

Annual guidance blues



Short term trading opportunity- Sell

Infy reports on Apr 13 and will give its annual guidance on the same day. Given risks posed by uncertain US economic outlook, Rupee appreciation and client specific risks, we believe EPS growth guidance could be in the early 20s, a disappointment for the market. We and consensus are forecasting a 30% FY08 EPSg, which could see a downward revision of 3-5%. While this is a near term risk, we retain Buy, given our view that Infy can achieve a strong 25% EPS growth given we currently see no structural change to the offshoring trend. Prefer TCS (TACSF; Rs1247; C-1-7).

Mitali Ghosh >> +91 22 6632 8661
Research Analyst
DSP Merrill Lynch (India)
mitali_b_ghosh@ml.com

Pratish Krishnan >> +91 22 6632 8679
Research Analyst
DSP Merrill Lynch (India)
pratish_krishnan@ml.com

Prasad Deshmukh >> +91 22 6632 8678
Research Analyst
DSP Merrill Lynch (India)
prasad_deshmukh@ml.com

The US economy yo-yo

Even though the jury is out on the US economic outlook, we believe the Indian IT industry is concerned on possible slowdown and impact on pricing. Even volume growth may slow before picking up, as clients review spending priorities. In our view, a 1% change in price assumption could hit margins by ~100 bps.

Rupee appreciation, a nightmare

The Rupee/USD appreciation of 2% in 2 weeks has taken all by surprise and has been likely the result of the central bank abstaining from steadying the Rupee in a likely bid to manage rising inflationary pressures. If we assume a 1.6% higher avg Re rate (taking Mar 31,08 Rs/USD of Rs42), it would hit margins by 80bps.

Uncertainty in a few key clients could rein in guidance

Finally, we believe there could be uncertainty in growth prospects of few key existing or potential clients e.g. ABN Amro (in potential merger talks), BT Global (post its deal with Tech Mahindra) and in banks with mortgage exposure. We note that maybe not even 10% of revs are at risk, but this could cloud visibility.

Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	18,465	24,600	37,485	49,158	63,946
EPS	34.39	45.06	67.23	87.86	113.88
EPS Change (YoY)	45.7%	31.0%	49.2%	30.7%	29.6%
Dividend / Share	5.75	22.50	11.00	15.00	20.00
Free Cash Flow / Share	0.769	46.44	37.94	63.42	88.22
ADR EPS (US\$)	0.788	1.01	1.56	2.04	2.64
ADR Dividend / Share (US\$)	0.132	0.505	0.255	0.348	0.464

Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	57.89x	44.19x	29.61x	22.66x	17.48x
Dividend Yield	0.289%	1.13%	0.552%	0.753%	1.00%
EV / EBITDA*	45.49x	34.37x	23.88x	17.97x	13.80x
Free Cash Flow Yield*	0.037%	2.28%	1.91%	3.20%	4.46%

* For full definitions of *iQmethod*SM measures, see page 9.

Stock Data

Price (Common / ADR)	Rs1,991 / US\$49.81
Price Objective	Rs2,650 / US\$67.00
Date Established	11-Jan-2007 / 11-Jan-2007
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs1,225-Rs2,439
Market Value (mn)	US\$25,794
Shares Outstanding (mn)	557.5 / 557.5
Average Daily Volume	304,757
ML Symbol / Exchange	INFYF / BSE
ML Symbol / Exchange	INFY / NAS
Bloomberg / Reuters	INFO IN / INFY.BO
ROE (2007E)	43.8%
Net Dbt to Eqty (Mar-2006A)	-68.1%
Est. 5-Yr EPS / DPS Growth	27.0% / 27.0%
Free Float	72.0%



>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of Merrill Lynch in the US can receive independent, third-party research on companies covered in this report, at no cost to them, if such research is available. Customers can access this independent research at <http://www.ml.com/independentresearch> or can call 1-800-637-7455 to request a copy of this research.

