

THEMATIC

Cyclical Blip Or Structural Slip?

Share prices in the IT sector have corrected sharply over the past two weeks. However, there is still a chasm between (still high) share prices versus the macroeconomy driven concerns regarding IT companies' performance, guidance and commentary. Our scrubbing of earnings commentaries of enterprise software and hardware vendors, our discussions with US banks and our channel checks point to leading indicators of a visibly worsening spending environment. We cut our estimates but maintain our relative preferences (SELL Infosys and Wipro, BUY HCLT and TCS).

The Indian IT sector has been hammered down by 15-20% over the last two weeks as markets, discomfited by rich valuations, have factored in the risks of a growth slowdown. However, results of most IT services companies and management commentary has remained fervently optimistic and does not yet reflect macro worries. Should investors view this as a buying opportunity given the carnage in the absence of changes to guidance? We think not.

Although we have repeatedly expressed caution regarding the rich valuations among Tier 1 IT services firms since our 14th Jan thematic, "Humpty Dumpty sat on a wall...", our thesis has been that there were pockets of growth in a "barbell" shaped demand environment with stronger growth in higher end service lines (such as consulting, EAS, OPD) and in scale service lines such as RIM, BPO and Testing. However, now even in these promising segments we find evidence of slowing decision making from IT buyers in the West.

Early indicators of enterprise weakness: Whilst commentary from Enterprise Application Software (EAS) market leaders and IT services stalwarts (Accenture, IBM) has been bullish, other enterprise software vendors have begun reporting slowing new license sales growth in the US financial services, public sector and in Europe. This is further substantiated by the sudden decline in demand reported by enterprise and consumer hardware firms. Furthermore, our channel checks also indicate strong deferment of spending in 2 of the top 5 US banks for EAS implementations. This calls to question our "barbell" thesis.

Mapping the risk for IT services firms: Although the current macro worries centre on sovereign debt in the West, banks there have begun to feel the pressure as evidenced by extensive job cuts. Given the strong surge of pent-up demand that IT firms have enjoyed over the last couple of years, the slowdown in IT spend growth could be stronger than is currently being expected by these IT companies. Secondly, discretionary revenues (Application Development (AD), EAS, consulting, product engineering) and spending in Retail, Manufacturing (outside of BFSI) is likely to be under greater pressure. Our heatmaps indicate **HCLT** and **Wipro** are better placed. Robustness against a decline in discretionary spending has improved the most at **TCS** and declined the most at **Wipro**. **Infosys** remains the worst positioned among Tier 1s and **Polaris** and **Persistent** among our Tier 2 stocks.

Cyclical blip or structural slip? As a late cyclical industry, we expect earnings for Indian IT firms to be impacted from 3QFY12 onwards with the main impact being on FY13 & FY14 growth estimates. A downturn in the US and EU economies is likely to prove a cyclical blip for fundamentally stronger firms viz. **HCLT**, **TCS**, **Persistent**, **Polaris**, while it is likely to hinder the recovery from structural slippages at **Wipro** and **Infosys**. We maintain BUYs on **HCLT** and **TCS** on fundamental grounds, on **Polaris** and **Persistent** on valuation grounds while maintaining a SELL stance on **Wipro**, **Infosys** and **eClerx**.

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Infosys- SELL

CMP:	Rs2,225
Target Price (Period):	Rs 2298
Upside (%)	3%
EPS (FY12):	Rs 131

TCS- BUY

CMP:	Rs929
Target Price (Period):	Rs1,174
Upside (%)	26%
EPS (FY12):	Rs 53.2

Wipro- SELL

CMP:	Rs320
Target Price (Period):	Rs273
Downside (%)	15%
EPS (FY12):	Rs 20.9

HCL Tech- BUY

CMP:	Rs392
Target Price (Period):	Rs550
Upside (%)	40%
EPS (FY12):	Rs 30.8

Polaris - BUY

CMP:	Rs125
Target Price (Period):	Rs211
Upside (%)	68%
EPS (FY12):	Rs 20.3

Persistent - BUY

CMP:	Rs300
Target Price (Period):	Rs408
Upside (%)	36%
EPS (FY12):	Rs 28.8

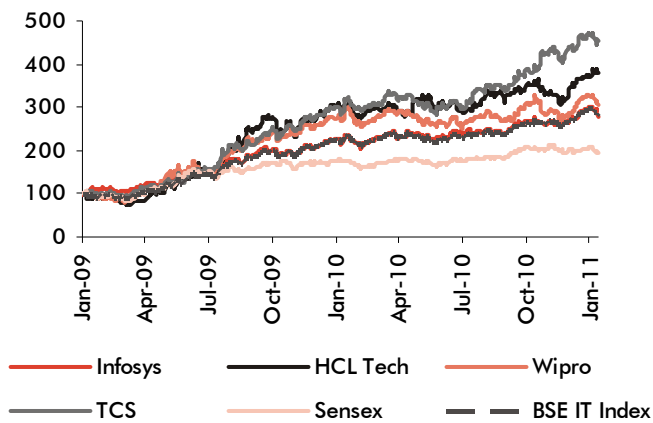
eClerx- SELL

CMP:	Rs747
Target Price (Period):	Rs775
Upside (%)	4%
EPS (FY12):	Rs 46.0

Humpty Dumpty had a great fall

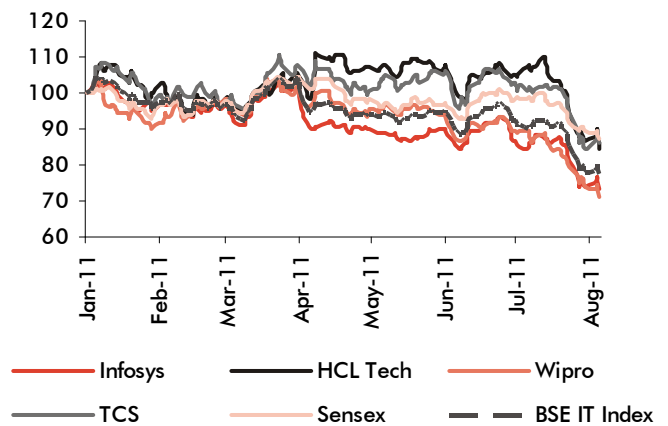
The Indian IT sector has been hammered by 20-25% over the last two weeks as investors, discomfited by rich valuations, factor in risks of a further economic slowdown in the West. We had highlighted in our 14 January 2011 thematic (titled “*Humpty Dumpty sat on a wall...*”) that our reverse DCF models suggested that the Tier 1 IT stocks’ valuations left them exposed to the risk of slip ups and slowdown in spending in the US and Europe. However, the results of most IT services companies and their management commentary has remained fervently optimistic and does not yet reflect macro worries. Should investors view this as a buying opportunity given the recent carnage in the sector? We think not.

Exhibit 1: Tier 1 IT outperformance in Jan’09-Jan’11



Source: Bloomberg

Exhibit 2: Performance since our 14 Jan thematic



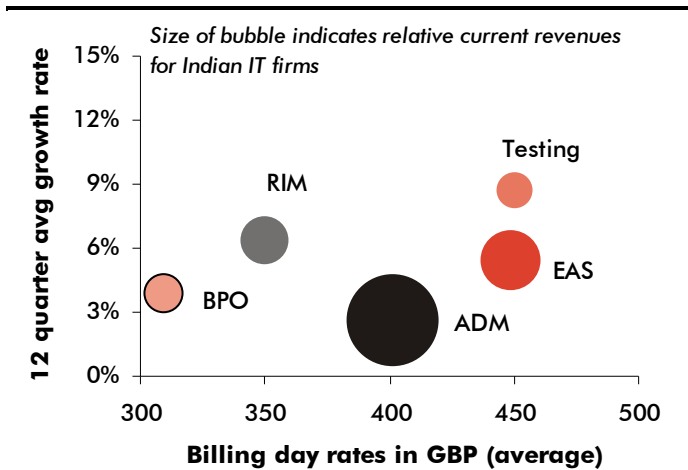
Source: Bloomberg

We have highlighted in our previous notes that once the one-off benefits of recovery in spending wears off, Indian IT firms will face an existential challenge to maintain growth and competitive advantage over a longer period. Although we have repeatedly expressed our caution regarding the rich valuations among Tier 1 IT, our thesis has been that there are pockets of growth in a barbell shaped demand environment with stronger growth in higher end service lines (such as consulting, EAS, OPD) and in scale service lines such as RIM, BPO and Testing (see Exhibit 3). In fact, the IT sector’s results in the quarter ending in June 2011 indicated that the demand for IT services is indeed increasingly barbell.

The barbell shaped world

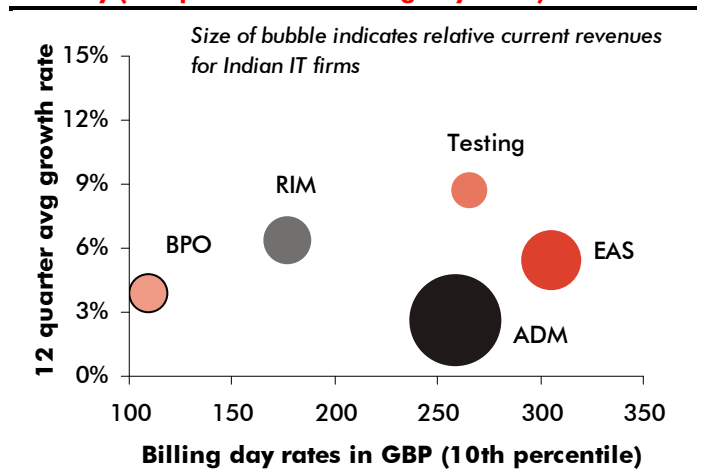
- **Higher end services:** EAS, IP led services.
- **Lower end services:** BPO, Testing and Remote Infrastructure Management (RIM).
- **Middle ground giving away:** Application Development and Product Engineering Services.

Exhibit 3: The barbell shaped industry growth...



Source: www.itjobswatch.co.uk, Ambit Capital research

Exhibit 4: ...holds up even at the lowest end of the IT industry (10th percentile of billing day rates)



Source: www.itjobswatch.co.uk, Ambit Capital research

Canaries in the coal mine: Early indicators of enterprise weakness

Whilst commentary from Enterprise Application software market leaders (SAP, Oracle), IT services stalwarts (Accenture, IBM) and from the Indian IT firms was bullish for the quarter just completed, we are finding early warning indicators from various parts of the IT landscape:

- Enterprise Application Software:** Although the most recent commentary from SAP and Oracle indicated that the discretionary spending environment was decidedly optimistic, other Enterprise Application Software vendors have begun reporting slow to flat new license sales growth in US financial services, public sector and in Europe. We point to **TIBCO's near zero growth in Financial Services in its last reported quarter and Informatica's comments on rising spending issues in US domestic financial services and in the US public sector.** A slowdown in new license sales precedes slowdown in services by 2-3 quarters.
- Enterprise hardware:** Enterprise storage vendor, **NetApp, commented that the spending environment weakened dramatically in the last month of its July ending quarter with each of its six largest financial services customers cutting spending.** Dell and HP reported reasonable enterprise hardware performance but gave grave commentary on the spending environment.
- Consumer Hardware:** Dell's and HP's July ending results further confirmed pressures on consumer spending from declining consumer confidence and cannibalization from tablet form factors as consumers choose cheaper and fancier form factors. This has begun disrupting the overall PC supply chain (as evidenced by HP's impending divestiture) that will flow through to Indian IT firms servicing the hi-tech industry.
- Channel checks with consultants:** Our channel checks with IT consultants suggest an upsurge in deferment of spending in some of the largest US banks for EAS implementations. Consultants indicate that several large deals were deferred as customers reigned in spending between June-July and July-August.

