PINC RESEARCH

SECTOR OVERVIEW

IT SERVICES

Rebooting growth

Contents

SECTOR OVERVIEW

Introduction

24 June 2009

We are upgrading our sector view to Neutral, and Infosys (TP: Rs1950) and Wipro (TP: Rs420) to BUY and TCS (TP: Rs400) and HCL Tech (TP: Rs200) to HOLD. Although Infosys has run-up since our initiation it has underperformed NIFTY by 9% (since 02/04/09). We believe that the CMP is not reflecting the potential upside to the business.

- **Stability in environment but muted growth for FY10**

We assume that the volume de-growth has been arrested although there is likelihood of some pricing pressure to continue in the near term. Also, most of the negative news has already arrived and any further downside risk to the number is highly unlikely. We believe that there is significant opportunity for the numbers to demonstrate strong growth in FY11 due to smaller base effect of FY10.

- **Tech Pulse Index shows sign of recovery**

The Tech Pulse Index published by Federal Reserve Bank of San Francisco,which reflects IT sector activity in the US, has shown consistent recovery since December 08.

- **Visibility of green shoots**

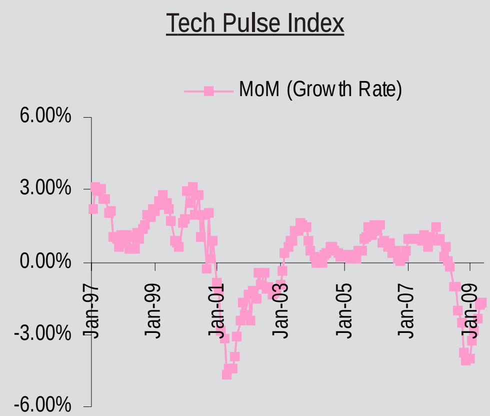
The OECD composite leading indicators (CLI) of top 10 global economies show trend reversal. Also, the increase in the US jobless claims have peaked out and strated to show a decline.

- **New growth drivers in making**

We believe that the increased focus on healtcare by the Obama administration will provide new growth avenues for Indian IT companies. Besides, in the absence of private sector expense government sector will continue to drive growth for IT. We expect BPO to be the new growth driver and geographically Latin America and Asia Pacific to offer new areas of growth.

- **Currency fluctuation - How much it matters?**

Currency fluctuation has added to the woes of the Indian IT companies. Historically, despite the currency fluctuation the big four Indian IT companies have maintained steady margins. However, the Indian IT majors expect margin erosion in FY10 due to multiple headwinds. Also, the knee jerk response of investors that resulted in currency appreciation after the election outcome has also been undone in the last few weeks. We expect the currency to remain favourable in the near term.



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Sector Summary

KEY FINANCIALS

Company	CMP (Rs)	Mkt Cap (Rs bn)	Net sales (Rs mn) FY10E	Net sales (Rs mn) FY11E	EPS (Rs) FY10E	EPS (Rs) FY11E	P/E (x) FY10E	P/E (x) FY11E	TP (Rs)	Potential upside (%)
Infosys	1,746	1,000	226,545	247,190	104.9	110.6	18.6	17.6	1,950	11.7%
TCS	366	717	293,270	313,975	26.6	27.4	15.1	14.6	400	9.3%
Wipro	377	553	267,578	301,311	25.9	27.3	16.2	15.4	420	11.4%
HCL	190	128	114,545	124,945	15.5	15.7	12.9	12.8	200	5.3%

VISIBILITY OF GREEN SHOOTS

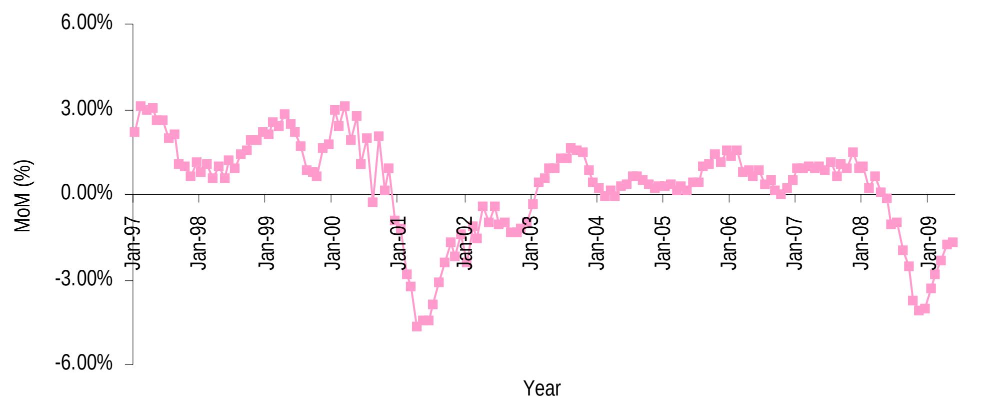
We are upgrading our industry view to Neutral, and Infosys (TP: Rs1950) & Wipro (TP: Rs420) to BUY and TCS (TP: Rs400) & HCL Tech (TP: Rs200) to HOLD . We believe that although Infosys has run-up since initiation, it has underperformed NIFTY by 9% (since 02/04/09) and it is not reflecting the potential upside to the business. We estimate that current share price is discounting the bad news, which already reflects the declining volume and pricing pressure. As the economies have started showing early signs of recovery, Indian IT majors are likely to benefit from the increased IT spending.

Tech Pulse Index shows sign of recovery

Tech Pulse Index shows recovery since December 2008...

The Tech Pulse Index published by Federal Reserve Bank of San Francisco, which reflects IT sector activity in the US, has shown consistent recovery since December 2008. Since December the rate of decline has come down on month-to-month basis.

Tech Pulse Index (MoM Growth Rate)- Indication of recovery

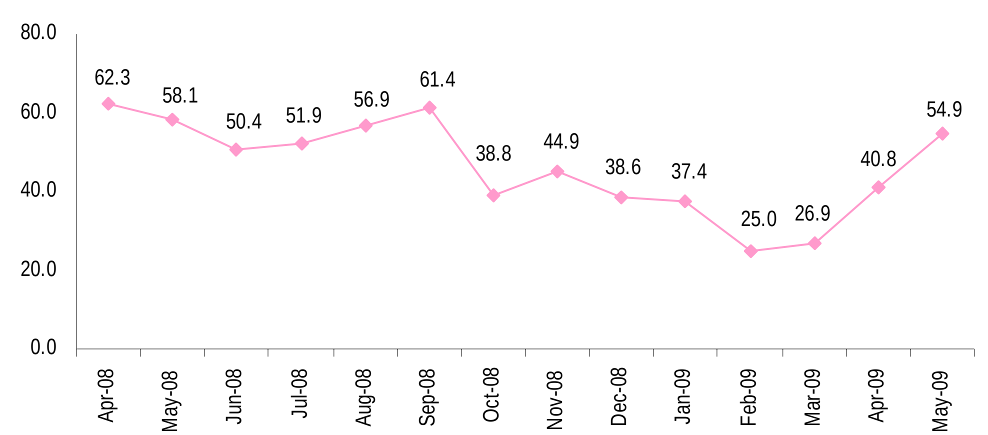


Source: PINC Research,TPI

The US economy has started showing the early signs of recovery as the US consumer confidence index (reflection of consumer sentiment) has shown an uptick. The index surged by 35% in May 09(MoM) and it currently stands at its highest level since Sept 2008. We believe that continued gains in the present situation indicate the possibility of moderate growth for the USA for Indian IT companies. This will improve the consumer spending that will affect the growth in the retail and telecom sector.

A sign of positive consumers' sentiment in USA...

US Consumer Confidence Index-Showing an uptick

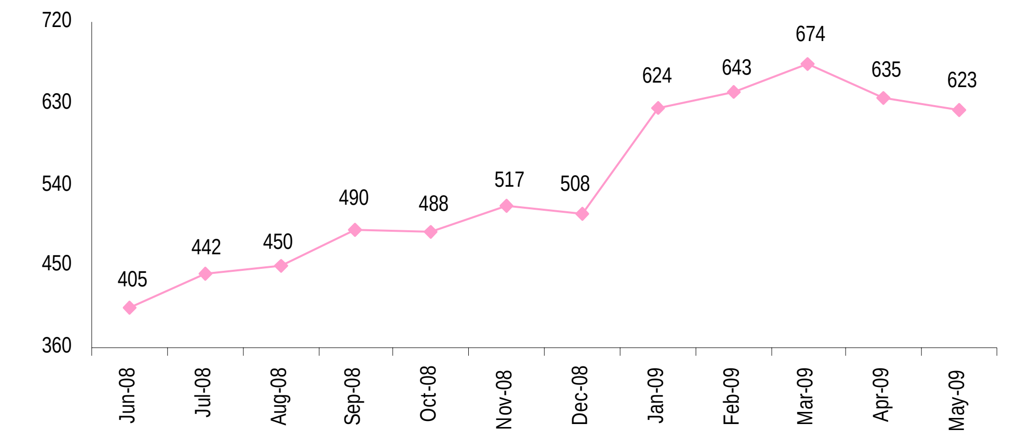


Source: The Conference Board Consumer Confidence Index

Also, the jobless claims in USA seem to have peaked out and are showing the early sign of trend reversals. BFSI accounted for a majority of the job losses. However, recently the US BFSI sector started talking about returning the TARP packages to the government indicates the improvement in the health of this space.

The new jobless claim posts a steady decline...

US Jobless Claims (000's)- Peaked Out



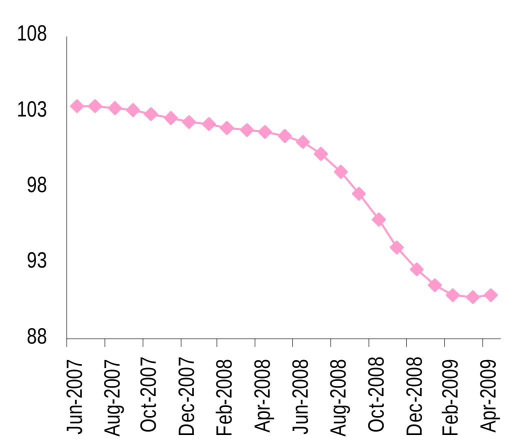
Source: PINC Research

The OECD CLI (Composite Leading Indicators), which provides early signals of turning points in business cycles-fluctuations of economic activity around its long term potential, is indicating point of inflexion and a trend reversal. We believe that these are signs of a recovery in USA. With confidence emerging again in USA, the Indian IT vendors hope for a recovery in their business due to their large exposure to USA.

