

September 18, 2007

FOR PRIVATE CIRCULATION

Equity

	17 Sep 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	15,504	(0.6)	9.6	9.5
Nifty	4,495	(0.5)	9.4	7.7
Banking	8,091	(0.6)	10.1	8.4
IT	3,479	(1.4)	0.6	(6.5)
Healthcare	3,669	0.1	5.2	(3.3)
FMCG	2,091	0.9	15.4	16.9
PSU	7,278	(0.3)	11.2	12.0
CNX Midcap	6,312	0.5	11.7	11.7
World indices				
Nasdaq	2,582	(0.8)	3.1	(1.7)
Nikkei	16,127	1.9	3.7	(11.9)
Hangseng	24,599	(1.2)	20.4	13.7

Value traded (Rs cr)

	17 Sep 07	% Chg - 1 Day
Cash BSE	6,207.9	24.5
Cash NSE	9,395.9	(24.9)
Derivatives	35,768.5	(24.2)

Net inflows (Rs cr)

	14 Sep 07	% Chg	MTD	YTD
FII	1,159	-	4,550	39,929
Mutual Fund	(216)	(369)	(66)	3,268

FII open interest (Rs cr)

	14 Sep 07	% chg
FII Index Futures	17,941.6	0.7
FII Index Options	13,820.6	4.4
FII Stock Futures	28,428.0	1.3
FII Stock Options	181.4	6.1

Advances/Declines (BSE)

	17 Sep 07	A	B1	B2	Total	% Total
Advances	99	368	427	894	49	
Declines	120	362	395	877	48	
Unchanged	1	13	33	47	3	

Commodity

	17 Sep 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	81.1	0.6	12.6	17.3
Gold (US\$/OZ)	717.9	1.5	8.9	9.1
Silver (US\$/OZ)	12.8	1.8	8.9	(3.5)

Debt/forex market

	17 Sep 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.85	7.87	8.00	8.18
Re/US\$	40.56	40.45	41.35	40.68

Sensex



Source: Bloomberg

ECONOMY NEWS

- A slowdown in industrial growth in July notwithstanding, the Asian Development Bank has raised its projection for India's economic growth to 8.5% in 2007-08 and 2008-09 from its earlier forecast of 8% and 8.3%, respectively. (BS)
- An alternative to the duty entitlement passbook scheme is in the final stage of formulation and will be announced soon, the Commerce and Industry Minister has said. (BS)
- Providing relief to exporters hit by the rise in rupee value, the Government has announced they would be exempted from tax on services rendered by ports, road transport and railways. (ET)
- Exports by Indian micro, small and medium enterprises are estimated to have reached \$50 bn in 2006-07, accounting for 40% of the country's total merchandise exports. (BL)

CORPORATE NEWS

- **Bhel** has said it is looking at mergers and acquisition to fuel inorganic growth and is targeting a turnover of Rs.450 bn by 2012. (BL)
- Reliance Telecom and **Airtel** are among 12 companies in the fray for Qatar's second mobile license as the deadline for submission of bids ended. (BL)
- The Centre will take up 19 SEZ proposals, including induction of co-developers in Mukesh-Ambani promoted Navi Mumbai SEZ and projects planned by **DLF** and **TCS**. (BL)
- Delays in land allotment are holding back the plans of **Infosys** to set up an IT park in Kolkata. (BS)
- **ITC's** expansion plans in West Bengal will be delayed, as the company is still to get the land required for some of its projects, a top company official has said. (BL)
- **L&T** has received a Rs.770 mn order for Methanol Reformer package as a part of 'Trombay Methanol Revamp Project' for Rashtriya Chemicals and Fertilizers, Chembur. (BL)
- **Nagarjuna Construction Co** has said that it has bagged new orders totaling Rs.1.5 bn. (BL)
- Ansal Properties and Infrastructure is planning to come out with a follow-on-public offer to raise about Rs.10 bn for its expansion plan and to meet the development cost of existing projects. (BL)
- **Aban Offshore** has received firm orders from **ONGC** for the deployment of three rigs - Aban III, Aban IV and Aban V - for a period of three years each following the completion of their existing contracts with ONGC. (BS)
- **IVRCL Infrastructures and Projects** has said it has bagged projects worth Rs.3.68 bn to be implemented in different parts of Tamil Nadu. (BL)
- **Moser Baer** will be setting up a photo-voltaic fabrication unit at Oragadam, near Chennai, managing director Deepak Puri has said. (BS)
- **IFCI** is likely to shed a fraction of its 5.44% stake in the National Stock Exchange. The FDI policy caps the maximum investment by a foreign investor, either directly or indirectly, in a stock exchange at 5%. (ET)
- **Indian Hotel Company (IHCL)** has acquired a 10% stake in the NYSE-listed Orient Express Hotels for nearly Rs.8.5 bn through open market operations. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, Tol: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

COMPANY UPDATE

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SATYAM COMPUTER SYSTEMS LTD.