Exhibit 5: Canaries we spotted: Macro commentary turning sour

Company Event Comments

Enterprise Software Vendors

Informatica 2QCY11 *Now the uneven nature of the macro economic recovery was evident in our Q2 order pattern, and certainly some domestic financial services were more cautious in their macro outlook. .. [In] domestic financial services, we could see changing priorities, and we could see people shifting -- a number of customers shifting from customer-centric initiatives to more efficiency-prioritizing, higher, more efficiency-oriented initiatives. This was actually wasn't anticipated by the team -- is that international public sector, particularly European public sector, was down sequentially, and so that's what I mean, I guess, by uneven order patterns. So Q1 would have been consistent. We had great contribution across probably nine different verticals. This quarter financial services wasn't quite as strong in the US. Public sector not quite as strong in Europe.*

Enterprise hardware vendors

NetApp 1QFY12 *However, July also brought some weakness in our business in the US, particularly in the financial services sector. We have 23 US firms in our major accounts program. 6 of them are in financial services. All 6 of them saw bookings declines from Q1 of last year. However, the trajectory weakened as the last month was roughly half the growth rate of the first, causing us to come in lower than where we had anticipated. Economic conditions remain uncertain, but they are clearly different than they were 90 days ago.*

Banks

BNY Mellon 2QCY11 *We have a lot of expense management stuff flowing through our income statement right now as we continue the reposition ourselves and there's investment costs involved in getting cost out over time but the basic categories are moving people to lower cost locations that aren't in major cities; real estate and working down the number of locations, the number of buildings, that we have; procurement, where we're doing a good job but I wouldn't call us first quartile in our capabilities. And frankly, we have too many applications in our company in terms of systems. And we want to cull those fairly materially over the next few years.*

1QCY11 *We do have a number of programs to reduce our technology infrastructure costs. We're starting to see some of the early benefits of the consolidation of our consulting expenses and you can see that in our run rate as we've negotiated better terms and we're doing more of our activity with fewer providers as we continue to improve our procurement activities.*

Barclays 1QCY11 *[We] set for us as an Executive Committee across the Group sort of a change of mindset in looking for ways to do things more efficiently and move away from maybe being such independent sort of loosely aligned confederation of businesses to more of an integrated infrastructure platform. And we think there is real opportunity to generate those saves.*

UBS 1QCY11 *We spent less on marketing and on our brand campaign, and we incurred lower run-the-bank IT costs. Finally, we were assisted by the weakness of the U.S. dollar against our reporting currency.*

Wells Fargo 2QCY11 *First, staff and technology functions, as our company has grown, we have become more complex. We are focused on removing unnecessary complexity and eliminating duplication in our staff functions. Throughout the merger integration, we have been focused on IT consistency, one platform throughout our company to serve our customers seamlessly. With Project Compass, we are focused on simplifying the technology environment across our company, particularly in such areas as data centers, help desk and application development and support.*

Source: Companies

- **Banks earnings commentary:** Our analysis of the earnings commentary of the 10 largest US and global banks indicated a marked increase in focus on cost cut down and in some cases specific commentary regarding reduction in Tech spending (Bank of America, Bank of New York Mellon, Wells Fargo, UBS, etc.). Indeed, some banks did comment about Infrastructure outsourcing (State Street) as a way of saving costs.

This clearly questions our barbell thesis for Indian IT services firms in the short term. In fact, these leading indicators suggest that IT spending has begun to be impacted. Indeed, NetApp and HP's results include a month of July and seem to indicate worsening trend going forward. However, with the focus on saving costs, Infrastructure deals are likely to accelerate while customer focus on price is likely to be higher.

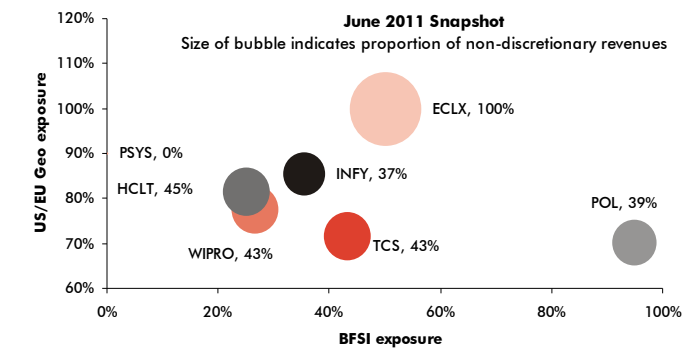
Mapping the risk for IT services firms

Although the current macro worries centre on sovereign debt in the US and in Europe, Western banks have begun to feel the pressure as indicated by their recent results and extensive job cuts. Given the strong surge of pent-up demand that software and services firms have enjoyed over the last couple of years, slowdown in growth could be stronger than currently expected. Secondly,

discretionary revenues (Application development, EAS, consulting, Product engineering) and spending in Retail, Manufacturing (outside of BFSI) is likely to have a greater impact. Our heatmaps (see below) indicate that:

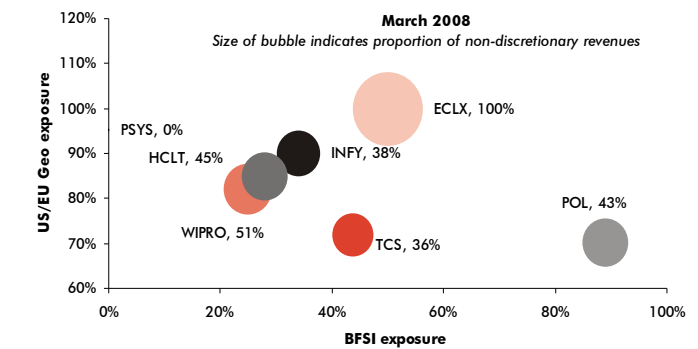
- HCLT and Wipro are better placed from a snapshot perspective.
- Robustness against a decline in discretionary spending has improved the most at TCS and declined the most at Wipro.
- Infosys remains the worst positioned among Tier 1s and Polaris and Persistent among our Tier 2 stocks.

Exhibit 6: Readiness to face macro risks in June 2011



Source: Company, Ambit Capital research

Exhibit 7: Readiness to face macro risks in March 2008



Source: Company, Ambit Capital research

Methodology: We measure the **Geographic exposure** on the Y axis, the **exposure to BFSI** on the X axis. The size of each bubble indicates the proportion of **Non-Discretionary revenues** (the higher the better in the current climate). We define non-discretionary as Application Maintenance (AM), BPO and Remote Infrastructure Management (RIM). By default therefore, Application Development (AD), Consulting, Enterprise Application Services (EAS) and Testing are assumed to be "discretionary". For companies that don't disclose the split of AD and AM (only Infosys does) we have assumed equal parts. We also highlight a snapshot of the firms under our coverage in March 2008, the quarter that saw Bear Sterns collapse and the beginning of revenue hits for the Indian IT industry in 2008.

- **Current scenario:** On a snapshot basis for 2011, we find that at present Wipro has the best ratio of low US/EU exposure along with low BFSI exposure and high proportion of non-discretionary revenues. HCLT is a close second on most metrics, but has a higher proportion of non-discretionary revenues. TCS has greater exposure to BFSI than Infosys but has: (a) greater proportion of non-discretionary revenues; and (b) lower exposure to the US and EU. So from a snapshot basis the pecking order would seem like Wipro, HCLT, TCS and Infosys.
- **Momentum of businesses:** However, a richer analysis is the change from March 2008. Looking at how the companies stood in March 2008, we see that TCS has been able to increase its position the most by a 700bps increase in non-discretionary revenues primarily from the rise in Infrastructure revenues. The next improver is HCLT which has reduced its exposure to US/EU and BFSI each by 300bps with flat non-discretionary revenues. Wipro's defensive position seems to have worsened the most with the 800bps drop in proportion of non-discretionary revenues along with a 200bps increase in exposure to BFSI in spite of a 400bps decrease in US/EU exposure. Infosys has not changed its position much besides seeing a 100bps drop in non-discretionary revenues, 100bps increase in BFSI counter balanced by 400bps decrease in exposure to the US/EU geographies. On this basis, TCS and HCLT have improved the most, Wipro has worsened the most and Infosys is relatively unchanged.

All put, **HCLT seems the best placed vendor** to deal with the downturn given its higher proportion of non-discretionary revenues, lower exposure to BFSI and US/EU and finally current momentum in the “right direction”. **TCS seems next best**. Wipro and Infosys seem most exposed given lower proportion of non-discretionary revenues and higher exposure to BFSI and US/EU.

Estimate cuts, but preferences remain

As a late cyclical industry, we expect earnings for Indian IT firms to be impacted from 3QFY12 and mainly impact the still high FY13 and FY14 growth estimates. We cut our FY12 estimates by 2% and our FY13 estimates by 8% across the sector. However, we continue to prefer HCLT and TCS to Wipro and Infosys. We maintain BUYs on Polaris on valuation grounds and downgrade Persistent to a SELL.

Primary changes to our thesis

- **Sector growth drivers:** We tweak our barbell thesis as we expect the primary near term drivers to be defensive service lines such as Infrastructure outsourcing, BPO and Application Maintenance. Consulting led EAS, along with RIM, remain the strongest (barbell) long term drivers of growth for the industry.
- **Market forces:** There are four primary unique selling points for IT services firms: a) relationships, b) service offering, c) delivery excellence and d) pricing (see Exhibit 8 below). The importance of these factors has tended to vary depending on customers, but broadly the order of importance runs as shown in the table below.

As in the last downturn, as CFOs and CIOs feel budget pressures, the relative importance of pricing is likely to rise yet again. This environment strongly favours vendors that can provide competitive pricing. Hence this will help HCLT, Cognizant and TCS over Infosys and Accenture. We also expect visas to become a non-issue as customers give greater offshore work to “do more with less”. Despite the rhetoric against outsourcing, businesses will continue to favour people transfer deals.

Exhibit 8: Key Success Factors in IT services

- 1. Relationships:** Strong relationships with customers, developed over time via historical contracts, senior management level impact due to consulting relationships are key in securing the most lucrative and largest contracts. This also enables service providers to get in to a customer at an early stage of a customer’s decision making process.
- 2. Service offering:** A broad service offering with a bouquet of services (ranging from application development and maintenance services, remote infrastructure management, package implementation and BPO) is often helpful in winning customers with complicated IT services needs. Vendors with relatively immature practices in any of the above key service lines are less likely to win new customers or mine existing customers.
- 3. Delivery excellence:** Maintaining a strong service track record and the ability to quickly scale to customer needs globally is an important success factor particularly with larger customers.
- 4. Price:** Whilst the ability to provide competitive pricing is an important criteria for winning IT services contracts, it is more of a hygiene factor with the relationships, service offering and delivery excellence preceding it in importance. Competitive pricing depends on the vendor’s ability to blend a high proportion of low cost offshore delivery to the necessary but higher cost onshore delivery.

Source: Discussions with sales and marketing executives at leading Indian and global IT services firms

- **Margins- cyclical relief from structural grief:** One of the primary margin deflators over the last twelve months has been persistent wage inflation due to the rise in demand for scarce resources (EAS, BI, etc. skills), lack of a middle layer of IT personnel (due to lower hiring in 2008-9) and rising inflation expectations in India. Clearly a demand downturn will give IT firms cyclical relief from attrition and wage hikes. However, this is likely to remain a

structural pain point when secular demand returns. The current uncertain demand environment also favours firms with a just-in-time hiring policy such as HCLT, Wipro and Cognizant over mass hirers/pyramid builders such as TCS and Infosys. With proven utilisation optimization credentials and higher current utilization, TCS still seems better positioned compared to Infosys that is still recruiting in anticipation of growth.