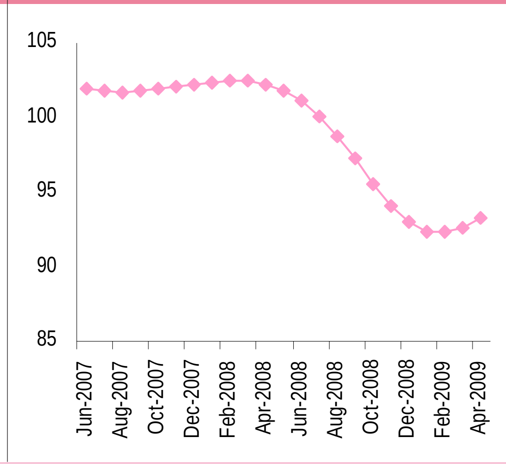
According to leading indicator data-points from G7, Big 5 Asia & Big 4 European provided by OECD shows early symptom of economic recovery. This gives an indication that the worst seems to be over for the above nations. The recovery will augment IT spending and consequently benefit the Indian IT vendors which have a presence in these countries.

The CLI is reflecting an early symptom of recovery for G7 and Big 5 Asian economies...

USA (CLI) - Signs of trend reversal



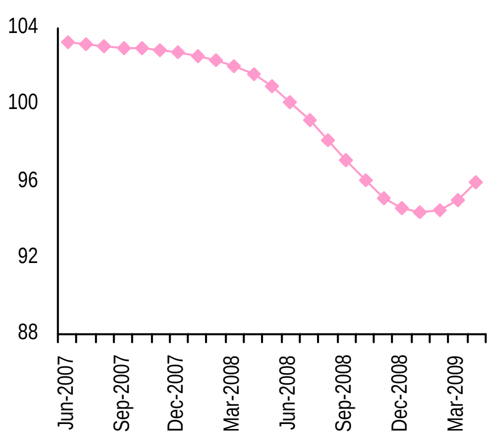
Big 5 Asia (CLI)



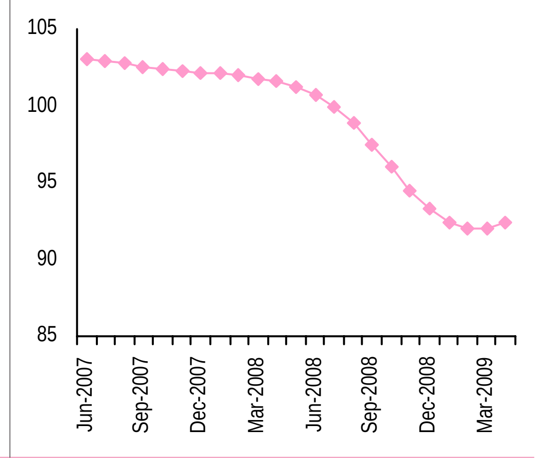
Source:OECD, Big 5 Asia (Japan, China, Korea, India, and Indonesia)

The CLI indicates early signs of revival...

Four Big European (CLI)



G7 (CLI)

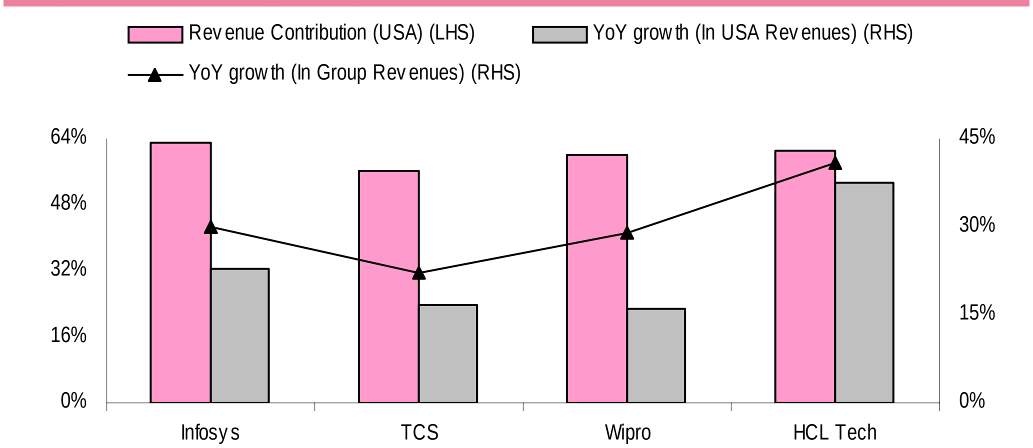


Source: OECD (Big Four includes France, Germany, UK &) , (G7 includes Canada, France,Germany,Italy,Japan,USA & Uk)

The top 4 Indian IT vendors continue to derive a large chunk of their reveneus from USA. Despite the slowdown in USA, their exposure to the USA in FY09 has increased that has provided healthy growth for the top line when compared to FY08. We believe that there is a direct variation between the revenue growth rates and its contribution from USA. If the US economy is on the verge of recovery, Indian IT vendors will be the first ones to reap the benefits.

USA is still the strength of Indian IT vendors...

Exposure to USA (FY 09)



Source: PINC Research

IDC expects the IT spend globally to decline by mere 1.8% this year. According to IDC the IT spends will show positive growth of 2.8% & 5.7% in 2010 and 2011 respectively. Nasscom expects verticals like energy, healthcare and mobile applications as the key growth drivers. We believe that the healthcare and the government expenditure on IT would provide respite to the Indian IT majors in the near term.

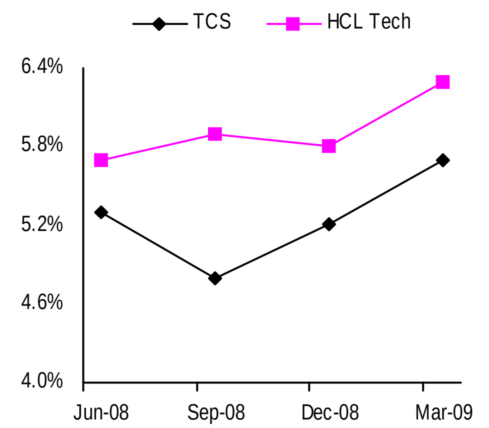
HEALTHCARE AND GOVERNMENT TO EMERGE AS THE KEY VERTICALS

1) Healthcare

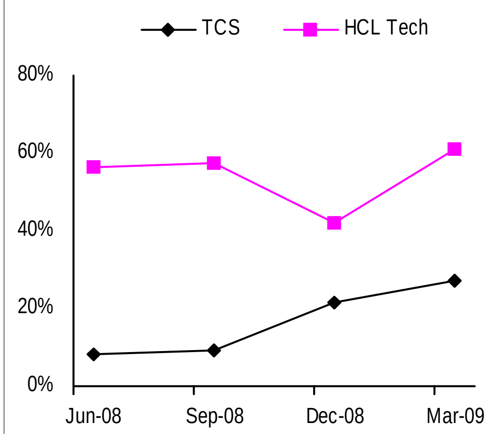
The economic crisis has led to cut down of IT spending by its key verticals like BFSI, Telecom and Manufacturing. We believe that the healthcare is one of the verticals, which will continue its enhanced spending on IT to improve its business efficiency. According to Gartner, the IT spending by the healthcare sector surged by 8.3% in CY08 and the global technology spend by this vertical is expected to grow from USD56bn in 2008 to USD92bn in 2013. Thus it shows that this vertical is able to sustain in the tough times and will help boost demand for the IT industry. The US congressional budget office estimates that the federal government will spend USD29bn on health IT.

Healthcare - An emerging vertical for the Indian IT vendors...

Healthcare Vertical (% Contribution)



Healthcare Revenue (YoY Growth)



Source: PINC Research

TCS and HCL Tech have made consistent efforts to win new deals in the healthcare and increased focus on these vertical. We believe that as Obama administration put more focus on healthcare the IT spend of healthcare will increase acting as major growth driver for Indian IT companies.

2) Government

In the absence of private sector expense, Indian IT majors managed to bag deals from the government in both India and abroad. These deals provide the much needed volume growth to the Indian IT majors in these tough times. The current stable Indian government is expected to further increase their spending on IT and a large number of these deals are already under the pipeline for the Indian IT vendors. The government expense in work related to healthcare, infrastructure and e-governance are expected to go up. There are also signs of increased IT expenditure by the US & UK governments.

Enhanced focus on the domestic market by the Indian IT companies...

Indian IT majors- Improved visibility in government contracts

COMPANY	CLIENT	DEAL VALUE	DEAL TYPE
TCS	Indian Govt	Rs 1200cr	Build Electronic platform for passport services
Wipro	ESIC	Rs 1182cr	E governance
Wipro	LIC	Rs 200cr	IT services

Source: PINC Research

According to NASCIO (National Association of State Chief Information Officer), the US government will spend about USD300bn in 2009 to administer and deliver federal program and a big chunk of money will go towards buying hardware, software and services.

TCS had won a contract from UK's Child Maintenance and Enforcement Commission (CMEC). Other government companies in UK like Transport for London (TFL) & Royal Mail Group (RMG) have requested tech vendors to bid for outsourcing contracts. Indian IT vendors will benefit from this due to their efficiency in the global delivery model. The UK government IT spending is expected to be ~USD36bn for FY09.

The road and transport authority in UAE is also planning to adopt an outsourced IT model which is an indication of increased IT expenditure by the UAE government. Indian IT vendors expect more large deals to follow in the government vertical from the Middle East like Saudi Arabia,Quatar & Kuwait.

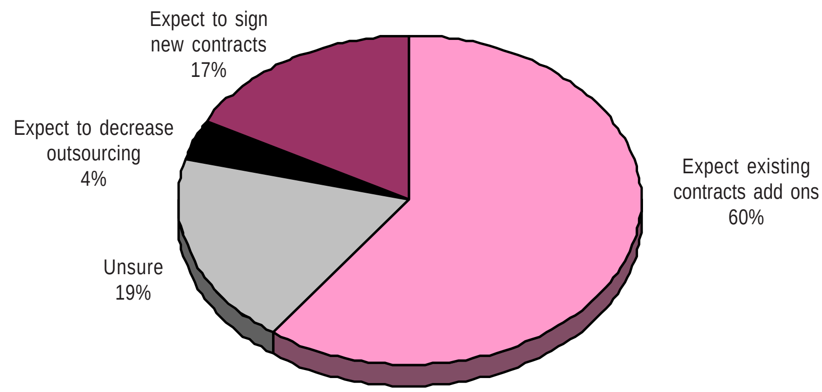
GROWTH DRIVERS

1) Increased Outsourcing - continues to be the key earnings driver

The spending on outsourcing is expected to rise by 8% in 2009. Although IT spending is expected to fall in 2009, outsourcing as a percentage of total IT spend will go up and hence providing an opportunity to Indian IT majors.

