MORNING STAR

kotak Kotak Securities

PRIVATE CLIENT RESEARCH

APRIL 16, 2008

Economy News

- India's economy is expected to expand by 9.5% in the 2008/09 fiscal year, driven by large capacity additions, The Centre for Monitoring Indian Economy has said. (ET)
- The RBI will soon hike its interest rates to contain money supply and, thereby, the inflation, feel influential economists. (ET)
- With domestic demand for steel shooting up by more than 12% and no additional capacities coming, the demand-supply mismatch in the sector is likely to continue for the next two years, says a report. (ET)
- The Government expects inflation to come down in coming weeks, but state officials must prevent hoarding as part of efforts to stem rising prices of foods and other commodities, the Trade Minister has said. (ET)
- Inflation in India is a supply side and globally-driven problem and policymakers' focus will be more on supply and fiscal measures rather than monetary policy, a top executive at a private bank has said. (ET)
- The Government has started allocating GSM spectrum to new telecom players, commencing with Tamil Nadu circle including Chennai. (ET)

Corporate News

- **SBI** will tie up with a domestic firm to roll out its mobile banking services within a month, a senior bank official has said. (ET)
- **L&T's** construction division has recently secured a major order from Bombay Dyeing for Rs.20 bn for developments at the Textile Mills & Spring Mills complexes at Worli and Wadala regions of Mumbai, respectively.
- **ITC** plans to invest Rs.3 bn ($75 mn) to build a new food processing plant in eastern India, an ITC spokesman has said. (ET)
- **L&T** has said it has signed a JV agreement to invest Rs.30 bn ($750 mn) in a shipyard and port facility. (ET)
- **Nicholas Piramal India** has entered into a definitive agreement with Mumbai-based Khandelwal Laboratories to acquire its Anafortan and CEFI drug brands for Rs.1.16 bn. (BS)
- **Wipro** has started its operations in Poland from the city of Wroclaw, close to the German border, officials said. (ET)
- **Reliance Power** has identified HSBC, Standard Chartered and ABN Amro among other foreign banks for raising $2 bn of debt to help fund its ultra mega power project in Sasan. (BS)
- Morgan Stanley has increased its stake in **Reliance Energy** to over 5% for about Rs.531 mn. (BS)
- Power equipment maker KEC International has said it has bagged two contracts worth Rs.1.55 bn from **Power Grid Corporation of India** for construction related works. (BL)
- **Ceat** plans to invest Rs.9 bn in two new plants in India, a top official has said. (ET)
- **Zee Entertainment Enterprises'** net profit dropped 2.72% to Rs.794.6 mn for Q4FY08, against Rs.816.8 mn during Q4FY07. Total income increased from Rs.2.16 bn for Q4FY07, to Rs.3.41 bn for Q4FY08. (BS)

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

Equity

		% Chg		
	15 Apr 08	1 Day	1 Mth	3 Mths
Indian Indices				
BSE Sensex	16,154	2.2	2.5	(18.7)
Nifty	4,880	2.1	2.8	(17.8)
BSE Banking	8,002	1.3	(3.9)	(34.2)
BSE IT	3,862	5.6	13.4	(0.5)
BSE Capital Goods	13,422	1.2	(1.2)	(28.1)
BSE Oil & Gas	11,334	2.8	9.5	(17.0)
NSE Midcap	6,483	1.5	1.4	(26.6)
BSE Small-cap	8,204	1.5	1.5	(34.5)
World Indices				
Dow Jones	12,362	0.5	3.4	(0.8)
Nasdaq	2,286	0.4	3.3	(4.5)
FTSE	5,907	1.3	4.9	(0.6)
Nikkei	12,991	0.6	7.6	(2.4)
Hangseng	23,901	0.4	8.1	(1.7)

Value traded (Rs cr)

	15 Apr 08	% Chg - Day
Cash BSE	5,717.2	5.0
Cash NSE	14,081.1	19.2
Derivatives	46,369	13.1

Net inflows (Rs cr)

	11 Apr 08	% Chg	MTD	YTD
FII	(31)	(90)	(380)	(12,600)
Mutual Fund	173	(45)	110	6,304

FII open interest (Rs cr)

	11 Apr 08	% Chg
FII Index Futures	19,657.9	6.9
FII Index Options	11,161.2	6.7
FII Stock Futures	19,836.8	2.6
FII Stock Options	353.9	2.5

Advances / Declines (BSE)