PRICE : Rs.422

TARGET PRICE : Rs.562

RECOMMENDATION : BUY

FY08E PE : 17x

We recently attended the analyst meet held by Satyam Computer Systems.

- At the meeting, Satyam re-iterated that client engagements have continued to grow and the company is getting better realizations from clients.
- The sub-prime issues in the US/Europe have not had any impact on revenue visibility till date, according to the management.
- Satyam is looking at increasingly providing total end-to-end solutions, in turn becoming more relevant to customers
- The company is looking at higher growth in relatively new verticals like retail, energy & utilities and travel and logistics and from businesses like consulting, BPO and infrastructure management services. The company also sees engineering services at an inflexion point, capable of very high growth in the future.
- We maintain our FY08 EPS estimate for Satyam at 24.7. We maintain our **BUY** recommendation on the stock with an unchanged price target at Rs.552.
- The stock has under-performed the broader indices significantly in the recent past on concerns regarding rupee appreciation and impact of a potential US economic slowdown.
- We will look out for any early signs of any impact of the potential slowdown/recession in the US on Satyam and other IT companies, as this represents a risk to our call on the sector.
- The other risk to our call is a sharper-than-estimated appreciation in the rupee against the US dollar.

The main takeaways of the meeting are:

- Satyam has achieved two consecutive quarters of more than 9% volume growth. The management has re-iterated that the scale up among clients is continuing. The engagements levels are at their highest ever levels for several clients.
- Satyam's relationship management initiatives and broadening of the service profile are helping it to further penetrate its existing clients. Satyam currently has 165 of the Fortune 500 companies as its clients.
- Other factors that are expected to drive growth are better insight into the operations/problems of the client through better access to CXOs/CIOs and the improved brand profile.
- Satyam has entered several new verticals/services in the past few quarters. The company is looking at a relatively faster growth from these initiatives. Some of these verticals/services are :
 - The **engineering services** vertical contributes about 7% to satyam's revenues. Here, Satyam is looking to provide integrated IT and BPO services across verticals like auto, aerospace, telecom, semiconductors, consumer electronics, etc.
 - In the **energy/utilities** vertical, clients have started offshoring in a significant way recently. Satyam is looking at expanding its presence in this vertical, which spent more than \$120 bn towards IT in 2006. It already has 49 clients in this vertical, which includes five out of the Global Top 10 majors.

- The **retail/transportation/logistics** vertical contributed about 7% of Satyam's Q1FY08 revenues. Satyam has 50 clients in retail and 40 customers in logistics/transportation verticals. Retail IT spend is expected to grow at a CAGR of 5.5% through to 2011. Companies in the transportation and logistics vertical spend only 3% of their revenues on IT and present enough scope for companies like Satyam as the IT spend of these companies is expected to increase by about 4% CAGR.
- Consulting currently contributes a small proportion of Satyam's revenues. The company plans to grow this by providing more services and solutions in process/technology transformation, business transformation and strategy transformation.
- In addition to these, IMS (about 5% of Satyam's revenues) and BPO (about 3% of revenues) are other areas, which the company plans to grow at a faster-than-average rate. These two services have allowed Satyam to effectively provide integrated end-to-end services.