Indian IT vendors to benefit from the enhanced outsourcing opportunity...

Outsourcing Spend Survey (2009)



Source: Pinc Research,The Black Book Of Outsourcing

In a survey conducted by "The Black Book of Outsourcing", 60% of the respondents indicated that they are likely to hike their spending on outsourcing with their current vendors whereas only 4% of respondents wanted to trim their expenditure on outsourcing. This shows enhanced demand for outsourcing and thus it will be an advantage for the Indian IT players as large chunk of the work is outsourced to India.

BPO led growth

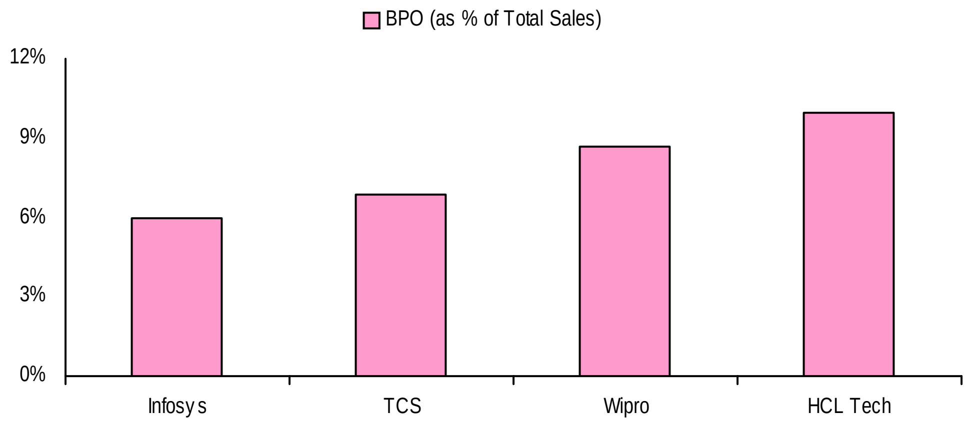
BPO is expected to become one of the largest contributors of growth for the major Indian IT vendors.

CII expects the BPO industry to grow at a healthy pace of 14-16% in FY10...

- According to a Confederation of Indian Industry(CII) report, the publishing BPO industry is growing at an annual rate of 35% & India's outsourcing opportunities in the value added and core services will help will make it worth USD1.5bn by 2010. BPO industry did a sales of USD12bn in FY09 and is expected to be growing at a healthy pace of 14-16% in FY10.
- Also, the Indian KPO industry is estimated to be a USD10bn industry in 2012, from its current size of USD4bn.
- According to CRISIL, engineering services outsourcing will become the next big opportunity in the Indian BPO industry. The ESO sector is expected to grow at a CAGR of 26% and post revenues of USD7.5bn by 2012.

The domestic market also provides a great opportunity for the growth of the Indian BPO industry. It is expected that there would be over USD1bn worth of outsourcing contracts coming from the Indian market over the next few years, as the country's government and state owned organisations seek to become more efficient by outsourcing their IT needs.

Q4 FY09 (BPO Contribution)- New growth driver



Source: PINC Research

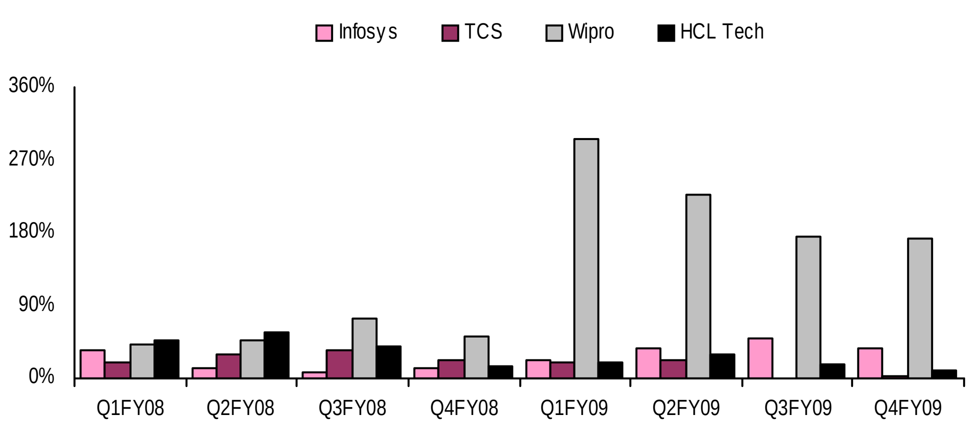
Increased focus of the Indian IT vendors in the BPO segment...

2) Focus on Markets Like Latin America , Asia-Pacific & Europe

The emerging markets have a very low penetrated market and are a great prospect of future growth for the Indian IT companies. Currently, the Middle East accounts for a small portion of the revenues for Indian IT exports. However, this is expected to grow due to increased demand.

Wipro bagged a deal from Atheeb telecom, a telecom operator in Saudi Arabia to provide end to end solutions. Infosys is also looking to expand its presence in the Middle East & Latin America market which is currently growing by more than 50% every year.

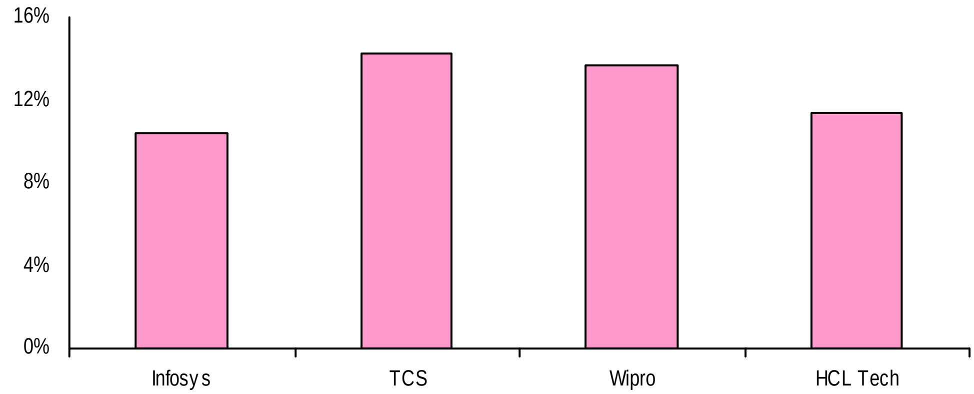
YoY growth (Contribution from Non USA & Non European Markets)



Source: PINC Research

Focus shifted to the emerging markets ...

Q4FY09 (Contribution From Non USA & Non European Markets)



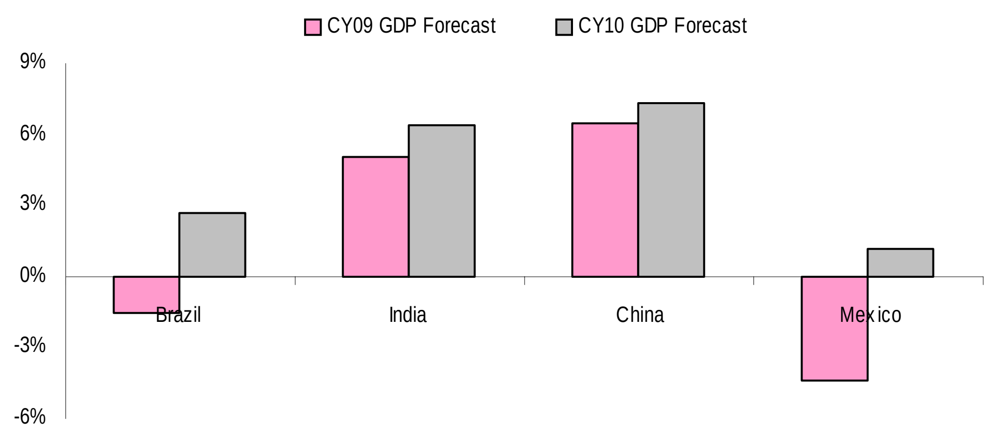
Source: PINC Research

The domestic market is expected to provide more opportunities due to government's emphasis on e- governance...

India - increased focus from domestic players: The Indian IT services market, according to Gartner, is pegged to grow to USD10.7bn (Rs515bn) by 2011. IDC estimates the domestic IT services market, currently around USD6bn (Rs288bn) to touch around USD13bn (Rs624bn) by 2012. The projected outsourcing potential of the domestic market (IT and business process outsourcing or BPO) in 2012, according to research firm Tholons Advisory, is around USD13bn (Rs624bn) - telecom: USD5bn (Rs240bn), insurance: USD1.5bn (Rs72bn), banking: USD6bn (Rs288bn) and healthcare: USD450mn (Rs22bn). If other sectors are included, the figure will only increase. If hardware is added, the current market could easily be in excess of USD10bn (Rs480bn). The recent projects won by Wipro, TCS and HCL Tech is clear indication of increased focus by Indian IT companies in the domestic market.

Emerging Economies GDP Forecast - Signs of stability

In these challenging times the emerging economies continue to pose strength...



Source: Economist,PINC Research

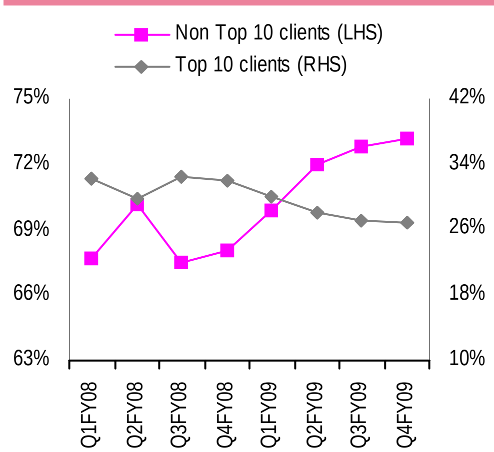
3) Diversisifcation of the customer base

Indian IT vendors continue to increase focus on new clients win...