Net gainers: HCL Tech, Cognizant

Net losers: Wipro, Infosys

Exhibit 9: Changes to estimates and comparison with consensus

Company	Ambit/Consensus	FY12						FY13					
		Rs Rev YoY (%)	EBITDA Margin (%)	Change to estimates* (%)				Rs Rev YoY (%)	EBITDA Margin (%)	Change to estimates* (%)			
				EPS	Rs	Revs	EBITDA			EPS	Revenues	EBITDA	EPS
Infosys	Ambit	16.7	29.6	131	-0.3	2.6	-0.3	12.3	27.9	146	-6.3	-4.5	-4.7
	Consensus	19.4	31.2	138	-1.2	-1.9	-1.6	19.5	30.9	164	-2.0	-2.6	-2.8
TCS	Ambit	24.4	28.5	53.2	0.3	-2.9	-0.4	17.6	27.0	60.5	-2.9	-7.6	-5.6
	Consensus	25.3	29.3	53.1	1.1	0.0	1.3	19.9	29.0	62.4	0.4	-0.4	0.7
Wipro	Ambit	15.8	18.4	20.9	-2.8	-11.7	-9.9	13.7	18.0	22.4	-7.0	-13.8	-14.2
	Consensus	16.1	20.2	22.9	-1.5	-2.9	-4.0	16.7	20.2	26.6	-2.1	-3.5	-4.4
HCL Tech	Ambit	25.7	16.8	30.8	-0.1	-6.1	-7.1	22.3	17.4	40.8	-1.3	-4.6	-2.7
	Consensus	24.0	17.3	31.1	-0.1	-2.8	-2.2	19.8	17.3	38.1	-0.9	-0.8	-1.9
Polaris	Ambit	23.7	14.5	20.3	0.3	5.5	2.7	13.6	13.9	21.3	-4.8	-5.8	-18.1
	Consensus	20.8	14.1	20.9	1.1	1.2	-0.9	16.7	14.2	24.3	0.8	3.4	-2.5
Persistent	Ambit	22.1	18.5	28.8	-3.3	-6.9	-10.3	17.8	21.0	36.3	-7.5	-4.0	-10.4
	Consensus	28.3	20.1	32.7	-0.5	-2.0	-3.4	22.7	20.3	39.8	0.7	-1.1	-4.1
Eclerx	Ambit	30.9	37.0	46.0	-0.3	0.1	1.3	26.7	35.9	54.5	0.0	0.0	-1.3
	Consensus	30.1	38.3	49.3	-0.6	-0.8	4.9	27.2	36.9	58.7	-1.8	-1.1	3.0
Average	Ambit	23.8	24.0		-0.9	-2.8	-3.4	17.7	23.0		-4.3	-5.7	-8.1

Source: Ambit Capital research, Bloomberg

* Changes from before 1QFY12 results season (starting with Infosys) till date

As highlighted in Exhibit 9 above, we cut EPS estimates by 2% in FY12 and 8% in FY13 across the sector. Our sharpest cuts are reserved for Wipro, Persistent and Polaris due our worries on structural weakness (Wipro), exposure to discretionary spending for Persistent and BFSI for Polaris. Our DCF based valuations result in an average reduction in Target Prices by 9%, with the sharpest drop at Wipro (19%) and Infosys (13%). Infosys gets a sharper valuation cut due to its worsening working capital cycle as unbilled revenues lengthen and protracted nature of its recovery. Detailed changes to estimates and financials follow on the next few pages.

Exhibit 10: IT Services Relative Valuation

	Curr	Price	Mkt Cap	Div Yield	Sales CAGR	EV/SALES		EBITDA CAGR		EV/EBITDA		NOPAT CAGR		EV/NOPAT		EPS CAGR		P/E	
			(Mn)	CY11	(CY10-12)	CY11	CY12	(CY10-12)	CY11	CY12	(CY10-12)	CY11	CY12	(CY10-12)	CY11	CY12	(CY10-12)	CY11	CY12
Indian peers (Large-size)																			
HCL Tech	INR	379	260,806	2.2%	26%	1.5	1.2	31%	9.1	7.0	30%	14.6	11.0	29%	13.8	10.6			
Infosys	INR	2,210	1,268,754	1.5%	15%	3.6	3.2	7%	11.9	11.3	7%	18.2	16.7	10%	17.3	15.6			
TCS	INR	912	1,784,105	1.1%	22%	3.9	3.3	17%	13.5	11.9	12%	18.6	16.8	16%	17.7	15.5			
Wipro	INR	320	786,007	1.7%	15%	2.1	1.8	-4%	12.6	12.2	2%	15.9	15.2	2%	15.2	14.5			
Median				1.6%	19%	2.9	2.5	12%	12.3	11.6	10%	17.1	15.9	13%	16.2	15.0			
Mean				1.6%	20%	2.8	2.4	13%	11.8	10.6	13%	16.8	14.9	14%	16.0	14.0			
Indian peers (Mid-sized)																			
Polaris	INR	126	12,480	3.7%	19%	0.6	0.5	18%	4.2	3.7	9%	6.5	6.0	5%	6.2	6.0			
Persistent Syst	INR	300	12,000	1.3%	21%	0.9	0.8	18%	5.0	3.9	2%	9.3	7.6	-3%	9.7	8.7			
Eclerx	INR	743	21,541	3.3%	29%	4.7	3.7	24%	12.5	10.2	22%	16.7	13.7	15%	16.3	14.2			
Tech Mahindra	INR	630	80,050	0.8%	24%	1.7	1.5	18%	8.8	8.3	27%	11.3	10.1	33%	10.6	9.2			
Patni Computer	INR	255	34,222	1.4%	10%	0.9	0.8	3%	5.8	4.8	-4%	9.9	7.9	-14%	7.9	7.1			
Mphasis	INR	370	77,715	1.1%	10%	1.4	1.2	-2%	7.3	6.4	-9%	10.3	9.8	-9%	9.0	8.9			
Mindtree	INR	340	13,715	0.9%	18%	0.8	0.7	18%	6.0	4.8	24%	10.9	8.4	12%	10.1	8.3			
Hexaware	INR	69	20,163	3.2%	24%	1.2	1.0	62%	8.6	6.9	64%	12.1	9.9	38%	11.2	9.7			
Kpit Cummins	INR	147	12,954	0.6%	29%	0.9	0.7	22%	6.1	4.8	18%	10.3	7.9	NA	11.0	8.5			
Satyam Comp	INR	69	81,016	0.0%	14%	0.8	0.7	60%	6.8	5.0	44%	11.3	7.8	NA	16.6	10.2			
Median				1.2%	20%	0.9	0.8	18%	6.5	4.9	20%	10.6	8.2	9%	10.4	8.8			
Mean				1.6%	20%	1.4	1.2	24%	7.1	5.9	20%	10.8	8.9	10%	10.9	9.1			
Global Tier 1 IT services																			
Accenture	USD	47	33,665	2.1%	9%	1.1	1.0	11%	7.1	6.5	15%	12.0	11.0	11%	13.5	12.0			
Intl Business	USD	158	188,147	1.8%	6%	1.9	1.8	10%	7.9	7.4	12%	12.8	12.0	10%	11.8	10.6			
Hewlett-Pack	USD	24	48,950	1.5%	1%	0.5	0.5	0%	3.4	3.5	-1%	5.9	6.1	3%	4.9	4.9			
Cognizant	USD	55	16,704	0.0%	28%	2.4	1.9	26%	11.4	9.4	23%	16.6	13.3	15%	19.0	15.7			
Cap Gemini	EUR	27	4,189	4.0%	8%	0.4	0.4	15%	4.6	4.1	17%	8.5	7.3	20%	11.0	9.3			
Computer Sci	USD	27	4,174	2.3%	2%	0.3	0.3	1%	2.5	2.3	-6%	6.6	6.5	-3%	0.1	0.1			
BT Group	GBP	162	12,585	0.1%	-2%	1.1	1.1	2%	3.7	3.7	-6%	9.6	9.7	11%	7.4	7.0			
Median				1.8%	6%	1.1	1.0	10%	4.6	4.1	12%	9.6	9.7	11%	11.0	9.3			
Mean				1.7%	7%	1.1	1.0	9%	5.8	5.3	8%	10.3	9.4	9%	9.7	8.5			
Other Global IT Services																			
Logica PLC	GBP	81	1,298	0.1%	5%	0.4	0.4	6%	5.2	4.7	17%	8.2	7.5	25%	639	575			
Atos	EUR	31	2,569	1.8%	31%	0.4	0.3	50%	4.0	3.1	74%	9.2	6.8	35%	9.8	7.7			
Tieto OYJ	EUR	10	696	6.6%	4%	0.5	0.5	15%	4.5	4.1	23%	10.5	9.3	32%	9.3	7.9			
Groupe Steria	EUR	14	410	2.5%	3%	0.3	0.3	5%	3.5	3.2	6%	6.1	5.6	36%	6.5	5.5			
Syntel Inc	USD	43	1,786		18%	2.3	2.0	14%	10.1	8.5				12%	15.1	12.7			
Median				2.1%	5%	0.4	0.4	14%	4.5	4.1	20%	8.7	7.2	32%	9.8	7.9			
Mean				2.7%	12%	0.8	0.7	18%	5.5	4.7	30%	8.5	7.3	28%	136	122			
Other Global IT Services																			
WNS Holdings	USD	10	464	0.0%	-16%	1.2	1.3	5%	8.0	7.4	87%	13.2	10.6	80%	13.5	10.5			
Genpact	USD	15	3,341	0.0%	22%	2.0	1.7	17%	11.3	9.4	29%	17.0	14.1	12%	18.2	15.5			
Firstsource	INR	12	5,083	0.0%	9%	0.7	0.7	NA	5.5	4.9	NA	11.7	NA	NA	0.0	0.0			
Xchanging Plc	GBP	81	194	0.0%	-2%	0.3	0.3	NA	2.8	2.5	NA	8.3	6.4	NA	9.3	7.6			
Median				0.0%	3%	1.0	1.0	11%	6.8	6.1	57.9%	12.5	10.6	46%	11.4	9.0			
Mean				0.0%	3%	1.1	1.0	11%	6.9	6.0	57.9%	12.6	10.4	46%	10.2	8.4			

Source: Ambit Capital research, Bloomberg

Infosys

Exhibit 11: Changes to estimates

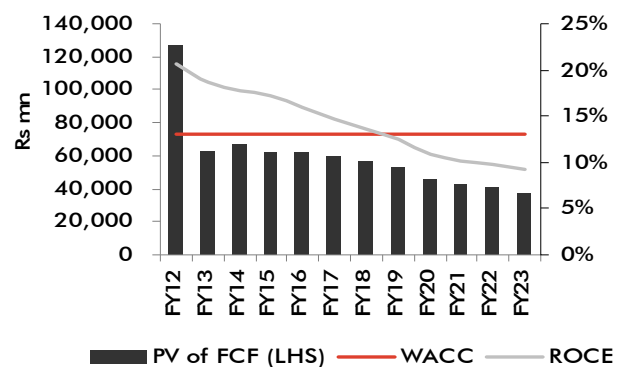
	New Estimates		Old Estimates		% Change		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Recommendation	SELL		SELL				
TP (Rs)	2,298		2,621		(12)		
Revenues (\$mn)	7,130	8,010	7,215	8,624	(1)	(7)	We cut revenue growth expectations mildly from 3QFY12, and primarily in FY13 as Infosys sees delayed impact of
Revenues (Rsmn)	320,836	360,446	321,790	384,637	(0)	(6)	
Gross profit (Rsmn)	136,463	147,340	133,941	154,824	2	(5)	
Gross margin	42.5%	40.9%	41.6%	40.3%	91bps	63bps	We increase our margin expectations due to 1) better than expected performance in 1QFY12 and also cyclical relief from wage inflation and attrition pressures.
EBITDA (Rsmn)	95,023	100,574	92,579	105,296	3	(4)	
EBITDA margin	29.6%	27.9%	28.8%	27.4%	85bps	53bps	
EBIT (Rsmn)	85,593	90,274	83,079	94,996	3	(5)	
EBIT margin	26.7%	25.0%	25.8%	24.7%	86bps	35bps	
PBT (Rsmn)	103,386	109,681	101,410	115,042	2	(5)	
PAT (Rsmn)	74,784	83,358	75,043	87,432	(0)	(5)	Trickle down impact of poorer growth but better margins.
EPS (Rs)	131	146	131	153	(0)	(5)	
Volume Growth	13.7%	14.4%	14.3%	20.7%	(67)bps	(626)bps	FY13 sees the brunt of our volume and price cuts as we expect demand for discretionary services and BFSI to soften. We also cut our earlier expected price increases to flat.
Pricing increase - Onsite	2.9%	0.1%	3.4%	2.0%	(55)bps	(192)bps	
Pricing increase - Offshore	3.3%	0.9%	5.6%	1.7%	(229)bps	(84)bps	
Change in Working Cap (Rsmn)	(3,028)	(954)	7,652	(4,503)	(140)	(79)	Infosys' debtor days have been worsening due to rising unbilled days.
CFO (Rsmn)	81,186	92,704	79,685	93,228	2	(1)	We change our longer term assumptions.
FCF (Rsmn)	68,006	78,704	65,685	79,228	4	(1)	