15 Apr 08	A	B	S	Total	% total
Advances	164	1,237	301	1,702	66
Declines	46	610	169	825	32
Unchanged	-	33	10	43	2

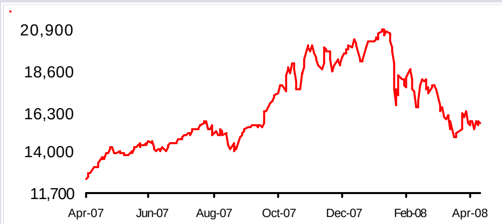
Commodity

		% Chg		
	15 Apr 08	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	113.6	(0.2)	3.1	25.0
Gold (US$/OZ)	927.9	0.4	(7.7)	5.5
Silver (US$/OZ)	17.9	0.7	(13.8)	12.8

Debt / forex market

	15 Apr 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.11	8.10	7.64	7.58
Re/US$	39.96	39.94	40.74	39.27

Sensex



RESULT UPDATE

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INFOSYS TECHNOLOGIES LTD

PRICE: RS.1510 **RECOMMENDATION: BUY**
TARGET PRICE: RS.2004 **FY09E P/E: 16X**

- **An in-line quarter for us with revenues, EBIDTA and net profits coming in according to expectations.**
- **Volumes were up 8% QoQ and EBIDTA margins were stable v/s Q3FY08.**
- **FY09 revenue growth guidance of 19-21% and EPS growth guidance of 16-18% - better than our expectations.**
- **The management commentary was along expected lines - continuing delays in decision-making from clients, some project cancellations in retail vertical, no major project cancellations in other verticals, better clarity expected in H2FY09.**
- **We largely maintain our FY09E earnings - an EPS of Rs.93.2.**
- **We opine that a 20% growth guidance in the current macro scenario is encouraging.**
- **We note that the stock is quoting at the low end of its long-term trading band. We assign a discount to past peak valuations due to the still uncertain macro scenario.**

We maintain BUY recommendation on Infosys with a price target of Rs.2004

- **We maintain BUY with a price target of Rs.2004.**
- **A sharp appreciation in the rupee against various currencies and a prolonged recession in major user economies remain key risks to our call.**

An in-line quarter

Performance

(Rs mn)	Q3FY08	Q4FY08	% QoQ	Q4FY07	% YoY
Turnover	**42710**	**45420**	**6.3**	**37720**	**20.4**
Expenditure	28790	30640		25750	
EBIDTA	**13920**	**14780**	**6.2**	**11970**	**23.5**
Depreciation	1530	1570		1450	
EBIT	**12390**	**13210**	**6.6**	**10520**	**25.6**
Other Income	1580	1390		1200	
PBT	**13970**	**14600**	**4.5**	**11720**	**24.6**
Tax	2160	2310		1510	
Minority interest	0	0		10	
PAT	**11810**	**12290**	**4.1**	**10200**	**20.5**
E. O items	500	200		1240	
PAT after EO items	12310	12490		11440	
EPS (Rs)	**20.7**	**21.5**		**17.9**	
EBIDTA (%)	32.6	32.5		31.7	
EBIT (%)	29.0	29.1		27.9	
Net Profit (%)	27.7	27.1		27.0	

Source : Company

- Infosys' results for Q4FY08 were very much in line with our expectations.
- While revenues grew 6% QoQ, EBIDTA margins were maintained at around the previous quarter levels. Net profit (excluding one-time gain) grew 4.1% QoQ.
- We had estimated revenue growth of 6% and net profits to rise by 4.5%.

Performance as against guidance

Q4FY08 - Indian GAAP	Guidance	Actual*
Revenue, Rs.mn	44770-45010	4542.0
EPS (Rs)	21.4	21.5

*Source: Company, * - excluding one-time items*

8% volume growth is the highlight

- Volumes grew by a higher-than-expected 8% sequentially. We note that this sequential growth is the highest achieved by the company over the past four quarters.
- We see this high volume growth as encouraging given the backdrop of a rapidly deteriorating US economy and the delays in decision making by clients.
- The management has maintained that the pipeline of large deals continues to remain robust with the company pursuing 15 such deals. In fact, Infosys bagged one $250-300 mn deal in Q4FY08.