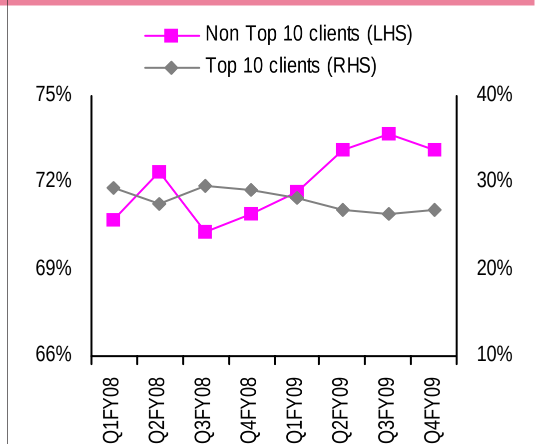
The top 4 Indian IT vendors have adopted for a shift in the costumer base which will help them to diversify their clientele and reduce dependence on specific large clients who once upon a time contributed a large chunk of their revenues. We believe that the contribution of revenues from the non top 10 clients is expected to increase further in the near term as the risk involved in over dependence for a particular group of clients is very high. This change in customer base will offset the risk of bad debts in case of any particular major client going bankrupt or curtail IT budgets.

We believe as SME businesses start looking towards IT outsourcing to increase their competitiveness that will increase small and medium sized deal opportunity (TCV< USD25mn), a forte of Indian IT services companies. We believe the contribution of non-top ten clients would increase as Indian IT majors would continue to focus on new client wins.

Infosys



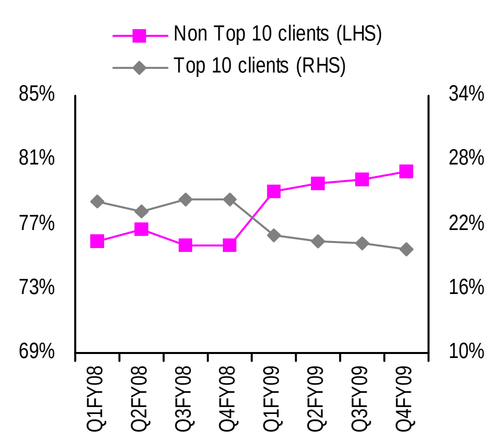
TCS



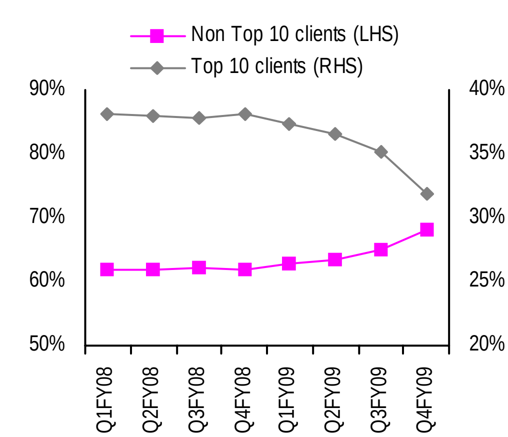
Source: PINC Research

New clients helped minimize the loss of revenue due to decreased spending by top clients...

Wipro



HCL Tech



Source: PINC Research

PINC RESEARCH

KEY EVENTS

1) CURB ON TAX BENEFITS-

Empowering Growth among The Indian IT Majors

Obama's protectionist policy could affect only the sentiments...

The new tax policy proposed by Obama would put an end to the benefits provided to the US IT companies which earn their revenues from foreign countries. If the law is passed by the Senate, it would be more negative for the US companies as it will reduce their global competitiveness. The new policy will persuade these American companies to pay a higher amount of taxes and thus impose pressure on their foreign earnings. In another interpretation of the law, it could force US companies to pay tax on the benefits they derive by outsourcing their IT or BP works. But the Indian IT comapnies provide significant cost advantage (6-7X cost advantage) when compared to their in-house capabilities. Although, we do believe that negative sentiment could impact the business in near term.

2) STPI SCEHEME-

Hopes Of further Extension

The STPI scheme is expected to be extended up to FY2013. With the demand environment remaining challenging for the Indian IT vendors, NASSCOM is lobbying the government to extend the STPI scheme. If this is extended it would give much needed impetus to the bottom line of the Indian IT companies who are currently paying tax of ~15% and expected to go up in the excess of 22% in the absence of the tax holiday extension. However if this scheme is not extended beyond FY 2010 then the tax rate is expected to surge by ~800-100 bps.

STPI remains a major contributor to the revenues of the Indian IT companies...

Number of Centres

	STPI	SEZ
Infosys	15	4
TCS	36	10

Revenue Contribution

	STPI	SEZ
TCS	67%	23%
Infosys	90%	6%

Source: PINC Research

The tax rate is expected to be at the current levels of ~16% if the STPI scheme is extended beyond FY10...

Tax Rate - FY11

EPS sensitivity	16%	18%	20%	22%	24%
Infosys	141.00	138.09	134.72	131.35	127.98
TCS	73.94	72.16	70.39	68.62	66.84
Wipro	25.77	25.16	24.55	23.94	23.33
HCL Tech	30.58	29.85	29.12	28.4	27.67

Source: PINC Research

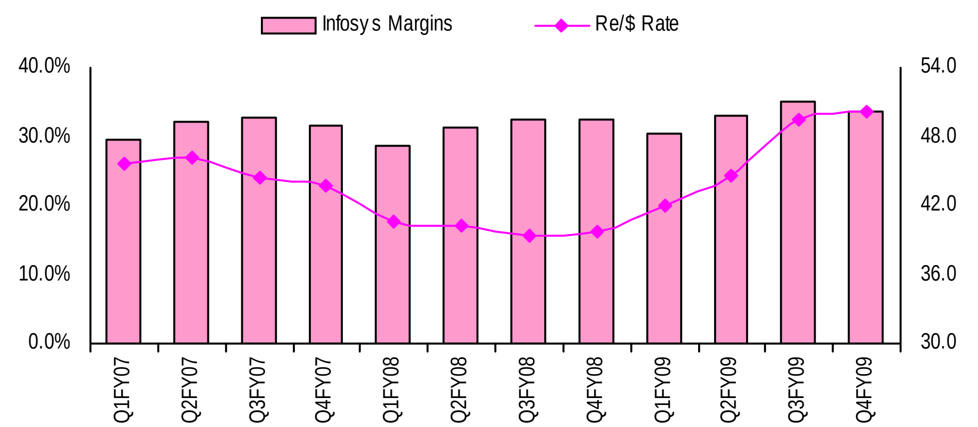
3)INR/USD VOLATALITY

Margin preservation inspite of volatile movement

Strong business model continues to offset the pressure of currency volatality...

The movement of rupee has been highly volatile against the US dollar since the past few quarters. In spite of this exchange rate volatality Indian IT bellwether Infosys has been able to maintain its margins. The margins have improved due to a consistent reduction in the costs and the high revenue growth rates of the company. In the past few quarters the margins are at its peak due to the benefit of rupee appreciation together with revenue growth and cut in the expenditure. We believe that the company will continue its efforts to cut down on the expenses and if the INR/USD is maintained at its current levels the margins will improve further by ~150bps in FY10. The knee jerk response of investors that resulted in currency appreciation after the election result has also been undone in last few weeks. We expect the currency to remain favourable in near term.

Stable margins despite multiple headwinds



Source: PINC Research

VALUATIONS

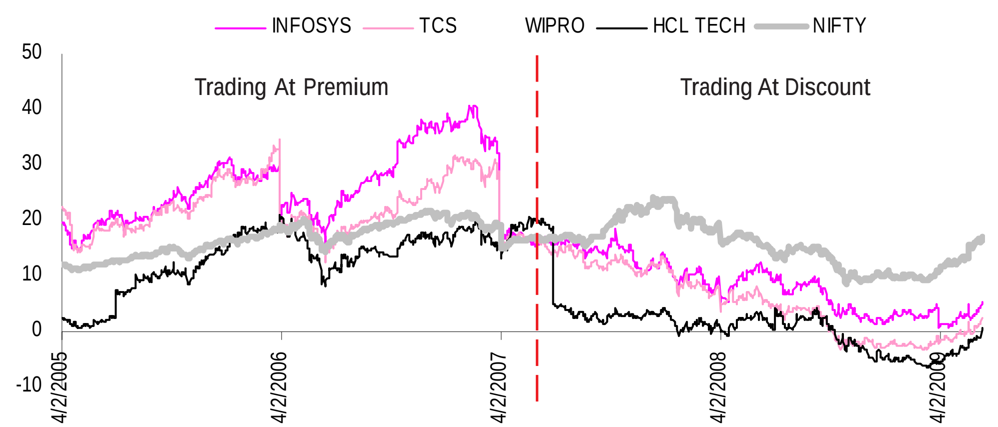
Top 4 Indian IT majors have historically traded at a premium when compared to NIFTY. Over the last two years because of the challenging macro-economic condition the companies were trading at a discount. We believe that the management & business capability of these companies will help them regain their premium.

We believe that the Indian vendors will be the first ones to reap the benefits of the improving global scenario and increased spending on outsourcing which will help to regain their growth momentum . These companies will trade in tandem with NIFTY and currently have immense value underlying in them.

Valuations at current level look attractive for the Indian IT companies...

We believe that recent run-up in stocks does not provide significant opportunity of absolute return on the stock, but if NIFTY falls from this level then Indian IT majors will outperform. Also, there is considerable opportunity for top 4 Indian IT companies to give strong performance in FY11 owing to smaller base effect of FY10.

Discount should narrow



Source: PINC Research

We also believe that the businesses for Indian IT majors have bottomed out and will outperform their recent performance. Further, as the business starts showing the strength, the discount to NIFTY would reduce.

Q1 FY10 PREVIEW

Q1 FY10 expected to post muted growth for the Indian IT companies...

Stabilisation in the global economic environment, growth in the emerging markets & an appreciating dollar are the likely reasons to provide some breathing space to the Indian IT vendors. The worst certainly seems to be over but this may not entail a significant growth in the revenues. The Indian IT vendors will have to work very hard to retain their lost glory. We believe this quarter will be like a consolidation phase for the Indian IT majors who is trying to regain their growth movement. There would be challenges going forward but most of them have now been set aside and these companies are poised to report muted growth in FY10 which are sign of things improving in future.

Infosys

We expect Infosys to report a decline in USD revenue on QoQ basis in Q1FY10 with stability in pricing. We see the business bottoming at this level, although we expect recovery to be back-ended.

Recovery to be back ended for Infosys...

Our view

- We expect cash on the balance sheet to be used for making acquisitions.
- We expect pricing pressure to ease up a bit but the volume to pick up in H2FY10. The recovery would be led by volume followed by pricing.
- In the quarterly conference call we expect commentary on pricing and clients' IT budget.

TCS

We assume that there has been a freeze in the negative news flow about clients cancelling their orders or cutting down on their IT spend budget. The company has a 48.8% offshore mix which will have a positive effect on its volume growth. The increased presence of TCS in Latin America will provide the advantage of the improving scenario in USA.

On the verge of recovery...

