



## Economy News

- Foreign direct investment (FDI) inflows to the country dipped 26% in October this year to \$1.49 bn, compared with \$2.02 bn in the same month a year ago. (BS)
- The finance ministry has endorsed the communications ministry's decision to limit the upcoming 3G auction to five players per circle for private companies and state-owned telcos. (ET)
- Excise and Customs duty collections, which account for more than 75% indirect tax receipts of the government, declined by 8.3% in November 2008. While excise duty collections fell by 15%, the Customs duty receipts dipped by 1% (for the second consecutive month).
- Home Minister P. Chidambaram said the government would see if it was possible to further reduce the prices of petrol and diesel due to lower global crude oil prices. (BS)
- The Securities and Exchange Board of India (SEBI) is set to discontinue the differential loads on high-value investments, in an attempt to provide a level-playing field to mutual fund investors. (ET)

## Corporate News

- India's two largest private airlines - **Kingfisher Airlines** and **Jet Airways** - are contemplating another round of fare cut. Both the airlines are likely to reduce the fares by Rs 600 per ticket in January. (ET)
- Suzlon Energy** has persuaded Martifer SGPS SA to agree to a new payment schedule for the latter's 22.4 per cent stake in Germany's REpower Systems. Now it will pay Martifer in 3 installments for its 22.4% in the German firm. (BS)
- India's largest private sector ship builder **ABG Shipyard** is running the risk of cancellation of orders worth Rs 1,000 crore as the prospective Norwegian buyer for three seismic surveyor vessels is facing financial crunch. (BS)
- Oil and Natural Gas Corp**, India's largest oil and gas producer, lost over Rs 1,570 crore in revenues on sale of natural gas at price lower than its cost of production during 2007-08. (ET)
- UTV Motion Pictures** has decided to exit the home entertainment business and focus only on theatrical distribution. It announced that **Moser Baer** will have an exclusive home video licence for UTV's 25 films for the next five years at an estimated cost of Rs 250mn. (ET)

### Equity

		% Chg			
	16 Dec 08	1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>					
SENSEX Index	9,977	1.5	7.4	(24.8)	
NIFTY Index	3,042	2.0	8.7	(24.1)	
BANKEX Index	5,257	2.3	6.1	(20.3)	
BSET Index	2,341	2.4	(8.9)	(33.6)	
BSETCG INDEX	7,110	0.9	3.5	(36.2)	
BSEOIL INDEX	6,554	3.3	15.8	(25.2)	
CNXMcap Index	3,692	1.8	5.7	(29.2)	
BSESMCAP INDEX	3,777	3.2	3.1	(39.2)	
<b>World Indices</b>					
Dow Jones	8,924	4.2	7.9	(15.9)	
Nasdaq	1,590	5.4	7.3	(24.2)	
FTSE	4,309	0.7	4.3	(12.3)	
Nikkei	8,568	(1.1)	1.6	(26.3)	
Hangseng	15,130	0.6	14.5	(12.1)	

### Value traded (Rs cr)

	16 Dec 08	% Chg - Day
Cash BSE	4,088	(5.4)
Cash NSE	11,116	0.3
Derivatives	39,173	4.1

### Net inflows (Rs cr)

	15 Dec 08	% Chg	MTD	YTD
FII	239	325	1762	(54,053)
Mutual Fund	161	29	(311)	13,463

### FII open interest (Rs cr)

	15 Dec 08	% Chg
FII Index Futures	9,213	1.5
FII Index Options	14,100	3.8
FII Stock Futures	11,325	3.1
FII Stock Options	405	13.7

### Advances / Declines (BSE)

Advances & Declines (USD)						
	16 Dec 08	A	B	S	Total	% total
Advances		154	1,297	326	1,777	73
Declines		48	440	105	593	24
Unchanged		2	48	10	60	2

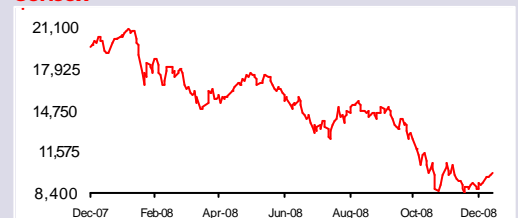
### Commodity

			% Chg			
	16 Dec 08	1 Day	1 Mth	3 Mths		
Crude (NYMEX) (US\$/BBL)	44.2	1.4	(19.5)	(54.5)		
Gold (US\$/OZ)	858.1	2.3	14.9	(1.8)		
Silver (US\$/OZ)	11.2	5.1	20.4	(6.4)		