Vertical-wise revenue break-up (% of revenues)

	Q1FY08	4QFY07
BFSI	23.75	24.74
Manufacturing	25.87	27.16
Times	21.95	21.79
Healthcare/Pharma	8.03	8.03
Retail/ Trans/Logi	6.90	6.42
Others	13.50	11.86

Source : Company

Geographical break up of revenues (% of revenues)

	4QFY07	Q1FY08
US	62.56	61.71
Europe	19.86	20.10
ROW	17.59	18.19

Source : Company

- According to the management, it has been able to get higher than average realizations from new clients. It has also been able to successfully re-negotiate contracts from several new clients.
- In Q1FY08, average realizations were higher by more than 100 bps over the previous quarter. The management was optimistic about increasing billing rates by 200-300 bps during the fiscal.
- There are concerns about the impact of sub-prime mortgage issues in the US on Indian IT services companies. The management, however, indicated that it has not got any indications from any of its clients of reduction in contract value, postponement of any contract or cancellations of any project.
- The existing projects have continued to scale up at the anticipated rate. The company is also winning new and larger accounts from corporations like Nestle and Qantas. It has also announced four other deals in the recent past with combined revenue potential of about \$75 mn. The company is pursuing 20 large deals at present.
- While there has been no impact as yet, we will keep a close watch on the impact, if any, of the US sub-prime mortgage issues on Satyam, in particular and the IT services industry, in general.

Guidance maintained

- The company maintained its FY08 guidance. It expects a 21-22% revenue growth in rupee terms, for FY08. Profit growth is expected to be in the range of 13-14% in rupee terms. The guidance is after considering a higher tax rate.
- We note that the guidance for FY08 is at an exchange rate of 40.50 per US dollar.
- However, in US dollar terms, the revenue growth is expected to be 34-35% and EPS growth at 28-29%, which is very encouraging.

Future prospects

- We maintain our FY08 earnings estimates for Satyam. We expect revenues to grow 28% and PAT to grow 19.5% in FY08, resulting into an EPS of Rs.24.7.

Future prospects					
Rs mn	FY06	FY07	% chg	FY08E	% chg
Income	47,926	64,851	35.3	83,055	28.1
Expenditure	36,264	49,474		64,606	
Operating profit	11,662	15,377	31.9	18,450	20.0
Depreciation	1,373	1,484		1,717	
Gross profit	10,289	13,893	35.0	16,733	20.4
Interest	56	159		111	
Other income	1,168	1,833		2,462	
PBT	11,402	15,566	36.5	19,084	22.6
Tax	1,509	1,520		2,304	
PAT	9,893	14,046	42.0	16,780	19.5
Sh of Pft/(loss) / Min int	-73	1		0	
PAT after E.O. items	9,820	14,047	43.0	16,780	19.5
Shares (mn)	667.2	680.5		680.5	
EPS (Rs)	14.7	20.6		24.7	
OPM (%)	24.3	23.7		22.2	
GPM (%)	21.5	21.4		20.1	
NPM (%)	20.6	21.7		20.2	

