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News Round-up

- ▶ Iran has sought US\$1 bn as advance from India for supplying five million tons of liquefied natural gas a year from 2012 but the demand may not be entertained from the buyers. (BS)
- ▶ A possible merger between low-cost carriers SpiceJet and GoAir has hit a roadblock after the two sides failed to arrive at a consensus on valuation and branding related issues. (ET)
- ▶ Uranium-rich Canada hopes to sign an agreement with India on civilian nuclear cooperation. Canada is also holding talks with China to promote nuclear power generation there. (FE)
- ▶ With newer customers, including automakers Renault, Volkswagen and Harley Davidson, looking to outsource their complex design engineering project to India, the country's engineering services outsourcing industry is set to achieve US\$55 bn in revenues by 2020. (ET)
- ▶ US telecom major AT&T and the world's largest chipmaker Intel were among the foreign players who showed interest in the third generation (3G) spectrum, which kickstarted the process of 3G auction in the country. (BS)

Source: ET= Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change %			
	16-Nov	1-day	1-mo	3-mo
Sensex	17,033	1.1	(1.7)	10.5
Nifty	5,058	1.2	(1.6)	10.4
Global/Regional indices				
Dow Jones	10,407	1.3	4.1	11.6
Nasdaq Composite	2,198	1.4	1.9	10.7
FTSE	5,383	1.6	3.7	14.2
Nikkei	9,774	(0.2)	(4.7)	(4.8)
Hang Seng	23,000	0.2	4.9	14.2
KOSPI	1,592	(0.1)	(3.0)	2.9
Value traded - India				
Cash (NSE+BSE)	179.4	230.2	235.6	
Derivatives (NSE)	584.1	561.9	639	
Deri. open interest	1,107.7	1,098	783	

Forex/money market

	Change, basis points			
	16-Nov	1-day	1-mo	3-mo
Rs/US\$	46.2	(12)	(18)	(274)
10yr govt bond. %	7.3	(1)	(9)	19
Net investment (US\$mn)				
	13-Nov	MTD	CYTD	
FIs	145	618	14,831	
MFs	21	109	(486)	

Top movers -3mo basis

Best performers	Change, %			
	16-Nov	1-day	1-mo	3-mo
SESA IN Equity	358.3	3.6	0.1	57.1
AL IN Equity	54.0	3.2	24.6	54.9
JSP IN Equity	708.9	1.7	1.2	45.7
TTMT IN Equity	634.9	2.4	9.9	45.7
CRG IN Equity	395.8	(1.8)	7.6	45.4
Worst performers				
IDEA IN Equity	51.7	2.5	(19.0)	(32.7)
RCOM IN Equity	179.3	3.3	(24.8)	(27.0)
BHARTI IN Equity	302.8	0.2	(9.0)	(24.1)
IBULL IN Equity	133.0	2.7	(29.7)	(23.9)
TCOM IN Equity	369.5	(0.6)	(21.9)	(23.5)

NOVEMBER 17, 2009

UPDATE

Coverage view: **Attractive**

Price (Rs): **2,352**

Target price (Rs): **2,500**

BSE-30: **17,033**

Well-deserved premium should sustain. Doubts on the street regarding Infosys' PE premium over other Tier-I India-listed IT companies—after a couple of quarters of relative revenue weakness—are a bit premature. The company has considerably better in protecting its relative revenue market share than its peer group and has in fact increased its relative EBITDA market share through the downturn. In addition, the company's financial prudence and cash-flow management remain exemplary. BUY.

Company data and valuation summary

Infosys Technologies

Stock data		Forecasts/Valuations			
		2009	2010E	2011E	
52-week range (Rs) (high,low)	2,421-1,065	EPS (Rs)	102.4	104.5	118.0
Market Cap. (Rs bn)	1,354.5	EPS growth (%)	29.6	2.0	12.9
Shareholding pattern (%)		P/E (X)	23.0	22.6	20.0
Promoters	16.5	Sales (Rs bn)	216.9	222.3	258.6
FIs	54.6	Net profits (Rs bn)	58.8	60.0	67.7
MFs	3.9	EBITDA (Rs bn)	72.0	74.5	84.8
Price performance (%)		EV/EBITDA (X)	17.3	16.1	13.7
Absolute	1M 7.8 3M 15.5 12M 94.5	ROE (%)	36.7	29.4	27.3
Rel. to BSE-30	10.2 5.7 8.3	Div. Yield (%)	1.0	1.1	1.4