Our view

- The company should be able to maintain margins on a flattish top line.
- The order book has seen improvement, but the sales cycle is still slow.
- The company plans to increase its focus on the government vertical which is witnessing growth due to enhanced e governance initiatives.
- The company will find it tough to get back to the original pricing levels in the near term.

WIPRO

The company has an edge amongst its peers in terms of pricing and we expect this to continue in the next quarters. The company is looking to expand its presence in Europe by way of inorganic growth. The increased exposure to emerging economies will continue to provide enhanced volume growth

Price realisations still intact inspite of the challenging global environment...

Our view

- The FPP is expected to further increase in the next few quarters,
- It will be the volumes which will witness growth before there is an increase in the price realisations.
- The company will honour all the campus offers and we expect these new employees to come on board in December this year.

HCL TECH

The acquisition of AXON has been one of the key drivers of growth for HCL Tech & we believe that this is expected to continue as HCL Tech is further expanding its presence in the European market. The AXON integration has strengthened the company's ERP capability.

AXON continues to be the growth driver...

Our view

- Like the Linde group, HCL Tech is expected to win more large clients in Continental Europe.
- HCL Tech has identified six targets for acquisition in Europe and we believe that they will be acquiring one or two of them by the end of 2009.
- In the quarterly conference call we expect commentary on debt syndication and client win from AXON.

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PINC ESTIMATES

Infosys - Q1FY10

	Q1FY09	Q4FY09	Q1FY10 (E)	QoQ Gr. (%)	YoY Gr. (%)
Sales	48,540	56,350	54,118	(4.0)	11.5
EBIDTA	14,790	18,910	16,398	(13.3)	10.9
OPM (%)	30.5	33.6	30.3	*(326 bps)*	*(17 bps)*
PAT	13,020	16,130	14,071	(12.8)	8.1
NPM (%)	26.8	28.6	26.0	*(262 bps)*	*(82 bps)*
EPS	22.7	28.1	24.5	(12.8)	8.1

TCS - Q1FY10

	Q1FY09	Q4FY09	Q1FY10 (E)	QoQ Gr. (%)	YoY Gr. (%)
Sales	64,107	71,718	69,888	(2.6)	9.0
EBIDTA	14,147	16,999	14,502	(14.7)	2.5
OPM (%)	22.1	23.7	20.8	(295 bps)	(132 bps)
PAT	12,437	13,130	12,271	(6.5)	(1.3)
NPM (%)	19.4	18.3	17.6	(75 bps)	(184 bps)
EPS	6.4	6.7	6.3	(6.5)	(1.3)

Wipro - Q1FY10

	Q1FY09	Q4FY09	Q1FY10 (E)	QoQ Gr. (%)	YoY Gr. (%)
Sales	59,623	65,460	64,151	(2.0)	7.6
EBIDTA	10,536	11,847	10,200	(13.9)	(3.2)
OPM (%)	17.7	18.1	15.9	(220 bps)	(177 bps)
PAT	8,139	9,073	9,240	1.8	13.5
NPM (%)	13.7	13.9	14.4	54 bps	75 bps
EPS	5.6	6.2	6.4	1.8	13.6

HCL Tech - Q4FY09

	Q4FY08	Q3FY09	Q4FY09 (E)	QoQ Gr. (%)	YoY Gr. (%)
Sales	21,688	27,360	27,916	2.0	28.7
EBIDTA	5,084	4,848	4,966	2.4	(2.3)
OPM (%)	23.4	17.7	17.8	7 bps	(565 bps)
PAT	1,410	2,178	2,358	8.2	67.2
NPM (%)	6.5	8.0	8.4	48 bps	194 bps
EPS	2.1	3.2	3.5	8.2	70.3

PINC RESEARCH

INFOSYS TECHNOLOGIES LTD.

BUY

CMP : Rs1,746 TP : Rs1,950 **BSE Sensex : 14,324**

We upgrade our rating on Infosys from SELL to BUY with a target price of Rs1,950, an upside of 12%. We believe that the worst is over for USA, which accounts for ~ 60% of the revenues for the major Indian IT vendors. The signs of recovery will help Infosys to post muted single digit growth in terms of revenues. The management also believes that things are improving from their clients' end which will provide them the much needed volume growth.

Increased exposure to India & ROW

Infosys is eyeing potential business in India and other emerging markets. This will help the company to capture the untapped markets and result in a higher new client addition. Geographies like APAC, EMEA presently account for 10% of its total revenues. The company expects to double this over the next 3-5 years.

Cash - Might be deployed for inorganic growth

Infosys has a strong cash balance of USD2.08bn as on FY09 which can be utilized for acquisitions in the near term. The company is reported to be eyeing acquisitions in the emerging markets in the healthcare vertical.

Revision of guidance

Infosys has guided an EPS of Rs 98.8 for FY09, which is likely to be revised upwards if the global economic environment continues to show signs of recovery. We expect the upward revision to be in the range of ~0-2%.

Pricing pressure to alleviate

The company believes that it will take time to win new contracts. However they notice a possibility of pricing becoming stable. The clients feel that the worst is behind them and there are chances of increased spending by them in the near term.

RISKS

Appreciating rupee, deterioration in the demand environment, absence of large business transformational deals and competition from the global peers could drag the earnings downwards.

VALUATIONS

Infosys is currently trading at 16.6 FY10E earnings and a 5% EPS CAGR and 8% sales CAGR over FY09-12E. We upgrade our estimates with a 'BUY' rating and a target price of Rs1,950 with an upside of 12%.

KEY FINANCIALS

Rs mn

	FY07	FY08	FY09	FY10E	FY11E
Net Sales	138,930	166,920	216,930	226,545	247,190
YoY Gr. (%)	*45.9*	*20.1*	*30.0*	*4.4*	*9.1*
Op.Profits	43,910	52,380	71,950	70,832	76,602
OPM (%)	*31.6*	*31.4*	*33.2*	*31.3*	*31.0*
Adjusted Net Profit	38,560	46,590	59,880	60,150	63,397
YoY Gr. (%)	*56.7*	*20.8*	*28.5*	*0.5*	*5.4*
KEY RATIOS					
Dil. EPS (Rs)	67.3	81.3	104.5	104.9	110.6
ROCE (%)	34.2	33.8	32.8	27.6	24.7
ROE (%)	34	34	33	28	25
PER (x)	25.5	21.4	16.7	16.6	15.8
EV/Net Sales (x)	6.8	5.6	4.2	3.9	3.5
EV/EBIDTA (x)	24.3	20.0	14.0	14.2	12.7

24 June 2009

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STOCK DATA

Market Cap	Rs1,000bn
Book Value per share	Rs311
Eq Shares O/S (FV Rs5)	573.3mn
Free Float	82%
Avg Traded Value (6 mnths)	Rs3600mn
52 week High/Low	Rs1,910 / 1,040
Bloomberg Code	INFO IN
Reuters Code	INFY.BO

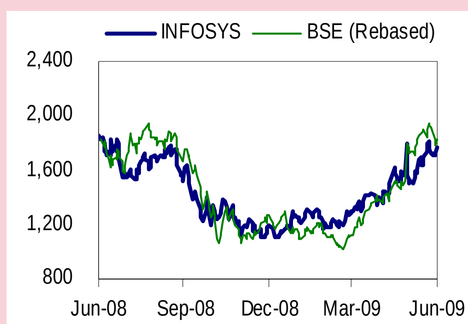
TOP SHAREHOLDERS

Name	% holding
Life Insurance Corporation of India	3.8
Oppenheimer Funds Inc	1.7
Government of Singapore	1.6
Abu Dhabi Investment Authority	1.1
Fidelity Mgmt & Research Company	1.0

PERFORMANCE (%)

	1M	3M	12M
Absolute	13.5	36.5	(4.9)
Relative	11.8	(15.4)	(1.2)

RELATIVE PERFORMANCE



Year Ended March (Figures in Rs mn)

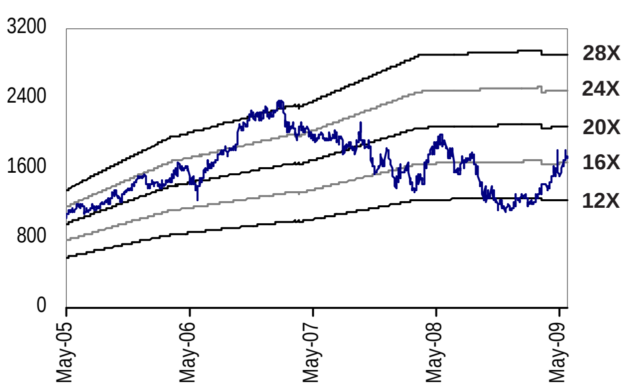
Income Statement	FY07	FY08	FY09	FY10E	FY11E
Net sales	138,930	166,920	216,930	226,545	247,190
Growth (%)	*45.9*	*20.1*	*30.0*	*4.4*	*9.1*
Gross profit	64,350	74,850	99,280	99,105	107,223
Other operating charges	20,440	22,470	27,330	28,273	30,622
EBITDA	43,910	52,380	71,950	70,832	76,602
Growth (%)	*42.0*	*19.3*	*37.4*	*-1.6*	*8.1*
Depreciation	5,140	5,980	7,610	8,204	8,848
Other income	3,700	7,040	4,730	8,137	13,525
EBIT	42,470	53,440	69,070	70,764	81,278
Interest paid	-	-	-	-	1
PBT (before E/o items)	42,470	53,440	69,070	70,764	81,278
Tax Provision	3,860	7,070	9,360	10,615	17,881
E/o loss / (Income)	50	-	-	-	-
Net profit	38,610	46,590	59,880	60,150	63,397
Adjusted net profit	38,560	46,590	59,880	60,150	63,397
Growth (%)	*56.7*	*20.8*	*28.5*	*0.5*	*5.4*
Diluted EPS (Rs)	67	81.3	104.5	104.9	110.6
Diluted EPS Growth (%)	*53.7*	*20.7*	*28.5*	*0.5*	*5.4*

