



Economy News

- ▶ The government has proposed to extend the excise waiver and income-tax holiday benefit to power projects based on supercritical technology, including large-sized energy-efficient power equipment. The proposal is part of the new mega power policy being worked out. The existing policy has no provision for giving incentives to the new-generation supercritical power projects. (ET)
- ▶ The production for auto ancillary companies is on a recovery path buoyed by the pick-up in sales of passenger cars and two-wheelers. Alongside, the investment climate has improved since January this year, according to a review by the Centre for Monitoring Indian Economy (CMIE). "Aided by a 7% growth in the OEM segment and an 8.5% rise in exports and after-market segment, we expect ancillary production to grow by 8.2% in 2009-10," it said. (ET)
- ▶ After falling for three weeks in a row, the inflation rate rose to -1.53% for the week ended August 8, primarily due to dearer primary articles, especially food items. The inflation rate for the previous week ended August 1 was -1.74% and stood at 12.82% during the corresponding period in 2008. (BS)

Corporate News

- ▶ **DLF** has bagged a 350-acre plot for Rs.17.5bn in Haryana for developing a recreation and leisure project, making it one of the costliest land deals in recent times. (BS)
- ▶ Global rating agency Moody's said the rating of **Larsen & Toubro (L&T)** could be downgraded in the future due to a surge in the company's debt. Moody's has changed the outlook on the company's Baa2 issuer rating, which reflects moderate credit risk, to negative from stable. (BS)
- ▶ There is further trouble in store for **Sun Pharmaceutical Industries'** US subsidiary, Caraco Pharmaceutical Laboratories. Holzer Holzer & Fistel, a US-based law firm, has announced it would file a class action lawsuit in the District Court at Michigan on behalf of investors of Caraco Pharmaceutical Laboratories. The lawsuit alleges the company failed to disclose problems in complying with certain US Food and Drug Administration (FDA) regulations and misrepresented or failed to disclose material information relating to its efforts to obtain FDA approval for some of its drugs. (BS)
- ▶ Stainless steel major **JSL Ltd's** application for restructuring Rs.65bn of debt was admitted in the Corporate Debt Restructuring (CDR) cell, at a lenders' meet on August 11, the company informed the stock exchanges after the lenders cleared the minutes of the meeting. (BS)
- ▶ **GMR Infrastructure**, the Rs.45bn Bangalore-based infrastructure developer with a focus on power generation, airports development, highways and urban infrastructure, is understood to be initiating plans for an 800-Mw coal-fired power plant on the eastern coast of India. Industry sources indicated that this power plant will be in the vicinity of its existing 388-Mw power plant at Vemagiri in Andhra Pradesh. (BS)
- ▶ **Sundram Fasteners (SFL)** is serious on diversifying into non-auto sector. While expanding its traditional auto component business, it wants to insulate itself from the cyclical impact associated with the auto sector. Disclosing the diversification strategy at the 46th AGM in Chennai on Thursday, company chairman and MD, Suresh Krishna said: "In the not-so-distant future, we will diversify into the non-auto sector. We feel it is important for the company. The board is already discussing it." (ET)
- ▶ The Government is likely to divest some of its holding in public sector **Rural Electrification Corporation (REC)** through a follow-on public offer by October-November, a senior government official said. (ET)

Equity

		% Chg			
	20 Aug 09	1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	15,012	1.4	(0.3)	9.3	
NIFTY Index	4,453	1.4	(0.4)	5.8	
BANKEX Index	8,144	1.9	(2.7)	5.9	
BSET Index	3,882	1.6	5.1	38.6	
BSETCG INDEX	12,346	1.0	(0.2)	14.4	
BSEOIL INDEX	9,351	1.0	(0.9)	(3.5)	
CNXMcap Index	5,764	0.8	2.3	14.2	
BSESMCAP INDEX	6,360	0.8	8.9	19.0	
World Indices					
Dow Jones	9,350	0.8	4.9	12.8	
Nasdaq	1,989	1.0	3.8	17.3	
FTSE	4,757	1.4	6.1	9.5	
Nikkei	10,383	1.8	6.2	10.6	
Hangseng	20,329	1.9	4.6	18.6	