Revenue Analysis

	Q4FY08	Q3FY08	2QFY08	1QFY08	Q4FY07
Volume growth (QoQ %)	7.81	5.14	7.38	6.73	3.90
Revenue growth (QoQ %)	6.35	4.02	8.83	0.02	3.20
Off-shore revenues (QoQ %)	52.50	52.11	51.14	50.30	50.63

Source: Company

- The company added 2586 employees on a net basis, as against our expectations of 2500.
- According to our calculations, blended realizations were lower by about 2%, partly because of higher offshore content. Offshore revenues formed 52.5% of Q4FY08 revenues v/s 52.2% in the previous quarter.
- In IT services, the on-site realizations were flat, whereas offshore realizations were higher by about 0.5%. Thus, we believe, there was a fall in average realizations in the BPO business.
- The revenue growth was also impacted by the rupee, which depreciated by about 0.80% sequentially against the US dollar.

Growth in revenues of top clients

(Rs mn)	4QFY08	4QFY07	YoY gth (%)	3QFY08	QoQ gth (%)
Top client	4,678	3,206	45.9	4,057	15.3
Top 5 clients	9,992	8,034	24.4	9,225	8.3
Top 10 clients	14,534	12,598	15.4	13,881	4.7

Source : Company

- The volume growth was helped by the top clients of the company. Of these, the top customer grew at more than 15% and contributed more than $300 mn on an annualized basis.
- Revenues from the US grew about 3.6% QoQ. Revenues from BFSI fell 2% QoQ. However, the management has indicated that this is a quarterly blip and should be reversed in the next quarter. We will watch the growth rates in BFSI more closely in future quarters.

North America's subdued growth reflects BFSI softness and INR appreciation

Geographic growth

(Rs mn)	4QFY08	4QFY07	YoY gth (%)	3QFY08	QoQ gth (%)
North America	27,570	23,613	16.76	26,608	3.61
Europe	13,308	10,034	32.64	12,215	8.95
India	590	566	4.36	513	15.21
Rest of World	3,952	3,508	12.64	3,374	17.11

Source : Company

In verticals BFSI has degrown QoQ, momentum in telecom and manufacturing verticals seems steady, as of now

Revenue growth - vertical wise

Rs mns	4QFY08	4QFY07	YoY gth (%)	3QFY08	QoQ gth (%)
Manufacturing	7,449	4,866	53.1	6,236	19.5
As a % of revenues	16.4	12.9		14.6	
BFSI	15,397	13,956	10.3	15,717	- 2.0
As a % of revenues	33.9	37.0		36.8	
Telecom	10,219	8,261	23.7	9,012	13.4
As a % of revenues	22.5	21.9		21.1	
Retail	5,405	4,074	32.7	5,125	5.5
As a % of revenues	11.9	10.8		12.0	
Energy & Utlities	2,362	1,811	30.4	2,221	6.3
As a % of revenues	5.2	4.8		5.2	
Transportation & Logistics	1,272	679	87.3	1,025	24.1
As a % of revenues	2.8	1.8		2.4	
Services	2,498	2,980	- 16.2	2,563	- 2.5
As a % of revenues	5.5	7.9		6.0	
Others	818	1,094	- 25.3	811	0.7
As a % of revenues	1.8	2.9		1.9	
Total revenues	**45,420**	**37,720**	20.4	**42,710**	6.3

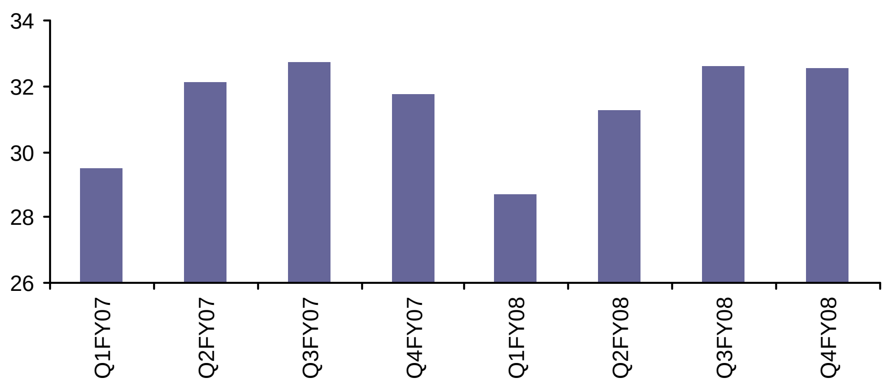
Source : Company

EBIDTA margins maintained

- Infosys maintained EBIDTA margins at the previous quarter levels of 32.54%.
- While direct costs and S&M expenses witnessed a rise (as percentage of revenues), leverage on G&A expenses and the rupee depreciation helped the company set off that impact.