Source: Ambit Capital research, Company

Exhibit 12: Ambit vs Consensus

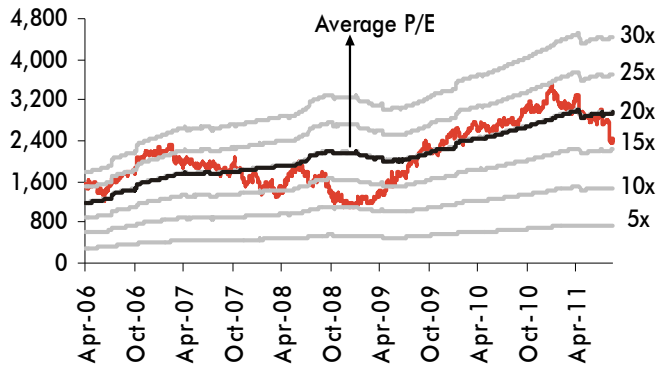
	Ambit	Consensus	%Deviation
Revenues			
FY12	320,836	328,439	-2.3%
FY13	360,446	392,472	-8.2%
EBITDA (Rsmn)			
FY12	95,023	102,342	-7.2%
FY13	100,574	121,309	-17.1%
PAT (Rsmn)			
FY12	74,784	78,720	-5.0%
FY13	83,358	93,779	-11.1%
EPS (Rs)			
FY12	131	138	-5.0%
FY13	146	164	-11.2%

Source: Ambit Capital research, Bloomberg

Exhibit 13: FCF Profile


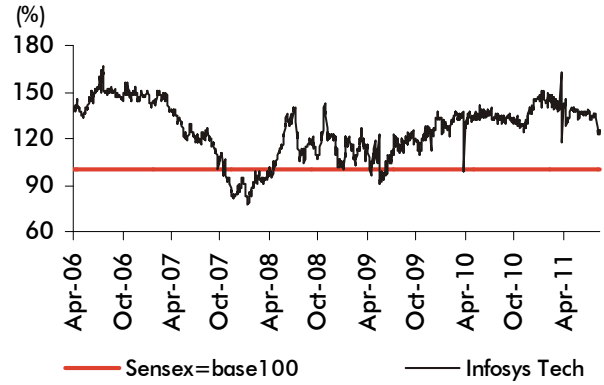
Source: Ambit Capital research, Bloomberg

Exhibit 14: 1 year forward P/E



Source: Ambit Capital research, Bloomberg

Exhibit 15: Premium/Discount to Sensex



Source: Ambit Capital research, Bloomberg

Exhibit 16: Consolidated Income Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	227,420	275,010	320,836	360,446	420,797
Change (%)	4.8	20.9	16.7	12.3	16.7
EBITDA	78,610	89,640	95,023	100,574	115,543
% of Net Sales	35	33	30	28	27
Depreciation	8,970	8,620	9,430	10,300	10,300
Other Income	9,430	12,110	17,793	19,408	21,318
PBT	79,070	93,130	103,386	109,681	126,561
Tax	16,810	24,900	28,602	26,324	30,375
Rate (%)	21.3	26.7	27.7	24.0	24.0
Adjusted PAT	62,260	68,230	74,784	83,358	96,186
Extraordinary Items	(480)	-	-	-	-
Reported PAT	62,740	68,230	74,784	83,358	96,186
Change (%)	4.8	8.8	9.6	11.5	15.4

Source: Ambit Capital research, Company

Exhibit 17: Consolidated Balance Sheet

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Share Capital	2,860	2,860	2,860	2,860	2,860
Share Premium	30,270	30,820	30,850	30,850	30,850
Reserves	198,100	239,350	279,598	338,574	406,626
Net Worth	230,490	273,030	313,308	372,284	440,336
Capital Employed	232,810	273,030	313,308	372,284	440,336
Gross Block	78,390	80,980	94,160	108,160	122,160
Less : Depreciation	28,930	32,540	41,980	52,280	62,580
Net Block	49,460	48,440	52,180	55,880	59,580
Investments	37,120	1,440	530	530	530
Curr. Assets	186,690	235,450	304,491	366,770	442,353
Debtors	34,940	46,530	54,498	60,239	70,325
Cash & Bank Balance	105,560	166,660	224,896	277,521	339,017
Loans & Advances	41,870	9,170	9,783	10,821	12,821
Other Current Assets	4,320	13,090	15,314	18,189	20,190
Current Liab. & Prov	44,550	39,600	71,683	78,687	89,918
Creditors	17,280	440	229	243	258
Other liabilities	16,194	38,280	70,188	77,044	88,001
Provisions	11,076	880	1,265	1,399	1,658
Net Current Assets	142,140	195,850	232,808	288,084	352,436
Application of Funds	232,810	273,030	313,308	372,284	440,336

Source: Ambit Capital research, Company

Exhibit 18: Consolidated Cash flow Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
CF from Operations	86,740	100,780	84,214	93,658	106,486
Cash for Working Capital	(470)	(13,150)	(3,028)	(954)	520
Net Operating CF	86,270	87,630	81,186	92,704	107,006
Net Purchase of FA	(6,550)	(13,000)	(13,180)	(14,000)	(14,000)
Net Purchase of Invest.	(37,330)	35,310	(530)	-	-
Net Cash from Invest.	(43,880)	22,310	(13,710)	(14,000)	(14,000)
Proceeds from Equity & other	890	240	35,070	-	-
Dividend Payments	(15,690)	(36,650)	-	(21,874)	(52,517)
Cash Flow from Fin.	(14,800)	(36,410)	35,070	(21,874)	(52,517)
Free Cash Flow	79,720	74,630	68,006	78,704	93,006
Net Cash Flow	27,590	73,530	102,546	56,829	40,489
Opening Cash Balance	109,930	121,110	195,220	297,766	354,595
Add: Net Cash	28,220	74,110	102,546	56,829	40,489
Closing Cash Balance	138,150	195,220	297,766	354,595	395,084

Source: Ambit Capital research, Company

Exhibit 19: Key Ratios

	FY10	FY11	FY12E	FY13E	FY14E
Valuation (x)					
P/E	20.4	18.6	17.0	15.3	13.2
EV/EBITDA	14.4	14.2	11.0	9.9	8.1
EV/Sales	5.0	4.6	3.3	2.8	2.2
Profitability Ratios (%)					
RoE	30.4	27.1	25.5	24.3	23.7
RoCE	33.5	32.0	29.2	26.3	25.9
ROIC	26.4	23.5	21.1	20.0	19.7
Turnover Ratios					
Debtors (Days)	56	62	62	61	61
Fixed Asset Turnover (x)	2.9	3.4	3.4	3.3	3.4

Source: Ambit Capital research, Company

Tata Consultancy Services

Exhibit 20: Change in estimates

	New Estimates		Old Estimates		% Change		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Recommendation	BUY		BUY				
TP (Rs)	1,174		1,256		(7)		
Revenues (\$mn)	10,329	12,132	10,282	12,494	0	(3)	Our cuts are primarily in FY13, due to better than expected revenues in 1QFY12 and late cyclical impact of
Revenues (Rsmn)	464,232	545,958	462,704	562,223	0	(3)	1QFY12 and late cyclical impact of
Gross profit (Rsmn)	211,990	241,089	213,898	254,004	(1)	(5)	
Gross margin	45.7%	44.2%	46.2%	45.2%	(56)bps	(102)bps	We cut margin expectations based on weaker than expected margins in 1QFY12 and our expectations of lower utilization.
EBITDA (Rsmn)	132,200	147,414	136,164	159,551	(3)	(8)	
EBITDA margin	28.5%	27.0%	29.4%	28.4%	(95)bps	(138)bps	
EBIT (Rsmn)	123,390	135,676	126,216	147,463	(2)	(8)	
EBIT margin	26.6%	24.9%	27.3%	26.2%	(70)bps	(138)bps	Tickle down impact of lower revenue and margin expectations.
PBT (Rsmn)	136,434	153,369	137,209	162,420	(1)	(6)	
PAT (Rsmn)	104,030	118,497	104,476	125,508	(0)	(6)	
EPS (Rs)	53.2	60.5	53.4	64.1	(0)	(6)	
Volume Growth	21.3%	17.5%	22.0%	19.4%	(73)bps	(187)bps	Our FY13 estimates see the biggest cuts in volume and pricing estimates in FY13.
Pricing increase - Onsite	4.6%	-1.1%	3.5%	2.4%	115bps	(345)bps	We price in a decrease in onsite pricing as we see stronger growth in lower
Pricing increase - Offshore	3.2%	0.5%	3.0%	1.5%	26bps	(96)bps	
Change in WC (Rsmn)	(20,303)	(14,480)	(17,325)	(15,533)	17	(7)	
CFO (Rsmn)	69,622	90,442	77,122	98,188	(10)	(8)	
FCF (Rsmn)	53,745	72,442	61,122	80,188	(12)	(10)	

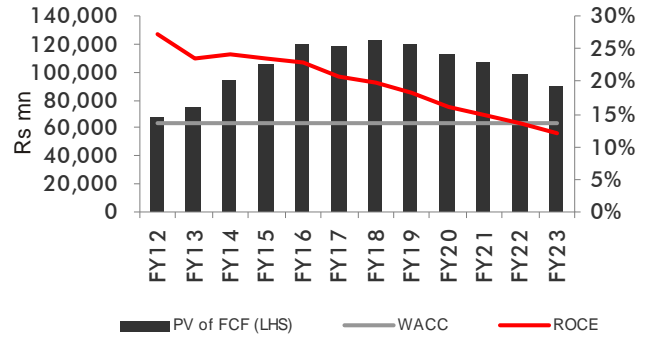
Source: Ambit Capital research

Exhibit 21: Ambit vs Consensus

	Ambit	Consensus	% Deviation
Revenues			
FY12	464,232	467,595	-0.7%
FY13	545,958	560,515	-2.6%
EBITDA (Rsmn)			
FY12	132,200	136,808	-3.4%
FY13	147,414	162,499	-9.3%
PAT (Rsmn)			
FY12	104,030	104,012	0.0%
FY13	118,497	122,410	-3.2%
EPS (Rs)			
FY12	53.2	53.1	0.1%
FY13	60.5	62.4	-3.0%

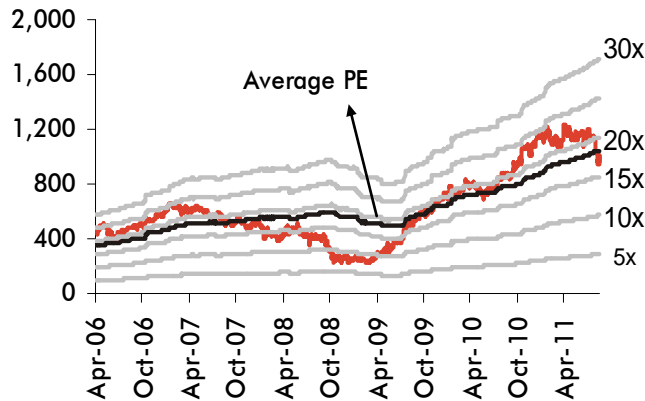
Source: Ambit Capital research, Bloomberg

Exhibit 22: FCF Profile



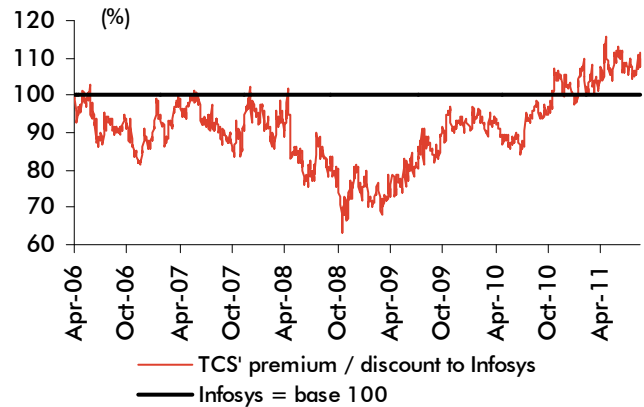
Source: Ambit Capital research, Bloomberg