Value traded (Rs cr)

	20 Aug 09	% Chg - Day
Cash BSE	4,745	(8.7)
Cash NSE	13,246	(17.1)
Derivatives	61,883	(25.3)

Net inflows (Rs cr)

	21 Aug 09	% Chg	MTD	YTD
FII	(872)	(19,059)	(396)	36,118
Mutual Fund	(190)	(240)	(811)	3,546

FII open interest (Rs cr)

	21 Aug 09	% Chg
FII Index Futures	11,628	(0.8)
FII Index Options	24,192	0.6
FII Stock Futures	20,073	2.6
FII Stock Options	1,196	8.2

Advances / Declines (BSE)

Advances / Declines (\$SE)						
20 Aug 09	A	B	S	Total	% total	
Advances	154	756	200	1,110	57	
Declines	48	600	157	805	41	
Unchanged	3	27	9	39	2	

Commodity

		20 Aug 09	1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US\$/BBL)	72.8	(0.2)	12.4	19.2
Gold (US\$/OZ)		940.7	(0.1)	(0.8)	(1.4)
Silver (US\$/OZ)		13.9	0.7	2.5	(4.3)

Debt / forex market

	20 Aug 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.30	N/A	7.11	6.65
Re/US\$	48.70	48.79	48.20	47.49

Sensex



RESULT UPDATE**Dipen Shah**dipen.shah@kotak.com
+91 22 6621 6301**Mphasis BFL LTD****PRICE: Rs.518****TARGET PRICE: Rs.589****RECOMMENDATION: BUY****FY10E P/E: 11x**

3QFY10 results were above expectations. Above-industry growth in volumes continues with a growth of about 4% during the quarter, in our view; compares favourably with larger peers. Fifth consecutive quarter of 4 - 7% volume growth; HP support is a differentiator, in our view. Top 10 clients contribute to growth; revenues up 18% QoQ. Overall pricing stable; however risks of pricing reductions remain. Margins down slightly, largely due to rupee and higher employee costs, we believe. We retain our optimism on Mphasis' future prospects. Maintain BUY a price target of Rs.589 (v/s Rs.344 earlier), a target PE of 12.6x. However, we opine that, the recent sharp run-up in stock price and the uncertain global economic situation may keep stock range bound in near term. A prolonged recession in user economies, price reductions, if any and a sharper-than-expected rupee appreciation are key risks to our estimates and recommendation.

Summary table (Rs mn)

Year end Oct	FY08 (7m)	FY09	FY10E
Revenues	19,065	42,451	46,901
Growth (%)	34.9	29.9	10.5
EBITDA	3,884	11,250	12,244
EBITDA margin (%)	20.4	26.5	26.1
Net profit	2,961	8,867	9,772
Net cash (debt)	677	475	8,127
EPS (Rs)	24.3	42.4	46.7
Growth (%)	99.0	74.7	10.2
CEPS	32.5	52.3	57.1
DPS (Rs)	2.0	3.5	4.5
ROE (%)	39.3	48.3	87.2
ROCE (%)	40.3	51.1	93.7
M Cap/Sales (x)	5.8	2.6	2.3
EV/EBITDA (x)	16.5	9.8	9.0
P/E (x)	21.6	12.4	11.2
P/Cash Earnings	16.1	10.0	9.2
P/BV (x)	7.7	4.9	3.5

Source: Company, Kotak Securities - Private Client Research

3QFY09 Results

(Rs mn)	3QFY09	2QFY09	QoQ (%)	3QFY08	YoY (%)
Turnover	11056	10485	5.4	7760	35.1
Expenditure	8137	7667		6299	
EBITDA	2919	2818	3.6	1461	92.9
Depreciation	514	552		427	
EBIT	2406	2266	6.2	1034	119.2
Interest	0	-9		-33	
ESOP/EO expns	0	0		0	
Other Income	32	144		7	
PBT	2438	2419	0.8	1074	125.3
Tax	146	175		67	
PAT	2292	2245	2.1	1007	122.9
Shares (mns)	209	209		209	
EPS (Rs)	11.0	10.7		4.8	
Margin (%)					
EBDITA	26.4	26.9		18.8	
EBIT	21.8	21.6		13.3	
PAT	20.7	21.4		13.0	

Source : Company; Fiscal year - November - October

Note : Mphasis has changed the fiscal to November - October WEF November 08. Thus, results for 3QFY08 (May - July 08) have been declared for the first time.