Cash Flow Statement	FY07	FY08	FY09	FY10E	FY11E
Pre-tax profit	42,470	53,440	69,070	70,764	81,278
Depreciation	5,140	5,980	7,610	8,204	8,848
Total tax paid	(4,460)	(5,490)	(9,020)	(10,615)	(17,881)
Chg in working capital	(4,770)	(6,100)	(4,600)	(18,238)	(9,148)
Other operating activities	(3,170)	(7,000)	(9,810)	-	-
Cash flow from operat. (a)	35,210	40,830	53,250	50,115	63,097
Capital expenditure	(14,960)	(15,950)	(13,270)	(10,602)	(11,742)
Chg in investments	800	(710)	560	-	-
Other investing activities	2,950	5,460	10,560	-	-
Cash flow from invest. (b)	(11,210)	(11,200)	(2,150)	(10,602)	(11,742)
Free cash flow (a+b)	24,000	29,630	51,100	39,513	51,355
Equity raised/(repaid)	12,160	580	640	-	-
Debt raised/(repaid)	-	-	-	-	-
Change in Minorities Interest	-	-	-	-	-
Dividend (incl. tax)	(15,320)	(8,350)	(24,940)	(24,913)	(24,913)
Other financing activities	-	(11,110)	(130)	-	-
Cash flow from finan. (c)	(3,160)	(18,880)	(24,430)	(24,913)	(24,913)
Net chg in cash (a+b+c)	20,840	10,750	26,670	14,600	26,443

Balance Sheet	FY07	FY08	FY09	FY10E	FY11E
Equity Share Capital	2,860	2,860	2,860	2,860	2,860
Reserves & surplus	109,690	135,090	179,680	214,917	253,401
Shareholders' funds	112,550	137,950	182,540	217,777	256,261
Minorities interests	40	-	-	-	-
Total Debt	-	-	-	-	-
Capital Employed	112,590	137,950	182,540	217,777	256,261
Net fixed assets	37,710	47,770	53,540	60,295	64,427
Net Curr. Assets (excl Cash)	15370	18,770	30,790	42,206	50,115
Cash & Cash Eq.	58340	69,500	96,950	111,550	137,993
Investments	250	720	-	2,466	2,466
Net Deferred Tax Assets	920	1,190	1,260	1,260	1,260
Total assets	112,590	137,950	182,540	217,777	256,261

Key Ratios	FY07	FY08	FY09	FY10E	FY11E
OPM (%)	32	31	33	31	31
Net margin (%)	28	28	28	27	26
Yield (%)	2	1	2	2	2
Net debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net Working Capital (days)	66	70	63	90	96
Asset turnover (x)	1.0	0.9	1.0	0.9	0.9
ROCE (%)	34	34	33	28	25
RoE (%)	34	34	33	28	25
EV/Net sales (x)	6.8	5.6	4.2	3.9	3.5
EV/EBITDA (x)	21.4	17.8	12.5	12.5	11.2
PER (x)	25.5	21.4	16.7	16.6	15.8
Price/Book (x)	9	7	5	5	4

P/E Band



Earnings Revision (Rs mn., Except EPS)

	Old Estimate		Revised Estimate	
	FY10	FY11	FY10	FY11
Sales	222,045	239,295	226,545	247,190
EBIDTA	68,756	71,651	70,832	76,602
PAT	57,422	59,440	60,150	63,397
EPS	100.2	103.7	104.9	110.6

TCS LTD.

HOLD

CMP : Rs366 TP : Rs400 **BSE Sensex : 14,324**

We upgrade our estimates on TCS from SELL to HOLD recommendation with a target price of Rs400, an upside of 9%. We believe that the worst is over for USA which accounts for ~ 60% of the revenues for the major Indian IT vendors. The acquisition of CGSL will now illustrate its benefits for TCS in the BFSI segment. The management has also seen a halt in the demand decline due to increased outsourcing in India & other emerging markets.

Offshoring - the new growth engine

TCS has shifted majority of its work offshore to save costs of the clients. The move towards off shoring is expected to benefit in the long run . Off shoring could dent the operating margins of the company due to lower realisations.

Robust demand for IMS

In these times of uncertainty when all clients are cutting down on discretionary spend, work from the infrastructure management services is expected to show robust growth. We believe that the clients will go slow on developing new IT infrastructure, however the demand for maintaining the existing IT infrastructure will continue to be strong.

Acquisition of CGSL - Long term gains

The acquisition of CTSL will continue to contribute to the increased growth rate in the long term. It will help in strengthening the client base in the BFSI vertical. Since BFSI has now shown signs of recovery this acquisition will help the company to reap benefits.

Slow and steady increase in visibility

The deal pipeline has witnessed improvement in the telecom, energy,government and utility verticals.The company had already factored in the worsening situation due to the reduced spending by their top clients. With things improving globally, we believe that the positive sentiment would improve the company's visibility in terms of new deals.

RISKS

- Appreciating rupee, deterioration in the demand environment, absence of large business transformational deals and competition from the global peers could have an adverse impact on the bottomline.

VALUATIONS

TCS is currently trading at 13.8 FY10E earnings and a 3% EPS CAGR and 7% sales CAGR over FY09-12E. We upgrade our estimates with a 'HOLD' rating and a target price of Rs400 with an upside of 9%.

KEY FINANCIALS Rs mn

	FY07	FY08	FY09	FY10E	FY11E
Net Sales	186,332	228,614	278,128	293,270	313,975
YoY Gr. (%)	*41*	*23*	*22*	*5*	*7*
Op. Profits	46,445	53,651	66,014	63,905	67,896
OPM (%)	*25*	*23*	*24*	*22*	*22*
Adjusted Net Profit	41,315	50,191	51,708	51,988	53,671
YoY Gr. (%)	*43*	*21*	*3*	*1*	*3*
KEY RATIOS					
Dil. EPS (Rs)	42.2	51.3	52.8	26.6	27.4
ROCE (%)	47	40	40	34	32
ROE (%)	46	40	32	29	27
PER (x)	8.7	7.1	6.9	13.8	13.3
EV/Net Sales (x)	1.9	1.6	1.3	1.2	1.1
EV/EBIDTA (x)	7.1	6.2	4.9	4.9	4.3

24 June 2009

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STOCK DATA

Market Cap	Rs717bn
Book Value per share	Rs136
Eq Shares O/S (FV Rs5)	1,957mn
Free Float	25.2%
Avg Traded Value (6 mnths)	Rs1,344mn
52 week High/Low	Rs471/207
Bloomberg Code	TCS IN
Reuters Code	TCS.BO

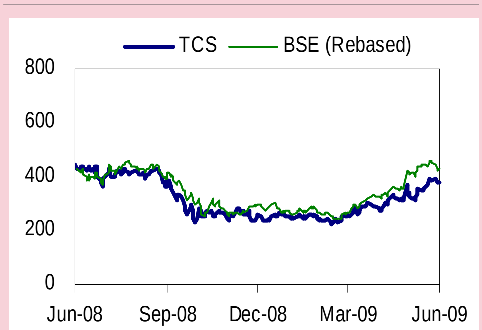
TOP SHAREHOLDERS

Name	% holding
Life Insurance Corporation of India	2.3

PERFORMANCE (%)

	1M	3M	12M
Absolute	13.4	47.4	(14.5)
Relative	11.7	(8.6)	(11.1)

RELATIVE PERFORMANCE



Year Ended March (Figures in Rs mn)

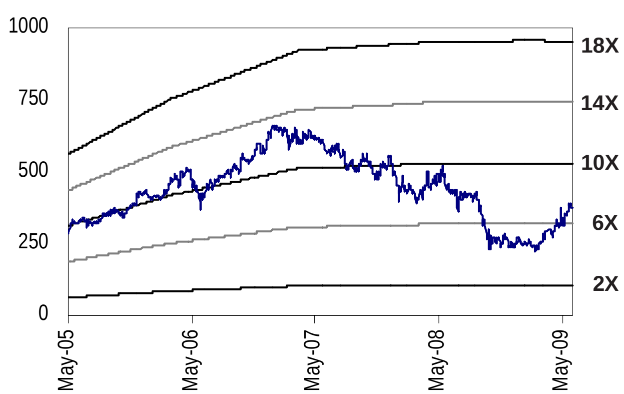
Income Statement	FY07	FY08	FY09	FY10E	FY11E
Net sales	186,332	228,614	278,128	293,270	313,975
Growth (%)	*41*	*23*	*22*	*5*	*7*
Gross profit	82,206	102,420	123,708	126,505	134,457
Other operating charges	31,426	43,958	51,930	54,521	57,088
EBITDA	50,780	58,462	71,778	71,984	77,369
Growth (%)	*42*	*15*	*23*	*-*	*7*
Depreciation	4,335	4,811	5,764	8,079	9,473
Other income	2,181	4,902	(4,149)	266	890
EBIT	46,445	53,651	66,014	63,905	67,896
Interest paid	237	452	535	-	-
PBT (before E/o items)	48,389	58,101	61,330	64,171	68,786
Tax provision	6,700	7,494	9,011	11,551	14,445
E/o Income / (loss)	373	416	611	632	670
Net profit	41,688	50,607	52,319	52,620	54,341
Adjusted net profit	41,315	50,191	51,708	51,988	53,671
Growth (%)	*43*	*21*	*3*	*1*	*3*
Diluted EPS (Rs)	42.2	51.3	26.4	26.6	27.4
Diluted EPS Growth (%)	*43*	*21*	*3*	*1*	*3*

Cash Flow Statement	FY07	FY08	FY09	FY10E	FY11E
Pre-tax profit	-	-	-	-	-
Depreciation	-	-	-	-	-
Total tax paid	-	-	-	-	-
Chg in working capital	-	-	-	-	-
Other operating activities	-	-	-	-	-
Cash flow from oper. (a)	33,975	40,312	51,415	44,993	61,124
Capital expenditure	(12,324)	(12,430)	(11,156)	(13,197)	(12,559)
Chg in investments	(157,807)	(287,263)	(332,633)	-	-
Other investing activities	151,629	272,294	306,804	-	-
Cash flow from inv. (b)	(18,501)	(27,399)	(36,985)	(13,197)	(12,559)
Free cash flow (a+b)	15,474	12,913	14,430	31,796	48,565
Equity raised/(repaid)	211	33	39	-	-
Debt raised/(repaid)	3,949	718	(379)	-	-
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(10,921)	(14,953)	(16,124)	(32,294)	(32,294)
Other financing activities	-	-	-	-	1
Cash flow from fin. (c)	(6,761)	(14,202)	(16,464)	(32,294)	(32,293)
Net chg in cash (a+b+c)	8,713	(1,289)	(2,034)	(498)	16,272

Balance Sheet	FY07	FY08	FY09	FY10E	FY11E
Equity Share Capital	25,351	26,351	26,351	26,351	26,351
Reserves & surplus	64,310	98,469	131,182	151,747	173,794
Shareholders' funds	89,661	124,819	157,533	178,097	200,144
Minorities interests	2,121	2,300	3,098	3,098	3,098
Total Debt	6,906	6,483	4,505	4,505	4,505
Capital Employed	98,688	133,602	165,136	185,701	207,748
Net fixed assets	43,084	55,351	99,834	106,578	109,663
Cash & Cash Eq.	12,291	10,352	13,440	12,941	29,212
Net other Current Assets	30,601	41,397	34,592	50,298	52,989
Investments	12,711	26,503	17,271	17,271	17,271
Net Deferred Tax Assets	-	-	-	-	-
Total assets	98,688	133,602	165,137	187,088	209,135

Key Ratios	FY07	FY08	FY09	FY10E	FY11E
OPM (%)	24.9	23.5	23.7	21.8	21.6
Net margin (%)	22.2	22.0	18.6	17.7	17.1
Dividend yield (%)	3.0	4.2	4.5	4.5	4.5
Net debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
Net Working Capital (days)	60	66	45	63	62
Asset turnover (x)	1.4	1.3	1.2	1.2	1.1
ROCE (%)	47.1	40.2	40.0	34.2	32.5
RoE (%)	46.4	40.4	32.3	28.8	26.5
EV/Net sales (x)	1.9	1.6	1.3	1.2	1.1
EV/EBITDA (x)	7.1	6.2	4.9	4.9	4.3
PER (x)	8.7	7.1	6.9	13.8	13.3
Price/Book (x)	3.9	2.8	2.2	2.0	1.8

P/E Band



Earnings Revision (Rs mn., Except EPS)

	Old Estimate		Revised Estimate	
	FY10	FY11	FY10	FY11
Sales	286,875	306,370	293,270	313,975
EBIDTA	68,725	73,044	71,984	77,369
PAT	49,599	51,211	51,988	53,671
EPS	50.7	52.3	26.6	27.4

PINC RESEARCH

WIPRO LTD.

