

### Major indices movements

Major indices	Clsq	1d (%)	3m (%)	6m (%)
BSE Sensex	14,048	(1.7)	(13.9)	(20.1)
Nifty	4,214	(1.8)	(12.8)	(19.3)
Dow	11,715	1.8	(7.4)	(4.5)
Nikkei	13,048	2.2	(7.6)	(4.1)
Hang Seng	21,311	1.6	(12.6)	(12.4)
Brasil Bovespa	56,382	1.6	(21.5)	(11.2)
Mexico Bolsa	26,444	1.2	(16.9)	(8.6)

### Turnover

Value Traded (Rs bn)	28 Aug 2008	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	40.6	9.8	118.7	32.6
Cash NSE	130.7	49.1	284.8	85.8
<b>Total</b>	<b>171.3</b>			
Del.(%)	40.07			
F&O	661.6	39.2	1105.6	14.1
<b>Total Trade</b>	<b>833.0</b>			

### Fund Activity

Net Inflows (Rs bn)	Purch	Sales	Net	YTD
<b>27 Aug08</b>				
FII's	18.8	(16.0)	2.8	233.3
Domestic Funds	4.2	(4.1)	0.0	102.3
<b>28 Aug08</b>				
Cash Provisional			(2.7)	
F&O - Index	52.6	(51.2)	1.3	(27.6)
F&O - Stock	42.4	(43.5)	(1.1)	(11.6)

### Advances/declines BSECash

28 Aug 2008	A	B1	B2	Total
Advance	53	573	161	787
Decline	151	1161	271	1583

### Commodity Prices

Commodity	29 Aug 2008	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	116.9	1.1	(7.7)	14.7
Copper(usd/t)	7,530	(1.6)	(7.0)	(11.5)
Aluminum H.G.(usd/t)	2,730	(1.3)	(7.8)	(13.2)
Zinc(usd/t)	1,799	(2.7)	(15.1)	(35.5)

### Debt/Forex Mkt

Re/USD	43.76	0.0	(3.0)	(9.3)
10 yr Gsec Yield	8.81	(1.0)	9.1	14.5
Crude (USD/Bbl)	116.9	1.1	(7.7)	14.7

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### Dealer Comments

### Technical Comments

### Derivative Comments

## News clippings

- Dishman Pharmaceuticals & Chemicals** plans to invest Rs 5 billion in two special economic zones (SEZs). It will apply for notification of both SEZs in 15 to 30 days.
- Sterlite Technologies** has bagged contracts from Power Grid Corporation of India, Jaypee Powergrid, Rajasthan Rajya Vidyut Prasaran Nigam and Ethiopian Electric Power Corporation, Ethiopia of the contract value of Rs 2.78 billion.
- Tech Mahindra** has signed an agreement to acquire a minority equity stake in Servista, a leading European Systems Integrator. As a part of the agreement, Tech Mahindra will be Servista's exclusive delivery arm for three years and will also assist Servista in securing more large scale.
- Great Offshore Ltd.** is looking at acquiring deep-water assets due to rising demand for these vessels.
- Power Grid Corp Ltd** will spend Rs 55000 crore in the next five years to increase capacity from 17,000 mega watt to 37,000 mega watt.
- General Motors** would invest \$200-million in a new engine facility in Talegaon in Maharashtra with a annual capacity of 1.6-lakh engines which could be expanded to 3-lakh engines per annum.
- Marksans Pharma** has acquired UK-based generic pharmaceutical company Relonchem for an undisclosed amount.

**BILT - consolidated**

Reco	CMP	TP
BUY	33	45

Y/e June	Q4FY07	Q4FY08	% YoY
Net Sales (Rsm)	5325	7936	49.0
EBITDA (Rsm)	1450	1734	19.6
EBITDA %	27.2	21.8	-538 bps
APAT (Rsm)	663	731	10.2
Minority Interest	0.0	34	-
Net Profit (Rsm)	663	697	5.1
EPS (Rs)	0.7	1.0	83.7

**Rohan Gupta**[Rohan.gupta@emkayshare.com](mailto:Rohan.gupta@emkayshare.com)

+91 22 6612 1248

**Vani Chandna**[vani.chandna@emkayshare.com](mailto:vani.chandna@emkayshare.com)

+91 22 6612 1272

**Research Views****BILT Q4FY08 and FY08 results in line with expectations**

Ballarpur Industries (BILT) reported its Q4FY08 and FY08 consolidated results (June quarter) which were broadly in line with expectations. Consolidated net revenues increased by 49% to Rs 8 bn which is 19% higher than expected. Higher revenues were mainly from timber sale during the quarter (Rs 500 mn). EBITDA increased by 19.6% to Rs 1.7 bn which was in line with our expectation. However EBITDA margins declined sharply by 540 bps to 21.8%. Margins in BILT stand alone were stable at 23.5% while margins declined sharply in BPH to 21.1%. EBITDA Margins decline was mainly due to timber sales during the quarter which has reported netural EBITDA for the quarter and margins in BPH were also under pressure due to cost increase at Sabah, Malaysia plant. Margins in paper segment were 18.2% in Q4FY08 as against 21.8% previous year. While margins in pulp business increased significantly from 4.7% to 16.1%. BILT stand alone contributed 1/3<sup>rd</sup> to EBITDA and BPH contributed balance 2/3<sup>rd</sup>. APAT (before minority interest and profits from associates) increased by 10.2% Rs 731 mn (we expected Rs 702 mn). Minority interest was significantly lower than expected at Rs 37 mn (we expected Rs 138 mn) and as a result net profit was 24% higher than our expectation. As a result, net profit increased by 5.1% to Rs 697 mn as against our expectation of Rs 564 mn. Despite of mere 5% growth in net profit, EPS increased by 75.2% to Rs 1.2 due to equity reduction exercise.

**Key reason for difference in results than expected –**

Results for both, BILT stand alone and BPH (75% subsidiary) were in line with expectation. However BILT stand alone has reported interest income as against expected interest expense and BPH has reported higher than expected interest charge (while consolidated interest was in line with expectation). As a result profit of BILT stand alone was higher than expected and BPH were lower than expected (while consolidated profit was in line with expectation). But due to lower than expected minority interest on BPH, net profit after minority interest was higher than expected.

**FY08 Results – In line with expectations**

On consolidated basis, BILT reported net revenues of Rs 28.3 bn, which grew by 22.1% YoY. EBITDA margins were almost flat at 25% and as a result EBITDA too increased by 21.5% YoY to Rs 7.1 bn. APAT increased by 19% YoY to Rs 3 bn and net profit after minority interest also increased by 17.2% to Rs 3 bn. Despite of mere 17% growth in net profit, FY08 EPS stood at Rs 4.8 as against Rs 2.8 in FY07 which is on account of recent equity reduction post financial restructuring. Company has proposed a dividend of 35% for FY08.

