



Economy News

- ▶ In order to push the gargantuan Government borrowing programme, the RBI may have to throw in a sweetener by allowing banks higher headroom for parking securities in the HTM bucket (BL)
- ▶ India will miss its power capacity addition target set for the five years ending March 2012, officials said on Tuesday, increasing the possibility its industries will have to resort to costly alternatives. "We had planned 78,000 MW. We may lose 7-8,000 MW only," India's power minister Sushilkumar Shinde said, largely attributing this gap to fuel shortages and natural calamities. But the power regulator said the shortfall could be as high as over 21,000 MW. (ET)
- ▶ The below-average monsoon this year and the subsequent shortfall in the production of sugarcane in India will see the prices of Indian Made Foreign Liquor (IMFL) increase by 10-15 per cent in the next financial year, say industry experts. This would make it the second year of price increases. The IMFL industry had already effected an average label price increase of 8-10 per cent in April this year on account of rising prices of raw materials like molasses and glass bottles. (BS)
- ▶ The government will sell equity in 6-7 state-owned companies over the next 12 months, Finance Secretary Ashok Chawla has said. "There will be 6-7 companies that will go to market in the next 10-12 months, all may not go in the current fiscal," Chawla said. He did not, however, name the companies and quantify the capital the government expected to raise through this. (BS)

Corporate News

- ▶ **Mahindra & Mahindra (M&M)** will spend around Rs.20bn to augment capacity at its Chakan plant that is expected to be operational in October, as the \$6.3-billion company looks to crack the US car market that accounts for more than a fifth of all cars sold globally. The company is currently channelling a Rs.50bn capex to build a new plant at Chakan and roll out three new vehicles. (ET)
- ▶ The Delhi High Court has rejected an attempt by German drug and agrochemical major Bayer Corporation to introduce a linkage between regulatory approval of a medicine and its patent status through a court directive. Bayer's attempt was to stop the Drugs Controller General of India (DCGI) from allowing **Cipla** to produce and sell a low-cost version of Bayer's anti-cancer drug Nexavar, the brand name for Sorafenib Tosylate. (BS)
- ▶ **ICICI Bank** plans to focus more on growing its home and car loan portfolios in the months ahead and said its rates are competitive in the industry. "We would continue to focus more on home, car loans," ICICI Bank Managing Director & CEO, Chanda Kochhar, said (ET)
- ▶ Quippo Telecom, a pure play telecom tower company, on Tuesday completed the acquisition for a 49% stake in the tower arm of **Tata Teleservices** for Rs.23.7bn. QTIL, which is a Srei Group company, made a payment for a 30% stake in WTTIL, while for the remaining 19%, it would transfer 5,000 towers to the new company formed post the acquisition. Following the acquisition, Tata Teleservices would merge its tower arm with Quippo to create a Rs.130bn entity with 18,000 towers, making it the second-largest firm in terms of number of towers. (ET)
- ▶ **Unitech Wireless**, 49% owned by Norway's Telenor, said on Tuesday it had secured a Rs.50bn (\$1 billion) loan from State Bank of India to fund its mobile phone network rollout. (ET)

Equity

		% Chg			
	18 Aug 09	1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	15,035	1.7	2.0	5.1	
NIFTY Index	4,459	1.6	1.9	3.3	
BANKEX Index	8,078	1.6	(0.7)	(0.5)	
BSET Index	3,872	0.1	10.4	35.6	
BSETCG INDEX	12,314	3.6	1.4	9.5	
BSEOIL INDEX	9,514	0.9	3.5	(3.0)	
CNXMcap Index	5,809	1.7	6.1	22.3	
BSESMCAP INDEX	6,341	2.1	11.6	32.6	
World Indices					
Dow Jones	9,218	0.9	5.4	8.8	
Nasdaq	1,956	1.3	3.7	12.8	
FTSE	4,686	0.9	6.8	4.5	
Nikkei	10,285	0.2	9.2	10.4	
Hangseng	20,306	0.8	7.7	15.4	

Value traded (Rs cr)

	18 Aug 09	% Chg - Day
Cash BSE	5,088	4.5
Cash NSE	15,796	2.4
Derivatives	73,656	3.8

Net inflows (Rs cr)

	17 Aug 09	% Chg	MTD	YTD
FII	(974)	(204)	471	36,985
Mutual Fund	(682)	(245)	(757)	3,600

FII open interest (Rs cr)