- Revenues grew by 5.4% on a sequential basis, on the back of higher growth in IT services (4.3%) and ITO services (11.9%). BPO business grew by about 2.3% QoQ.

Revenue break up

(Rs mn)	2QFY09	3QFY09
IT services	6747.7	7039.0
QoQ (%)		4.3
BPO	1837.5	1879.8
QoQ (%)		2.3
ITO	1907.1	2133.6
QoQ (%)		11.9

Source : Company

4% volume growth - impressive

- We understand that, the overall volume growth was 4%, in line with the growth reported during the previous quarter. The division wise volume growth is not available.
- This is the fifth consecutive quarter of 4 - 7% volume growth which, in our opinion, is impressive.
- We note that, most of the larger peers have reported very marginal sequential growth in volumes during the quarter.
- On our view, one of the differentiators for Mphasis has been the HP-EDS relationship. HP-EDS and HP-EDS led revenues continued to grow during the quarter and contributed nearly 69% of overall revenues.
- Most of the HP-EDS revenues is from EDS work. Mphasis is now trying to enter the Greater HP business. We view this as a potentially big growth driver for Mphasis.
- Within verticals, the BFSI vertical grew by a 8% while the Logistics. Manufacturing / Retail vertical and Healthcare vertical reported decent QoQ growth of about 10% QoQ, albeit on relatively smaller bases.
- Geographically, most of the growth came from India / Middle - East geography, where revenues increased by nearly 40% QoQ.
- In terms of services, ADM revenues rose by nearly 9% QoQ, whereas the Application Development revenues witnessed a sequential decline. This is in line with expectations with clients postponing the discretionary projects in favour of the run-the-business work.

Top-10 accounts drive growth

- Revenues from the Top - 10 accounts contributed to a large part of the growth during the quarter. Revenues from these accounts grew by nearly 18%, indicating a greater wallet share for Mphasis.
- Mphasis' focus has been on not losing any of the existing accounts and mining them deeper to get a higher share of the clients' spending budgets.
- We understand that, there have been no major issues during the quarter with any of the major accounts.
- In our opinion, the HP - EDS relationship has allowed Mphasis to retain and grow current accounts.
- Mphasis added 7 new accounts during the quarter including a leader in consumer products and a large telecom service provider.

HP continues to lend support

- In our opinion, the support of HP is a differentiator for the company as far as revenue growth is concerned.
- Revenues from HP and HP-led business continued to contribute about 69% of Mphasis' revenues.
- We see the HP support as a differentiator for Mphasis in these challenging times and the same is reflected in a consistent volume growth for Mphasis over the past four quarters.
- We believe that, in the event of HP's increasing focus on leveraging off-shore capabilities, Mphasis should continue to have high revenue visibility.

Off-shoring concerns

- Recently, the Obama administration in USA, passed a law stopping all tax exemptions for companies transferring jobs abroad.
- HP has been increasing its off-shoring to Mphasis and will likely face higher taxes.
- There could be potential impact on the business flows to Mphasis. We will closely monitor the revenue flows from HP.

Macro scenario - cautious on non-HP revenue growth

- However, the macro scene continues to provide challenges for the non-HP business.
- According to the management, Mphasis has been experiencing delays in receiving contracts for the past two quarters from non-HP channels. However, there have been no project cancellations till date from any client.
- The management has also indicated that, several clients have undertaken client rationalization process. Though the company has not lost any accounts in this process, these clients are asking for price discounts in turn for higher volumes, from the selected vendors.