**Conference call highlights –**

- Company's operation at Sabah, Malaysia was affected due to rising crude prices. Since Sabha plant is based on furnace oil and prices of that is linked with crude. However company is confident enough to improve margins at Sabah due to recent price increase which they have taken.
- Company has increased coated paper prices by Rs 5,000 / mt (approx 10%) and uncoated paper prices by Rs 2,000 / mt (by 4-5%) effective from July'08. Since most of the cost increases has already happened so this increase paper in prices is likely to add approx Rs 600 mn (after factoring expected cost increase) to EBITDA.
- Sale of timber increased topline for the quarter but adversely affected margins since this business was approx EBITDA neutral. However this is cycle and company do not expect any significant impact in revenues and margins from this business in subsequent quarters.

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## Research Views

- Company's capex plan is on schedule –
  - Expansion at Bhigwan to increase capacity by 190 thousand mtpa is expected to be completed by Nov'08
  - Ballarpur expansion to increase capacity 155 thousand mtpa is expected to be completed by June'09.
- Company is likely to achieve additional production of approx 85,000 mtpa (75,000 mt from increase in capacity in India and 10,000 from Sabah). Resulting in volume growth of approx 13% in FY09. this volume growth will be supplemented by approx Rs 600 mn(8% over FY08) additional EBITDA from recent increase in paper prices.
- Rayon grade pulp prices been strong and company expects prices to remain strong.
- Globally pulp prices have increased significantly and pulp prices are likely to soften in medium term.
- Outlook on domestic demand supply scenario remains favourable.

### Valuations & Recommendations

We expect BILT to report net revenues of Rs 31.8 bn and PAT of Rs 2.9 bn in FY09E and net revenues of Rs 38.8 bn and PAT of Rs 3.4 bn in FY10E. EPS works out at Rs 21.0 for FY09E and Rs 26.4 for FY10E. At present, the stock trades at 7.3x FY09E earnings. We maintain our BUY recommendation on the stock with a price target of Rs 45.

### Thomas Cook (India) Ltd (Consolidated)

Reco	CMP	TP
N.A.	93	N.A

Y/e December	CY07	CY06	% YoY
Net Sales (Rsm)	2862.40	2090.40	36.9
EBITDA (Rsm)	825.3	535.6	54
EBITDA %	28.8	25.6	302 bps
APAT (Rsm)	519.20	359.50	44.4
Minority Interest	0	0	0
Net Profit (Rsm)	519.20	359.50	44.4
EPS (Rs)	2.9	2	45

Source: Company

**Pankaj Kumar**

[pankaj.kumar@emkayshare.com](mailto:pankaj.kumar@emkayshare.com)

+91 22 6612 1243

### Thomas Cook (India) to raise Rs 2 bn through rights issue

Thomas Cook (India) Ltd (TCIL) has announced to raise Rs 2 bn through rights issue. The company would utilize the rights issue proceeds for the redemption of preference share of Rs 1.05 bn and other expenses related to the issue. The balance would be utilized for repayment of debt. Earlier, the company decided to raise Rs 2.25 bn through rights issue in the ratio of one equity share for every three equity shares. The previous rights issue ratio has been cancelled. The company would be announcing the ratio and price of issue later.

To acquire LKP forex, TCIL had issued redeemable preference share worth Rs 1038.75 mn to the shareholders of LKP Forex. Besides this, the company raised unsecured loans worth Rs 2278.8 mn to acquire Travel Corporation (India). As on 31st December 2007, the total debt on the balance sheet was Rs 2.83 bn which includes loan funds to acquire Travel Corporation (India). The company is coming out with the rights issue to redeem the preference share and repayment of debt. We believe that the rights issue at 15% discount to the current market price will have neutral impact on our EPS estimates. At Rs 93, the scrip is trading at 28.2x CY08E and 22.1x CY09E diluted EPS. Our rating and target price on the scrip is currently under review.

Vishal Chandak

[vishal.chandak@emkayshare.com](mailto:vishal.chandak@emkayshare.com)

+91 22 6612 1251

Chirag Khasgiwala

[Chirag.khasgiwala@emkayshare.com](mailto:Chirag.khasgiwala@emkayshare.com)

+91 22 66121254

## Research Views

### Tata Steel 1QFY09 consolidated results – beats estimates....

The company has reported actuarial loss of Rs53.5 bn for the quarter on pension fund as compared to a surplus of Rs41bn during 1QFY08. During 1QFY08, Tata Steel routed Rs41bn notional surplus arising out of actuarial gain through its income statement, inflating the adjusted profit of Rs20.1bn to Rs63bn. However, during the current quarter, when the company has reported a loss of Rs53.5bn, it has ignored the previous accounting standard followed and has adjusted the same directly through the balance sheet. Had the company routed the actuarial loss through the income statement as it had routed its surplus in 1QFY08, it would have reported a loss of Rs12.5bn in 1QFY09.

We feel that there is no cash infusion required as the pension fund is already in a surplus of USD2.6bn. As a result, we wouldn't be overly worried till the pension fund goes into an actual deficit. (This is the time when the company might be required to infuse cash... please remember that Arcelor Mittal is running a deficit of USD2bn + in its UK pension fund but has infused only USD60mn over the last 6 yrs) Some time back, we had sent you a mail explaining the pension profile of Corus when we thought that there could be a large write down of this surplus in this quarter. The focus therefore should be on the operational performance of the company, which is as under...

#### Key numbers:

Tata Steel Consolidated (Rs mn)	1QFY09	1QFY08	(%) yoy	4QFY08	(%) qoq	1QY09 Est	% surprise
Net Sales	435,083	311,546	39.7%	360,579	20.7%	392,343	10.9%
EBITDA	69,876	49,043	42.5%	44,233	58.0%	63,745	9.6%
<i>Ebitda margin</i>	<i>16.1%</i>	<i>15.7%</i>	<i>32bps</i>	<i>12.3%</i>	<i>379bps</i>	<i>16.2%</i>	<i>88bps</i>
Adjusted PAT	41,012	20,156	103.5%	15,165	170.4%	31,795	29%
<i>Adjusted net margin</i>	<i>9.4%</i>	<i>6.5%</i>	<i>296bps</i>	<i>4.2%</i>	<i>522bps</i>	<i>8.1%</i>	<i>129bps</i>
Adjusted FDEPS	47.05	23.12	103.5%	17.40	170.4%	36.5	29%

The numbers are significantly higher than consensus estimates

The net margin has improved by 296bps on yoy basis as compared 32bps expansion in EBITDA margin driven mainly by 30% reduction in tax provisioning from Rs12.5bn to Rs 8.9bn and 8% reduction in interest costs from Rs8.9bn to Rs8.2bn on yoy basis.