Full year margins for FY08 have been resilient; down c30bps despite a 11% INR appreciation and employee wage hikes

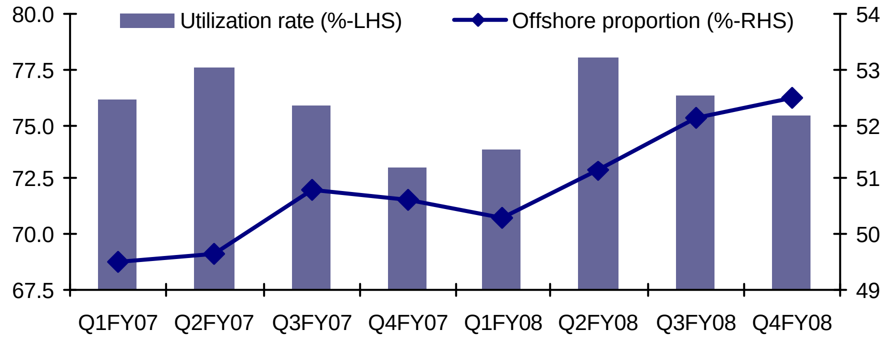
Infosys margins have been relatively resilient



Source: Company

Offshore proportion of revenues have moved up 200bps from the levels of Q1FY07

Margin levers like utilization and higher offshore volumes have helped



Source: Company

Infosys subsidiaries contributed c11% of overall revenues for FY08, PAT contribution though was lower at 3.7% reflecting their initial investment mode

Subsidiaries performance - 4Q & FY08

	4QFY08		FY08	
($mn)	Revenue	PAT	Revenue	PAT
Infosys BPO	69.00	9.00	235.00	35.00
Infosys Australia	37.00	8.00	139.00	25.00
Infosys Consulting	16.00	-	62.00	-13.00
Infosys China	5.00	-	19.00	-2.00
Infosys, Mexico	0.50	-1.00	1.00	-2.00

Source: Company

- The company has been making substantial investments in new geographies, services and verticals. We expect these investments to yield results in the future, providing cushion to margins. During the quarter, Infosys Consulting and the Chinese subsidiary broke even at the net level.

Forex hedges reduced

- Infosys has reduced its forex hedges from $1.14 bn in the previous quarter to $760 mn as at FY08 end. This is due to its expectations of a depreciation in the rupee.
- In our opinion, this has led to a relatively lower loss on MTM of hedges as the rupee had depreciated towards the end of FY08.
- The company has declared a special dividend of 200%. This is expected to lead to an outgo of about Rs.1.1 bn and impact the other income component in FY09.

Macro scenario - delays, but no cancellations

- The management has indicated that out of the Top 100 clients whom they surveyed, about 76% of the clients would have flat or marginally lower budgets. The remaining clients would have higher budgets as compared to CY07.
- However, in cases where budgets have been frozen, several clients have not made allocations of the same. The pending budget allocations have reduced the velocity of new orders coming from clients.
- However, the company has not faced any major project cancellations, except a few in the retail vertical.
- All clients surveyed have indicated higher spends towards offshore and the global delivery model, which plays to the advantage of offshore Indian vendors like Infosys.
- The company has also not faced any demand for billing rate cuts from its clients, as yet.

Short-term weakness in revenue growth possible

- With clients not making firm allocations of their budgets, there could be some delays in awarding new projects to vendors like Infosys. This may lead to softer revenue growth in the near term.
- However, once the allocations are made, the project allocation is expected to gather pace, thereby positively impacting vendors. This is adequately reflected in the muted guidance for Q1FY09.
- The clients are most likely taking a conservative view of their business and then finalizing their IT budgets. Thus, we believe the probability of the frozen budgets being further slashed is low though it cannot be completely ruled out.

Vendor rationalization being done by a few clients

- A few clients of Infosys are looking at rationalizing their vendor base with a view to reduce operational costs and also derive better value from remaining vendors.
- While Infosys may lose some clients in this process, we believe the company should benefit in most cases as it is among the top two vendors for most of its large clients.
- Also, most of the large clients are looking at awarding large multi-service deals to vendors.
- Several deals which the company is negotiating are total outsourcing contracts with dedicated revenue streams and employee transfers. The clients are looking at outsourcing divisions with a view to make fixed costs variable.