Exhibit 23: 1 year forward P/E



Source: Ambit Capital research, Company

Exhibit 24: Premium/Discount to Infosys



Source: Ambit Capital research, Company

Exhibit 25: Consolidated Income Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	300,289	373,245	464,232	545,958	653,264
Change (%)	8.0	24.3	24.4	17.6	19.7
EBITDA	86,798	111,893	132,200	147,414	161,063
% of Net Sales	28.9	30.0	28.5	27.0	24.7
Depreciation	7,207	7,990	8,810	11,738	14,045
Other Income	2,246	5,244	13,044	17,693	24,071
PBT	81,837	109,147	136,434	153,369	171,089
Tax	12,202	21,204	31,279	33,741	37,639
Rate (%)	14.9	19.4	22.9	22.0	22.0
Minority Interest	738	1,115	1,126	1,130	1,135
PAT	68,895	86,826	104,030	118,497	132,314
Net Income	68,895	86,826	104,030	118,497	132,314
Change (%)	33.2	26.0	19.8	13.9	11.7

Source: Ambit Capital research, Company

Exhibit 26: Consolidated Balance Sheet

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Share Capital	1,957	1,957	1,957	1,957	1,957
Share Premium	0	0	19,192	19,192	19,192
Reserves	207,427	250,431	322,090	418,404	528,536
Net Worth	209,384	252,389	343,239	439,553	549,685
Minority Interest	4,056	4,663	3,274	3,274	3,274
Loans	3,418	3,540	1,054	1,052	1,049
Others (net)	6,727	10,678	13,455	15,598	18,820
Capital Employed	223,584	271,270	361,022	459,476	572,828
Gross Block	69,378	88,002	103,879	121,879	139,879
Less : Depreciation	27,672	35,662	44,472	56,210	70,255
Net Block	41,706	52,340	59,407	65,669	69,624
Other LT Assets	54,903	89,928	102,600	113,549	130,014
Investments	76,312	18,390	20,472	20,472	20,472
Curr. Assets	101,624	171,948	252,545	345,573	456,226
Debtors	58,098	81,990	103,403	119,868	144,629
Cash & Bank Balance	10,249	47,401	95,053	163,002	235,942
Other Current Assets	33,277	42,556	54,090	62,703	75,655
Current Liab. & Prov	50,962	61,337	74,003	85,787	103,508
Creditors	13,245	15,046	20,013	24,022	29,667
Other liabilities	37,717	46,290	53,990	61,765	73,842
Net Current Assets	50,662	110,611	178,542	259,786	352,718
Application of Funds	223,583	271,270	361,022	459,476	572,828

Source: Ambit Capital research, Company

Exhibit 27: Consolidated Cash flow Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
CF from Operations	70,438	69,148	89,925	104,922	110,286
Cash for Working Capital	4,431	-	(20,303)	(14,480)	(21,233)
Net Operating CF	74,869	69,148	69,622	90,442	89,053
Net Purchase of FA	(10,225)	(16,834)	(15,877)	(18,000)	(18,000)
Net Purchase of Invest.	(7,126)	20,993	(2,082)	-	-
Others	(37,810)	(22,822)	11,654	17,693	24,071
Net Cash from Invest.	(55,161)	(18,663)	(6,305)	(307)	6,071
Proceeds from LTB/STB	588	(606)	(2,486)	(3)	(2)
Dividend Payments	(19,464)	(45,646)	(20,691)	(22,183)	(24,769)
Others	(4,624)	109	-	-	-
Cash Flow from Fin.	(23,500)	(46,142)	(23,177)	(22,185)	(24,771)
Free Cash Flow	64,644	52,314	53,745	72,442	71,053
Net Cash Flow	(3,792)	4,342	40,140	67,949	70,353
Opening Cash Bal.	14,625	10,248	47,401	95,053	163,002
Add: Net Cash	(3,792)	4,342	40,140	67,949	70,353
Effect of foreign exchange	(585)	487	-	-	-
Closing Cash Bal.	10,248	14,591	87,541	163,002	233,355

Source: Ambit Capital research, Company

Exhibit 28: Key Ratios

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Valuation (x)					
P/E	26.4	20.9	17.5	15.3	60.6
EV/EBITDA	20.0	15.7	12.9	11.1	9.7
EV/Sales	5.8	4.7	3.7	3.0	2.4
Price/Book Value	8.7	7.2	5.3	4.1	3.3
Profitability Ratios (%)					
RoE	37.7	37.6	34.9	30.3	26.8
RoCE	40.4	42.0	39.0	33.1	28.5
ROIC	34.4%	33.8%	30.1%	25.8%	22.2%
Turnover Ratios					
Debtors (Days)	71	80	81	80	81
Fixed Asset Turnover (x)	4.3	4.2	4.5	4.5	4.7

Source: Ambit Capital research, Company

Wipro

Exhibit 29: Change in estimates

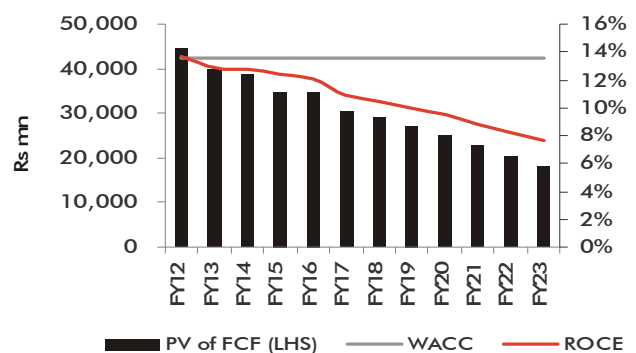
	New Estimates		Old Estimates		% Change		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Recommendation	SELL		SELL				
TP (Rs)	273		334		(18)		
IT services Revenues (\$mn)	5,918	6,700	6,220	7,466	(5)	(10)	Our FY12/13 estimates see substantial cuts as Wipro takes longer to recover from its internal changes and loss of competitiveness.
IT services Revenues (Rsmn)	267,028	301,512	276,795	332,236	(4)	(9)	
Revenues (Rsmn)	359,514	408,652	369,976	439,395	(3)	(7)	
Gross profit (Rsmn)	101,583	113,879	111,537	129,996	(9)	(12)	We cut our gross margin expectations to bring down expected utilization in these years and the impact of lower growth despite high wage inflation.
Gross margin	28.3%	27.9%	30.1%	29.6%	(189)bps	(172)bps	
EBITDA (Rsmn)	66,308	73,573	75,098	85,390	(12)	(14)	
EBITDA margin	18.4%	18.0%	20.3%	19.4%	(185)bps	(143)bps	
EBIT (Rsmn)	55,612	62,428	63,628	73,921	(13)	(16)	
EBIT margin	15.5%	15.3%	17.2%	16.8%	(173)bps	(155)bps	
PBT (Rsmn)	62,519	68,976	69,234	80,466	(10)	(14)	
PAT (Rsmn)	51,274	55,011	56,946	64,088	(10)	(14)	
EPS (Rs)	20.9	22.4	23.2	26.1	(10)	(14)	
Volume Growth	8.8%	11.8%	10.7%	18.6%	(191)bps	(679)bps	We cut our FY13 volume growth assumptions substantially to reflect the fact that Wipro's recovery will be protracted by a slowdown. We also assume flat pricing.
Pricing increase - Onsite	2.5%	0.0%	1.8%	1.8%	76bps	(178)bps	
Pricing increase - Offshore	2.3%	0.7%	2.3%	2.3%	(3)bps	(163)bps	
Change in WC (Rsmn)	(6,840)	(4,750)	(2,674)	(6,171)	156	(23)	
CFO (Rsmn)	47,548	53,806	60,017	61,787	(21)	(13)	
FCF (Rsmn)	34,300	49,054	46,769	57,035	(27)	(14)	

Source: Ambit Capital research

Exhibit 30: Ambit vs Consensus

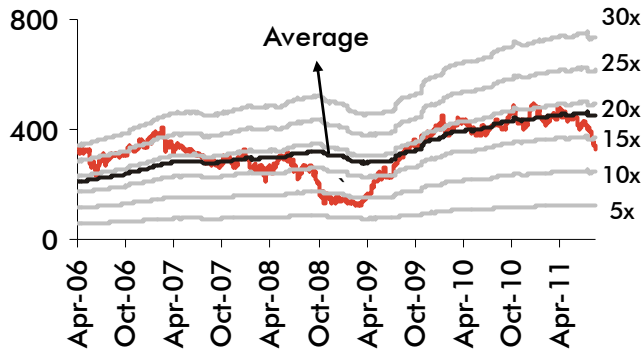
	Ambit	Consensus	% Deviation
Revenues			
FY12	359,514	360,586	-0.3%
FY13	408,652	420,846	-2.9%
EBITDA (Rsmn)			
FY12	66,308	72,845	-9.0%
FY13	73,573	84,827	-13.3%
PAT (Rsmn)			
FY12	51,274	56,157	-8.7%
FY13	55,011	64,999	-15.4%
EPS (Rs)			
FY12	20.9	22.9	-8.9%
FY13	22.4	26.6	-15.6%

Source: Ambit Capital research, Bloomberg

Exhibit 31: FCF Profile


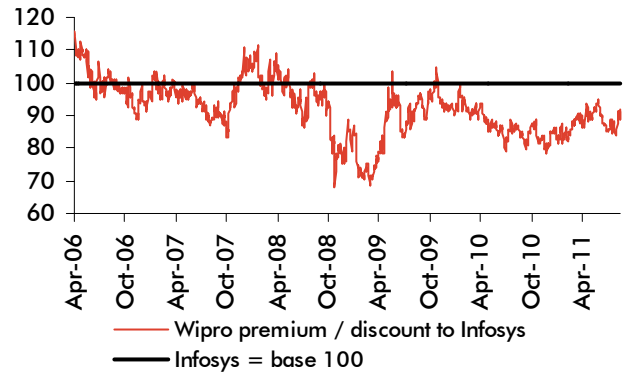
Source: Ambit Capital research, Bloomberg

Exhibit 32: 1 year forward P/E



Source: Ambit Capital research, Bloomberg

Exhibit 33: Premium/Discount to Infosys



Source: Ambit Capital research, Bloomberg

Exhibit 34: Consolidated Income Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Sales	271,957	310,542	359,514	408,652	480,703
Change (%)	6.8	14.2	15.8	13.7	17.6
EBIT	51,512	57,668	55,327	61,376	70,274
% of Net Sales	18.9	18.6	15.4	15.0	14.6
Other Income	3,369	4,718	7,192	7,600	8,600
PBT	54,881	62,386	62,519	68,976	78,874
Tax	9,293	9,714	11,548	14,485	16,563
Rate (%)	16.9	15.6	18.5	21.0	21.0
PAT	45,588	52,672	50,970	54,491	62,310
Income from equity investees	530	648	500	520	520
Minority Interest	0	344	196	0	0
Net Income	46,118	52,976	51,274	55,011	62,830
Change (%)	34.0	14.9	-3.2	7.3	14.2

Source: Ambit Capital research, Company

Exhibit 35: Consolidated Balance Sheet

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Share Capital	2,936	4,908	4,908	4,908	4,908
Additional Paid in Capital	29,188	30,124	30,124	30,124	30,124
Other reserves	164,530	205,190	237,505	275,296	320,888
Net Worth	196,112	239,680	272,537	310,328	355,920
Minority Interest	437	691	751	751	751
Loans	18,876	19,759	20,217	20,217	20,217
Capital Employed	215,805	260,431	293,505	331,296	376,888
Gross Block	93,278	94,554	100,554	112,554	124,554
Less : Depreciation	39,820	46,708	56,955	68,100	79,245
Net Block	53,458	55,094	43,599	44,454	45,309
Investments	43,563	74,948	78,600	82,555	88,346
Intangible Assets	57,813	58,369	58,440	58,513	58,587
Curr. Assets	175,094	183,032	233,443	281,291	342,148
Debtors	50,928	61,627	66,819	76,725	91,296
Inventories	7,926	9,707	10,280	11,804	14,046
Cash & Bank Balance	64,878	61,141	93,679	121,837	153,731
Adv., Other Current Assets	51,362	50,557	62,666	70,926	83,076
Current Liab. & Prov	114,123	111,012	120,578	135,518	157,503
Creditors	40,570	44,052	53,455	61,380	73,037
Other Liabilites	73,553	66,960	67,123	74,138	84,466
Net Current Assets	60,971	72,020	112,866	145,773	184,645
Application of Funds	215,805	260,431	293,505	331,296	376,888