Refer to important disclosures on page 10 to 12. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

iQprofileSM Infosys Technologies

Key Income Statement Data (Mar)	2005A	2006A	2007E	2008E	2009E
(Rs Millions)					
Sales	71,297	95,216	139,859	187,403	247,729
Gross Profit	33,650	44,562	65,012	86,575	113,870
Sell General & Admin Expense	(10,300)	(13,644)	(20,504)	(27,465)	(36,912)
Operating Profit	20,481	26,548	39,168	51,544	66,523
Net Interest & Other Income	1,239	1,396	3,430	4,380	6,222
Associates	NA	NA	NA	NA	NA
Pretax Income	21,721	27,933	42,568	55,924	72,745
Tax (expense) / Benefit	(3,256)	(3,132)	(4,970)	(6,711)	(8,729)
Net Income (Adjusted)	18,465	24,600	37,485	49,158	63,946
Average Fully Diluted Shares Outstanding	551	562	570	572	574

Key Cash Flow Statement Data

Net Income (Reported)	18,465	24,600	37,485	49,158	63,946
Depreciation & Amortization	2,869	4,370	5,340	7,566	10,436
Change in Working Capital	(13,080)	7,275	(5,672)	(2,237)	(2,842)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	452	0	0	0	0
Cash Flow from Operations	8,705	36,245	37,153	54,486	71,539
Capital Expenditure	(8,292)	(10,888)	(16,000)	(19,000)	(22,000)
(Acquisition) / Disposal of Investments	(2,712)	625	(20,958)	(19,909)	(30,431)
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(11,004)	(10,263)	(36,958)	(38,909)	(52,431)
Shares Issue / (Repurchase)	4,357	5,995	0	0	0
Cost of Dividends Paid	(3,520)	(14,120)	(5,598)	(7,633)	(10,178)
Cash Flow from Financing	839	(7,447)	(5,485)	(7,578)	(10,108)
Free Cash Flow	413	25,357	21,153	35,486	49,539
Net Debt	(29,981)	(47,890)	(63,558)	(91,466)	(130,897)
Change in Net Debt	1,459	(18,535)	5,290	(8,000)	(9,000)

Key Balance Sheet Data

Property, Plant & Equipment	15,742	22,260	32,920	44,354	55,919
Other Non-Current Assets	463	670	870	1,020	1,170
Trade Receivables	13,220	16,080	24,087	32,275	42,664
Cash & Equivalents	29,981	47,890	63,558	91,466	130,897
Other Current Assets	8,107	6,900	9,790	13,118	17,341
Total Assets	67,513	93,800	131,224	182,234	247,992
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	14,325	23,460	28,885	38,314	50,234
Total Liabilities	14,325	23,460	28,885	38,314	50,234
Total Equity	53,187	70,340	102,340	143,920	197,758
Total Equity & Liabilities	67,512	93,800	131,224	182,234	247,992

iQmethodSM - Bus Performance*

Return On Capital Employed	41.7%	40.1%	41.5%	38.9%	36.4%
Return On Equity	43.6%	40.4%	43.8%	40.2%	37.6%
Operating Margin	28.7%	27.9%	28.0%	27.5%	26.9%
EBITDA Margin	32.8%	32.5%	31.8%	31.5%	31.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.5x	1.5x	1.0x	1.1x	1.1x
Asset Replacement Ratio	2.9x	2.5x	3.0x	2.5x	2.1x
Tax Rate (Reported)	15.0%	11.2%	11.7%	12.0%	12.0%
Net Debt-to-Equity Ratio	-56.4%	-68.1%	-62.1%	-63.6%	-66.2%
Interest Cover	NA	NA	NA	NA	NA

Key Metrics

Sales Growth	46.9%	33.5%	46.9%	34.0%	32.2%
EBITDA GROWTH	46.5%	32.4%	43.9%	32.9%	30.2%
EBIT Growth	50.9%	29.6%	47.5%	31.7%	29.1%
Net Income Growth	47.3%	33.2%	52.4%	31.1%	30.1%
ADR EPS (US GAAP)- USD	0.76	0.99	1.51	2.05	2.72

* For full definitions of iQmethodSM measures, see page 9.

Company Description

Set up in 1981, Infosys is India's 2nd largest IT Services exporter with FY06 revenues of US\$2.15bn & 52715 employees. It is known for mgmt depth and corporate governance. It has a premium brand, well-diversified revenues (IT consulting to BPO, with bulk of revenues from software application dev & maintenance), industry-high revenue growth rates and margins. Key markets are North America & Europe.