Continues to deliver on its stated 'profitable growth' intent

We continue to find Infosys' execution of its stated 'profitable growth' strategy impressive. We take a closer look at the relative performance of Infosys, TCS, Wipro, and Cognizant through the downturn (September 2007 to September 2009, see Exhibits 1 and 2 on the next page) and note the remarkable increase in Infosys' relative EBITDA market share over the period despite the apparent loss in relative US\$ revenue market share. We highlight that the relative revenue market share for Infosys over the analysis timeframe is negatively impacted by (1) acquisitions made by peers and (2) sharp decline in revenues from the British Telecom account, driven partially by Infosys' unwillingness to work at lower-than-targeted margins, in our view.

Increasing appetite for acquisitions positive

Infosys' relentless focus on profitability and return ratios has made the company the most conservative among Indian IT companies to use cash for acquisitions. We expect increased risk appetite from Infosys as the company prepares itself for what should be a secular growth phase for Indian IT services industry over the next 4-5 years. We have seen increasing evidence of the same in recent times. Infosys had expressed its intent to acquire Axon, the UK-based niche SAP consultancy before HCLT counter-bid and acquired the same; Infosys recently announced the acquisition of US-based Insurance BPO solutions provider, McCamish Systems (CY2008 revenues of US\$38 mn) for a total consideration of US\$59 mn (US\$39 mn upfront + deferred earn-out of US\$20 mn). We do see further gaps in Infosys' portfolio (European geography is the glaring one) and expect the company to plug the same through organic or inorganic means over the coming quarters.

Financial prudence and exemplary cash-flow management always comforting; reiterate BUY

Highly predictable cash flows and prudent (best-in-class by a good margin) financial management underscore our preference for Infosys despite its valuation premium over other Tier-I names. We remain positive on the IT demand recovery cycle for the Indian IT companies and reiterate our preference for playing the cycle through Tier-I names. Infosys (TP: Rs2,500) and Wipro (TP: Rs675) are our preferred picks.

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Infosys has held its own given its passive stance on inorganic initiatives

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Revenues (US\$ mn)										
Infosys	928	1,022	1,084	1,142	1,156	1,218	1,171	1,122	1,121	1,154
Wipro	779	858	979	1,032	1,068	1,110	1,100	1,046	1,033	1,065
TCS	1,268	1,392	1,488	1,517	1,525	1,574	1,483	1,433	1,481	1,538
Cognizant	517	559	600	643	685	735	753	746	777	853
Composite	3,492	3,830	4,151	4,334	4,434	4,636	4,507	4,346	4,411	4,611
Relative market share (%)										
Infosys	26.6	26.7	26.1	26.4	26.1	26.3	26.0	25.8	25.4	25.0
Wipro	22.3	22.4	23.6	23.8	24.1	23.9	24.4	24.1	23.4	23.1
TCS	36.3	36.3	35.9	35.0	34.4	34.0	32.9	33.0	33.6	33.4
Cognizant	14.8	14.6	14.5	14.8	15.5	15.8	16.7	17.2	17.6	18.5
Composite	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Companies, Kotak Institutional Equities

Rolling 12-month EBITDA performance - Infosys and CTSH gaining share from TCS, Wipro steady

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
EBITDA (Rs mn)										
Infosys	45,860	47,610	49,570	52,380	56,330	61,430	67,820	71,950	75,840	77,230
Wipro	30,818	31,485	32,510	33,636	36,735	39,838	42,981	46,034	47,876	50,088
TCS	53,422	55,498	56,931	57,489	59,995	63,822	68,111	71,781	76,086	79,231
Cognizant	15,871	16,899	17,795	18,690	20,245	22,837	26,176	29,090	31,775	33,469
Composite	145,971	151,493	156,805	162,195	173,306	187,927	205,088	218,855	231,577	240,018
Relative market share (%)										
Infosys	31.4	31.4	31.6	32.3	32.5	32.7	33.1	32.9	32.7	32.2
Wipro	21.1	20.8	20.7	20.7	21.2	21.2	21.0	21.0	20.7	20.9
TCS	36.6	36.6	36.3	35.4	34.6	34.0	33.2	32.8	32.9	33.0
Cognizant	10.9	11.2	11.3	11.5	11.7	12.2	12.8	13.3	13.7	13.9
Composite	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note:

(1) Wipro - Global IT services only

(2) Cognizant's US\$ EBITDA converted to INR using Infosys' reported Re/US\$ rate

Source: Companies, Kotak Institutional Equities

Infosys--operating cash flow as a proportion of revenues, March fiscal year-ends, 2006-2009 (US\$ mn)

	2006	2007	2008	2009	1QFY10	2QFY10
Cash generated from operating activities	599	862	1,149	1,409	387	427
Growth yoy (%)	74	44	33	23		
Revenues	2,152	3,090	4,176	4,663	1,122	1,154
Operating cash flow as % of revenues (%)	27.8	27.9	27.5	30.2	34.5	37.0

Note

(a) Cash generated includes other income.

(b) US GAAP numbers till FY2008; IFRS numbers starting FY2009.

Source: Company, Kotak Institutional Equities

Condensed consolidated financials for Infosys, 2008-2012E, March fiscal year-ends (Rs mn)

	2008	2009	2010E	2011E	2012E
Profit model					
Revenues	166,920	216,930	222,260	258,557	300,519
EBITDA	52,380	71,950	74,473	84,796	98,178
Depreciation	(5,980)	(7,610)	(9,263)	(9,920)	(11,052)
Other income	7,040	4,730	10,213	12,180	14,666
Pretax profits	53,440	69,070	75,423	87,056	101,794
Tax	(8,060)	(10,270)	(15,419)	(19,311)	(24,006)
Profit after tax	45,380	58,800	60,004	67,745	77,788
Diluted earnings per share (Rs)	79.1	102.4	104.5	118.0	135.5
Balance sheet					
Total equity	137,950	182,540	225,691	271,081	323,077
Deferred taxation liability	(1,190)	(1,260)	(1,260)	(1,260)	(1,260)
Total borrowings	—	—	—	—	—
Minority interest	—	—	—	—	—
Current liabilities	41,910	38,720	37,225	41,581	46,962
Total liabilities and equity	178,670	220,000	261,657	311,402	368,779
Cash	83,960	112,460	153,269	193,629	238,680
Other current assets	46,220	54,000	57,968	65,692	75,549
Goodwill	—	—	—	—	1—
Tangible fixed assets	47,770	53,540	50,419	52,081	54,550
Investments	720	—	—	—	—
Total assets	178,670	220,000	261,657	311,402	368,780
Free cash flow					
Operating cash flow, excl. working capital	45,080	64,125	59,055	65,485	74,173
Working capital changes	(7,990)	(4,600)	(5,463)	(3,369)	(4,475)
Capital expenditure	(14,940)	(13,270)	(6,142)	(11,581)	(13,521)
Investment changes/acquisition	(470)	720—	—	—	—
Free cash flow	21,680	46,975	47,450	50,535	56,176
Ratios (%)					
EBITDA margin	31.4	33.2	33.5	32.8	32.7
EBIT margin	27.8	29.7	29.3	29.0	29.0
Debt/equity	—	—	—	—	—
Net debt/equity	(0.6)	(0.6)	(0.7)	(0.7)	(0.7)
RoAE	36.1	36.7	29.4	27.3	26.2
RoACE	33.6	35.2	28.9	27.6	27.0

Source: Company, Kotak Institutional Equities estimates

NOVEMBER 17, 2009

UPDATE

Coverage view: **Attractive**

Price (Rs): **223**

Target price (Rs): **150**

BSE-30: **17,033**

Fund raising—deleveraging and diversification. Bajaj Hindustan has announced plans to raise up to Rs20 bn through the issue of equity shares or equity-linked convertible instruments. We believe the primary purpose of the issuance is to reduce leverage; media reports suggest that BJH also plans to foray into power generation. The management has indicated that the power project is under consideration; however, further details will be available only when plans are finalized and approved.