FY09 Guidance - encouraging

Infosys FY09 guidance- a positive in a still uncertain macro-environment, INR/$ levels a factor to be watched

Indian GAAP	FY08	FY09E	Implied % growth YoY*
Revenues (Rs bn)	166.92	198.94-202.14	20.1
EPS (Rs)	79.3**	92.32-93.92	17.0

Source : Company, Guidance for FY09E at INR 40.02/$

*- At median of guidance**- Excl tax reversal of Rs.1.21bn in FY08.

- Infosys has guided towards a 19-21% rise in rupee revenues in FY09. We believe this is encouraging given the backdrop of a rapidly deteriorating US economy.
- PAT is also expected to be higher by about 16-18% (excluding one-off items). EBIDTA margins are expected to remain in a narrow range based on FY08 levels, indicating that the company has the flexibility to contain the impact of higher costs like salaries, etc.
- Offshore salaries for FY09 have been raised by 11-13%, whereas on-site salaries have been increased by 4-5%.

Financial projections

- We have made marginal changes to our projections to accommodate the Q4FY08 results.

Financials

(Rs mn)	FY07	FY08	% Chg	FY09E	% Chg
Turnover	138925	166920	20.2	206252	23.6
Expenditure	95015	114540		142714	
EBIDTA	**43909**	**52380**	**19.3**	**63538**	**21.3**
Depreciation	5140	5980		7300	
EBIT	**38769**	**46400**	**19.7**	**56238**	**21.2**
Other Income	3730	7040		7100	
PBT	**42499**	**53440**	**25.7**	**63338**	**18.5**
Tax	5100	8060		10007	
Minority interest	100	0		0	
PAT	**37300**	**45380**	**21.7**	**53331**	**17.5**
EO items	-1270	1210		0	
PAT after EO items	38570	44170		53331	
Shares (mn)	571	572		572	
EPS (Rs)	**65.3**	**79.3**		**93.2**	
EBIDTA (%)	31.6	31.4		30.8	
EBIT (%)	27.9	27.8		27.3	
Net Profit (%)	26.8	27.2		25.9	

Source : Company, Kotak Securities - Private Client Research

- Our projections are lower than the higher-end of the guidance mainly because of the exchange rate. We have assumed the rupee to appreciate to Rs.38.5 per US dollar by FY09 end v/s the company's assumption of Rs.40.02 per US dollar.
- We have assumed a volume growth of 25% for the company in FY09. We have also assumed almost flat realizations in FY09 over FY08.
- EBDITA margins are expected to fall in FY09 mainly because of the expected rupee appreciation and salary increases.
- With outgo related to the special dividend declared for FY08, we expect the other income component to be lower than our earlier estimates.
- Thus, we arrive at an EPS of Rs.93.2 for FY09.

Concerns

- Appreciation of the rupee beyond our assumed levels is a key risk to our estimates and recommendation.
- A severe and prolonged recession in major user economies can impact Infosys' growth rates.

RESULT UPDATE

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HCL TECHNOLOGIES LTD (HCLT)

PRICE: RS.246 **RECOMMENDATION: BUY**
TARGET PRICE: RS.349 **FY09E P/E: 11x**

- **HCLT's Q3FY08 results were very much in-line with our estimates.**
- **Revenues grew about 7% on a sequential basis with EBIT rising about 12%. Profits (post Esop charges) at Rs.3.2 bn were in line with our estimates of about Rs.3.14 bn.**
- **The management has indicated that, in its recent surveys, two of its Top 10 customers have indicated that they will not grow their budgets in CY08. Except for these two accounts, it has not seen any major slowdown/delays in client spending or offshoring.**
- **The management also indicated that in case of a recession in the US, despite the pressure on the change-the-business budgets, some segments of the same (SOA, ERP implementation, CRM roll-outs) will see increased traction. HCL plans to focus more on such areas of discretionary spends.**
- **HCLT is now focusing on collaborative transformation wherein, it plans to collaborate with customers and partners to create more value.**
- **We expect an EPS of Rs.19 in FY08 (on expanded equity and post Esop charge) and Rs.22.5 in FY09. At our price target of Rs.349, our FY09E earnings will be discounted by 16x, a discount to peers. We maintain BUY.**
- **A prolonged recession in major user economies and a sharper-than-expected appreciation in the rupee v/s our assumptions of Rs.38.25 by FY09 end are key risks to our call.**

3QFY08 results

HCLT's 3QFY08 results were in-line with our expectations.