BUY

CMP : Rs377 TP : Rs420 **BSE Sensex : 14,324**

24 June 2009

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We upgrade our estimates on WIPRO from HOLD to BUY recommendation with a target price of Rs420, an upside of 11%. The stability in pricing in these challenging environment has helped the company to gain a competitive edge over its peers. They are also eyeing the emerging markets for the much needed volume growth. The management believes that the number of ramp downs in projects have seen a significant decline which are positive signs for posting a single digit growth in FY10.

Unwavering new client addition

There is no significant fall in the new client addition in spite of the challenging environment in FY 09. We believe that this was an effect of the CGSL in the last financial year. However the strong business model and significant uptake in large deals have led to the steady new client addition.

Hiring Freeze in FY09- Helps it emerge as a winner amongst its peers

The company had adopted a hiring freeze after observing the challenging global scenario. The utilisation rate stood at 75.8% and the company expects it to improve further after the full impact of lower headcount will be witnessed in the next few quarters. With abundant supply of human resources in the market, Wipro can hire according to their requirements and thus poised at a better position than its peers who are opting for techniques like benching the staff due to slowdown in the business.

Large deals in the pipeline expected to provide volume growth

The company has witnessed a significant uptake in the large deals pipeline. These deal flows are mainly from verticals like telecom, energy & utilities. The Total Contract Value for the company has been a lot better in FY09 than previous years. The growth from EMEA & emerging markets has also contributed to this deal pipeline.

RISKS

- Appreciating rupee, deterioration in the demand environment, absence of large business transformational deals and competition from the global peers could drag the earnings downwards.

VALUATIONS

Wipro is currently trading at 14.6 FY10E earnings and a 3% EPS CAGR and 9% sales CAGR over FY09-12E. We upgrade our estimates with a 'BUY' rating and a target price of Rs420 with an upside of 11%.

KEY FINANCIALS

Rs mn

	FY07	FY08	FY09	FY10E	FY11E
Net Sales	149,433	197,428	254,564	267,578	301,311
YoY Gr. (%)	*40.8*	*32.1*	*28.9*	*5.1*	*12.6*
Op.Profits	30,153	33,565	43,288	41,313	44,098
OPM (%)	*20.2*	*17.0*	*17.0*	*15.4*	*14.6*
Adjusted Net Profit	29,170	32,241	35,078	37,664	39,656
YoY Gr. (%)	*43.9*	*10.5*	*8.8*	*7.4*	*5.3*
KEY RATIOS					
Dil. EPS (Rs)	20.2	22.2	23.6	25.9	27.3
ROCE (%)	29.2	22.9	24.3	19.6	18.8
ROE (%)	28.8	24.7	21.8	19.7	18.4
PER (x)	18.4	17.0	15.9	14.6	13.8
EV/Net Sales (x)	3.5	2.7	2.0	1.9	1.6
EV/EBIDTA (x)	15.9	13.2	10.1	9.7	8.9

STOCK DATA

Market Cap	Rs553bn
Book Value per share	Rs79
Eq Shares O/S (FV Rs5)	1,455mn
Free Float	25%
Avg Traded Value (6 mnths)	Rs576mn
52 week High/Low	Rs494/180
Bloomberg Code	WPRO IN
Reuters Code	WIPR.BO

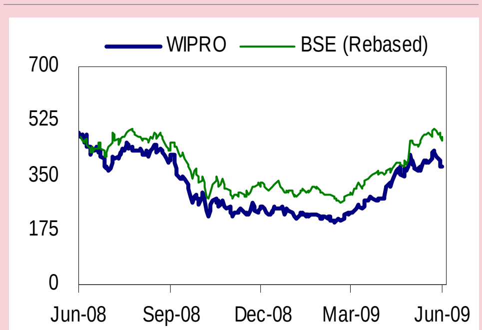
TOP SHAREHOLDERS

Name	% holding
HSBC Global Investment Funds	1.7
Life Insurance Corporation of India	1.3

PERFORMANCE (%)

	1M	3M	12M
Absolute	(1.2)	64.0	(22.5)
Relative	(2.7)	1.6	(19.5)

RELATIVE PERFORMANCE



Year Ended March (Figures in Rs mn)

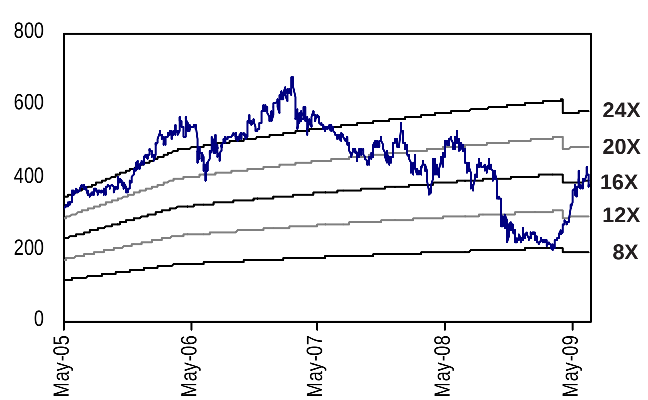
Income Statement	FY07	FY08	FY09	FY10E	FY11E
Net sales	149,433	197,428	254,564	267,578	301,311
Growth (%)	*40.8*	*32.1*	*28.9*	*5.1*	*12.6*
Gross profit	47,233	58,597	76,388	75,753	81,560
Other operating charges	13,910	18,966	24,743	22,871	25,594
EBITDA	33,323	39,631	51,645	52,882	55,966
Growth (%)	*30.9*	*18.9*	*30.3*	*2.4*	*5.8*
Depreciation	3,170	6,066	8,357	11,569	11,868
Other income	2,667	2,167	(91)	5,763	6,447
EBIT	32,536	35,881	39,624	44,017	49,881
Interest paid	-	-	-	-	-
PBT (before E/o items)	32,536	35,881	39,624	44,017	49,881
Tax provision	3,723	3,873	4,895	6,603	10,475
E/o Income / (loss)	357	233	350	250	250
Net profit	28,813	32,008	34,728	37,414	39,406
Adjusted net profit	29,170	32,241	35,078	37,664	39,656
Growth (%)	*43.9*	*10.5*	*8.8*	*7.4*	*5.3*
Diluted EPS (Rs)	20	22	24	26	27
Diluted EPS Growth (%)	*41.8*	*9.7*	*6.7*	*9.5*	*5.3*

Cash Flow Statement	FY07	FY08	FY09	FY10E	FY11E
Profit After Tax	20,555	32,241	34,415	37,664	39,656
Depreciation	3,170	6,066	8,357	11,569	11,868
Total tax paid	-	-	-	-	-
Chg in working capital	(5,541)	(13,256)	(341)	(18,389)	(6,058)
Other operating activities	515	(783)	(5,574)	2,820	2,296
Cash flow from oper. (a)	18,699	24,268	36,857	33,665	47,762
Capital expenditure	(8,228)	(14,673)	(16,592)	(18,730)	(18,079)
Chg in investments	(84,092)	(231,684)	(353,146)	-	-
Other investing activities	69,488	217,975	342,045	-	-
Cash flow from inv. (b)	(22,832)	(28,382)	(27,693)	(18,730)	(18,079)
Free cash flow (a+b)	(4,133)	(4,114)	9,164	14,934	29,684
Equity raised/(repaid)	3,905	749	440	-	-
Debt raised/(repaid)	1,429	35,589	6,419	-	-
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(8,123)	(5,404)	(6,829)	(6,834)	(15,994)
Other financing activities	17,746	(7,170)	18	-	-
Cash flow from fin. (c)	14,957	23,764	48	(6,834)	(15,994)
Net chg in cash (a+b+c)	10,824	19,650	9,212	8,100	13,690

Balance Sheet	FY07	FY08	FY09	FY10E	FY11E
Equity Share Capital	27,426	29,364	31,413	31,955	31,955
Reserves & surplus	74,042	100,003	118,769	149,600	173,262
Shareholders' funds	101,468	129,367	150,182	181,555	205,217
Minorities interests	-	114	235	235	235
Total Debt	1,794	17,281	27,563	28,508	28,508
Capital Employed	103,262	146,762	177,980	210,298	233,960
Net fixed assets	43,918	93,260	123,649	129,477	133,392
Cash & Cash Eq.	19,650	39,270	49,117	57,217	70,907
Net other Current Assets	38,095	12,534	3,037	21,426	27,484
Investments	1,599	1,698	2,008	2,008	2,008
Net Deferred Tax Assets	-	-	169	169	169
Total assets	103,262	146,762	177,980	210,298	233,960

Key Ratios	FY07	FY08	FY09	FY10E	FY11E
OPM (%)	20.2	17.0	17.0	15.4	14.6
Net margin (%)	19.5	16.3	13.8	14.1	13.2
Dividend yield (%)	1.5	1.0	1.2	1.2	2.9
Net debt/Equity (x)	0.0	0.1	0.1	0.1	0.1
Net Working Capital (days)	93	23	4	29	33
Asset turnover (x)	1.0	0.9	0.9	0.9	0.9
ROCE (%)	29.2	22.9	24.3	19.6	18.8
RoE (%)	28.8	24.7	21.8	19.7	18.4
EV/Net sales (x)	3.5	2.7	2.0	1.9	1.6
EV/EBITDA (x)	21.2	15.9	13.2	10.1	9.7
PER (x)	18.4	17.0	15.9	14.6	13.8
Price/Book (x)	5.4	4.2	3.7	3.0	2.7

P/E Band



Earnings Revision	(Rs mn., Except EPS)			
	Old Estimate		**Revised Estimate**	
	FY10	**FY11**	**FY10**	**FY11**
Sales	264,912	293,103	267,578	301,311
EBIDTA	51,622	53,240	52,882	55,966
PAT	42,044	45,031	37,664	39,656
EPS	24.7	24.6	25.9	27.3

PINC RESEARCH

HCL TECH

HOLD

CMP : Rs190 TP : Rs200 **BSE Sensex : 14,324**

24 June 2009

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We maintain our estimates on HCL Tech to HOLD recommendation with a target price of Rs200, an upside of 5%. The acquisition of AXON has led to improvement in the ERP space & has helped win new clients in the European market. Emerging verticals like energy and utilities will be the growth drivers in the future. The management is also eyeing acquisitions in Continental Europe to enhance its global presence & boost growth.