Company data and valuation summary

Bajaj Hindustan

Stock data		Forecasts/Valuations			
		2009	2010E	2011E	
52-week range (Rs) (high,low)	242-38	EPS (Rs)	(1.0)	23.7	17.6
Market Cap. (Rs bn)	42.7	EPS growth (%)	(92.1)	(2,471.7)	(25.6)
Shareholding pattern (%)		P/E (X)	(223.7)	9.4	12.7
Promoters	37.1	Sales (Rs bn)	23.3	45.6	49.4
FIs	17.9	Net profits (Rs bn)	(0.2)	4.5	3.4
MFs	6.4	EBITDA (Rs bn)	5.1	9.7	9.0
Price performance (%)		EV/EBITDA (X)	14.8	6.9	6.7
Absolute	1M 3M 12M	ROE (%)	(1.2)	19.3	11.9
Rel. to BSE-30	4.0 10.5 158.6	Div. Yield (%)	0.2	0.3	0.3

QUICK NUMBERS

- Plans to raise up to Rs20 bn
- Considering a 400 MW power plant in the initial phase

Plans to raise up to Rs20 bn through equity/equity-linked securities

BJH plans to raise up to Rs20 bn through the issue of equity shares or equity-linked/convertible securities in the domestic or international markets. The company has not yet clarified the intended use of the proceeds; however, we believe they will primarily be used for the repayment of debt to reduce the excessive leverage. Media reports indicate that part of the funds raised may also be used for setting up a 400 MW power plant in UP.

Media reports indicate plans to foray into power generation

Media reports indicate that BJH is planning a foray into power generation in the state of Uttar Pradesh. The project is said to be of 1,060 MW, with Phase-I of 400 MW at a cost of Rs16 bn and Phase-II of 660 MW at a cost of Rs30 bn. Necessary clearances for the project are said to be already in place and construction on Phase-I is expected to begin in January 2010. As per the news report, Phase-I is likely to be operational by September 2011. The company is also said to be looking to acquire coal mines for its power plants with an estimated investment of around Rs10 bn. The management has indicated that it is considering setting up the power plant—details regarding the size, timeline and investment were not provided as the plan is still at a discussion stage.

Valuations remain expensive

We find BJH's valuations expensive at 12.7X and 6.7X FY2011E EPS and EBITDA, respectively, considering its low return ratios and high leverage. We estimate BJH to generate RoACE of only 7.8% and CRoCI of 11% in FY2011E at the peak of the cycle, which we believe is quite low. We believe BJH should trade at a discount to peers who have a much higher return ratios and better sustainability of earnings in a lower sugar price environment. We maintain our SELL rating and target price of Rs150.

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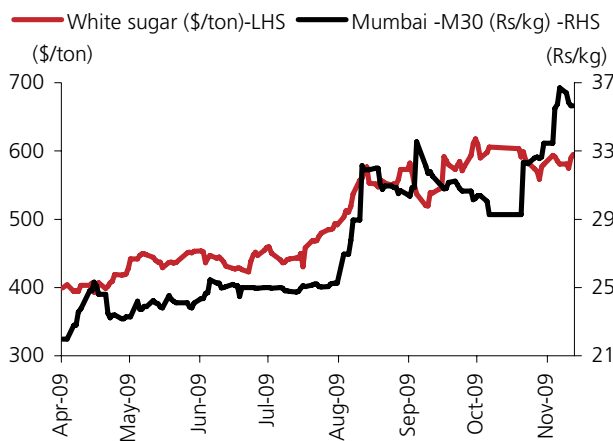
Power project—a long-term venture with large investment

We believe the power project is a very long-term plan for BJH with a huge investment requirement almost equivalent to the current capital employed in the company. A ~1,000 MW power plant will require capital investment of about Rs40-50 bn against BJH's current capital employed of around Rs52 bn. A coal-based power plant takes almost 30-36 months for commissioning after initial clearances are achieved; hence, we do not expect the plant to commission within 18 months. Further, there is no clarity yet on the funding of the capex, level of clearances received, coal linkages etc.