Stock Data

Shares / ADR	1.00
Price to Book Value	10.9x
Market Cap (USD)	25794

“Guidance” clouds gather

Infy reports on Apr 13 and will give its annual guidance on the same day. Given risks posed by the uncertain US economic outlook, Rupee appreciation and certain client-specific risks, we believe EPS growth guidance could be in the early 20s, a disappointment for the market. We and consensus are forecasting a 30% FY08 EPSg, which could see a downward revision of 3-5%. While, this is a near-term risk, we retain our Buy rating, given our view that Infy can achieve a strong 25% EPS growth given we currently see no structural change to the offshoring trend.

If guidance disappoints... it would maintain historic pattern

Guidance could disappoint: Beginning 2001 when Infosys gave its guidance for the first time (for FY02), its guidance has disappointed in every alternate year, and we see chances of the trend continuing this year.

If guidance disappoints, stock typically reacts sharply: As in 2001 and 2003, the stock price typically gets shaved off sharply, if guidance disappoints.

Table 1: Infosys Price Movement History Before And After Guidance

Guidance Day	Before		After		Comment
	1 Wk	1 Mon	1 Wk	1 Mon	
10-Apr-01	-5.30%	-20.00%	-20.90%	-0.40%	Guidance disappointed
9-Apr-02	1.20%	-14.70%	5.70%	6.30%	Largely in line with expectation
9-Apr-03	0.70%	2.80%	-27.20%	-29.60%	Guidance much below expectation
12-Apr-04	-0.60%	1.60%	4.30%	-1.00%	Largely in line with expectation
14-Apr-05	-3.97%	-5.60%	-4.85%	-1.90%	Guidance lower than expected, underperformed market
14-Apr-06	-3.08%	2.97%	6.16%	4.37%	Guidance was higher than expected

Source: Bloomberg, Merrill Lynch Research

Table 2: Guidance outperformance

Year	Guidance at the beginning of the year		Actual			Comment
	Revenue Growth	EPS Growth	Revenue	Growth	EPS Growth	
FY02	27.6%-30.6%	24.1%-27.3%	37.00%	28.00%		Much below expectation, but not exceeded hugely because of Sep 11
FY03	18.5%-21.8%	15.5%-18.7%	39.80%	18.10%		Realistic guidance, post bubble
FY04	23.8%-26%	12%-13.4%	33.30%	30.00%		Much below expectation guidance
FY05	23.5%-24.5%	20%	46.90%	46.80%		Strong recovery of spending and offshoring
FY06	24.7%-26.6%	23%-24.9%	33.50%	30.90%		Guidance lower than expected
FY07	28.7%-30.7%	26.4%-28.4%	47% (MLe)	52% (MLe)		Better than expected guidance but top client ramp up and Rupee depreciation helped huge outperformance

Source: Merrill Lynch Research, Infosys

4Q unlikely to cheer

We expect modest 4Q revenue growth of 5% and PAT growth of 4%, given seasonality and Rupee appreciation during the last 2 weeks to Rs43.3/USD vs the guidance at Rs44.11/USD.

Table 3: Modest 4Q forecast in line with guidance

	Q407	QoQ	YoY	Guidance	Variation
Revenue (Rs mn)	38306	5%	46%	37935	1.0%
EBITDA (Rs mn)	12416	4%	49%	na	na
PAT (Rs mn)	10202	4%	52%	9985	2.2%

Source: Merrill Lynch Research, Company

Why US economy outlook may be a concern

Mixed US economic data

Our North American economist David Rosenberg writes in his note (*"Dave's Top Ten", March, 23 2007*) that "the Fed is still concerned about core inflation remaining sticky, but at the same time they raised their doubts over the economic outlook. Gone was the January 31st reference to *"firmer economic growth"* – it has been supplanted with *"mixed"* indicators. The housing market no longer is viewed as enjoying *"some tentative signs of stabilization"* – the Fed has downgraded that view to *"the adjustment in the housing sector is ongoing"*. **In other words, the Fed is clearly less upbeat over its growth assessment, which must have been the root cause of the decision to move to a *de facto* neutral statement as far as interest rate risks were concerned – since it is also obvious that the central bank is predominantly concerned about the inflation landscape."**

Dave also writes "Alan Greenspan mused earlier this month that we could see a recession by year-end (a *"possibility"*, not a *"probability"*). "

US software spending is high relative to historical levels

Following disappointing 4Q06 pre-announcements from a handful of software companies, weaker than expected results from Oracle and SAP, and the recent downward revision to 4Q06 GDP (3.5% advance to 2.2% prelim), our US software analyst Kash Rangan and his colleagues analyzed aggregate US software spending from the BEA (Bureau of Economic Analysis).