Source : Company, Kotak Securities - Private Client Research

Concerns

- An accelerated slowdown/recession in major user economies may impact our projections.
- The rupee has appreciated to 40.40 against the US dollar. This is higher than our assumed levels in FY08. A sharp acceleration from current levels may impact our earnings estimates for the company.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
17-Sep	ASHCO INDUST	ANKUSH A KOTWANI	S	150000	29.8
17-Sep	CALS LIMITED	TAIB SEC MAURITIOUS LTD	B	50000	29.75
17-Sep	CAPRIHAN IND	BSMA LTD	B	125000	109
17-Sep	CARNATIO IND	KUSH TRDNG & COM PVT LTD	S	22710	40.27
17-Sep	CAT TECHNOL	EDELWEISS ESTATES P LTD	B	26325	10.14
17-Sep	CENTBOP	RADHA MADHAV INVESTMENTS LTD	B	10000000	40.46
17-Sep	CENTBOP	CITI GROUP VENTURE CAP INTL	S	9770543	40.5
17-Sep	DYNAMIC INDU	SANDEEP SABOO	B	40000	52.6
17-Sep	DYNAMIC INDU	AJAY NATAVARLAL SH STOCK P L	S	30000	52.6
17-Sep	FILAT FASH	JITENDRA HARIVANSH JOSHI	B	180000	13.47
17-Sep	FILAT FASH	RAJENDRAN S	S	199400	13.47
17-Sep	GANESHFORGIN	BSMA	B	100000	105.5
17-Sep	GARNET INTL	MAXWELL MANAGEMENT SER.P.LTD	B	50000	65.5
17-Sep	GARNET INTL	JITENDRA MEHTA	S	50000	65.5
17-Sep	GEMSTONE INV	HEMANT MADHUSUDAN SHETH	B	45840	21.81
17-Sep	GEMSTONE INV	BHAVESH PRAKASH PABARI	B	45655	22.08
17-Sep	GEMSTONE INV	PREM MOHANLAL PARIKH	S	50000	21.83
17-Sep	GEMSTONE INV	PREM MOHANLAL PARIKH	S	45310	22.07
17-Sep	HIND MOT LTD	RELIANCE MUTUAL FUND	S	1200000	36.3
17-Sep	IFL PRMOTER	P G INFOTAINMENT PVT LIMITED	S	24940	24.73
17-Sep	INTERF FIN S	ROOPA S. SHAH	B	1000000	1.7
17-Sep	INTERF FIN S	UDAY H. VORA	S	643701	1.7
17-Sep	IWIND ENERGY	MATRIX EQUITRADE PVT LTD	B	403005	129.24
17-Sep	IWIND ENERGY	MATRIX EQUITRADE PVT LTD	S	403005	129.66
17-Sep	KANCHA INTER	KAUSHALYA CHAWLA	S	27975	13.27
17-Sep	KARUT NET L	RHEA HOLDINGS PVT LTD.	S	150000	220.56
17-Sep	KELTECH ENRG	RAJIV ARORA	B	6436	104.19
17-Sep	KELTECH ENRG	RAJASHREE N. MEHTA	B	8000	97.31
17-Sep	KELTECH ENRG	NAIMISH J MEHTA	B	8959	98.16
17-Sep	KELTECH ENRG	RAJIV ARORA	S	6436	106.26
17-Sep	KELTECH ENRG	RAJASHREE N. MEHTA	S	8000	98.91
17-Sep	KELTECH ENRG	NAIMISH J MEHTA	S	8959	97.79
17-Sep	LINC PEN PLA	KRUNAL FINVEST	B	98785	48.08
17-Sep	LINC PEN PLA	KRUNAL FINVEST	S	98785	49.32
17-Sep	MILKFOOD	UBS SECURITIES ASIA LTD	B	202000	502
17-Sep	NOUVEA MULTI	COMFORT INTECH LIMITED	B	34950	72.17
17-Sep	P G FOILS LT	FOILS INDIA LAMINATES P LTD	B	50000	68.45
17-Sep	PATEL AIRTEM	VEENA JAGWANI	B	30000	51.47
17-Sep	PATEL AIRTEM	KAMALJAGWANI	B	28500	53.13
17-Sep	RASI ELECTRO	PRATHIBA V	B	20000	40.82
17-Sep	ROSELABS FIN	ANURAG SINGHVI	B	75200	9.13
17-Sep	ROSELABS FIN	GULSHAN KISHOR CHANI	S	51000	9.13
17-Sep	SEL MANUF	MATRIX EQUITRADE PVT LTD	B	85843	138.01
17-Sep	SEL MANUF	GEETA DEVI AGGARWAL	B	532886	135.94
17-Sep	SEL MANUF	S.P.JAGANNATH AND SONS	B	94346	134.63
17-Sep	SEL MANUF	MATRIX EQUITRADE PVT LTD	S	85843	138.33
17-Sep	SEL MANUF	GEETA DEVI AGGARWAL	S	92419	136.11
17-Sep	SEL MANUF	S.P.JAGANNATH AND SONS	S	94346	134.68
17-Sep	STANDARD IND	JF ASSET MANAGEMENT LIMITED	B	1499700	64
17-Sep	STANDARD IND	I C G Q LIMITED	S	1500000	64
17-Sep	SYBLY INDUSR	SUNIL SONI	B	57116	9.3

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Hindustan Unilever	216	1.8	1.6	5.1
Suzlon Energy	1,395	1.6	1.2	0.5
Reliance Energy	908	2.8	1.1	3.5
Losers				
Bharti Airtel	814	(1.8)	(5.5)	1.6
TCS	998	(2.4)	(4.6)	1.3
Reliance Com	532	(2.1)	(4.4)	3.6

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
18-Sep	Initial Public Offer of Koutons Retail India opens; Initial Public Offer of Consolidated Construction opens; MVL organizes press conference for de-merger plan; The Leela Group holds press meet for future plans; Philips Electronics holds press conference for future plans; Saamya Biotech holds press conference to announce IPO
20-Sep	SAIL holds annual shareholders meeting
24-Sep	Pfizer to announce 3rd quarter earnings

Source: Bloomberg

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