Domestic sugar price rising due to delay in crushing

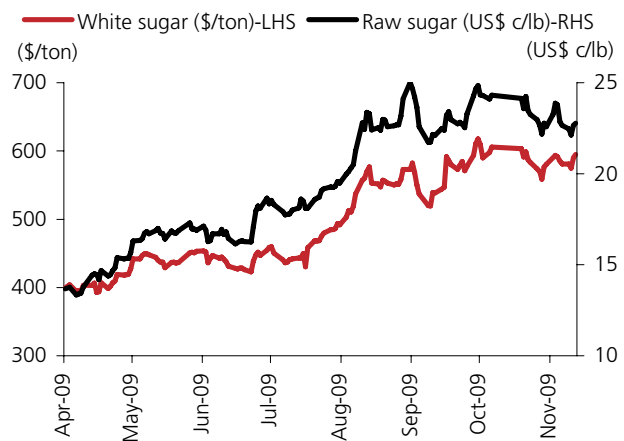
We believe the recent increase in domestic sugar price to almost Rs36/kg is largely due to the delay in crushing in Uttar Pradesh. Domestic prices have increased almost 10% over the past fortnight whereas the international raw sugar price has remained flat at around US\$ c22-23/lb. We believe the domestic prices may soften a bit after the crushing season begins and the supply of sugar improves.

Domestic sugar price outpacing international prices
Domestic (M-30) sugar, International white sugar prices



Source: Bloomberg

International sugar price trend
International raw and white sugar prices



Source: Bloomberg

Operating assumptions

Bajaj Hindustan, Operating assumptions (consolidated), September fiscal year-ends, 2008-11E

	2008	2009E	2010E	2011E
Sugar segment				
Sugarcane crushed (lac tons)	114.8	67.3	68.3	118.3
Average recovery ratio (%)	9.9	9.0	9.4	9.8
Sugar produced (lac tons)	11.4	6.1	6.4	11.6
Raw sugar imports (lac tons)	—	—	7	4
Sugar sold (lac tons)	10.7	9.1	13.5	15.4
Average realisation (Rs/kg)	16.3	23.0	31.7	29.7
Sugarcane cost (Rs/ctl)	137	155	185	195
Landed cost of raw sugar (US\$ c/lb)	—	—	18.1	21.5
Distillery segment				
Alcohol produced (mn ltrs)	139	83	74	128
Alcohol sold (mn ltrs)	150	85	74	125
Average realisation (Rs/ltr)	24.0	23.0	29.0	27.0
Co-generation segment				
External sales (lac units)	1,103	977	1,513	2,061
Average realisation (Rs/unit)	3.2	3.1	4.0	4.1

Source: Company, Kotak Institutional Equities estimates

Comparative valuations

Comparative valuations for global sugar companies

Company	13-Nov-09		Year-end	Mkt Cap. (US\$ mn)	EV/EBITDA (X)			PER (X)		
	Price (local)	Currency			LFY	FY1	FY2	LFY	FY1	FY2
India										
Bajaj Hindusthan	223.3	INR	Sep	852	14.7	6.8	6.6	NM	9.4	12.6
Balrampur Chini	145.0	INR	Sep	803	8.4	6.6	6.3	14.5	10.8	10.7
Shree Renuka Sugars	227.5	INR	Sep	1,556	14.4	5.3	5.9	28.1	9.4	11.2
Triveni Engineering	106.6	INR	Sep	593	13.6	7.5	5.6	22.5	15.7	10.8
Average India					12.8	6.5	6.1	21.7	11.3	11.3
Brazil										
Acucar Guarani	5.2	BRL	Mar	850	8.4	6.8	4.9	NM	14.6	11.3
Cosan	20.6	BRL	Mar	4,707	24.0	9.4	6.5	NM	10.5	12.6
Sao Martinho	19.0	BRL	Mar	1,237	12.7	9.4	7.9	NM	28.6	31.1
Average Brazil					15.0	8.5	6.4	NM	17.9	18.3
Europe										
Agrana	62.5	EUR	Feb	596	13.4	7.3	6.5	NM	15.9	14.3
Suedzucker	15.2	EUR	Feb	1,933	11.3	6.8	6.2	17.7	14.3	12.8
Tate & Lyle	4.8	GBP	Mar	1,316	11.5	7.5	6.8	24.5	12.7	11.4
Average Europe					12.1	7.2	6.5	21.1	14.3	12.8
Africa										
Illovo	32.8	ZAR	Mar	1,549	8.5	6.3	5.3	15.8	15.3	12.9
Tongaat Hulett	100.0	ZAR	Dec	1,388	8.0	7.2	6.6	15.9	14.7	12.5
Average Africa					8.3	6.8	6.0	15.9	15.0	12.7
Others										
CSR	1.9	AUD	Mar	2,814	9.4	7.1	5.8	NM	17.5	12.8
Khon Kaen Sugar	13.1	THB	Oct	610	16.0	11.8	10.3	23.8	19.5	15.8
Average Others					12.7	9.4	8.1	23.8	18.5	14.3
Global average					12.5	7.6	6.5	20.4	14.9	13.8