	17 Aug 09	% Chg
FII Index Futures	11,534	5.4
FII Index Options	23,774	3.5
FII Stock Futures	19,499	4.9
FII Stock Options	900	4.5

Advances / Declines (BSE)

18 Aug 09	A	B	S	Total	% total
Advances	165	906	215	1,286	67
Declines	37	431	133	601	31
Unchanged	0	32	9	41	2

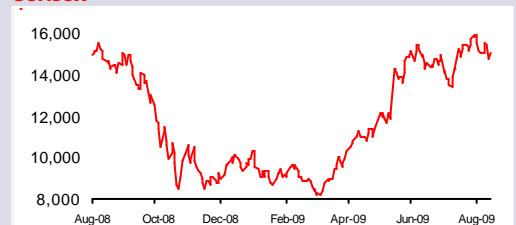
Commodity

			% Chg			
	18 Aug 09	1 Day	1 Mth	3 Mths		
Crude (NYMEX) (US\$/BBL)	69.9	1.0	10.0	17.2		
Gold (US\$/OZ)	938.6	0.4	0.4	1.7		
Silver (US\$/OZ)	14.0	(0.0)	5.0	(0.6)		

Debt / forex market

	18 Aug 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.30	7.30	7.03	6.65
Re/US\$	48.79	48.96	48.20	47.92

Sensex



COMPANY UPDATE

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NIIT TECHNOLOGIES LTD (NIIT)

PRICE: Rs.134

TARGET PRICE: Rs.141

RECOMMENDATION: ACCUMULATE

FY10E P/E: 7.4x

We recently spoke to the management of NIIT Technologies. There are some signs of stability with more leads and prospects. However, the macro scene remains hazy and the management cautious in the near-term. Pricing negotiations continue and reductions have happened. Cost control and better efficiency remain the focus areas. We make marginal changes to our FY10 EPS estimates to Rs.18.2. Fine-tune interest rate assumptions and longer term estimates, leading to a DCF - based price target of Rs.141 v/s Rs.110 earlier. Maintain ACCUMULATE despite un-demanding valuations due to recent sharp run-up.

We recommend buying the stock on declines. Post the recent sharp run-up, we believe that, the current price discounts potential near-term positives adequately and may react down before moving up on better visibility for FY11.

The main takeaways are as under.

Summary table

(Rs mn)	FY08	FY09	FY10E
Sales	9,416	9,799	8,881
Growth (%)	6.3	4.1	(9.4)
EBITDA	1,763	1,763	1,682
EBITDA margin (%)	18.7	18.0	18.9
Net profit	1,353	1,147	1,066
Net cash (debt)	676	537	1,181
EPS (Rs)	23.1	19.6	18.2
Growth (%)	(30.3)	(15.2)	(7.1)
CEPS	29.7	26.8	25.5
DPS (Rs)	6.5	6.0	6.0
ROE (%)	33.4	27.7	25.3
ROCE (%)	31.4	31.4	30.9
EV/Sales (x)	0.8	0.8	0.9
EV/EBITDA (x)	4.1	4.2	4.0
P/E (x)	5.8	6.9	7.4
P/Cash Earnings	4.5	5.0	5.3
P/BV (x)	1.8	2.0	1.7

Source: Company, Kotak Securities - Private Client Research

Early signs of stability

- The growth rates in the recent past have been impacted because of continuing client issues. The picture is mixed, as of now.
- The management has indicated that, there is some stability which it has seen in select areas, whereas, others remain challenging.
- Insurance and Travel & Transportation verticals have seen some improvement in demand. However, the BFS vertical remains troubled.
- Also, the development and other discretionary work remains impacted with little spending by clients on the same. On the other hand, run-the-business jobs remain un-impacted
- Clients continue to focus more on cutting costs and reducing flab.
- While sales cycles remain long, there are more prospects and leads, which now need to be converted into business.

Pricing pressure continues

- The company is also facing pricing pressures with new clients coming in at lower than average realizations. Even existing contracts are getting re-negotiated at lower prices.
- The management had indicated an impact of about 1.4% on pricing over the next three quarters of FY10 because of imminent pricing reductions. We understand that, these reductions are happening.
- On the other hand, NIIT also expected to reverse some of the earlier pricing cuts, because of improved client prospects.
- In other cases, the company is trying to mitigate the impact of pricing cut requests by asking for greater volumes.
- We remain cautious on the future prospects in the back drop of the evolving macro scene.
- We share the management's concern that, there will be pricing pressure in the near term as clients focus on their costs and greater value.