### Debt / forex market

	16 Dec 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.11	6.24	7.53	8.18
Re/US\$	47.91	47.91	49.34	46.37

### Sensex



## COMPANY UPDATE

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## SATYAM COMPUTER SYSTEMS LTD

PRICE: Rs.227

TARGET PRICE: Rs.253

RECOMMENDATION: REDUCE

FY09E P/E: 6.7x

## Summary table

(Rs mn)	FY07	FY08	FY09E
Sales	64,851	84,735	112,094
Growth (%)	35.3	30.7	32.3
EBITDA	15,377	18,354	25,872
EBITDA margin (%)	23.7	21.7	23.1
Net profit	14,047	16,885	22,627
Net cash (debt)	38,435	42,859	58,543
EPS (Rs)	21.1	25.2	33.7
Growth (%)	39.1	19.6	33.7
CEPS	23.3	27.6	37.3
DPS (Rs)	3.5	3.5	3.5
ROE (%)	27.9	26.0	27.4
ROCE %	30.5	29.0	30.4
M Cap / Sales (x)	2.3	1.8	1.3
EV/EBITDA (x)	9.9	8.2	5.9
P/E (x)	10.7	8.9	6.7
P/Cash Earnings	9.7	8.1	6.0
P/BV (x)	2.6	2.1	1.6

Source: Company, Kotak Securities - Private Client Research

## Satyam announces Maytas acquisition and calls it off

- ❑ Decision to make substantial investments in promoter group companies reversed due to investor concerns
- ❑ Acquisitions were not in the best interest of the company, in our opinion. Reversal of the deals a face - saving exercise, in our opinion.
- ❑ However, concerns relating to management focus, client comfort and continuity, employee motivation and good corporate governance to linger on
- ❑ We expect valuation discount with industry leaders like Infosys to expand to levels prevalent pre-2005 and also in FY07-08.
- ❑ In FY97-98, Satyam carried concerns of group entities and traded at a significant 40% -50% discount to industry leaders. Pre-2005 also, Satyam traded at such significant discount due to inconsistent revenue growth.
- ❑ We expect valuations of Satyam to suffer due to lack of growth visibility and corporate governance issues.
- ❑ We recommend a REDUCE with a revised price target of Rs.253.
- ❑ There could be some support to the stock due to low valuations at 6.7x FY09 PE and 1.6x FY09 BV (RoE of ~30%). Net cash is expected to be at Rs.87 per share in FY09.
- ❑ There could be potential upsides in the event of a substantial dividend payout, buy-back of shares (muted impact, in our opinion) or corporate re-structuring.

## Deal called off...

- Satyam has called off the proposed acquisition of 100% stake in Maytas Properties and 51% stake in Maytas Infrastructure. The deal was announced yesterday and called off today morning.
- The reversal comes after significant investor opposition.
- Both these entities are promoter group companies involved in infrastructure development.

## ...but, concerns to linger on

- While the deal has been called off, we believe that, several concerns will linger on with Satyam.
- We believe that, the management focus will continue to remain in doubt especially after the company committed more than available cash to invest in un-related businesses.
- In our opinion, there can possibly be some discomfort at some clients' end because of the implied shift in management focus away from the core business. There may be a re-thinking on enhancing relationships with Satyam in the medium term
- Also, employee motivation may take a hit because of these events, especially at the senior and mid-management levels. Newspaper reports are indicating that, officials have been surprised at this decision.

- Lastly, we think that there will be a significant concern on corporate governance practices being followed by the company.
- The deal was not subject to any shareholder approval and thus, in a way, was a unilateral decision by the promoter and board of directors.
- We are also concerned by the fact that, Satyam had decided to take over the promoter shareholding in these companies as against investing in these companies.
- The transaction would have provided immense liquidity to the promoter group. Also, the promoters were expected to step down from their leadership positions from the companies after getting the cash.
- In our opinion, these entities would have been much stronger with this kind of cash infusion rather than the promoters benefiting out of the same.
- Satyam would have inherited companies with significant funding requirements, which was always going to be a challenge.