However, in terms of margins, the company has met our EBITDA margin estimate. As compared to our estimate of 16.2%, The company reported EBITDA margin of 16.1%. On net margin front, the company fared better than our estimate by 129bps. As compared to our estimate of 8.1%, the Tata Steel reported net margin of 9.4%.

We will be upgrading our FY09 numbers by almost 20% to reflect the stupendous outperformance of Corus and other subsidiaries. However, the outlook for steel in the EU region remains muted after Arcelor Mittal's guidance of decline in the EU markets. Currently we have FY09 FDEPS of Rs108, which will get upgraded. We await further breakup on the numbers before revising our estimates.

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## Research Views

### Tata Steel Consolidated financial results:

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	(%) yoy	(%) qoq	FY09E	FY10E
<b>Net Sales</b>	<b>311,546</b>	<b>324,249</b>	<b>318,985</b>	<b>360,579</b>	<b>435,083</b>	<b>39.7%</b>	<b>20.7%</b>	<b>1,238,070</b>	<b>1,264,372</b>
Expenditure									
Raw Material Cost	137,113	146,271	142,559	170,000	217,844	59%	28%	588,983	643,829
Change in stock	0	0	1,901	-10,806	-16,074		49%	0	0
Net Raw material cost	137,113	146,271	144,459	159,194	201,770	47%	27%	588,983	643,829
<b>Gross profit</b>	<b>174,433</b>	<b>177,978</b>	<b>174,526</b>	<b>201,384</b>	<b>233,313</b>	<b>33.8%</b>	<b>15.9%</b>	<b>649,087</b>	<b>620,543</b>
<b>Gross margin</b>	<b>56.0%</b>	<b>54.9%</b>	<b>54.7%</b>	<b>55.9%</b>	<b>53.6%</b>	<b>-236bps</b>	<b>-223bps</b>	<b>52.4%</b>	<b>49.1%</b>
Power Cost	11,259	11,552	12,233	14,249	16,150	43%	13%	11,332	11,615
Employee Cost	39,803	39,494	41,667	45,818	49,012	23%	7%	150,398	145,078
Freight	14,088	14,617	16,722	14,625	17,245	22%	18%	14,136	14,136
Other Expenses	60,239	65,089	64,476	82,459	81,030	35%	-2%	266,685	255,455
Total operating exp	125,389	130,751	135,098	157,152	163,437	30%	4%	442,550	426,284
<b>EBITDA</b>	<b>49,043</b>	<b>47,227</b>	<b>39,428</b>	<b>44,233</b>	<b>69,876</b>	<b>42.5%</b>	<b>58.0%</b>	<b>206,537</b>	<b>194,259</b>
<b>Ebitda margin</b>	<b>15.7%</b>	<b>14.6%</b>	<b>12.4%</b>	<b>12.3%</b>	<b>16.1%</b>	<b>32bps</b>	<b>379bps</b>	<b>16.7%</b>	<b>15.4%</b>
Depreciation & amortization	10,298	11,014	10,113	9,945	11,050	7%	11%	33,343	35,140
<b>EBIT</b>	<b>38,745</b>	<b>36,213</b>	<b>29,315</b>	<b>34,288</b>	<b>58,826</b>	<b>51.8%</b>	<b>71.6%</b>	<b>173,194</b>	<b>159,119</b>
<b>EBIT margin</b>	<b>12.4%</b>	<b>11.2%</b>	<b>9.2%</b>	<b>9.5%</b>	<b>13.5%</b>	<b>108bps</b>	<b>401bps</b>	<b>14.0%</b>	<b>12.6%</b>
Interest	8,921	13,847	10,809	8,261	8,243	-8%	0%	34,076	34,004
Other income	1,742	1,102	1,975	923	527	-70%	-43%	1,200	2,000
Employee separation compensation	549	565	652	506	0	-100%	-100%	1,600	1,500
Contribution for sports infra	1,500	0	0	0	0	-100%		0	0
Forex gain (loss)	5,379	1,059	448	-940	-3,034	-156%	223%	0	0
Actuarial gain/(loss) on funds for employee benefits	41,009	18,503	1,451	-1,894	0	-100%	-100%	0	0
PBT	75,906	42,465	21,729	23,611	48,076	-37%	104%	138,718	125,615
Provision for tax	12,526	9,389	7,707	10,871	8,930	-29%	-18%	45,777	41,453
ETR (%)	17%	22%	35%	46%	19%	207bps	-2747bps	33%	33%
Share of profits of Associates	392	393	520	377	1,003	156%	166%	1,000	1,500
Minority interest	168	45	387	800	1,140	579%	43%	700	700
<b>Attributable PAT</b>	<b>63,604</b>	<b>33,424</b>	<b>14,155</b>	<b>12,317</b>	<b>39,009</b>	<b>-38.7%</b>	<b>216.7%</b>	<b>93,241</b>	<b>84,962</b>
<b>Net margin</b>	<b>20.4%</b>	<b>10.3%</b>	<b>4.4%</b>	<b>3.4%</b>	<b>9.0%</b>	<b>-1145bps</b>	<b>555bps</b>	<b>7.5%</b>	<b>6.7%</b>
less: Extraordinary Items adjusted for Tax	-43,447	-18,829	-1,317	2,848	2,003	-105%	-30%	0	0
Interest amortization on CARS @5.15%								1,202	1,202
<b>Adjusted PAT</b>	<b>20,156</b>	<b>14,595</b>	<b>12,838</b>	<b>15,165</b>	<b>41,012</b>	<b>103.5%</b>	<b>170.4%</b>	<b>94,443</b>	<b>86,164</b>
<b>Adjusted net margin</b>	<b>6.5%</b>	<b>4.5%</b>	<b>4.0%</b>	<b>4.2%</b>	<b>9.4%</b>	<b>296bps</b>	<b>522bps</b>	<b>7.6%</b>	<b>6.8%</b>
Equity capital	6,089	6,089	6,089	7,301	7,301	20%	0%	7,301	7,301
Diluted capital	8,717	8,717	8,717	8,717	8,717	0%	0%	8,717	8,717
Reported EPS									
- Basic	31.27	54.89	23.25	16.87	53.43	71%	217%	127.71	116.37
- Diluted	21.84	16.74	14.73	17.40	47.05	115%	170%	108.34	98.84
Adj EPS									
- Basic	33.10	23.97	21.08	20.77	56.17	70%	170%	129.35	118.01
- Diluted	23.12	16.74	14.73	17.40	47.05	103.5%	170.4%	108.34	98.84

All fig in Rs mn except percentage and EPS

Source: Company, Emkay research estimates

Sumit Modi

[sumit.modi@emkayshare.com](mailto:sumit.modi@emkayshare.com)

+91 22 6612 1288

## Research Views

### **Sterlite Tech receives orders worth Rs2.78bn for power conductors**

Sterlite Technologies Limited (STL) receives orders worth Rs2.8bn from PGCIL, Jaypee Power grid, Rajasthan Rajya Vidyut Prasaran Nigam and Ethiopian Electric Power Corporation. Of these, orders from PGCIL amount to ~Rs1.2bn.

