

November 20, 2006

FOR PRIVATE CIRCULATION

Equity

	17 Nov 06	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,429	(0.6)	5.7	17.1
Nifty	3,853	(0.6)	4.8	14.8
Banking	7,125	(1.2)	14.8	38.9
IT	3,405	(0.3)	6.1	21.9
Healthcare	3,707	(1.8)	2.1	4.2
FMCG	2,006	(1.4)	(0.1)	1.1
PSU	6,139	(0.1)	5.4	12.6
CNX Midcap	4,968	(1.6)	4.8	16.2
World indices				
Nasdaq	2,445.9	(0.1)	4.4	13.0
Nikkei	16,092	(0.4)	(4.7)	(1.4)
Hangseng	19,183	0.1	5.6	10.4

Value traded (Rs cr)

	17 Nov 06	% Chg - 1 Day
Cash BSE	4,231	(27.2)
Cash NSE	8,720	(15.5)
Derivatives	29,189	(0.5)

Net inflows (Rs cr)

	15 Nov 06	% Chg	MTD	YTD
FII (14 Nov)	1,523.8	95.8	4,794	35,268
Mutual Fund	206.5	622.9	721	14,839

FII open interest (Rs cr)

	15 Nov 06	% chg
FII Index Futures	8,842.7	0.7
FII Index Options	5,768.4	3.6
FII Stock Futures	15,393.0	(0.9)
FII Stock Options	216.0	11.0

Advances/Declines (BSE)

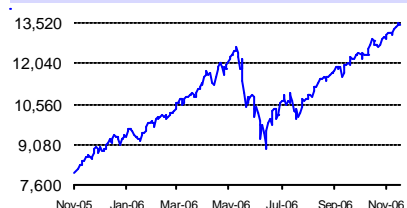
17 Nov 06	A	B1	B2	Total	% Total
Advances	42	107	245	394	24
Declines	162	527	555	1244	74
Unchanged	0	8	27	35	2

Commodity

	17 Nov 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	59.0	0.7	0.1	(15.8)
Gold (US\$/OZ)	621.7	0.6	5.5	1.5
Silver (US\$/OZ)	12.8	(0.7)	8.0	6.6

Debt/forex market

	17 Nov 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.52	7.54	7.66	7.99
Re/US\$	44.91	44.95	45.28	46.45

Sensex


Source: Bloomberg

ECONOMY NEWS

- The annual rate of inflation rose to 5.30 per cent for the week ending November 4, compared with 5.09 per cent in the previous week owing to an increase in the index of primary articles and manufactured products. (BS)
- The Reserve Bank of India (RBI) has sought to further tighten the flow of bank funds into the capital market. The Central Bank's proposals will reduce access to bank funds against security of equity and equity-linked investments. (BS)
- In the three States of Uttar Pradesh, Tamil Nadu and Goa, the public sector oil marketing companies have contracted ethanol at an ex-distillery price of Rs 21.50 per litre and also finalised the logistics of procurement, blending and distribution. (BL)

CORPORATE NEWS

- Leading wind power company, **Suzlon Ltd** today said it would invest Rs 860.73 crore (150 million euros) to increase the capacity of its Belgian wind gear box facility from 3200 mw to 5800 mw. (BS)
- **Volta** is in talks with a Singapore-based knowledge process firm for a possible buyout, in water treatment space. (BL)
- **Wipro Infotech** on Friday announced that it has won a Rs 304 crore contract for providing comprehensive IT outsourcing services to Dena Bank over a period of ten years. (BS)
- **MRPL**, which has the marketing rights to set up 500 retail outlets, plans to roll out 25 by next year. With its brand HiQ, it would initially concentrate in the South starting from Mangalore. (BL)
- Kishore Biyani's Future group, with retail brands such as Pantaloon, Big Bazaar, Food Bazaar and Fashion Station, has set up an out-of-home media division called **Future Media India Ltd** to tap the Rs.9 bn market. (BS)
- **Nicholas Piramal India Ltd** has informed the BSE that BioSyntech, Inc. is to announce the signing of a scientific collaboration between BioSyntech, Inc. and their biopharmaceutical partner Nicholas Piramal. (BL)
- Within days of increasing tariffs for moving containers, **Container Corporation of India Ltd (Concor)** has decided to slash tariffs in some import and export segments. The reduced tariffs would be in effect till March 31, 2007. (BL)
- Brazil's fourth-largest steelmaker CSN has approached the Corus board with a formal bid 20 pence a share higher than **Tata Steel's** offer. While Tata Steel's bid amounted to \$8.1 billion, the CSN offer values Corus at \$8.4 billion. (BS)
- Anil Ambani plans to launch a global buyout fund of about \$5bn aimed at telecom and related sectors. (ET)
- **Volkswagen** green plant to come up in Maharashtra. (ET)

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

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COMPANY UPDATE

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SATYAM COMPUTER SERVICES (Rs.435, FY08E P/E: 17.8x, BUY)

We met up with Satyam recently to get an insight into the latest developments within the industry and the company, in particular. The main takeaways are as under:

Not seeing any impact of a US slowdown, as yet...