### Valuations to take a hit, we recommend REDUCE

- In 1997-98 and pre-2005, Satyam had quoted at significant discounts to industry peers like Infosys.
- The reasons were the presence of group companies (Satyam Construction, etc) in 1997-98 and the inconsistent growth rates pre-2005.
- In our opinion, these are the very concerns which will re-emerge in addition to the issues on corporate governance.
- This, in turn, may take the valuation discount back to the above mentioned levels.
- We accord a lower valuation to Satyam and arrive at a price target of Rs.253 for the stock. We recommend a REDUCE.
- There is a 12% upside potential from the current levels and any upsides can be used to exit the stock.
- There could be some support to the stock due to low valuations at 6.7x FY09 PE and 1.6x FY09 BV (RoE of ~30%). Net cash is expected to be at Rs.87 per share in FY09.
- There could be potential upsides in the event of a substantial dividend payout, buy-back of shares (muted impact, in our opinion) or any other corporate restructuring initiatives.

**We recommend REDUCE on Satyam Computer Systems with a price target of Rs.253**

### The proposed transaction - now called off

- Satyam is buying 100% stake in Maytas Properties for \$1.3bn and 51% stake (including 20% open offer) in Maytas Infrastructure for \$0.30bn.
- Both these companies have been promoted by the promoters of Satyam.
- Maytas Infra is engaged in the business of infrastructure construction and asset development encompassing core areas viz., highways, metro/railways, ports, transport management systems, airports, power, oil & gas, irrigation, water treatment, etc.
- Maytas Properties is a scale player in development of urban space infrastructure such as master planned integrated townships, special economic zones, hospitality, retail and entertainment spaces. It has its own large and strategically located landbanks, brand and technology alliances.

## COMPANY UPDATE

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## IVRCL INFRASTRUCTURES LTD

PRICE: Rs.160

TARGET PRICE: Rs.241

RECOMMENDATION: BUY

FY10E P/E: 7.8x

- ❑ We recently spoke to the management about the status of order inflows as well as expected benefits from the stimulus package.
- ❑ Current order book of Rs.140 bn is fairly diversified across segments with no execution delays expected by the company. Company is well positioned to benefit from the upcoming projects in infrastructure.
- ❑ Decline witnessed in commodity prices is expected to augur well for the company.
- ❑ Though borrowings may remain on the higher side going forward but easing of interest rates will help company reduce the interest burden.
- ❑ Stock has given 88% returns since our last recommendation on 3rd November at Rs 85. We maintain our estimates as well as recommendation for the company. We maintain BUY with a price target of Rs.241 based on FY10 estimates.

## KEY HIGHLIGHTS ABOUT THE COMPANY

## Robust order book and order inflow expected

IVRCL has a robust order book of Rs.140bn which provides a revenue visibility for next 2.5 years. Order book of Rs.140 bn provides diversification across water and irrigation projects (68%), buildings (20%), power (7%) and transportation (5%). IVRCL is carrying out the building projects primarily for the large developers and state government where risk of delayed payments is minimal. Order inflow in the current fiscal till date has also been to the tune of Rs 67bn and company is L1 in another Rs 20bn worth of orders across segments.

## First phase of stimulus package below industry estimates

Government announced a stimulus package to support the requirements of infrastructure sector. Government has allowed IIFCL to raise Rs 100bn in tax free bonds for refinancing of bank loans for infrastructure projects especially in highways and port segment. IVRCL believes that the funding of Rs 100bn for road projects worth Rs 600-650bn is much less than the industry expectations. Along with that, company is eyeing cash contracts from the winning bidders at much better margins as against bidding for large sized PPP projects which have higher risks attached to them.

## Decline in commodity prices to augur well for the company

Commodity prices have come off quite sharply in past few months which are expected to augur well for the company as well as for the entire sector. Out of the total order book, 92-93% is hedged with variable pricing clauses while the remaining are fixed price contracts. Star rated contracts constitute 70% of the variable pricing contracts while remaining contracts are linked to either WPI or other benchmark index. Though variable pricing clauses hedge the company against raw material price increases, but we believe that by Q4FY09, impact of lower raw material prices will start reflecting in the proportion of fixed price contracts in the order book.