Over the last 12 months there have been delays in order flows from PGCIL, which have led to few concerns on the growth in the segment.

We note that PGCIL is likely to finalize Rs30bn worth of orders in the power conductor space by end FY09, and Sterlite being the largest domestic player stands a strong chance of benefiting from the same.

With these orders, the order book of the company has risen to ~Rs14bn.

We maintain our revenue and earning CAGR of 28% and 39% over FY08-10E respectively. We reiterate our BUY rating on the stock with target price of Rs301, based on 10x FY10E EPS of Rs30.1.

28<sup>th</sup> August'2008

# Infosys Technologies

Event  
Update

## Wait on demand pickup continues

### HOLD

Price Target Price  
**Rs1,708** **Rs 1836**

Sensex **14,297**

### Price Performance

(%)	1M	3M	6M	12M
Absolute	11	(9)	6	(9)
Rel. to Sensex	11	4	32	(5)

Source: Capitaline

### Stock Details

Sector	IT Services
Reuters	INFY.BO
Bloomberg	INFO@IN
Equity Capital(Rs mn)	2862
Face Value(Rs)	5
52 Week H/L	2,140/1,212
Market Cap(Rs bn//US\$ mn)	978/22,385
Daily Avg Volume (No of shares)	2170323
Daily Avg Turnover (US\$)	86.2

### Shareholding Pattern (%)

(31 <sup>st</sup> March'08')	
Promoters	16.5
FII/NRI	55.5
Institutions	7.1
Private Corp.	2.9
Public	18.0

### Manik Taneja

[manik.taneja@emkayshare.com](mailto:manik.taneja@emkayshare.com)

+91 22 6612 1253

### Sweta Sinha

[sweta.sinha@emkayshare.com](mailto:sweta.sinha@emkayshare.com)

+91 22 6612 1282

### Event: Infosys Analyst Meet'08: No demand pickup still

Infosys Analyst Meet'08 did little to throw any positive news/comments on demand acceleration/pick up. On the positive side, company remains confident on meeting FY09 guidance of 19-21% growth in revenues (**though remained non committal whether it would live up to 'material beat' precedence**). Besides the company indicated that it had not witnessed any significant project deferrals at its clients end as well as pricing discipline has stood until now. On the flip side, Infy management acknowledged that deal signings continued to take longer, disconcerting in our view given that sooner than later it **could lead to intense scramble for locking in revenues/volumes for FY10 and thus could disrupt the prevalent discipline on pricing**. We believe that if deal signings do not pick up over the next 2 months (near peak for next year's budgeting cycle), **the offshore space could once again head into CY09 in a similar precarious demand/volume state as was seen in CY08**. The company also played down the unexpected 23% decline in top client revenues during Q1FY09 and expects growth to rebound from Q2FY09. We remain neutral on the sector borne from both delay in demand pickup further supported by somber campus hiring displayed by the vendors till date (*for details refer to our note dated 18<sup>th</sup> August'08, IT Services: 'Hiring continues to be somber'*). Thus **despite Infosys valuations appearing cheap at <15x FY10E earnings, scope for absolute out performance might be limited given increasing risks to the estimates itself. (for valuation charts please refer to Pg 3)** Maintain 'HOLD' on Infy with a price target of Rs 1836.

### Deal signings continue to take longer

Infosys management indicated that in the backdrop of the worsening environment, clients continued to exercise caution with deal signings still showing no signs of pickup. On the positive side, the company sees little risk to achieving FY09 revenue growth target of 19-21% but failed to commit on maintaining the 'material beat' precedence. Further the company indicates that pricing discipline has held on across the offshore space until now. As well, Infosys has not witnessed any material project delays/deferrals at clients unlike two other peers. However we are worried that deal signings are not showing any signs of a pickup as a prolonged delay on this front, could eventually lead to aggressive scramble to lock in revenues/volumes for FY10 (**and that could disrupt the prevalent pricing discipline**).

### Top client expected to rebound in Q2FY09

Infosys management played down investor concerns on the top client performance during Q1FY09 (**top client declined by ~22% sequentially after a superlative ~12.5% CQGR ramp up through FY08, see top client performance in the table below**). The vertical head indicated that the ramp down in top client revenues was slightly unexpected and much ahead of Infy's internal estimates. The company expects some form of a rebound in the top client contribution of revenues from Q2FY09 onwards, though rules out the significant sequential acceleration witnessed during FY08.

(In US\$ mn)	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09
Top client rev	56.6	73.4	79.8	80.7	103.0	117.6	91.2
QoQ growth%	15.0%	29.7%	8.7%	1.1%	27.6%	14.2%	-22.4%

Source: Company, Emkay Research

Even in the telecom space, Infy sees prolonged negotiations on deals forced by the overall jitteriness caused by fears of spread of worsening macro environment across geographies.

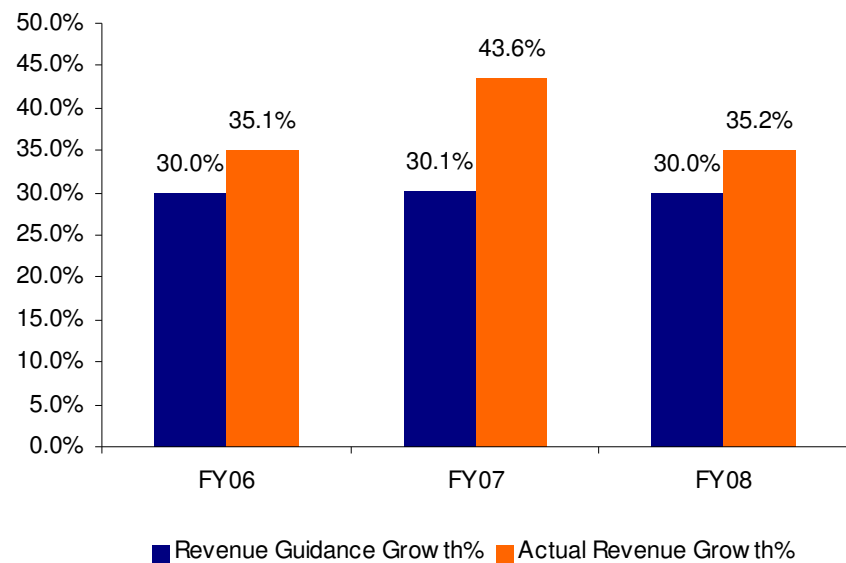
### Axon; Margin accretion opportunities; take time to play out

Although Infosys management was unwilling to talk much on the Axon acquisition, Infosys remains confident about its improved capabilities on the SAP side post the move. We highlight that Infosys has lagged materially behind peers on SAP headcount (**Infosys SAP headcount at ~2,100 V/s Satyam at ~5,000 and TCS at ~4,000**) and Axon gives it the much needed booster in ERP/ Europe. However the Axon acquisition comes with its own set of challenges in the form of (1) retaining key personnel, (2) a marquee client roster albeit high client concentration (**Revenues/client beyond Top 10 at only ~US\$ 3,00,000**) and (3) margin expansion at Axon (Axon's EBIT margins at ~15% V/s Infosys's EBIT margins at ~27.8%).