According to the company, there are no signs of any reduction in outsourced / offshored volumes due to the continuing slowdown in the US economy. The volumes growth remains strong with new as well as existing clients continuing to give business.

On a macro front, the management reiterated that offshoring had indeed become mainstream activities and is no longer the differentiator. The addressable market for Indian vendors is huge and provides enough headroom to Indian vendors to continue their existing pace of growth.

The company has not seen any noticeable shift in the spending patterns of the clients over the past one quarter despite a slowdown in the US economy. The overall IT spending is still expected to increase by 3% - 5% for CY2006.

In 2QFY07, the company had achieved one of the fastest sequential growth rates in the past 4 years and the momentum still continues. Within sectors, the Media sector is witnessing relatively faster growth rates for the company with several companies in the print, publishing and animation segments adopting offshoring in an aggressive manner.

... as indicated by the new deals

The company has witnessed no changes in the spending patterns of the clients and in fact, new clients have started coming to Indian vendors. The recent deal with Quantas, worth about \$54mn, is an indication of this.

The Quantas deal was won by Satyam against stiff competition from other Indian as well as global players. In fact, Satyam has developed a very competitive positioning in the Australian and expects to get additional business from that geography, in the future.

Pricing continues to have an upward bias

The company has not seen any pricing pressures, as yet. The new clients continue to come in at higher than average rates and the existing clients also continue to give higher rates at the time of contract re-negotiations.

On the other hand, with increasing contribution from higher value added services, the average realizations are expected to be better.

Recession / accelerated slowdown may impact growth

While there is no impact of the slowdown as yet, the company indicated that, in case there is an accelerated slowdown or a recession in the major user economies, it may impact the sales cycle and also defer the price increases currently being witnessed by the company.

Salary increases have had an impact on attrition

According to the management, the higher than average salary increases given to the employees in 2QFY07 has had a positive impact on attrition with the absolute numbers going down over the past two quarters.

The % attrition has also reduced in 2QFY07 with the Restricted Stock Units also being issued. Now, the company's salary levels are nearly comparable to the peers and this should ease the inflation pressures for the company, in our view. However, seasonal trends are expected to increase attrition during some parts of the fiscals.

Enterprise applications being increasingly preferred

- The company is witnessing a growing trend towards enterprise applications and packages.
- Within this, SAP, Oracle and Microsoft are the leading companies with a combined market share of about 36%.
- Satyam has a significant presence in the enterprise applications market with a contribution of about 40% to the overall revenues.
- Satyam has the largest SAP practice in India and a growing presence in Oracle. In fact, Satyam has more than 3000 employees in SAP and also is the largest partner of Oracle in its 'Fusion' practice.

Large deals - a focus area

- Satyam reiterated that it has formed a separate team to look at large strategic deals, while stressing on the need to grow the existing large clients.
- The total value of deals of over \$50mn each has remained nearly stagnant at about \$75bn per annum. However, the number of deals has steadily increased to about 300 in 2005. This implies that the average size of the deals has reduced as clients break down the mega deals into a few large deals.
- In 2006 YTD, Indian vendors have won about 5% of these large deals v/s 4% in the previous year.
- The management has indicated that margins in the initial years in these large deals may be lower than average but, these would increase as and when the company improves its efficiency and the off-shore component increases.
- The Qantas deal is a case in point and the company is pursuing 10 more large deals.

Margins - levers available

- Satyam has been experiencing a reduction in margins over the past three years.
- However, the company has been able to reduce the extent of impact on profitability has over the years.
- Going ahead, it is optimistic of further restricting the impact on margins due to the various levers available to it.
- The management has indicated that the main levers available to the company are improved operational efficiency, improvement in the performance of the subsidiaries and a potential increase in average realizations.
- The company has already sought permission from the Government to set up Special Economic Zones (SEZs) and plans to have a large portion of its future growth coming from SEZs.

Future prospects					
(Rs mn)	FY06	FY07E	% chg	FY08E	% chg
Income	47,926	65,192	36.0	82,906	27.2
Expenditure	36,264	49,907		63,990	
Operating profit	11,662	15,285	31.1	18,917	23.8
Depreciation	1,373	1,587		1,900	
Gross profit	10,289	13,698	33.1	17,017	24.2
Interest	56	73		40	
Other income	1,168	1,777		1,830	
PBT	11,402	15,403	35.1	18,807	22.1
Tax	1,509	1,838		2,776	
PAT	9,893	13,564	37.1	16,031	18.2
Sh of Pft/(loss) / Min int	-73	0		0	
PAT after E.O. items	9,820	13,565	38.1	16,031	18.2
EPS (Rs)	30.3	20.7		24.5	
OPM (%)	24.3	23.4		22.8	
GPM (%)	21.5	21.0		20.5	
NPM (%)	20.6	20.8		19.3	

Source : Company, Kotak PCG research * - Consolidated financials

We expect the company to report revenues of Rs.65.2bn in FY07 and Rs.82.9bn in FY08. We have assumed the rupee to appreciate to Rs.43 per USD by FY08 end. The number of engineers on a consolidated basis, is expected go up to nearly 45,000 by FY08 end.