Source: Ambit Capital research, Company

Exhibit 36: Consolidated Cash flow Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Cash Flow from Operations	57,483	14,249	54,389	58,556	65,375
Cash for Working Capital	(6,485)	(10,400)	(6,840)	(4,750)	(6,978)
Net Operating CF	50,998	3,849	47,548	53,806	58,397
Net Purchase of FA	(12,234)	(2,436)	(13,248)	(4,752)	(12,000)
Net Purchase of Investments	(15,121)	(8,807)	(60)	(61)	(63)
Dividend from Subsidiary	1,442	606	-	-	-
Others	(7,902)	(9,758)	2,062	3,633	2,798
Net Cash from Invest.	(33,815)	(20,395)	(11,246)	(1,180)	(9,264)
Issue of Shares	66	18	-	-	-
Proceeds from LTB/STB	7,350	6,041	458	-	-
Dividend Payments	(6,823)	(1)	(17,214)	(17,220)	(17,239)
Others	(1,194)	(125)	(2,482)	-	-
Net CF from Financing	(601)	5,933	(19,238)	(17,220)	(17,239)
Free Cash Flow	38,764	1,413	34,300	49,054	46,397
Net Cash Flow	16,582	(10,613)	17,064	35,406	31,894
Opening Cash Balance	49,117	65,699	28,708	45,772	81,178
Add: Net Cash	16,582	(10,613)	17,064	35,406	31,894
Effect of foreign exchange	-	(26,378)	-	-	-
Closing Cash Balance	65,699	28,708	45,772	81,178	113,072

Source: Ambit Capital research, Company

Exhibit 37: Key Ratios

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Valuation (x)					
P/E	17.0	14.8	15.3	14.3	12.5
EV/EBITDA	11.5	10.6	10.5	9.4	8.4
EV/Sales	0.9	0.7	0.5	0.4	0.3
Price/Book Value	4.0	3.3	2.9	2.5	2.2
Dividend Yield (%)	1.2	1.9	1.9	1.9	1.9
Profitability Ratios (%)					
RoE	26.6	24.3	20.0	18.9	18.9
RoCE	28.4	26.2	22.6	22.1	22.3
ROIC	22.2	20.4	16.3	15.5	15.7
Turnover Ratios					
Debtors (Days)	68	72	68	69	69
Asset Turnover (x)	2.9	3.3	3.6	3.6	3.9

Source: Ambit Capital research, Company

HCL Technologies

Exhibit 38: Change in estimates

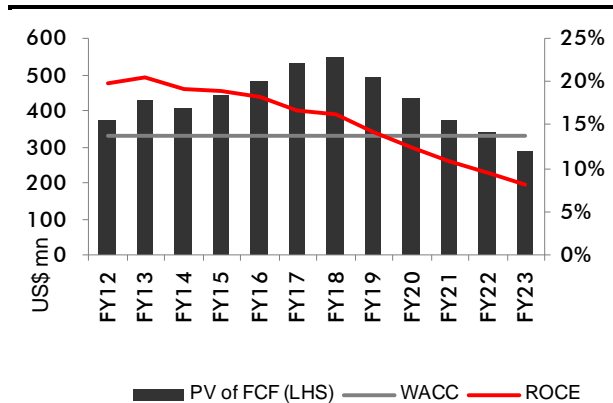
	New Estimates		Old Estimates		% Change		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Recommendation	BUY		BUY				
TP (Rs)	550		595		(8)		
Revenues (\$mn)	4,451	5,446	4,497	5,565	(1)	(2)	We cut the growth estimates from discretionary services in FY12/13. We increase growth expectations from RIM.
Revenues (Rsmn)	200,313	245,074	200,545	248,202	(0)	(1)	We cut our gross margin assumptions, as HCLT will find it tougher to increase offshore leverage in EAS.
Gross profit (Rsmn)	61,683	75,304	63,960	77,615	(4)	(3)	
Gross margin	30.8%	30.7%	31.9%	31.3%	(110)bps	(54)bps	
EBITDA (Rsmn)	33,714	42,586	35,913	44,645	(6)	(5)	
EBITDA margin	16.8%	17.4%	17.9%	18.0%	(108)bps	(61)bps	
EBIT (Rsmn)	27,929	35,670	30,138	37,741	(7)	(5)	Trickle down impact of the above.
EBIT margin	13.9%	14.6%	15.0%	15.2%	(109)bps	(65)bps	
PBT (Rsmn)	28,796	37,152	30,998	39,210	(7)	(5)	
PAT (Rsmn)	21,597	28,607	23,249	29,407	(7)	(3)	
EPS (Rs)	30.8	40.8	33.2	42.0	(7)	(3)	Trickle down impact of the above
Volume Growth	23.5%	18.2%	23.9%	21.5%	(47)bps	(325)bps	Our volume growth estimates fall greater in FY13 and pricing in FY12 as mix changes towards RIM from discretionary services.
Pricing increase - Onsite	-0.6%	0.8%	0.8%	0.8%	(140) bps	-	
Pricing increase - Offshore	2.4%	2.0%	2.0%	2.0%	34 bps	-	
Change in WC (Rsmn)	2,794	3,395	1,531	2,010	82	69	We improve our long term cash conversion estimates as HCLT has proven its ability to manage debtors better.
CFO (Rsmn)	27,766	35,526	27,551	34,779	1	2	
FCF (Rsmn)	17,531	23,086	17,328	22,353	1	3	

Source: Ambit Capital research, Company

Exhibit 39: Ambit vs Consensus

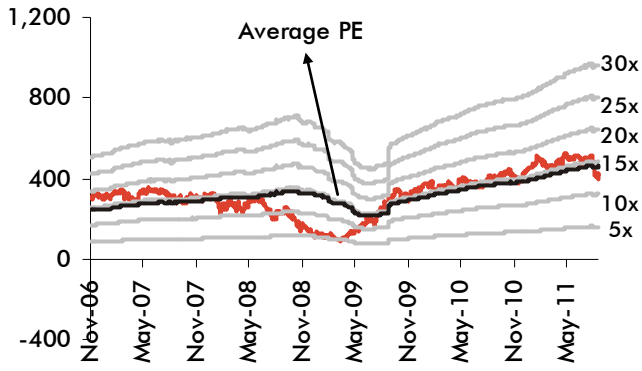
	Ambit	Consensus	% Deviation
Revenues (Rsmn)			
FY12	200,313	197,665	1.3%
FY13	245,074	236,864	3.5%
EBITDA (Rsmn)			
FY12	33,714	34,114	-1.2%
FY13	42,586	41,084	3.7%
PAT (Rsmn)			
FY12	21,597	21,699	-0.5%
FY13	28,607	26,706	7.1%
EPS (Rs)			
FY12	30.8	31.1	-0.9%
FY13	40.8	38.1	7.3%

Source: Ambit Capital research, Bloomberg

Exhibit 40: FCF Profile


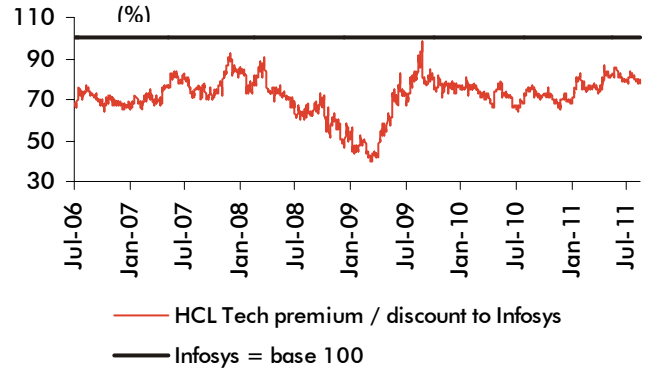
Source: Ambit Capital research, Bloomberg

Exhibit 41: 1 year forward P/E



Source: Ambit Capital research, Bloomberg

Exhibit 42: Premium/Discount to Infosys



Source: Ambit Capital research, Bloomberg

Exhibit 43: Consolidated Income Statement

	FY10	FY11	FY12E	FY13E	FY14E
Core software services	88,375	113,443	139,898	166,223	202,793
Infrastructure services	26,315	37,162	51,170	68,057	88,474
BPO services	9,847	8,769	9,244	10,795	12,606
Total Revenues	124,537	159,374	200,313	245,074	303,873
Direct cost	81,246	108,457	138,629	169,770	216,484
Gross Profit	43,291	50,917	61,683	75,304	87,389
S,G&A	17,798	23,557	27,969	32,718	38,871
EBITDA	25,493	27,360	33,714	42,586	48,518
Depreciation & Amort.	4,954	4,940	5,785	6,916	8,290
EBIT	20,540	22,421	27,929	35,670	40,228
FX Gains / (loss)	(4,687)	(823)	0	0	0
Other income	(543)	256	2,851	3,466	4,212
Net interest expense	0	0	1,984	1,984	1,984
Profit before tax	15,310	21,854	28,796	37,152	42,457
Provision for Taxation	2,385	4,836	7,199	8,545	9,765
Profit after tax	12,925	17,018	21,597	28,607	32,692
Minority Interest	14	(4)	(5)	(5)	(5)
Profit for the year	12,939	17,014	21,593	28,603	32,688
Diluted EPS	18.77	24.3	30.83	40.83	46.66

Source: Ambit Capital research, Company

Exhibit 44: Consolidated Balance Sheet

	FY10	FY11	FY12E	FY13E	FY14E
Cash and Cash Equivalents	4,645	5,227	17,607	35,536	57,153
Accounts Receivable, net	30,232	34,254	41,754	50,450	61,518
Treasury Investments	20,058	19,871	19,895	19,895	19,895
Other Current Assets	8,770	12,617	15,042	18,433	22,750
Total current assets	63,706	71,969	94,298	124,314	161,315
Property and Equipment, net	18,327	22,289	27,305	33,370	40,742
Intangible Assets, net	42,750	42,115	41,625	41,085	40,545
Investment in Equity Investee	207	234	234	234	234
Other Assets	9,557	10,450	10,463	10,463	10,463
Total assets	134,547	147,057	173,925	209,466	253,298
Current Liabilities	31,045	33,953	42,584	52,736	66,566
Loans	26,402	21,359	21,384	21,384	21,384
Other Liabilities	7,320	6,926	8,597	10,536	13,003
Total Liabilities	64,767	62,238	72,565	84,656	100,953
Total Stockholders equity	69,759	84,819	101,360	124,810	152,345
Total liabilities and equity	134,547	147,057	173,925	209,466	253,298

Source: Ambit Capital research, Company

Exhibit 45: Consolidated Cash flow Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Net Income	12,913	17,008	21,597	28,607	29,606
Depreciation and Amortization	4,954	4,944	5,785	6,916	7,235
Loss / (profit) on Sale of Investments	(41)	(49)	-	-	-
Others	(1,611)	(274)	-	-	-
Accounts Receivable	(4,475)	(3,650)	(7,460)	(8,696)	(9,954)
Other Assets	1,243	(3,883)	(2,410)	(3,391)	(3,807)
Current Liabilities	4,668	2,989	10,254	12,091	15,017
CFO	17,650	17,084	27,766	35,526	38,097
PPE	(6,063)	(7,740)	(10,235)	(12,441)	(13,063)
Deposits	2,619	(467)	-	-	-
(Purchase) / Sale of investments	(7,776)	971	-	-	-
Acquisitions	(502)	(553)	-	-	-
CFI	(11,721)	(7,789)	(10,235)	(12,441)	(13,063)
ESOPs	1,031	899	-	-	-
Dividend	(3,121)	(5,151)	(8,637)	(11,441)	(13,075)
Debentures	9,893	-	-	-	-
Loans	(13,378)	(4,832)	-	-	-
Others	(147)	(58)	-	-	-
CCF	(5,722)	(9,142)	(8,637)	(11,441)	(13,075)
Change in cash	207	153	8,894	11,644	11,959
FX	401	562	-	-	-
Beginning of the Year	4,037	4,535	5,256	14,150	25,794
End of the Year	4,645	5,250	14,150	25,794	37,754