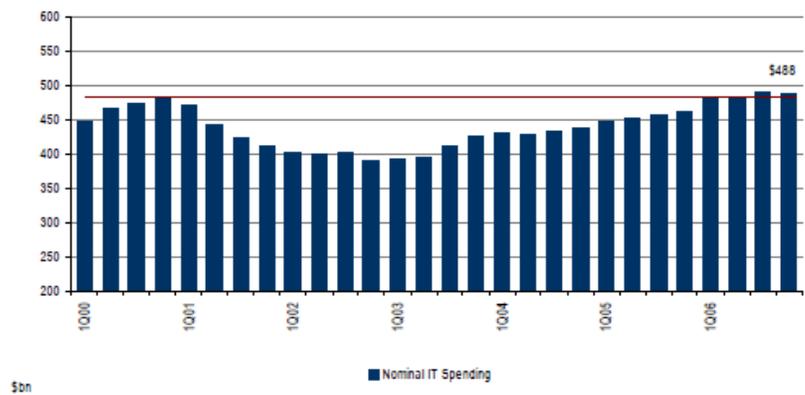
The data indicates that US software spending is at high levels relative to historical norms and does not have enough cushion if we get spending headwinds.

Software spending, as defined by the Bureau of Economic Analysis, includes prepackaged software, custom developed software and software developed internally.

Contrary to popular belief, US software spending has eclipsed Y2K and Internet "bubble" levels. However, annualized growth of nominal software spending has slowed from 13.6% in 1Q06 to 7.2% in 4Q06, slightly below its 10-year average annualized growth rate of 8.8%.

Nominal IT spending reached \$487.9bn, down from \$489.6bn in 3Q06, or an annualized decline of 1.4%. IT spending has surpassed levels reached during the height of the internet "bubble".

Chart 1: Nominal IT Spending

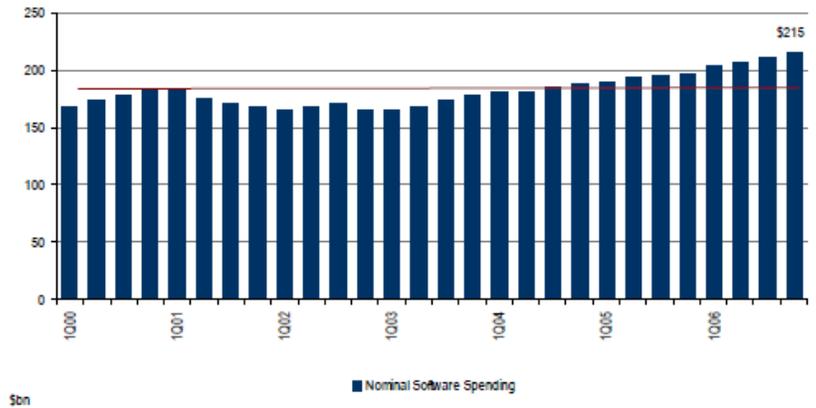


Note: Excludes government investment

Source: Bureau of Economic Analysis, US Department of Commerce; Merrill Lynch

Nominal software spending in 4Q06 reached \$214.6bn, maintaining its upward trend. Despite slowing to an annualized growth rate of 7.2% in 4Q06, down from 7.3% in 3Q06, software spending is still above previous highs reached in 2000.