Average realizations stable, but risks persist

- Average realizations of the company remained stable QoQ. While the ITO business witnessed a rise, BPO witnessed a fall in average pricing.
- According to the management, the increase in average realizations has been largely due to the changes in business mix.
- The company continues to face pricing pressures from clients on a like-to-like basis. However, it has been able to maintain average realizations mainly due to a better mix and provision of higher value added services.
- We believe that, there could be further pricing pressure from clients including HP, which may lead to lower realizations in the near term.
- We understand that, HP can potentially modify its billing rates and this may potentially impact the relevant revenues. We will closely watch this aspect closely over the next few quarters.

Employee reductions

- The company's net strength reduced by 1057 to 32,753. In 2QFT09, Mphasis had added 3,822 employees on a net basis, which was about 13% of the previous quarter's base.
- The reductions were in the Applications and BPO businesses.
- We opine that, better profitability in BPO and the seasonality (employees going for higher studies) were the main reasons for this reduction.

EBITA margins slightly lower

- EBITA margins fell by about 50bps during the quarter.
- In our opinion, margins were impacted likely by the rupee appreciation and higher direct costs.
- While margins in IT services were impacted, BPO and ITO margins recorded an improvement.

Revenue break up and margins (%)

(Rs mn)	2QFY09	3QFY09
IT services	6747.7	7039.0
QoQ growth (%)	4.3	
Segment profits (Rs mns)	2225.1	2247.8
Segment margins (%)	33.0	31.9
BPO	1837.5	1879.8
QoQ growth (%)	2.3	
Segment profits (Rs mns)	383.2	396.5
Segment margins (%)	20.9	21.1
ITO	1907.1	2133.6
QoQ growth (%)	11.9	
Segment profits (Rs mns)	802.7	942.5
Segment margins (%)	42.1	44.2

Source : Company

- On an overall basis, optimisation of costs and higher realizations resulted in increase in the EBITDA margins QoQ.
- We believe that, the margins may come down in the future quarters because of our expectations of the rupee, salary increases and also expected lower QoQ revenue growth.
- The management had indicated that it would be spending more on sales and marketing keeping in mind the future growth of the company.
- The company suffered forex loss of Rs.15mn (gains of Rs.123mn), mainly from translation of assets.

AIGSS to be likely integrated WEF 1QFY10

- Mphasis has reached a definitive agreement to acquire AIG Systems Solutions Pvt. Ltd. (AIGSS), the IT services arm in India of insurer American International Group (AIG).
- With operations in Chennai and Kolkata in India, AIGSS has more than 800 employees, and offers services to AIG companies worldwide.
- The move will strengthen its presence and expertise in the insurance and financial services markets. It will add expertise in areas of insurance such as personal auto insurance, and retirement products in which Mphasis did not have the expertise, It will also strengthen existing expertise in areas such as life insurance.
- The management has neither disclosed the financials of AIGSS nor the acquisition cost. Thus, we have not included the same in our financial projections. However, we believe that, the impact on Mphasis' financials will be nominal.
- We understand that, after the acquisition and integration of the AIG operations, Mphasis will continue to deliver services to AIG.

Future prospects

- We have made changes to our FY09 estimates and we now introduce FY10 estimates.
- We have assumed the rupee to appreciate to Rs.45 per USD by FY10 end.
- In FY10, we expect revenues to grow by about 10.5%.

Revenue break up

(Rs mn)	FY09E	FY10E
IT services	27199.9	29619.5
QoQ (%)		8.9
BPO	7492.9	8438.9
QoQ (%)		12.6
ITO	7775.7	8922.7
QoQ (%)		14.8

Source : Company, Kotak Securities - Private Client Research

**We maintain BUY on Mphasis
BFL with a revised price target
of Rs.589**

- Margins are expected to be marginally lower. While the expected rupee appreciation and higher employee costs are expected to impact the profitability, better resources utilization and higher value-added work are expected to restrict the impact.
- With a higher tax rate of about 8.5% v/s 6% in FY09E, earnings are expected to rise by about 10% to Rs.9.77bn, leading to an EPS of Rs.46.7 for FY10.