After assuming a further reduction in margins in FY08 due to expected salary hikes and rupee appreciation, in addition to the RSU impact, we arrive at a net profit estimate of Rs.16bn in FY08, resulting into earnings of Rs.24.5 per share.

Valuations

We continue to recommend a BUY on the stock with a price target of Rs.508

At the current price levels the stock is quoting at 21x FY07E estimates and 18x FY08E estimates. Based on our earnings estimates, we arrive at a price target of Rs.508 for the stock. At the target price the stock will be valued at 20.8x our FY08E earnings, a discount to our target valuations for larger peers. We continue to recommend a BUY on Satyam Computer Services with a price target of Rs.508, based on FY08E earnings.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
17-Nov	Acrow India	Kalpana Madhani Securitie	B	3,500	327.95
17-Nov	Alum Ind Ex	Lotus Capital Financial S	S	97,831	27.50
17-Nov	Anjani Finl	Bhavesh Prakash Pabari	B	60,000	40.70
17-Nov	Borosil Gl W	Dhanshri Fin Caps Limited	B	25,000	224.15
17-Nov	Gulsha Sug C	Rajkishore Agarwal	B	100,000	61.00
17-Nov	Gulsha Sug C	Sejal G.Shah	S	154,448	61.37
17-Nov	Hazoor Media	Jalco Financial Services	B	50,000	21.42
17-Nov	Infotrek Sys	Upsurge Inv And Fin. Ltd.	S	60,000	31.64
17-Nov	Koff Br Pict	Hemal P. Gandhi	B	35,000	15.82
17-Nov	Lyka Labs	Chauhan Finstock	B	150,000	68.50
17-Nov	Mah Ind Leas	Global Film And Bord Cast	B	9,735	114.31
17-Nov	Mefcom Agr I	ISF Securities Ltd	B	58,700	37.90
17-Nov	Mefcom Agr I	Cosmo Corporate Services	S	27,100	37.90
17-Nov	Mohit Indust	Deshana Finlease Services	B	41,626	59.32
17-Nov	Mohit Indust	Shanti Lal Shand HUF	B	28,940	59.46
17-Nov	Mohit Indust	Hasmukh Purshottam Solank	B	31,000	58.75
17-Nov	Mohit Indust	Minesh N Patel	S	25,000	58.75
17-Nov	Paramo Commu	Volga International Ltd	B	80,000	222.00
17-Nov	Scenario Med	Mongiben H. Gudhka	S	2,500	106.07
17-Nov	Scenario Med	Tejas G Maru	S	1,950	106.50
17-Nov	Shrachi Secu	HSBC Financial Services M	S	360,000	45.00
17-Nov	Srei Infra	Bsma Limited	B	1,000,000	48.00
17-Nov	Srei Infra	Merill Lynch Capital Mark	S	1,000,000	48.00
17-Nov	Sybly Indusr	Jasbir Singh	B	30,800	17.00
17-Nov	TRF Limited	Prudential ICICI Mf Ac Em	B	110,474	394.99
17-Nov	TRF Limited	The Associated Cement Cos	S	110,047	395.00

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
HDFC	1,605	3.2	2.5	0.7
TCS	1,095	0.7	1.5	0.6
Bharti Airtel	581	0.6	1.3	0.8
Losers				
ONGC	849	(2.5)	(9.5)	2.3
ITC	182	(2.0)	(2.8)	4.1
ICICI Bank	877	(1.2)	(1.9)	3.6

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
20-Nov	DCB to consider raising FII limit
21-Nov	Larsen & Toubro holds analysts cum media meet; Ansal Housing & Construction to consider funds raising plans; General Motors holds conference for ground breaking ceremony; Kovilpatti Lakshmi Roller Flour holds press conference for public offer; Syndicate Bank to announce interim dividend for FY07
22-28 Nov	Public offer of Gulshan Sugars and Chemicals opens
22-Nov	Apollo Hospitals Enterprises to announce earnings
23-Nov	Siemens to announce earnings; Thomas Cook (India) to announce 4th quarter results
23-29 Nov	Initial Public Offer of Shobha Developers and Ruchira Papers opens
24-Nov	DCB to consider raising FII limit
27-Nov	Tata Power Company to announce half yearly earnings; Dwarikesh Sugar to announce earnings & dividend

Source: Bloomberg

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