Cost control initiatives; employee additions only need - based

- Understandably, the company is focusing increasingly on cutting and controlling costs, while improving efficiencies.
- While the company has cut down on the discretionary spend, it is trying to further improve utilization levels.
- The company has not given any salary increments in this fiscal.
- NIIT has reduced about 200+ employees on a quarterly basis over the past four quarters, mainly in the BPO division.
- NIIT is now adding employees based on actual needs, without adding to the bench. In our opinion, the natural attrition may lead to further reduction in the employee strength but not at the same pace as in the previous quarters.

Non-linear initiatives - to gain traction over medium term

- NIIT has taken various initiatives on the non-linear side. These include Infrastructure management services, Platform based services and Managed services. The company has also launched the SaaS initiative recently. The company has platforms like IPF3 (Insurance Process Framework), Subscribe (ROOM) & Monalisa (SofTec).
- Revenues from these services formed about 25% of 1QFY10 revenues (27% in 4Q).
- According to the management, these initiatives have been doing well but are expected to gain traction only after the improvement in the macro scene.
- Revenues from IPF3 have not matched up to expectations but large insurance companies with multi-country presence are expected to become clients.
- Revenues from Subscribe are expected to go up in line with the increase in number of policy-holders.
- The platform based services should gather steam in the future quarters (with ROOM's platform having been re-launched) while the IMS business is expected to contribute for the whole fiscal.
- These initiatives are expected to help the company restrict impact on margins due to salary hikes and potential rupee appreciation, if any.

1QFY10 results below expectations mainly due to lower volumes and also the impact of forex losses.**Quarterly performance**

(Rs mn)	1QFY10	4QFY09	% Chg	1QFY09	% Chg
Income	2182	2269	-3.9	2458	-11.2
Expenditure	1788	1867		2002	
Operating Profit	394	403	-2.2	456	-13.6
Depreciation	95	100		112	
Gross Profit	299	303	-1.3	344	-13.1
Other Income	-84	6		62	
PBT	215	309	-30.4	406	-47.0
Tax	37	40		51	
PAT	178	269	-33.8	355	-49.9
Minority interest	2	6		4	
Adjusted PAT	176	263	-33.0	351	-49.9
Shares (mns)	59	59		59	
EPS (Rs)	3.0	4.5		6.0	
OPM (%)	18.1	17.7		18.6	
GPM (%)	13.7	13.3		14.0	
NPM (%)	8.2	11.8		14.4	

Source : Company

Future prospects

- We have fine-tuned our FY10 earnings estimates marginally. We have assumed the rupee to appreciate to Rs.46 per USD by FY10 end.
- Revenues are expected to be about 9.5% lower YoY mainly due to the expected volume reduction in addition to the billing rate pressures.
- EBIDTA margins are expected to be higher over the remaining quarters on the back of higher off-shore content, better utilization rates and cost control.
- Net profits are expected to be Rs.1.07bn, translating into earnings of Rs.18.2 in FY10.

Valuations and recommendation

We maintain ACCUMULATE on NIIT Technologies with a price target of Rs.141

- We remain cautious on the demand scenario in the near term. However, we have incorporated some improvement in our demand assumptions, based on the management interaction.
- We have also made suitable changes to our DCF model. A WACC of 12% and terminal growth of 3% leads us to a fair value of Rs.141 for the stock.
- At these levels the stock will quote at about 8x FY10 earnings.
- The stock has run up in the past few sessions and the price now discounts potential near - term positives.
- Thus, the stock may react lower in the near term, before moving up on better visibility for 2HFY10 and FY11. Thus, we recommend an **ACCUMULATE** on the stock. We remain positive on the longer term prospects of the company.