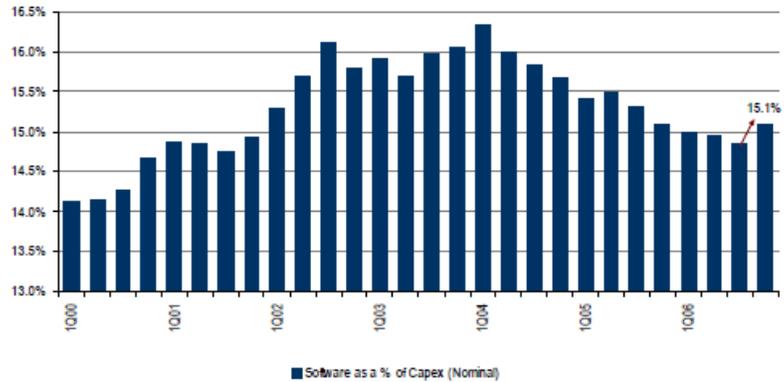
Chart 2: Nominal software spending



Note: Excludes government investment
 Source: Bureau of Economic Analysis, US Department of Commerce; Merrill Lynch

In 4Q06 nominal dollars, software spending as a percentage of Capex increased to 15.1%, up from 14.8% in 3Q06. Software as a percentage of Capex reversed a strong downward trend which began in 1Q05, following a multi-year high in 1Q04.

Chart 3: Nominal software spending as a % of capex

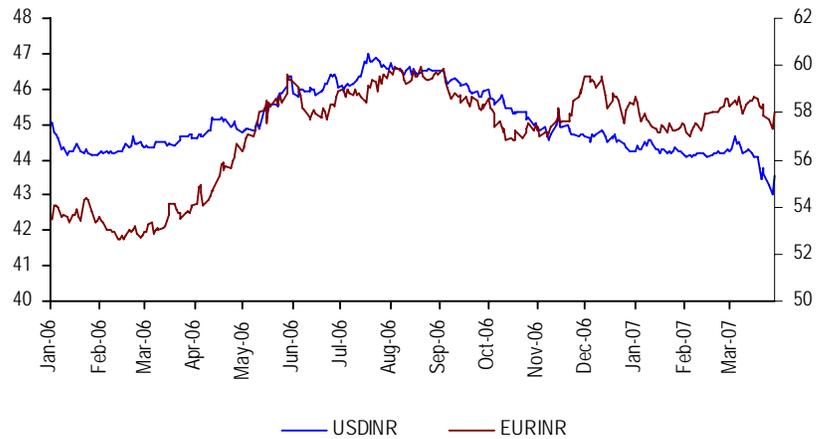


Note: Excludes government investment
 Source: Bureau of Economic Analysis, US Department of Commerce; Merrill Lynch

The Rupee rampage

Rupee/USD has appreciated by 1.7% this quarter, with appreciation of 2% in 2 weeks. This has been likely the result of the central bank abstaining from steadying the Rupee in a likely bid to manage rising inflationary pressures. If we assume a 1.6% higher average Re rate (taking Mar31 Rs/USD of Rs42), it would hit margins by 80bps.

Chart 4: Appreciating rupee



Source: Bloomberg for currency conversion rates

Uncertainty in a few key clients could rein in guidance

We believe there could be uncertainty in growth prospects of a few key existing or potential clients, e.g. ABN Amro (in potential merger talks), BT Global (post its deal with Tech Mahindra) and in banks with mortgage exposure. We note that maybe not even 10% of revs are at risk, but this could cloud visibility and hence impact guidance.

The FY06 guidance was below expected because of a couple of large client issues and FY07 was better than expected due to high growth visibility from large clients like ABN Amro and BT.

Table 4: Top 10 clients have led FY07 company growth

	Mar FY05	JunFY06	SepFY06	DecFY06	Mar FY06	Jun FY07	Sep FY07	Dec FY07
Co growth	6%	4%	11%	10%	4%	15%	14%	6%
Top 10 clients	12%	-2%	7%	8%	7%	17%	19%	0%
Non top 10 clients	3%	7%	13%	11%	2%	14%	12%	9%

Source: Infosys

ESOP dilution

We also expect ~2% EPS dilution on ESOPs exercised before Mar 31, FY07 to beat the proposed Fringe Benefit Tax. The FY08 Finance Bill has proposed that Fringe Benefit tax be paid by companies on the difference between exercise price and fair value, presumably market price at time of exercise, at likely the corporate tax rate of 34%. While the industry is hopeful that the Finance Minister may finalize a lower tax rate for the Fringe Benefit, they have not taken chances and have advised employees to exercise their options before March 31st.