### Remain 'Neutral' on the sector; Wait on demand revival continues

We believe that the prolonged delay in deal signings is disconcerting and see demand acceleration is taking longer than earlier expectations. We are worried as the wait on demand pickup could then lead to a mad rush to lock in business/volumes for FY10 and thus could disrupt the discipline displayed on pricing hitherto. For Infosys, we point out that although valuations might appear cheap at <15x FY10E earnings of Rs 117.3, the downside risks to FY10 estimates continue to rise. We remain 'Neutral' on the sector. Maintain 'HOLD' on Infosys with a price target of Rs 1836.

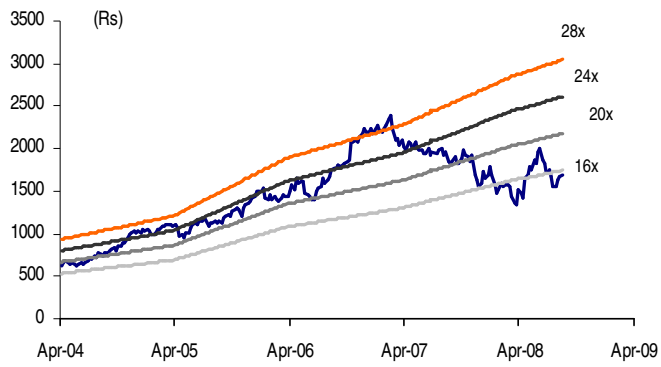
### Scope for 'material US\$ guidance beat' during FY09 might be limited



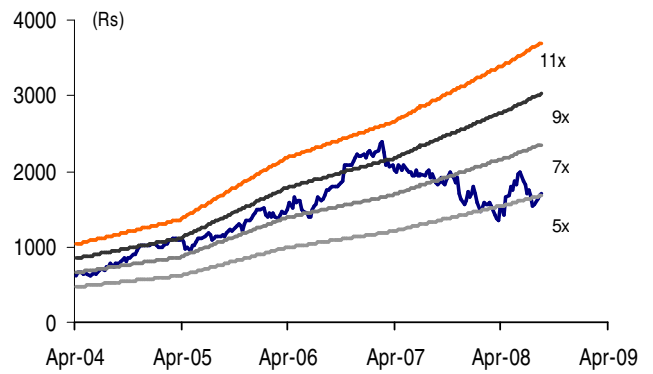
Source: Company, Emkay Research



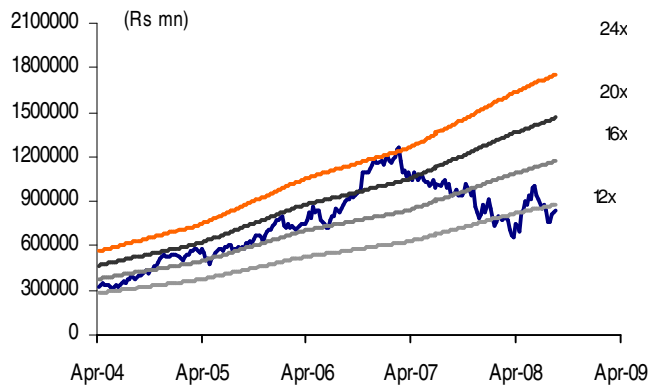
1 year forward P/E Bands



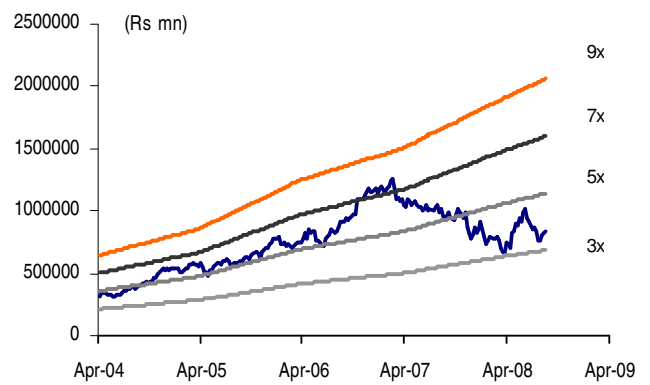
1 year forward P/BV



1 year forward EV/EBITDA



1 year forward EV/Sales



## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY07	FY08	FY09E	FY10E
<b>Net Sales</b>	138,930	166,920	211,923	255,864
Growth (%)		20	27	21
<b>Total Expenditure</b>	(95,020)	(114,540)	(144,116)	(174,566)
Growth (%)		21	26	21
<b>EBIDTA</b>	43,910	52,380	67,807	81,297
Growth (%)		19	29	20
<b>EBIDTA %</b>	31.6	31.4	32.0	31.8
Other Income	3,760	7,040	7,375	9,221
Depreciation	(5,140)	(5,980)	(7,180)	(8,443)
<b>EBIT</b>	<b>42,530</b>	<b>53,440</b>	<b>68,002</b>	<b>82,074</b>
Interest				
<b>EBT</b>	<b>42,530</b>	<b>53,440</b>	<b>68,002</b>	<b>82,074</b>
Tax	(3,860)	(6,850)	(9,310)	(14,773)
<b>EAT</b>	<b>38,560</b>	<b>46,590</b>	<b>58,692</b>	<b>67,301</b>
Growth (%)		21	26	15
<b>EAT (%)</b>	<b>27.8</b>	<b>27.9</b>	<b>27.7</b>	<b>26.3</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY07	FY08	FY09E	FY10E
Equity share capital	2,860	2,860	2,860	2,860
Reserves & surplus	109,690	135,090	172,962	216,642
Minority Interest	40	-	-	-
<b>Networth</b>	<b>112,590</b>	<b>137,950</b>	<b>175,821</b>	<b>219,502</b>
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>112,590</b>	<b>137,950</b>	<b>175,821</b>	<b>219,502</b>
Goodwill				
Gross Block	46,420	54,390	69,935	84,435
Less: Depreciation	18,360	19,860	27,040	35,483
<b>Net block</b>	<b>28,060</b>	<b>34,530</b>	<b>42,895</b>	<b>48,952</b>
<b>Capital WIP</b>	<b>9,650</b>	<b>13,240</b>	<b>18,000</b>	<b>20,000</b>
<b>Investment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Current Assets</b>	<b>95,460</b>	<b>130,900</b>	<b>166,502</b>	<b>213,081</b>
Inventories	-	-	-	-
Sundry debtors	24,360	32,970	40,643	47,668
Cash & bank balance	58,710	69,500	92,976	126,730
Loans & advances	12,140	27,710	31,353	37,153
Other current assets	250	720	1,530	1,530
<b>Current Liab &amp; Prov</b>	<b>21,500</b>	<b>41,910</b>	<b>52,836</b>	<b>63,791</b>
Current liabilities	14,690	19,120	23,805	28,741
Provisions	6,810	22,790	29,031	35,050
<b>Net current assets</b>	<b>73,960</b>	<b>88,990</b>	<b>113,667</b>	<b>149,290</b>
<b>Misc exps</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax</b>	<b>920</b>	<b>1,190</b>	<b>1,260</b>	<b>1,260</b>
<b>Total Assets</b>	<b>112,590</b>	<b>137,950</b>	<b>175,821</b>	<b>219,502</b>