Concerns

- Rupee appreciation beyond our assumed levels could provide a downward bias to our earnings estimates.
- A prolonged recession in major global economies could impact growth prospects of NIIT.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
18-Aug	Aarey Drugs	Kaushik Shah Shares & Sec. Ltd	B	25,000	51.20
18-Aug	Anjani Synth	Amit Shantilal Mehta	B	58,715	24.60
18-Aug	Anjani Synth	Narendra Vallabhaji Bahuva	S	56,684	24.60
18-Aug	Anjani Synth	Sagar Tex Creation Pvt.Ltd	S	70,000	24.93
18-Aug	Avance Techn	Suresh M Goradia	B	600,000	2.25
18-Aug	Avance Techn	Ravi Chandran Muthiahnaoar	B	510,000	2.33
18-Aug	Avance Techn	Sri Rammandayam Kainkaryam	B	275,000	2.45
18-Aug	Avance Techn	Bharatkumar Vimalchand Ranka	B	700,000	2.25
18-Aug	Avance Techn	Bahvesh Champalal Jain	B	450,000	2.25
18-Aug	Avance Techn	Ashok Ashok	B	300,000	2.26
18-Aug	Avance Techn	Shah Ashok	B	350,000	2.26
18-Aug	Avance Techn	Jayesh Manubhai Suthar	B	350,000	2.26
18-Aug	Avance Techn	Jasmin Susilkumar Bajoriya	S	300,000	2.25
18-Aug	Avance Techn	Chandrakant B Shah	S	765,405	2.26
18-Aug	Avance Techn	Vipul B Gondaliya	S	267,000	2.25
18-Aug	Avance Techn	Kaushik Gangaram Rathod	S	500,000	2.26
18-Aug	Avance Techn	Jasmin S Bajoriya	S	510,000	2.25
18-Aug	Avance Techn	Vicky Rajeshbhai Jhaveri	S	650,000	2.26
18-Aug	Avon Corp	Withal Commercial Pvt Ltd	B	600,000	9.84
18-Aug	Avon Corp	KII Ltd	S	600,000	9.85
18-Aug	Avt Natu Pro	The Midland Rubber And Produce Co	B	209,958	80.00
18-Aug	Avt Natu Pro	Ajit Thomas	S	209,468	80.00
18-Aug	Bafna Pharma	Marlin Deepa R	B	90,000	22.71
18-Aug	Jai Mata Gla	Moti Lal Bhasin	S	60,000	10.59
18-Aug	Kadamb Const	Sukusama Trading & Investments Pvt Ltd	B	20,025	87.64
18-Aug	Parshart Inv	Krunal Gopaldas Rana	B	20,000	10.75
18-Aug	Parshart Inv	Sanjaybhai B Valodra	B	25,000	11.00
18-Aug	Parshart Inv	Babulal Goyal	S	20,000	10.75
18-Aug	Parshart Inv	Mahesh Kumark Virwani	S	25,000	11.00
18-Aug	Ram Kaashyap	Harish Ratilal Shah	B	50,000	11.28
18-Aug	Ram Kaashyap	Setu Securities Pvt Ltd	B	99,000	11.28
18-Aug	Ram Kaashyap	Avani Kaushik Kanakia	B	50,000	11.28
18-Aug	Ram Kaashyap	Triple Enclave Infra Developer	S	292,100	11.28
18-Aug	Ram Kaashyap	Power Play Construction Pvt Ltd	S	100,000	11.28
18-Aug	Refno Res Ch	Dheeraj Kumar	B	20,398	8.55
18-Aug	Refno Res Ch	Baldev Raj Bhatia	S	21,248	8.55
18-Aug	Riba Textile	Sb Liquor Distributors Pvt Ltd.	S	60,965	50.40
18-Aug	Saag Rr Infr	Saag Mauritius Ltd	S	300,000	21.95
18-Aug	Spectacle	Suvidha Securities Pvt Ltd	B	277,620	41.72
18-Aug	Spectacle	Hemant Madhusudan Sheth	B	335,000	42.05
18-Aug	Splash Media	Suvudha Securities Pvt Ltd	S	7,093	140.14
18-Aug	Techtran Pol	Rahul Doshi	B	87,875	18.41
18-Aug	Venus Vent	Amrut Securities Ltd.	B	50,000	43.10
18-Aug	Venus Vent	Vipul Hiralal Shah	S	50,000	43.10
18-Aug	Vjil Conslti	Nageswara Rao Narayanamnageswara	S	83,589	8.03
18-Aug	Yuken India	Arcadia Share & Stock Brokers Pvt. Ltd	B	16,159	78.30

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Larsen & Toubro	1,479	4.6	14.1	2.6
HDFC	2,323	3.3	6.7	1.9
ICICI Bank	720	2.1	6.2	6.2
Losers				
Infosys Tech	1,973	(0.5)	(1.6)	1.4
Cipla	264	(0.8)	(0.4)	1.4
Unitech	85	(0.6)	(0.3)	84.7

Source: Bloomberg

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