Source: Ambit Capital research, Company

Exhibit 46: Key Ratios

Ratios	FY10	FY11	FY12E	FY13E	FY14E
Growth (yr on yr)					
Core software services	14.0%	28.4%	23.3%	18.8%	22.0%
Infrastructure services	51.6%	41.2%	37.7%	33.0%	30.0%
BPO services	-13.9%	-10.9%	5.4%	16.8%	16.8%
Sales growth	17.2%	28.0%	25.7%	22.3%	24.0%
EBITDA growth	10.1%	7.3%	23.2%	26.3%	13.9%
Op. profit growth	10.0%	9.2%	24.6%	27.7%	12.8%
Dil. EPS growth	-1.9%	29.5%	26.9%	32.5%	14.3%
Margins					
Gross margin	34.8%	31.9%	30.8%	30.7%	28.8%
EBITDA margin	20.5%	17.2%	16.8%	17.4%	16.0%
Operating/EBIT margin	16.5%	14.1%	13.9%	14.6%	13.2%
Net margin	10.4%	10.7%	10.8%	11.7%	10.8%
Returns					
ROCE	10.1%	12.2%	14.4%	15.7%	14.8%
ROE	18.5%	20.1%	21.3%	22.9%	21.5%
Equity value					
P/E	20.9	16.1	12.7	9.6	8.4
Enterprise value					
EV/Sales	2.1	1.7	1.3	1.1	0.9
EV/EBITDA	10.4	9.7	7.9	6.2	5.5
EV/EBIT	13.0	11.9	9.5	7.5	6.6
EV/NOPAT	19.9	15.8	12.7	9.7	8.6

Source: Ambit Capital research, Company

Polaris Software

Exhibit 47: Change in estimates

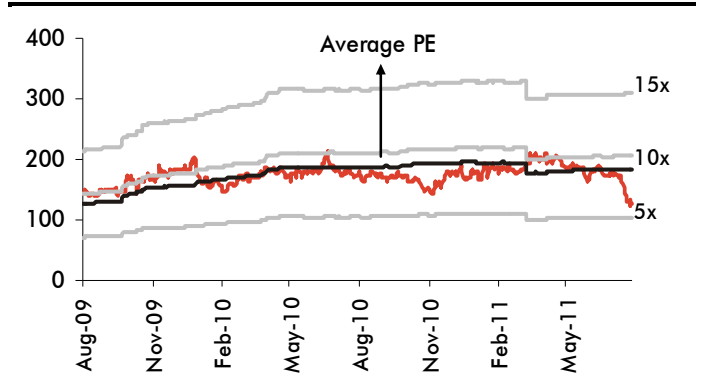
	New Estimates		Old Estimates		% Change		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Recommendation	BUY		BUY				
TP (Rs)	211		225		(6)		
Revenues (\$mn)	437	495	435	521	0	(5)	We cut our product sales assumptions mainly for FY13.
Revenues (Rsmn)	19,625	22,290	19,571	23,425	0	(5)	
EBITDA (Rsmn)	2,840	3,093	2,691	3,282	6	(6)	Our cuts to product sales directly impact margins due to greater leverage in the products business. Thus topline cuts have greater impact on margins.
EBITDA margin	14.5%	13.9%	13.8%	14.0%	72bps	(13)bps	
EBIT (Rsmn)	2,412	2,602	2,261	2,766	7	(6)	
EBIT margin	12.3%	11.7%	11.6%	11.8%	74bps	(13)bps	
PBT (Rsmn)	2,755	2,906	2,705	3,448	2	(16)	
PAT (Rsmn)	2,030	2,121	1,977	2,589	3	(18)	
EPS (Rs)	20.3	21.3	19.8	25.9	3	(18)	
Volume Growth	19.2%	12.1%	19.5%	14.9%	(26)bps	(280)bps	We assume slower volume growth in FY13.
Pricing increase - Onsite	6.0%	0.0%	1.2%	0.0%	478bps	-	Our price assumption for onsite has risen in FY12 to reflect strength in 1QFY12.
Pricing increase - Offshore	2.6%	-0.5%	3.6%	0.0%	(102)bps	(50)bps	
Change in WC (Rsmn)	316	(302)	1,164	(446)	(73)	(32)	
CFO (Rsmn)	3,129	2,616	4,028	3,351	(22)	(22)	
FCF (Rsmn)	2,680	1,716	3,579	2,451	(25)	(30)	

Source: Ambit Capital research, Company

Exhibit 48: Ambit vs Consensus

	Ambit	Consensus	% Deviation
Revenues			
FY12	19,625	19,163	2.4%
FY13	22,290	22,363	-0.3%
EBITDA (Rsmn)			
FY12	2,840	2,694	5.4%
FY13	3,093	3,185	-2.9%
PAT (Rsmn)			
FY12	2,063	2,081	-0.8%
FY13	2,145	2,417	-11.2%
EPS (Rs)			
FY12	20.7	20.9	-1.2%
FY13	21.5	24.3	-11.5%

Source: Ambit Capital research, Bloomberg

Exhibit 49: 1 year forward P/E


Source: Ambit Capital research, Bloomberg

Exhibit 50: Consolidated Income Statement

In Rs Mn	FY10	FY11	FY12E	FY13E	FY14E
Sales	13,538	15,863	19,625	22,290	26,956
Change (%)	-1.8	17.2	23.7	13.6	20.9
EBITDA	2,220	2,139	2,840	3,093	3,524
% of Net Sales	16.4	13.5	14.5	13.9	13.1
Depreciation	350	337	428	490	593
Interest	9	11	15	16	19
Other income	-73	591	359	319	348
PBT	1,788	2,382	2,755	2,906	3,261
Tax	255	169	726	785	880
Rate (%)	14.3	7.1	26.3	27.0	27.0
Adjusted PAT	1,528	2,212	2,030	2,121	2,380
Change (%)	16.9	44.7	-8.3	4.5	12.2

Source: Ambit Capital research, Company

Exhibit 51: Consolidated Balance Sheet

In Rs Mn	FY10	FY11	FY12E	FY13E	FY14E
Share Capital	495	496	496	496	496
Share Premium	1,873	1,892	1,892	1,892	1,892
Reserves	6,357	7,938	9,421	10,972	12,712
Net Worth	8,725	10,325	11,809	13,359	15,099
Loans	25	57	29	29	29
Other liabilities	30	22	30	30	31
Capital Employed	8,780	10,430	11,893	13,444	15,185
Gross Block	5,599	6,080	6,780	7,580	8,380
Less : Depreciation	3,452	3,794	4,223	4,713	5,306
Net Block	2,147	2,286	2,557	2,867	3,074
CWIP	125	651	400	500	500
Goodwill	506	644	644	644	644
Other assets	206	290	290	290	290
Curr. Assets	8,822	10,364	12,244	13,838	16,214
Debtors	1,746	2,272	2,419	2,748	3,323
Cash & Bank Balance	1,237	1,423	3,213	4,079	5,179
Loans & Advances	827	1,163	1,177	1,337	1,617
Short term investments	3,755	3,668	3,668	3,668	3,668
Unbilled revenues	1,257	1,838	1,766	2,006	2,426
Current Liab. & Prov	3,026	3,805	4,242	4,695	5,537
Creditors	2,050	2,438	2,742	3,114	3,767
Other liabilities	411	479	479	479	479
Provisions	564	888	1,021	1,102	1,291
Net Current Assets	5,796	6,559	8,002	9,143	10,677
Application of Funds	8,780	10,430	11,893	13,444	15,185

Source: Ambit Capital research, Company

Exhibit 52: Consolidated Cash flow Statement

In Rs Mn	FY10	FY11	FY12E	FY13E	FY14E
CF from Operations	1713	1975	2812	2918	3342
Cash for Working Capital	829	(971)	316	(302)	(541)
Net Operating CF	2542	1003	3129	2616	2801
Net Purchase of FA	(347)	(941)	(449)	(900)	(800)
Net Purchase of Invest.	(1460)	69	0	0	0
Others	(176)	132	(343)	(304)	(330)
Net Cash from Invest.	(1983)	(740)	(792)	(1204)	(1130)
Proceeds from Equity & other	24	20	0	0	0
Proceeds from LTB/STB	14	33	(28)	0	0
Dividend Payments	(346)	(202)	(519)	(546)	(571)
Others	0	0	0	0	0
Cash Flow from Fin.	(308)	(149)	(547)	(546)	(571)
Free Cash Flow	2195	62	2680	1716	2001
Net Cash Flow	251	114	1790	866	1100
Opening Cash Balance	1078	1269	1423	3213	4079
Add: Net Cash	251	114	1790	866	1100
Exchange differences	(93)	40	0	0	0
Closing Cash Balance	1237	1423	3213	4079	5179

Source: Ambit Capital research, Company

Exhibit 53: Key Ratios

In Rs Mn	FY10	FY11	FY12E	FY13E	FY14E
Valuation (x)					
P/E	11.3	8.7	8.5	8.2	7.4
EV/EBITDA	5.6	5.8	3.7	3.1	2.4
EV/Sales	0.9	0.8	0.5	0.4	0.3
Price/Book Value	2.0	1.7	1.5	1.3	1.2
Dividend Yield (%)	2.0	2.5	2.7	2.8	3.1
Profitability Ratios (%)					
RoE	18.5	23.1	18.5	16.9	16.6
RoCE	22.6	18.8	21.6	20.5	20.4
Turnover Ratios					
Debtors (Days)	47	46	45	45	45
Fixed Asset Turnover (x)	2.4	2.6	2.9	2.9	3.2

Source: Ambit Capital research, Company

Persistent Systems

Exhibit 54: Change in estimates

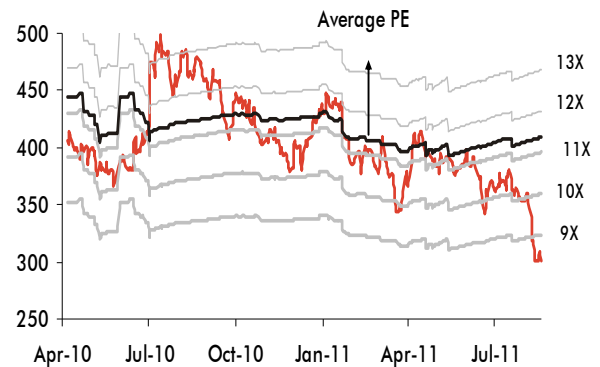
	New Estimates		Old Estimates		% Change		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Recommendation	BUY		BUY				
TP (Rs)	408		476		(14)		
Revenues (\$mn)	211	248	220	271	(4)	(9)	We make major cuts to our FY12/13 estimates- primarily on IP revenues and due to Persistent's exposure to discretionary spending.
Revenues (Rsmn)	9,470	11,152	9,794	12,059	(3)	(8)	
Gross profit (Rsmn)	3,454	4,256	3,648	4,510	(5)	(6)	
Gross margin	36.5%	38.2%	37.2%	37.4%	(77)bps	76bps	
EBITDA (Rsmn)	1,756	2,338	1,885	2,436	(7)	(4)	
EBITDA margin	18.5%	21.0%	19.2%	20.2%	(71)bps	76bps	
EBIT (Rsmn)	1,268	1,780	1,396	1,833	(9)	(3)	EBITDA margins are impacted by lower IP revenues.
EBIT margin	13.4%	16.0%	14.2%	15.2%	(86)bps	76bps	
PBT (Rsmn)	1,689	2,133	1,835	2,249	(8)	(5)	
PAT (Rsmn)	1,152	1,451	1,285	1,620	(10)	(10)	Trickle down impact of the above, lower other income and higher taxes.
EPS (Rs)	28.8	36.3	32.1	40.5	(10)	(10)	
Volume Growth	21%	15%	27%	20%	(642)bps	(463)bps	We cut our volume growth assumptions to reflect a weaker spending environment and pricing to reflect the impact on IP led revenues.
Pricing increase - Onsite	1%	0%	1%	0%	43bps	(50)bps	
Pricing increase - Offshore	-1%	-2%	-4%	1%	334bps	(347)bps	
Change in WC (Rsmn)	(2)	(199)	(81)	(278)	(97)	(28)	
CFO (Rsmn)	1,217	1,456	1,254	1,529	(3)	(5)	
FCF (Rsmn)	367	655	404	728	(9)	(10)	