Cash Flow	FY07	FY08	FY09E	FY10E
Net Profit after Tax	38,560	46,590	58,692	67,301
Add : Depreciation	5,140	5,980	7,180	8,443
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>(33,830)</b>	<b>(14,560)</b>	<b>(23,867)</b>	<b>(35,623)</b>
<b>Operational Cash Flows</b>	<b>23,000</b>	<b>43,531</b>	<b>58,602</b>	<b>63,912</b>
<b>Capital expenditure</b>	<b>(20,590)</b>	<b>(16,040)</b>	<b>(20,305)</b>	<b>(16,500)</b>
Investments	14,600	(940)	(1,620)	-
<b>Investing Cash Flows</b>	<b>(5,990)</b>	<b>(16,980)</b>	<b>(21,925)</b>	<b>(16,500)</b>
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
dividend paid	(7,510)	(22,251)	(20,599)	(23,621)
Issue of shares	15,670	6,530	7,398	9,963
Share Premium		-	-	-
<b>Financing Cash Flows</b>	<b>7,410</b>	<b>(15,761)</b>	<b>(13,201)</b>	<b>(13,657)</b>
changes in cash	<b>24,420</b>	<b>10,790</b>	<b>23,477</b>	<b>33,754</b>
Opening balance	<b>34,290</b>	<b>58,710</b>	<b>69,500</b>	<b>92,976</b>
<b>Closing balance</b>	<b>58,710</b>	<b>69,500</b>	<b>92,976</b>	<b>126,730</b>

Key ratios	FY07	FY08	FY09E	FY10E
EPS (Rs)	67.6	81.3	102.3	117.3
CEPS (Rs)	76.7	91.7	114.8	132.1
Book Value Per Share (Rs)	197.5	240.6	306.5	382.7
Dividend Per Share (Rs)	11.4	33.2	30.7	35.2
<b>Valuations Ratios (x)</b>				
PER	25.2	21.0	16.7	14.6
P/CEPS	24.5	20.5	16.4	14.2
P/BV	8.6	7.1	5.6	4.5
EV/EBIDTA	20.9	17.3	13.0	10.5
EV/Sales	6.6	5.4	4.2	3.3
M-Cap/sales	7.7	6.4	5.1	4.2
<b>Profitability Ratios (%)</b>				
RoCE	37.3	34.0	33.3	32.1
RoNW	42.2	37.2	37.4	34.0
EBITDA Margin	31.6	31.4	32.0	31.8
EBIT Margins	30.6	32.0	32.1	32.1
Net Profit Margin	27.8	27.9	27.7	26.3

## Dealer Comments

Company	No. Of Shares	% Change
	(In lacs)	In price
India Cement	20.54	-3.3
Satyam Comp	23.53	0.5
Reliance Ind	27.54	-3.5
ITC	36.91	0.1
Power Grid	25.63	-1.8

### Nifty movers

Top Gainers	Price	Index Points
SAIL	152.90	2.2
Infosys Tech	1708.00	0.9
HLL	139.60	0.8
GAIL	396.90	0.8
Tata Steel	582.50	0.6

### Losers

Reliance Ind	2070.85	-18.6
Rcom	384.85	-4.3
BHEL	1629.55	-4.3
TCS	792.35	-4.2
LT	2500.80	-3.7

### Index- volatility

Indices	Sensex	Nifty
High	14347	4304
Low	14002	4201
Close	14048	4214
Volatility ( in %)	345 2.40	103 2.39

**Market Summary:** The markets opened the session on almost flattish note with 10 odd points' downside tick reflecting mixed subdued global cues and surge in crude oil prices at \$118 levels and thereafter the indices lost further ground in the ensuing hours of trade. The markets continued to trade in the red as profit booking in the heavy weights showed no signs of abating. Even concerns of higher inflation figure at 12.83% kept the markets reeling under selling sentiments aided with rising crude oil prices raising hopes of further monetary tightening by RBI to rein the surging inflation. Even volatility was high in the second half of the trading session ahead of the expiry of August 2008 derivatives contract. The overall market breadth continued to remain fairly negative and was at - 1.8x. The day's fall was mainly led by heavy selling in Reliance aided by Banking, Oil & Gas, Realty, Capital Goods, Metal and select power stocks. Finally the sensex closed 248 points or 1.74% lower to settle at 14048 levels while Nifty lost 78 points or 1.82% lower to settle at 4214 levels. Among the sectoral indices all of them ended in the red with Oil & Gas, Capital Goods, Realty, Bankex, Metal, Power and IT under performing the most. Among the index heavy weights, which gained the most were Cairn India, Suzlon, Hero Honda, Satyam Comp and Maruti while Reliance Ind, Rel Comm, BHEL, TCS and L&T were weak and ended as losers. Some of the mid cap stocks, which saw some good buying actions despite volatile markets were Piramal Life, Akruti City, Tale Soln, Zandu Pharma, Dishman Pharma, Bajaj Finserv, Educomp and Great Offshore and were up in the range of 4 – 9%.

The overall traded volumes were quite higher on account of F&O expiry by almost 35% compared to earlier day and were at Rs 833 bn. Delivery-based volumes were at 40.7% of the total turnover.