## Borrowings still remain higher but easing of interest rates to benefit the company

Borrowings for the company are expected to remain higher due to high working capital requirements as well as for capital expenditure across segments. IVRCL's profitability was impacted negatively by higher interest rates in last two quarters. Though borrowings may go up slightly from the current levels, we believe that easing of interest rates from current levels are expected to benefit the company.

Summary table (Rs mn)

Year end Mar	FY08	FY09E	FY10E
Revenues	36,606	49,216	62,375
% change YoY	58.8	34.4	26.7
EBITDA	3,615	4,922	6,237
% change YoY	57.1	36.2	26.7
Other Income	45	80	20
Depreciation	328	468	563
EBIT	3,332	4,534	5,695
% change YoY	54.3	36.1	25.6
Net interest	478	1,193	1,562
Profit before tax	2,854	3,341	4,133
% change YoY	54.2	17.1	23.7
Tax	749	1,136	1,405
as % of PBT	26.2	34.0	34.0
Net income	2,105	2,205	2,728
% change YoY	48.8	4.7	23.7
Shares (m)	133.5	134.5	134.5
EPS (reported) (Rs)	15.8	16.4	20.3
P/E(x)	10.1	9.7	7.8
EV/EBITDA(x)	6.0	6.9	6.2
ROE(%)	14.4	12.8	13.9
ROCE(%)	14.6	15.2	15.8

Source: Company, Kotak Securities - Private Client Research

### Performance of BOT projects

IVRCL is carrying out BOT projects in road and water segment through separate SPVs. Company has already invested Rs 2.5bn as equity investment in these projects and remaining Rs 250 million is expected in FY09. Toll revenues from the road projects are expected to commence from FY10 onwards. Following are the details of its BOT projects:

- **Jalandhar Amritsar tollways** - Total cost of this project is 2,378 million financed by way of debt to the extent of Rs.1,570 million and equity of Rs.413 million and grant from NHAI to the extent of Rs.395 million. The project is expected to get completed by December 2008.
- **Salem tollways** - Total cost of this project is Rs.5,011 million to be financed by way of equity of Rs.801 million, grant from NHAI of Rs.1,290 million and term loans of Rs. 2,920 million. Project is expected to get completed by Q4FY09.
- **Kumarapalyam tollways** - Total cost of this project is 4,214 million to be financed by way of equity of Rs.651 million, grant from NHAI of Rs.175 million and term loan of Rs.3,389 million. Project is expected to be completed Q4FY09.
- **Chennai Water Desalination Ltd** - Total cost of this project is Rs 4,900 million with IVRCL holding 75% share in this project. This project had initially witnessed some delays and now construction is expected to get over by January 2009.

### Financial outlook

- With a robust order book and expected order inflows, we maintain our revenue estimates and expect revenues to grow at a CAGR of 31% between FY08-FY10.
- Due to decline witnessed in the commodity prices along with variable pricing clauses, we maintain our operating margin assumptions of 10% going forward for the company.
- We have already factored in higher borrowings scenario, we thus maintain our net profit estimates and expect net profits to grow at a CAGR of 14% between FY08-FY10, assuming a full tax rate in our estimates.

### Valuation and recommendation

At current price of Rs.160, stock is trading at 9.7x and 7.8x its P/E multiples on FY09 and FY10 estimates respectively. Stock has given 88% returns since our last recommendation on 3rd November. We believe that company is expected to benefit from increased order inflows in the coming months as well as decline in the lending rates. We continue to maintain our estimates as well as recommendation for the company. We maintain **BUY** on IVRCL with a price target of Rs 241 on FY10 estimates arrived through sum-of-the-parts methodology.