However, retain our Buy on structural story being intact

However, we retain our Buy rating, given no change in the structural offshoring story and no signs of demand slowdown, either anecdotally from industry sources or from comments by competitors like Accenture. Thereby, though we see a 3% to 5% downside risk to our estimates, we believe a strong 25% kind of growth is achievable.

In results announced this week, Accenture CEO Bill Green described the consulting biz as “on fire” and demand not slowing down in the near term. Consulting bookings of \$3.08bn (58%) were at an all-time high on the strength of mostly SI projects in Europe and management consulting. Our US Computer Services analyst Greg Smith comments on Accenture post results (*“Consulting stays hot; tax rate helps guidance”, March 28, 2007*) that “The company will continue its strategy to focus on investing in consulting, where the globalization driven market opportunity has been good. The company will invest in industry assets and offerings, and scale up global skills and footprint by increasing headcount (Philippines now at 11,000 vs. 8,500 last quarter). Accenture plans to double its headcount in management consulting (currently at 13,000). Pricing power continues and should spread to other high demand areas such as technology, systems integration, and management consulting. Last quarter, pricing increases on projects in SAP implementation and supply chain helped offset salary increases. The company is seeing strength in EMEA and AsiaPac regions (specifically the U.K., Australia, and Japan) as well as in Financial Services (banking and insurance, CRM, and asset-based projects), Products (BPO, HR, learning), and Resources segments.

As we go into results, we prefer TCS. We expect ~7% qoq 4QFY07 PAT growth in TCS (TACSF; C-1-7, Rs1247) due to margin expansion. Further, TCS may be able to weather the impact of Rupee appreciation and pricing pressure better, given scope to increase offshore revenue proportion by 300 to 400bps to about 45%.

Price Objective Basis & Risk

Infosys

Our 1-yr target PO of Rs2,650 on the local is at 24x rolling forward EPS (12m ending Dec08), in line with the 3-yr average PE. Our ADR PE of US\$67 is at 10% premium to the local, lower than the current premium of 16%.

Key risks are a) Growing competition from western systems integrators like Accenture, b) Ability to manage growth, c) Industry-wide risks of a slowdown in the US economy, higher than expected wage pressures, and Rupee/USD appreciation.

TCS

Our Rs1,600 PO for TCS is set at 23x 1-yr rolling forward EPS. This is at a 5% discount to our target multiple for Infosys at 24x and lower than TCS' current 1yr forward PE of 26x. At our target price TCS would trade at 21x FY09E vs Infosys at 23x FY09E.

Risks: a) possible risks to margins from large deals, b) the ability to manage growth, c) lower wages than peers onsite, d) growing competition from western systems integrators like Accenture, e) Industry-wide risks of a slowdown in the US economy, higher than expected wage pressures, and Rupee/USD appreciation.

Analyst Certification

I, Mitali Ghosh, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depositary Receipts (GDR) and the Global Depositary Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.

30 March 2007

***iQmethod*SM Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

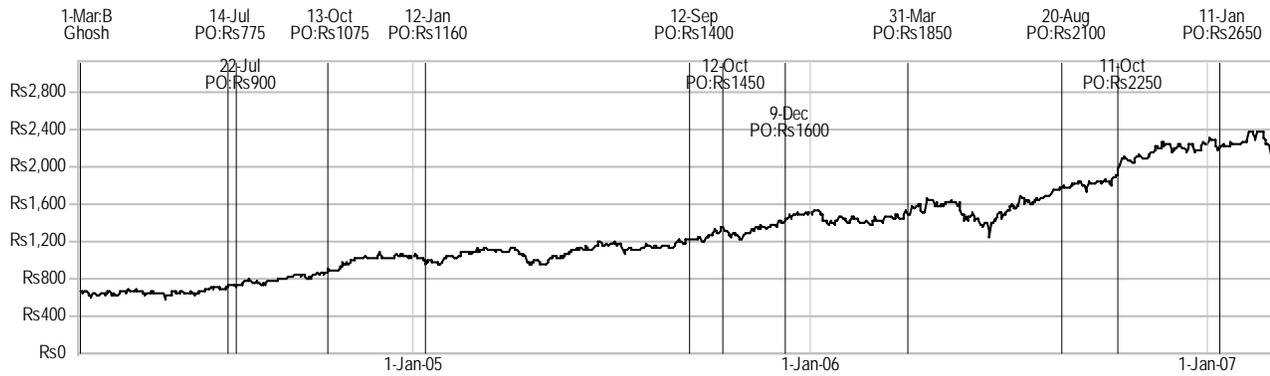
*iQmethod*SM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

*iQprofile*SM, *iQmethod*SM are service marks of Merrill Lynch & Co., Inc. *iQdatabase*[®] is a registered service mark of Merrill Lynch & Co., Inc.