Among the Institution activities, FII's were net buyers to the tune of Rs 2.80 bn while Domestic Funds were net buyers to the tune of Rs 0.02 bn respectively on 27<sup>th</sup> August 2008. While on 28<sup>th</sup> August 2008, FII's sold shares worth Rs. 1.87 bn in cash segment (provisional) and in the F&O segment bought Futures and Options worth Rs 0.20 bn whereas Domestic funds bought shares worth Rs. 3.91 bn (provisional).

**Movement of indices**

Indices	Previous close	Today's close	% chg
Sensex	14296	14,048	-1.74
Nifty	4292	4214	-1.82
S&P CNX 500	3435	3376	-1.70
BSE 500	5537	5,454	-1.51
BSE Mid-Cap	5686	5,608	-1.36
BSE Small-Cap	6589	6,782	-1.13
BSE Auto	3914	3,911	-0.07
BSE Health	4294	4,273	-0.49
BSE FMCG	2182	2,169	-0.56
BSE IT	3892	3,853	-1.00
BSE PSU	6633	6,508	-1.89
BSE Bankex	6715	6,596	-1.77
BSE Oil & Gas	9655	9,407	-2.57
BSE Metals	12149	11,925	-1.85
BSE Cons Dur	3766	3,748	-0.47
BSE Cap Good	11754	11,492	-2.23
BSE Realty	4837	4,753	-1.74
BSE Power	2550	2,516	-1.33

**Levels to watch**

	Sensex	Nifty
Day's High	14347	4304
Day's Low	14002	4201
13 DMA	14496	4322
34 DMA	14541	4347

**Manas Jaiswal**

Technical Analyst

[manas.jaiswal@emkayshare.com](mailto:manas.jaiswal@emkayshare.com)

+91 22 66121274

**Suruchi Kapoor**

Junior Technical Analyst

[suruchi.kapoor@emkayshare.com](mailto:suruchi.kapoor@emkayshare.com)

+91 22 66121275

**Technical Comments**



**Market Perspective**

Nifty opened on a negative note and continued its southbound journey and it broke yesterday low of 4282 and tested our mentioned target of 4220 and made a low of 4201. Finally Nifty closed at 4214 with a loss of 1.82%. Nifty is still looking weak on the charts. Yesterday on the daily chart it broke the neckline of “**Head and Shoulder**” pattern and the target of the “**Head and Shoulder**” pattern comes at 3836. As mentioned earlier we still believe that one should exit from all their long positions as further weakness can be witnessed in the Nifty and now in the immediate term it can test 4159. On Higher levels Nifty is having resistance at 4366 levels.

**Today's Strategy:**

**Hold Short Nifty Sept Futures**, with the target of 4175.00 For Intra-day Nifty is having resistance at 4255 and above that 4297 and it has support at 4201.

**Sectoral Speak:**

Yesterday the **BSE Oil & Gas** index opened on a negative note and continued its southbound journey. It tested our mentioned target of 9535 and made a low of 9360. Finally this index closed at 9407 with a loss of 2.57%. This index is still looking weak on the chart and now it can test 9288 levels which is 61.80% retracement level of the recent rally from 8488 to 10582.

Yesterday the **BSE Metal** index tested our mentioned target of 12016 and made a low of 11897. Finally this index closed at 11925 with a loss of 1.85%. This index is still looking weak on the chart and now it can test its recent low of 11434.

Yesterday the **BSE Cap Good** index opened on negative note and broke the support of 11702 and made a low of 11420. Finally this index closed at 11492 with a loss of 2.23%. This index is looking weak on the chart and now it can test 11276 and below that it can test 11131 levels which is 61.80% retracement level of the recent rally from 10031 to 12756.

**Nifty**

	27.08.08	28.08.08	Chg	% Chg
Spot	4296.5	4221.0	-75.45	-1.76
Aug Fut	4296.0	4214.1	-81.95	-1.91
Sep Fut	4294.0	4233.0	-61	-1.42

**Nifty Cost of Carry**

	27.08.08		28.08.08	
	Basis	COC %	Basis	COC %
Sep	-2.5	-0.7	12.0	3.7

**Nifty open interest**

	No of Shares ('000)			
	27.08.08	28.08.08	Chg	%Chg
Aug Fut	16323	9917	-6406	-39.25
Sep Fut	21256	30076	8820	41.49
Total	37719	40174	2455	6.51

**Nifty put call ratio**

	No of Shares ('000)			
	27.08.08	28.08.08	Chg	%Chg
Call OI	40666	44130	3464	8.52
Put OI	41982	44479	2497	5.95
PCR	1.03	1.01	-0.02	

**Sameer Shetye**

Associate Derivative Research  
[sameer.shetye@emkayshare.com](mailto:sameer.shetye@emkayshare.com)  
 Tel: +91 22 6612 1276

**Derivative Comments**

Today Nifty opened negative, and later on it took resistance at higher levels and thereafter it traded with a negative bias throughout the day to finally give a close at 4214.00 with a loss of 1.82 %.The major Gainers were Purvankara,Bajaj Holding,Mphasis, Strides Acrolabs and Gt Offshore .However, the major losers were Bindal Agro, WWIL, Hotel Leela, Balrampur Chini, Triveni and Dena Bank.

- Nifty Sep futures cost of carry is at 3.71 % Positive against a 0.72 % Negative for the previous session.
- Nifty Sep futures traded at nearly 10 - 15 points Premium at the end of trading sessions.
- Total Turnover for NSE F&O Segment was Rs.66164 Crores.

**Open Interest Analysis:**

Long OI was also seen in Cairn(12%) and Educomp(39%)Hence we expect these stocks to show further upside move.

Short Open Interest was seen in Adlab Films (12%),Balram Chini(8%),Bindal Agro(14%),IVRCL Infra(32%),Tata Comm(26%),Triveni(17%) and Welspun Gujrat(13%). Hence we would advise clients to avoid going long on these stocks.

The Implied Volatility of Nifty (Sep) decreased from 32 - 33 % to 31- 32 % .Yesterday Nifty Futures added 24.55 lac shares (6.51%) in Open interest.

**Put Call Ratio Analysis:**

PCR (OI) of Nifty decreased from 1.03 to 1.01. Nifty Call options adding 34.64 lac shares (8.52%) and Put options added 24.96 lac shares (5.95%) in OI.

Yesterday in the September series 4400 strike calls incrementally added (4.28L), 4300 Strike (3.97L) and 4700 Strike (3.26L).Now the Maximum Call open interest now is at 4400 strike (17.29L).Hence we maintain 4400 to be a immediate resistance.

On the Puts Front significant action was seen at 4100 Strike which added (3.34L) followed by 4000 Strike which added (2.92L) Highest open interest in Puts is at 4200 Strike stands at (30.03L)followed by 4000(26.44L).Now Nifty has Strong support at 4000 on an end of day basis.