Concerns

- A prolonged recession in major user economies may impact our projections.
- A sharp acceleration in rupee from the current levels may impact our earnings estimates for the company.
- While strong parentage is a positive, uncertainty over future allocation of business remains a concern for the market.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
20-Aug	Avance Techn	Jasmin S Bajoriya	B	435,000	2.12
20-Aug	Avance Techn	Suresh M Goradia	B	700,000	2.13
20-Aug	Avance Techn	Jyoti Kohali	S	360,000	2.12
20-Aug	Avance Techn	Jasmin Susilkumar Bajoriya	S	300,000	2.13
20-Aug	Avance Techn	Rajiv Khanna	S	300,000	2.13
20-Aug	Avon Corp	Withal Commercial Pvt Ltd	B	400,000	9.55
20-Aug	Bajajhindle	Deutsche Securities Mauritius Limited	S	926,000	179.94
20-Aug	Brescon Corp	Alok Finance Pvt. Ltd.	B	235,100	80.74
20-Aug	Brescon Corp	Prashant Desai	S	33,743	80.00
20-Aug	Brescon Corp	Reliance Tax Saver Elss Fund	S	175,450	81.04
20-Aug	Eldeco Hous.	Capital Consulancy	B	10,101	139.57
20-Aug	Guj.Toolroom	Suresh Chand Suganchand Jain	B	50,000	10.00
20-Aug	Guj.Toolroom	Anil Kumar Bagri	B	50,000	9.96
20-Aug	Guj.Toolroom	Dhirajlal V Sanghvi HUF	S	45,000	9.99
20-Aug	Guj.Toolroom	Devang Jayantkumar Gadoya	S	25,000	9.94
20-Aug	Jai Mata Gla	SK G Pasha	B	20,000	15.24
20-Aug	Jai Mata Gla	Moti Lal Bhasin	S	60,000	15.23
20-Aug	Jai Mata Gla	M.P.Vora Shares & Sec P Ltd	S	15,044	14.76
20-Aug	Micro Techn	PR Vyapaar Private Limited	S	50,921	128.62
20-Aug	Mount Trad	Mukund Motor Parts Pvt Ltd	B	16,731	434.02
20-Aug	Pace Textiles	Diamond Creations	B	446,415	62.55
20-Aug	Panch Organ	Hiral Chandrakant Shah	B	27,000	12.98
20-Aug	Parshart Inv	Pradeep Ramprasad Sandhir HUF	B	20,000	11.95
20-Aug	Parshart Inv	Gaurav Aeri	S	20,000	11.95
20-Aug	Riba Textile	Kumkum Stock Broker Private Ltd	B	104,533	47.85
20-Aug	Riba Textile	Nitabaen Shaileshbhai Patel	S	50,000	47.85
20-Aug	Saag Rr Infr	Saag Mauritius Ltd	S	150,000	21.01
20-Aug	Spectacle	Vivek Kishanpal Samant	B	400,000	42.11
20-Aug	Splash Media	Suvidha Securities Pvt Ltd	B	13,750	132.00
20-Aug	Splash Media	Rajaram Kundlik Jadhav	S	13,750	132.00
20-Aug	Techtran Pol	Rahul Doshi	S	75,771	17.88
20-Aug	Uniply Ind	Tarunchandmal Jain	S	65,000	7.61
20-Aug	Yuken India	Bina S Vora	B	20,131	85.50
20-Aug	Yuken India	Fairdeal Infin Services Pvt. Ltd.	S	25,137	81.89

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Infosys	1,990	2.0	6.8	0.6
SBI	1,753	3.7	5.9	1.3
HDFC Bank	1,480	2.1	3.8	0.7
Losers				
Bharti Airtel	400	(1.3)	(2.4)	4.3
Hindustan Unilever	257	(0.1)	(0.1)	2.1
BPCL	516	(0.4)	(0.1)	0.4

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
21-Aug	Jindal Cotex holds press conference to announce IPO
25-Aug	HCL Technologies to announce earnings and final dividend
27-Aug	Tata Steel to announce consolidated first quarter earnings; Procter & Gamble, Gillette India to announce earnings and dividend;
28-Aug	L&T holds annual shareholders meeting; Tata Power to announce consolidated first quarter earnings

Source: Bloomberg

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