Healthy growth in business due to the AXON acquisition

The run rate of HCL Tech has improved three fold due to the AXON acquisition. The company believes that increased vendor consolidation, spending on SAP will benefit their business and provide them the much needed volume growth. More than half of the new deals clinched last quarter were because of the integration with AXON. The company has a strong order book of USD1.5 bn which is to be completed over the next 6-7 quarters.

Enhanced focus on continental Europe

HCL tech is already a well established player in UK & has recently renewed its efforts to win business in Germany, France & Switzerland. The company has clients like Deutshce Bank, Tech data & Readers Digest in the European market. We believe that the current economic environment in Continental Europe has forced the companies there to enhance off shoring.

More acquisitions on the card

The company is eyeing acquisitions in the engineering and infrastructure verticals in Germany. This is a part of the company's strategy to enhance its geographical presence. The company has so far identified six companies for acquisition in Germany and has hopes of acquiring one or two of them by the end of FY10. Any new acquisition could further increase the financial risk.

RISKS

- Strong rupee, slowdown in the demand environment, absence of large business transformational deals and competition from the global peers could dent the earnings.

VALUATIONS

HCL Tech is currently trading at 12.2 FY10E earnings and a -2% EPS CAGR and 10% sales CAGR over FY09-12E. We maintain our estimates with a 'HOLD' rating and a target price of Rs200 with an upside of 5%.

KEY FINANCIALS

Rs mn

	FY07	FY08	FY09E	FY10E	FY11E
Net Sales	60,337	76,394	103,877	114,545	124,945
YoY Gr. (%)	*37.1*	*26.6*	*36.0*	*10.3*	*9.1*
Op.Profits	13,371	16,939	20,726	19,958	20,866
OPM (%)	*22.2*	*22.2*	*20.0*	*17.4*	*16.7*
Adjusted Net Profit	13,549	11,245	11,739	10,415	10,498
YoY Gr. (%)	*74.9*	*(17.0)*	*4.4*	*(11.3)*	*0.8*
KEY RATIOS					
Dil. EPS (Rs)	19.8	16.5	17.5	15.5	15.7
ROCE (%)	25.9	29.0	22.1	20.3	20.3
ROE (%)	27.0	21.6	23.2	19.0	17.7
PER (x)	9.3	11.2	10.8	12.2	12.1
EV/Net Sales (x)	2.1	1.7	0.9	0.8	0.7
EV/EBIDTA (x)	8.0	6.4	3.8	3.9	3.6

STOCK DATA

Market Cap	Rs128bn
Book Value per share	Rs48
Eq Shares O/S (FV Rs5)	670.3mn
Free Float	28%
Avg Traded Value (6 mnths)	Rs240mn
52 week High/Low	Rs285 / 86
Bloomberg Code	HCLT IN
Reuters Code	HCLT.BO

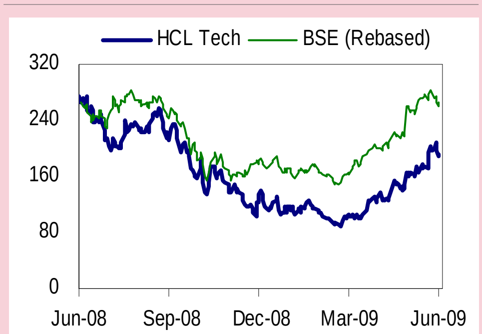
TOP SHAREHOLDERS

Name	% holding
HSBC Global Investment Funds	7.1
Life Insurance Corporation of India	2.7
Warhol Ltd	2.5
Master Trust Bank of Japan Ltd	1.7
Dali Ltd	1.3

PERFORMANCE (%)

	1M	3M	12M
Absolute	20.8	83.6	(29.7)
Relative	18.9	13.8	(27.0)

RELATIVE PERFORMANCE



Year Ended June (Figures in Rs mn)

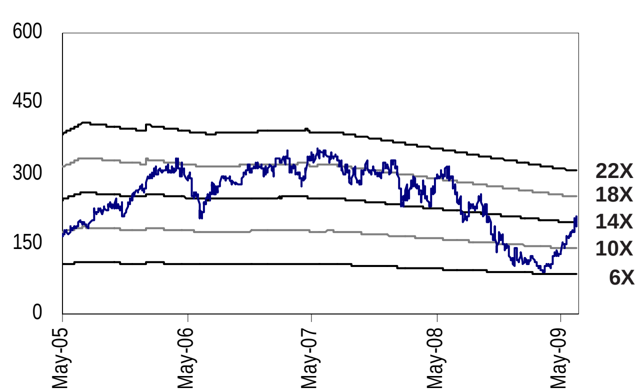
Income Statement	FY07	FY08	FY09E	FY10E	FY11E
Net sales	60,337	76,394	103,877	114,545	124,945
Growth (%)	*37*	*27*	*36*	*10*	*9*
Gross profit	22,745	29,518	38,494	39,623	42,211
Other operating charges	9,374	12,579	17,768	19,665	21,345
EBITDA	13,371	16,939	20,726	19,958	20,866
Growth (%)	*36*	*27*	*22*	*(4)*	*5*
Depreciation	2,532	3,033	4,844	5,702	6,644
Other income	4,259	(1,370)	(2,267)	(1,708)	(764)
EBIT	10,839	13,906	15,881	14,255	14,223
Interest paid	-	-	-	-	-
PBT (before E/o items)	15,098	12,536	13,614	12,548	13,459
Tax provision	1,485	1,272	1,906	2,133	2,961
E/o Income / (loss)	(64)	(19)	31	-	-
Net profit	13,613	11,264	11,708	10,415	10,498
Adjusted net profit	13,549	11,245	11,739	10,415	10,498
Growth (%)	*75*	*15*	*4*	*(11)*	*1*
Diluted EPS (Rs)	19.8	16.5	17.5	15.5	15.7
Diluted EPS Growth (%)	*81*	*(17)*	*6*	*(11)*	*1*

Cash Flow Statement	FY07	FY08	FY09E	FY10E	FY11E
Profit After Tax	13,093	12,510	12,269	10,415	10,498
Depreciation	2,601	3,333	4,522	4,009	4,998
Total tax paid	-	-	-	-	-
Chg in working capital	(4,291)	1,885	(4,062)	(2,367)	(3,057)
Other operating activities	(241)	(2,149)	(1,488)	1,693	1,646
Cash flow from oper. (a)	11,161	15,580	11,242	13,750	14,085
Capital expenditure	(3,944)	(6,117)	(6,686)	(6,873)	(7,122)
Chg in investments	(2,106)	(36)	6,277	-	-
Other investing activities	4	(1,814)	(35,039)	-	-
Cash flow from inv. (b)	(6,045)	(7,966)	(35,448)	(6,873)	(7,122)
Free cash flow (a+b)	5,117	7,613	(24,207)	6,877	6,963
Equity raised/(repaid)	2,329	416	208	-	-
Debt raised/(repaid)	-	-	34,359	-	-
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(6,013)	(7,006)	(7,975)	(6,023)	(6,023)
Other financing activities	(510)	(225)	1,503	-	-
Cash flow from fin. (c)	(4,195)	(6,815)	28,095	(6,023)	(6,023)
Net chg in cash (a+b+c)	922	798	3,888	854	940

Balance Sheet	FY07	FY08	FY09E	FY10E	FY11E
Equity Share Capital	50,150	52,177	50,535	54,927	59,402
Reserves & surplus	-	-	-	-	-
Shareholders' funds	50,150	52,177	50,535	54,927	59,402
Minorities interests	145	57	23	23	23
Total Debt	1,292	6,234	43,419	43,419	43,419
Capital Employed	51,587	58,468	93,977	98,369	102,844
Net fixed assets	20,905	27,965	68,917	70,088	70,566
Cash & Cash Eq.	3,587	3,840	4,884	5,738	6,678
Net other Current Assets	26,999	26,562	19,993	22,360	25,417
Investments	96	101	183	183	183
Net Deferred Tax Assets	-	-	-	-	-
Total assets	51,587	58,468	93,977	98,369	102,844

Key Ratios	FY07	FY08	FY09E	FY10E	FY11E
OPM (%)	22.2	22.2	20.0	17.4	16.7
Net margin (%)	22.5	14.7	11.3	9.1	8.4
Dividend yield (%)	4.8	5.5	5.3	4.7	4.7
Net debt/Equity (x)	0.0	0.0	0.7	0.6	0.6
Net Working Capital (days)	163	127	70	71	74
Asset turnover (x)	1.0	1.0	0.8	0.8	0.9
ROCE (%)	25.9	29.0	22.1	20.3	20.3
RoE (%)	27.0	21.6	23.2	19.0	17.7
EV/Net sales (x)	2.1	1.7	0.9	0.8	0.7
EV/EBITDA (x)	8.0	6.4	3.8	3.9	3.6
PER (x)	9.3	11.2	10.8	12.2	12.1
Price/Book (x)	2.5	2.4	2.5	2.3	2.1

P/E Band



Earnings Revision (Rs mn., Except EPS)

	Old Estimate		Revised Estimate	
	FY09	FY10	FY09	FY10
Sales	103,213	113,810	103,877	114,545
EBIDTA	21,199	20,418	20,726	19,958
PAT	12,253	10,742	11,739	10,415
EPS	18.3	16.0	17.5	15.5

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