**Cost of Carry (Sep):**

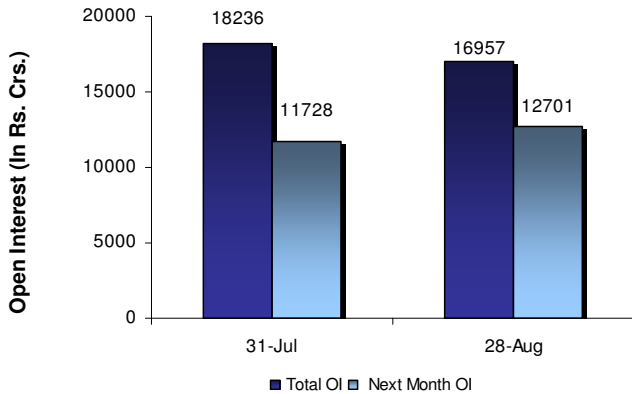
**Turned Positive:** Cipla, HDFC Bank, Hindalco,HPCL,Hindustan Unilever,Maruti,Punj Llyod and SBI.

**Turned Negative:** Allahabad Bank and Reliance Capital.

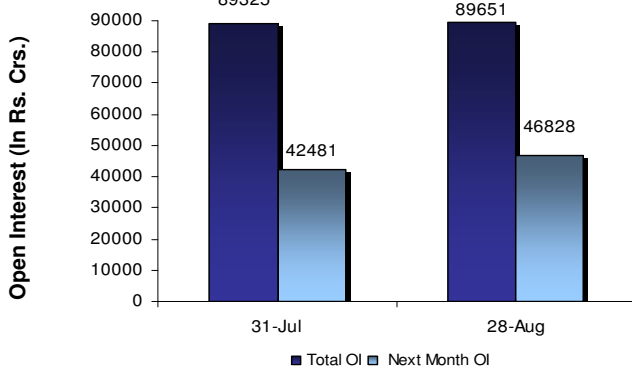
**FII's Weekly Derivative Statistics 27.08.08**

	Buy		Sell		Open Interest as on 27.08.08		Open Interest as on 26.08.08		Change in FIIs Open Interest	
	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.
Index Futures	200018	4300.92	189399	4076.67	750855	15994.40	737472	15907.32	13383	87.08
Index Options	32787	724.85	13678	297.98	1103096	23632.23	1081515	23415.02	21581	217.21
Stock Futures	190965	3358.93	182860	3191.97	1040911	18293.99	1037218	18499.29	3693	-205.3
Stock Options	2398	46.05	529	15.70	54769	944.77	53907	943.80	862	0.97
<b>TOTAL</b>	<b>426168</b>	<b>8430.75</b>	<b>386466</b>	<b>7582.32</b>	<b>2949631</b>	<b>58865.39</b>	<b>2910112</b>	<b>58765.43</b>	<b>39519</b>	<b>99.96</b>

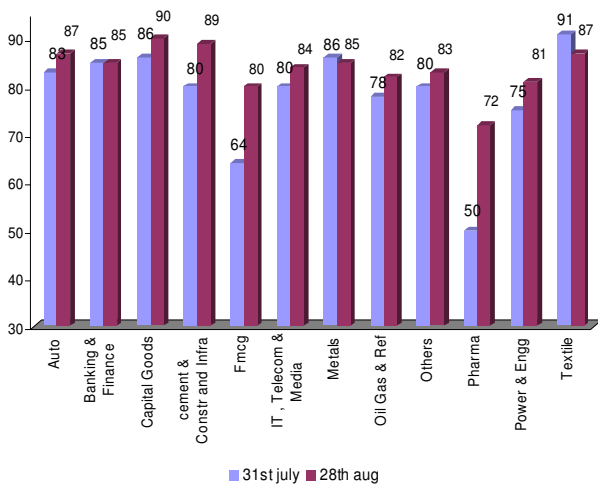
**Nifty OI**



**Marketwide OI**



**Sectorwise Rollovers(%)**



**Rollover Analysis (Expiry)**

**Nifty and Marketwide Rollovers:**

On Exp (Day of Expiry) Nifty rollovers were very good at 75% as against 64% for the last month expiry. Marketwide rollovers to improved slightly and stood at 52 % as against 48 % last month.

The outstanding Marketwide open interest stands at Rs.89651 Crs of which Rs.46828 Crs(52%) has been rolled. Nifty OI stood at Rs.16957 Crs of which Rs.12701 Crs has been rolled (75%). Also Futures OI (Index and Stock futures) stood at Rs.43866 of which Rs.34473 (79%) has been rolled.

**Nifty and Marketwide Rollovers (No. of Shares)**

EXP	Total (No. of shares)	Next Month (No. of shares)	% Rolls
Marketwide	1211113658	1009453025	83
StocksWide	1168184338	981884450	84
Nifty	40174950	30076200	75

**Sectorwise Rollovers:**

On the day of expiry, sectors to witness good rollovers were Capital goods (90%), Cement Constr & Infra(89%) and Auto(87%). Pharma(72%) and FMCG(80%) were the ones to witness relatively low rollovers amongst all sectors but both these sectors got notably well rolled than the last series.

In the Auto & Auto ancillary space we witnessed good rolls in Amtek Auto (93%), Bharat Forge (97%) and TVS Motors (94%). In the Banking & Finance Space good rollovers were seen in Syndicate Bank(95%), Indusind Bank(92%) and IFCI(88%) .

In the Capital Goods Space Laxmi Mac(96%), PFC(95%) and Praj Ind(89%) witnessed good rollovers . In the Cement, Construction & Realty Space we witnessed good rollovers in stocks like Ultratech(98%), IVRCL(95%), Parswanath(94%) and GMR Infra(94%). In FMCG Stocks ITC Witnessed good rollovers at(82%)

It, Telecom and Media Space good rollovers were seen in counters like 3i Infotech(92%), GTL(97%), Mphasis(92%) and TTML(90%).

In Metals Maharashtra Seamless(94%), JS Stainless (96%) and Sesa Goa(91%) were the most rolled. In Oil and Gas Sector we witnessed good rollovers in HPCL (92%), Gt Offshore(90%) and Chennai Petro(87%).

In the Pharma space we witnessed good rollovers in Wockhardt (91%), Lupin(90%), STAR(90%) and Divis Lab(90%).

**Sameer Shetye**

Associate Derivative Research

[sameer.shetye@emkayshare.com](mailto:sameer.shetye@emkayshare.com)

Tel: +91 22 6612 1276

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**Emkay Global Financial Services Ltd.**  
Paragon Center, H -13 -16, 1st Floor,  
Pandurang Budhkar Marg, Worli, Mumbai – 400 013.  
Tel no. 6612 1212. Fax: 6624 2410