Source: Bloomberg, Kotak Institutional Equities estimates

Summary financials

Bajaj Hindustan, Profit model, balance sheet, cash model (consolidated), September fiscal year-ends, 2007-2011E (Rs mn)

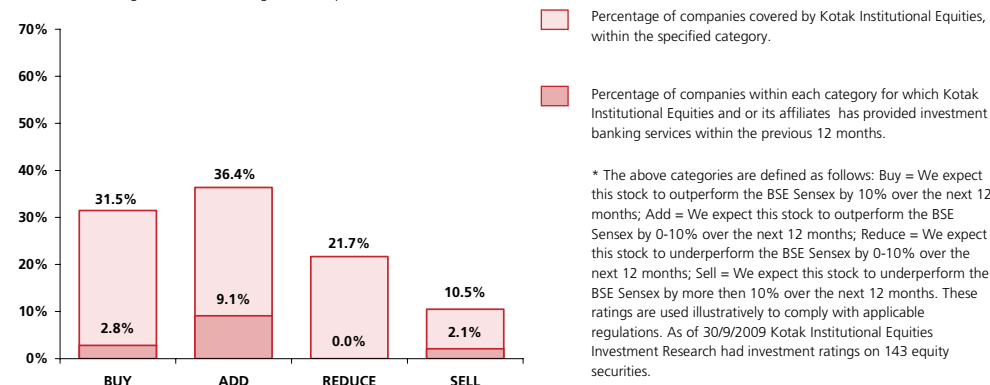
	2007	2008	2009E	2010E	2011E
Profit model					
Total income	17,805	20,701	23,286	45,619	49,430
EBITDA	1,907	2,308	5,069	9,721	8,957
Interest (expense)/income	(915)	(2,071)	(2,805)	(1,660)	(1,144)
Depreciation	(1,611)	(2,799)	(2,994)	(3,136)	(3,174)
Other income	323	(370)	380	357	382
Pretax profits	(295)	(2,932)	(350)	5,281	5,021
Extraordinary items	—	—	1,580	—	—
Reported PBT	(295)	(2,932)	1,231	5,281	5,021
Tax	201	980	(216)	(827)	(1,696)
Profit after tax	(94)	(1,951)	1,014	4,454	3,325
Adjusted PAT	20	(1,779)	(191)	4,528	3,368
Diluted earnings per share (Rs)	0.1	(12.6)	(1.0)	23.7	17.6
Balance sheet					
Total equity	14,060	12,014	20,362	25,322	28,556
Deferred taxation liability	1,045	39	248	1,075	1,511
Minority interest	226	673	636	562	519
Total borrowings	35,934	43,351	33,885	27,544	20,104
Current liabilities	10,129	11,693	7,312	10,210	9,766
Total liabilities and equity	61,395	67,770	62,442	64,712	60,455
Cash	2,674	1,740	2,027	3,536	3,230
Other current assets	17,875	24,181	20,948	24,198	22,760
Net fixed assets	40,846	41,848	39,466	36,978	34,464
Investments	1	1	1	1	1
Total assets	61,395	67,770	62,442	64,712	60,455
Free cash flow					
Operating cash flow, excl. working capital	1,472	1,025	3,284	7,030	6,554
Working capital changes	(1,379)	(4,474)	(621)	668	2,560
Capital expenditure	(16,969)	(3,082)	(611)	(648)	(661)
Investment changes	(3,497)	(560)	—	—	—
Other income	3	8	380	357	382
Free cash flow	(20,369)	(7,083)	2,432	7,406	8,834
Ratios (%)					
EBITDA margin	10.7	11.1	21.8	21.3	18.1
Net debt/equity	220.2	345.2	154.6	90.9	56.1
Net debt/EBITDA	17.4	18.0	6.3	2.5	1.9
RoAE	0.1	(13.1)	(1.2)	19.3	11.9
RoACE	1.0	(0.8)	4.9	10.3	7.8
CRoCI	3.3	4.0	6.7	11.6	11.0

Source: Company, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Kawaljeet Saluja, Augustya Somani."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

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NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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