including annuity revenues) as at 2QFY09 end (\$75mn as at 1QFY09 end).
- The order intake was at about \$26mn, which was higher than \$15mn as at 1QFY09 end.
- We remain cautious on the sector, with several Indian vendors reporting disappointing numbers in this vertical.
- Also, the company had a consolidated pipeline (including Syndesis) of \$356mn (\$352mn). Subex normally enjoys a success rate of 40% but the expected success rate of this order pipeline is about 28 -29%. The management had indicated a success ratio of 31% about two quarters back.
- The existing order pipeline, new lines of revenues like managed services and the company's premier positioning in the area of operations are expected to lead to revenue growth in the next few quarters.
- However, the critical factor is whether the company is able to convert this order book into revenues.

No macro concerns as yet, according to management. We remain cautious

- According to the management, it has not seen any impact of the global economic slowdown, as yet.
- Revenues from USA and Europe have grown QoQ and about 40% of the order intake during the quarter was from USA and Canada. Europe, Middle East and Africa accounted for another 40% of the order intake.
- During the quarter, Subex renewed its contract with BT for a period of three years. The Master Agreement will include various contracts and projects totaling to \$50mn over the three year period.
- However, looking at the evolving macro scenario, we remain cautious on pipeline conversions and the order book to revenue conversion.

Margins

- The company had EBIDTA margins of about 14% as against 4% in the previous quarter.
- The improvement was brought about by higher revenues and reduction in costs.
- Subex has been focusing on cutting costs and expenses under the head "other operating expenses" have reduced by about Rs.20mn on a QoQ basis.
- The company had a negative other income of Rs.737mn (Rs.548mn) which included exchange rate related losses of Rs.738mn.
- The company had to MTM its outstanding hedges and also the \$180mn FCCB due to the depreciation in the rupee.
- Consequently, the company incurred a net loss of Rs.717mn for the quarter.

- We expect Subex to report revenues of Rs.6.04bn in FY09. Product revenues are expected to increase to Rs.4.82bn in FY09.
- EBIDTA margins are expected to improve over 2QFY09 on the back of higher product revenues and cost control initiatives.
- After considering marginal tax (because of c/f losses of FY08) in FY09, we arrive at a PAT of Rs.421mn and an EPS of Rs.12 for FY09.
- We have neither considered the MTM losses on the FCCBs nor the other forex losses in line with the company, which treats them as extraordinary items. Including those, the company will be posting losses during the current fiscal.

Conversion of FCCBs

- We have not assumed the conversion of FCCBs in to equity shares.
- In case these are converted at the conversion price of Rs.656 per share, the diluted number of shares would go up to about 47mn and the interest cost would correspondingly reduce.

Concerns

- A prolonged recession in major user economies may impact our projections.
- A sharp acceleration from the current levels may impact our earnings estimates for the company.
- Delays in receipt and execution of orders may make earnings volatile in future quarters while likely impacting the overall revenue and profit growth of the company.

We recommend REDUCE on Subex with a price target of Rs.65

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
5-Nov	Avon Organi	Religare Finvest Ltd	S	428,000	13.25
5-Nov	Axon Infotec	Subhash Chander	B	4,000	10.00
5-Nov	Comp Disc In	Pariscope Pictures Private Lim	B	75,461	44.26
5-Nov	GEE Ltd	Vidya Finvest Limited	B	102,436	31.89
5-Nov	Gemstone Inv	Mala Hemant Sheth	B	120,000	21.01
5-Nov	Gemstone Inv	Prem M Parikh	S	60,000	21.00
5-Nov	Gemstone Inv	Bhavesh P Pabari	S	60,000	21.00
5-Nov	JK Sugar Ltd	Bharat Hari Singhania	B	126,000	15.26
5-Nov	JK Sugar Ltd	Yashodhan Investment Ltd	S	167,678	15.26
5-Nov	Matra Realt	Kotak Mahindra Investments Limited	S	107,321	2.95
5-Nov	Orisa Sp Irs	BNS Tour and Travel Private	B	454,059	81.35
5-Nov	Refex Refrig	Rameshbhai V Parmar	S	100,000	39.25
5-Nov	Refex Refrig	PR Vyapaar Private Limited	S	124,334	39.66

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Sun Pharma	1,166	10.5	3.7	1.0
Wipro	272	3.3	2.0	2.3
Suzlon	59	5.9	0.8	72.1
Losers				
Reliance Ind	1,269	(12.6)	(46.4)	11.7
Bharti Airtel	685	(4.4)	(9.7)	4.5
Reliance Com	226	(9.8)	(8.2)	9.6

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
6 Nov	Renault India holds press conference

Source: Bloomberg

Research Team

Dipen ShahIT, Media
dipen.shah@kotak.com
+91 22 6621 6301**Sanjeev Zarbade**Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305**Teena Virmani**Construction, Cement, Mid Cap
teena.virmani@kotak.com
+91 22 6621 6302**Awadhesh Garg**Pharmaceuticals, Hotels
awadhesh.garg@kotak.com
+91 22 6621 6304**Apurva Doshi**Logistics, Textiles, Mid Cap
doshi.apurva@kotak.com
+91 22 6621 6308**Saurabh Gurnurkar**IT, Media
saurabh.gurnurkar@kotak.com
+91 22 6621 6310**Saurabh Agrawal**Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309**Saday Sinha**Banking, Economy
saday.sinha@kotak.com
+91 22 6621 6312**Sarika Lohra**NBFCs
sarika.lohra@kotak.com
+91 22 6621 6313**Siddharth Shah**Telecom
siddharth.s@kotak.com
+91 22 6621 6307**Shrikant Chouhan**Technical analyst
shrikant.chouhan@kotak.com
+91 22 6621 6360**K. Kathirvelu**Production
k.kathirvelu@kotak.com
+91 22 6621 6311

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