Source: Ambit Capital research, Company

Exhibit 55: Ambit vs Consensus

	Ambit	Consensus	% Deviation
Revenues			
FY12	9,470	9,950	-4.8%
FY13	11,152	12,209	-8.7%
EBITDA (Rsmn)			
FY12	1,756	2,003	-12.3%
FY13	2,338	2,482	-5.8%
PAT (Rsmn)			
FY12	1,152	1,306	-11.8%
FY13	1,451	1,593	-8.9%
EPS (Rs)			
FY12	28.8	32.7	-11.8%
FY13	36.3	39.8	-8.9%

Source: Ambit Capital research, Bloomberg

Exhibit 56: 1 year forward P/E


Source: Ambit Capital research, Bloomberg

Exhibit 57: Consolidated Income Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Net sales	6,012	7,758	9,470	11,152	13,057
Operating expenses	4,548	6,175	7,714	8,814	10,385
EBITDA	1,464	1,583	1,756	2,338	2,672
EBITDA (%)	24.3	20.4	18.5	21.0	20.5
Other non-operational income	112	344	421	353	461
Depreciation & amortization	335	424	488	558	653
EBIT	1,241	1,503	1,689	2,133	2,480
Interest (income)/expense (net)	0	0	0	0	0
Pre tax profit	1,241	1,503	1,689	2,133	2,480
Taxes	91	108	537	683	794
Extraordinary (income)/expense (net)	0	-2	0	0	0
Restatements	0	0	0	0	0
Adjusted net profit	1,150	1,397	1,152	1,451	1,687
Margin (%)	19.1	18.0	12.2	13.0	12.9
Diluted Share capital (mn)	36	40	40	40	40
EPS (Rs)	32.3	34.9	28.8	36.3	42.2
Growth (%)	73.5	8.3	-17.6	25.9	16.3
Dividend per share	3.2	6.4	4.0	4.2	4.9

Source: Ambit Capital research, Company

Exhibit 58: Consolidated Balance Sheet

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Share capital	400	400	400	400	400
Stock options outstanding	32	35	35	36	37
Reserves & surplus	5,958	7,036	8,026	9,307	10,797
Networth	6,390	7,471	8,461	9,743	11,233
Deferred tax liability	45	30	30	30	30
Minority Interest	0	0	0	0	1
Sources of funds	6,435	7,501	8,492	9,773	11,264
Fixed assets	3,715	4,543	5,293	5,993	6,693
Less: Depreciation/amortisation	1,881	2,281	2,770	3,327	3,980
Net block	1,834	2,261	2,523	2,666	2,713
CWIP	485	605	705	806	907
Short term investments	1,562	2,500	2,500	2,500	2,500
Deferred tax assets	7	60	60	60	60
Current assets	4,258	3,677	4,804	6,136	7,895
Sundry debtors	1,363	1,582	1,868	2,139	2,540
Cash & bank balance	1,918	1,000	1,704	2,550	3,538
Other current assets	340	226	207	241	411
Loans & advances	638	869	1,025	1,206	1,406
Current liabilities & provisions	1,710	1,602	2,100	2,394	2,811
Current liabilities	1,394	1,206	1,583	1,833	2,182
Provisions and others	317	396	518	561	628
Net current assets	2,548	2,075	2,704	3,742	5,084
Application of funds	6,435	7,501	8,492	9,773	11,264

Source: Ambit Capital research, Company

Exhibit 59: Consolidated Cash flow Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Net Profit Before	1,241	1,503	1,689	2,133	2,480
Depreciation/amortisation	335	424	488	558	653
(Inc)/dec in working capital	498	48	(2)	(199)	(378)
Others	(464)	(400)	(958)	(1,035)	(1,255)
Net cash from operations	1,611	1,575	1,217	1,456	1,500
(Inc)/dec in investments (net)	(710)	(1,684)	-	-	-
Capex	(476)	(972)	(850)	(801)	(801)
Others	45	127	421	353	461
Cash flow from inv.	(1,142)	(2,529)	(429)	(448)	(340)
Inc/(dec) in capital	41	-	-	1	1
Dividends paid + dividend tax	(27)	(280)	(83)	(163)	(174)
Others	(1,278)	992	167	324	345
Financial cash flow	1,264	(712)	(83)	(162)	(173)
Net inc/dec in cash	1,733	(1,666)	704	846	988
Opening cash balance	163	1,896	230	935	1,780
Closing cash balance	1,896	230	935	1,780	2,768

Source: Ambit Capital research, Company

Exhibit 60: Key Ratios

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Return					
ROCE (%)	21.7	16.6	15.9	19.5	19.2
ROE (%)	22.3	20.1	14.5	15.9	16.1
RoA	22.2	20.1	14.4	15.9	16.0
Turnover					
Asset turnover	1.7	1.9	1.9	2.0	2.1
Leverage					
Debt-equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Valuation ratios (x)					
PER	10.7	9.9	12.0	9.5	8.2
PBV	2.2	1.9	1.6	1.4	1.2

Source: Ambit Capital research, Company

Eclerx

Exhibit 61: Change in estimates

	New Estimates		Old Estimates		% Change		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Recommendation							
TP (Rs)	775		780		(1)		
Revenues (\$mn)	100	126	100	126	(0)	0	We don't make any changes to our below consensus numbers due to eClerx largely non-discretionary businesses.
Revenues (Rsmn)	4,479	5,673	4,492	5,673	(0)	0	
Gross profit (Rsmn)	2,504	3,099	2,536	3,099	(1)	0	
Gross margin	55.9%	54.6%	56.5%	54.6%	(53)bps	1bps	
EBITDA (Rsmn)	1,659	2,038	1,657	2,038	0	0	No change.
EBITDA margin	37.0%	35.9%	36.9%	35.9%	17bps	1bps	Increase FY12 margins slightly.
EBIT (Rsmn)	1,538	1,897	1,531	1,896	0	0	
EBIT margin	34.3%	33.4%	34.1%	33.4%	26bps	1bps	
PBT (Rsmn)	1,729	2,050	1,685	2,049	3	0	
PAT (Rsmn)	1,383	1,640	1,348	1,639	3	0	
EPS (Rs)	46.0	54.5	45.4	55.2	1	(1)	
Volume Growth	28.6%	26.2%	28.6%	26.3%	8bps	(8)bps	No major changes.
Pricing increase	0.0%	0.0%	0.0%	0.0%	-	-	
Change in WC (Rsmn)	(282)	(292)	(267)	(277)	6bps	6bps	Mainly due to a rise in debtor days.
CFO (Rsmn)	1,058	1,342	1,260	1,358	(16)	(1)	
FCF (Rsmn)	817	1,080	1,019	1,096	(20)	(1)	

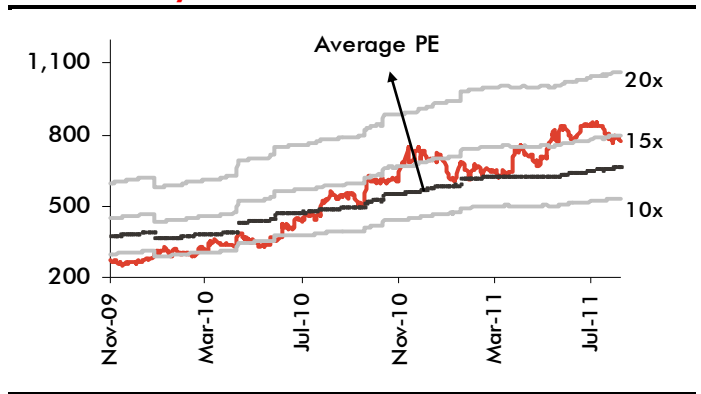
Source: Ambit Capital research, Company

Exhibit 62: Ambit vs Consensus

	Ambit	Consensus	% Deviation
Revenues			
FY12	4,479	4,449	0.7%
FY13	5,673	5,660	0.2%
EBITDA (Rsmn)			
FY12	1,659	1,703	-2.6%
FY13	2,038	2,089	-2.4%
PAT (Rsmn)			
FY12	1,383	1,464	-5.5%
FY13	1,640	1,745	-6.0%
EPS (Rs)			
FY12	46.0	49.3	-6.8%
FY13	54.5	58.7	-7.2%

Source: Ambit Capital research, Bloomberg

Exhibit 63: 1 year forward P/E



Source: Ambit Capital research, Bloomberg

Exhibit 64: Consolidated Income Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Sales	2,570	3,420	4,479	5,673	6,991
Change (%)	30.3	33.1	30.9	26.7	23.2
EBITDA	1,004	1,345	1,659	2,038	2,374
% of Net Sales	39.0	39.3	37.0	35.9	34.0
Depreciation	70	91	121	142	175
Other Income	-105	240	191	153	161
PBT	829	1,494	1,729	2,050	2,360
Tax	93	166	346	410	472
Rate (%)	11.2	11.1	20.0	20.0	20.0
PAT	736	1,328	1,383	1,640	1,888
Extraordinary	0	-103	0	0	0
Net Income	736	1,225	1,383	1,640	1,888
Change (%)	19.1	66.5	12.9	18.5	15.1

Source: Ambit Capital research, Company

Exhibit 65: Consolidated Balance Sheet

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Share Capital	190	289	289	289	289
Share Premium	740	667	667	667	667
Reserves	1,066	1,425	2,161	3,034	4,038
ESOPs	2	3	3	3	3
Net Worth	1,999	2,384	3,120	3,992	4,997
Capital Employed	1,999	2,384	3,120	3,992	4,997
Gross Block	446	639	869	1,119	1,419
Less : Depreciation	246	335	456	598	772
Net Block	199	305	414	522	647
CWIP	22	65	76	88	100
Investments	775	279	279	279	279
Goodwill	101	0	0	0	0
Curr. Assets	1,366	2,873	3,452	4,402	5,472
Debtors	393	659	859	1,057	1,264
Cash & Bank Balance	472	1,515	1,769	2,355	3,101
Loans & Advances	501	698	825	991	1,107
Current Liab. & Prov	471	1,144	1,108	1,306	1,508
Creditors	67	103	110	140	172
Other liabilities	16	48	50	52	55
Provisions	388	994	948	1,113	1,281
Net Current Assets	895	1,728	2,345	3,097	3,964
Deferred tax asset	7	7	7	7	7
Application of Funds	1,999	2,384	3,120	3,992	4,997

Source: Ambit Capital research, Company

Exhibit 66: Consolidated Cash flow Statement

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Net Profit Before Tax	828	1,392	1,729	2,050	2,360
Depreciation/amortisation	70	91	121	142	175
(Inc)/dec in working capital	(240)	(490)	(602)	(696)	(709)
Others	(52)	27	(191)	(153)	(161)
Net cash from operations	606	1,020	1,058	1,342	1,665
(Inc)/dec in investments (net)	79	496	0	0	0
Capex	(89)	(240)	(241)	(262)	(312)
Others	51	76	191	153	161
Cash flow from inv.	41	332	(50)	(109)	(151)
Inc/(dec) in capital	5	25	0	0	0
Dividends paid + dividend tax	(389)	(335)	(755)	(647)	(767)
Inc/dec in loans	0	0	0	0	0
Others	0	0	0	0	0
Financial cash flow	(384)	(310)	(755)	(647)	(767)
Net inc/dec in cash	263	1,042	253	586	747
Opening cash balance	211	472	1,515	1,769	2,355
Exchange difference	(3)	1	0	0	0
Closing cash balance	471	1,515	1,769	2,355	3,101

Source: Ambit Capital research, Company

Exhibit 67: Key ratios

In Rs mn	FY10	FY11	FY12E	FY13E	FY14E
Valuation (x)					
P/E	30.1	16.9	16.2	13.7	11.9
EV/EBITDA	18.5	12.4	9.7	7.3	5.7
EV/Sales	7.2	4.9	3.6	2.6	1.9
Price/Book Value	11.1	9.4	7.2	5.6	4.5
Profitability Ratios (%)					
RoE	40.3	55.9	50.3	46.1	42.0
RoCE	51.1	57.2	55.9	53.3	48.9
Turnover Ratios					
Debtors (Days)	60	56	62	62	61
Fixed Asset Turnover (x)	5.8	5.4	5.2	5.1	4.9

Source: Ambit Capital research, Company

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Explanation of Investment Rating

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