Important Disclosures

INFYF Price Chart



INFYF _____

B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of February 28, 2007 or such later date as indicated.

INFY Price Chart

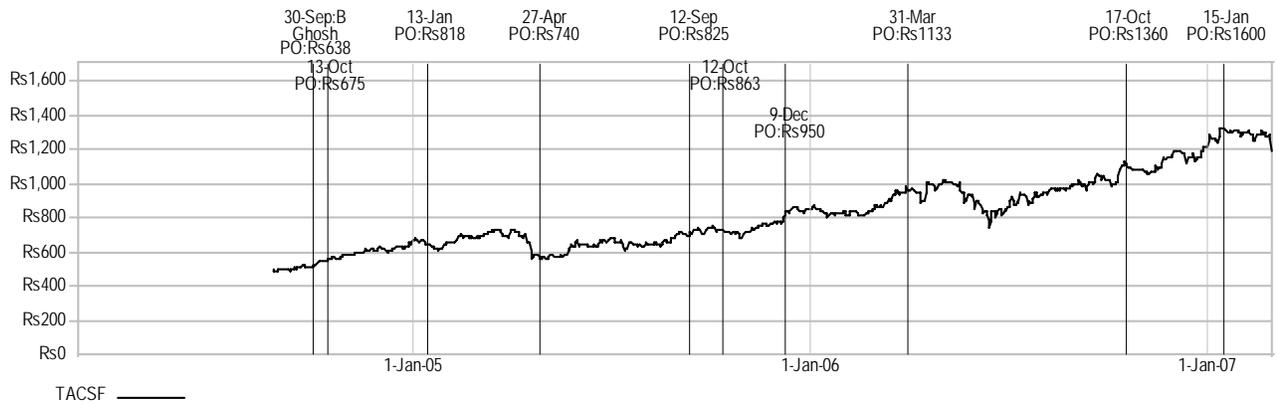


INFY _____

B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of February 28, 2007 or such later date as indicated.

TACSF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of February 28, 2007 or such later date as indicated.

Investment Rating Distribution: Technology Group (as of 31 Dec 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	104	41.94%	Buy	19	18.27%
Neutral	128	51.61%	Neutral	24	18.75%
Sell	16	6.45%	Sell	2	12.50%

Investment Rating Distribution: Global Group (as of 31 Dec 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1306	42.74%	Buy	406	31.09%
Neutral	1509	49.38%	Neutral	446	29.56%
Sell	241	7.89%	Sell	53	21.99%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. **INVESTMENT RATINGS**, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. **INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

One or more analysts responsible for covering the securities in this report owns such securities: Tata Consultancy.
 MLPF&S or one of its affiliates acts as a market maker for the securities recommended in the report: Infosys Tech.
 MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months: Tata Consultancy.
 The company is or was, within the last 12 months, a non-securities business client of MLPF&S and/or one of its affiliates: Tata Consultancy.
 In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Infosys Tech, Tata Consultancy.
 MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Infosys Tech, Tata Consultancy.
 MLPF&S together with its affiliates beneficially owns one percent or more of the common stock of this company. If this report was issued on or after the 10th day of the month, it reflects the ownership position on the last day of the previous month. Reports issued before the 10th day of a month reflect the ownership position at the end of the second month preceding the date of the report: Infosys Tech.
 The country in which this company is organized has certain laws or regulations that limit or restrict ownership of the company's shares by nationals of other countries: Infosys Tech, Tata Consultancy.
 MLPF&S or one of its affiliates is willing to sell to, or buy from, clients the common equity of the company on a principal basis: Infosys Tech.
 The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one of its affiliates: Tata Consultancy.
 The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

The company is a corporate broking client of Merrill Lynch International in the United Kingdom. British Telecom.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.; Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2007 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.