**We recommend BUY on IVRCL Infrastructures with a price target of Rs.241**

#### Sum-of-the-parts valuation

Based on FY10	Rs per share	Parameter
Core business valuation	203	Based on 10x FY10 estimated earnings
Value for Chennai Desalination project	7	Investments valued at P/BV of 1.2
Value for Jalandhar Amritsar BOT	3	Investments valued at P/BV of 1.5
Value for Tamilnadu BOT	13	Investments valued at P/BV of 1.5
Value for IVR Prime Urban developers	10	Holding company discount of 15%
Value for Hindustan Dorr Oliver stake	5	Holding company discount of 15%
<b>Value per share</b>	<b>241</b>	

Source: Kotak Securities - Private Client Research

## Bulk Deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
16-Dec	Axon Infotec	Subhash Chander	S	4,286	11.19
16-Dec	Bihar Tubes	Pioneer Nirman India Private Ltd	B	100,000	69.99
16-Dec	Bihar Tubes	APL Infrastructure Private Ltd	S	430,000	70.08
16-Dec	Chord Food P	Vasudhaiva Kutumbkam Cons Brok P Ltd	B	15,688	34.15
16-Dec	Chord Food P	Shrawan Kumar Gupta	S	15,688	34.15
16-Dec	Good Luck St	Consolidated Securities Ltd.	B	200,000	180.56
16-Dec	Good Luck St	Bihar Tubes Ltd.	S	195,845	180.70
16-Dec	Gremac Infra	Goldman Sachs Investmnts Mauritius I Ltd	S	122,931	24.03
16-Dec	Gremac Infra	Lotus Global Investments Limited	S	102,704	24.00
16-Dec	Guj Apo Ind	Patel Ajitkumar Tribhovandas HUF	B	100,000	91.85
16-Dec	Guj Apo Ind	Ajitkumar Tribhovandas Patel	B	145,406	91.75
16-Dec	Guj Apo Ind	Swati Ajitkumar Patel	B	200,000	91.85
16-Dec	Guj Apo Ind	Mitul A Patel	S	445,406	91.82
16-Dec	Igarashi Mot	Tree Line Advisors Hong Kong	S	80,000	12.14
16-Dec	Karma Isp	Pooja Bhargava	B	63,000	24.02
16-Dec	Karma Isp	Abhinav Bhargava HUF	B	69,000	24.02
16-Dec	Karma Isp	Abhinav Bhargava	B	62,155	24.02
16-Dec	Karma Isp	Naresh Prem Bhiddha	S	16,950	23.90
16-Dec	Kohinorfoods	Temptation Foods Limited	B	175,000	86.00
16-Dec	Mazda Ltd	HSBC Bank Mauritius Limited	S	24,148	28.46
16-Dec	Nicco Park R	Rajive Kaul	B	25,000	38.86
16-Dec	PFL Infotech	Rameshbhai Vaghjibhai Shah	B	35,872	4.96
16-Dec	Pioneer Inve	ACME Craft Pvt Ltd	S	126,200	13.24
16-Dec	Pyramid Saim	Mukesh Jain	B	150,000	59.71
16-Dec	Rai Sh Rek M	C S Buildwell Pvt Ltd	S	39,500	85.00
16-Dec	Rama Pul Pap	Sanjay Karsandas Thakker	S	59,106	5.04
16-Dec	RFL Internat	Universal Credit	S	198,790	1.20
16-Dec	RTS Power Co	Hetal Rajesh Patel	B	94,504	152.45
16-Dec	Saboo Sod Ch	Gulf Inv Ser Co Saog	S	200,000	5.78
16-Dec	Sanguine Md	Dwarkesh Restaurant Pvt Ltd	B	78,550	6.40
16-Dec	Sicagen Ind	Copthall Mauritius Investment Limited	B	505,902	4.60
16-Dec	Sicagen Ind	BSMA Limited	S	505,902	4.60
16-Dec	TIL Limited	Marbellous Trading Private Limited	B	63,000	135.00
16-Dec	TIL Limited	WF India Reconnaissance Fund Ltd	S	91,000	135.00
16-Dec	Usher Agro	Hetal Rajesh Patel	S	112,381	111.55
16-Dec	Vijayes Text	HSBC Bank Mauritius Limited	S	412,804	5.77

Source: BSE



## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
ONGC	713	5.9	13.6	3.0
Reliance Ind	1,389	3.6	12.2	7.8
NTPC Ltd	175	3.6	8.1	7.4
<b>Losers</b>				
HDFC	1,546	-4.1	(3.1)	3.7
Sterlite Ind	286	-6.8	(2.4)	3.3
Reliance Com	234	-1.9	(1.5)	8.4

Source: Bloomberg

## Forthcoming events

### Company/Market

Date Event

17-Dec Tata Capital holds press conference to launch new product

Source: Bloomberg

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