Performance

(Rs mn)	3QFY08	2QFY08	QoQ (%)	3QFY07	YoY (%)
Turnover	**19448**	**18167**	**7.1**	**15771**	**23.3**
Expenditure	15118	14261		12104	
Operating Profit	4330	3905	10.9	3667	18.1
Depreciation	773	724		659	
Gross Profit	3557	3181	11.8	3008	18.3
Other Income	228	542		615	
PBT	**3785**	**3723**	**1.7**	**3623**	**4.5**
Tax	368	355		283	
PAT	**3417**	**3368**	**1.5**	**3340**	**2.3**
Share of income	0	-21		-20	
ESOP charge	219	222		305	
Minority interest	-7	0		3	
Adj. PAT	**3205**	**3125**	**2.6**	**3012**	**6.4**
Shares (mns)	677	677		677	
EPS (Rs) *	**4.8**	**4.7**		**4.4**	
OPM (%)	22.3	21.5		23.3	
GPM (%)	18.3	17.5		19.1	
NPM (%)	17.6	18.5		21.2	

*Source : Company * - on diluted equity*

Revenues

- Revenues grew 5.2% sequentially in US dollar terms. The growth in INR terms in Q3 was higher at about 7% because of the rupee depreciation (and also convenience translation).
- Volumes grew about 6.6% during the quarter.
- The 8% growth in core IT services business was brought about by a 5.3% rise in volumes and a 1.6% contribution from realizations. Growth was also aided by $2.2 mn contribution from Capital Stream, which was integrated only from mid quarter.
- We believe the IT services revenues continued to sustain high growth as the large deals won in previous quarters began to scale up.
- The number of employees reduced by about 97 over the previous quarter.
- The management indicated the previous quarter's high number of additions as the main reason. However, we believe this could be because of the near term uncertainties associated with the clients including the budget freezes at two of the large accounts.
- The overall growth in revenues was impacted because of reduction in materials revenues in the infrastructure business. The company has consciously decided to focus only on the services business in IMS. IMS revenues grew only 3% QoQ. Materials revenues have fallen by about 25% over the recent past and now form about 2.5% of the overall revenues of the company.
- BPO revenues grew 4% sequentially on the back of a 4.5% rise in volumes. The company added one client in financials and accounting, one in supply chain and two in tech support during the quarter.
- Within verticals, hi-tech/manufacturing and telecom out-performed the other verticals. The company's focus on micro-verticalization and domain-led growth ensured higher revenues in life sciences and financial services.
- BFSI revenues grew 4% sequentially as it consolidated on the 8% QoQ rise achieved in the previous quarter.

Vertical wise revenues (Rs mn)

	3QFY08	2QFY08	QoQ %
Fin Services	5523.3	5304.6	4.12
Hi tech / Maftg	5737.3	5177.5	10.81
Telecom	3189.5	2924.8	9.05
Retail	1633.7	1598.7	2.19
Media / Enter	1108.6	1071.8	3.43
Life Sciences	1069.7	1017.3	5.14
Others	1205.8	1071.8	12.50

Source : company

- On the services front, engineering/R&D and custom applications grew at a faster pace.
- The multi-services outsourcing and the Blue Ocean strategy of HCLT continued to bring in additional business from existing clients which can be seen from the 7% QoQ growth in Top 20 clients in INR terms.
- All the Top 20 clients of HCLT are now utilizing more than one service from HCLT, validating its transformational services approach.

Client concentration (% of revenues)

	3QFY08	2QFY08	3QFY07
Top 5	27.50	27.20	29.20
Top 10	38.20	37.80	38.50
Top 20	50.60	50.50	50.90

Source : Company

- The company bagged about $550 mn worth of orders during the quarter of which, more than $500 mn came from five customers. This was the best quarter for HCLT in terms of new business wins.
- Revenues from the US continued to grow at a fast pace of about 9%. This came on the back of an 8% rise in the previous quarter, indicating increased traction.
- However, the company has indicated potential slowdown in two of its Top 10 accounts because of budget freezes. This may impact revenue growth at least in the near term.
- The management indicated that the seven large deals already acquired by the company are progressing along expected lines. In our opinion, a ramp up in these large deals has been an equal reason in the sustained growth exhibited by HCLT over the recent quarters.
- Further maturing of these deals may lead to further margin improvement.
- As a part of its de-risking strategy, the company is focusing increasingly on the Australia-New Zealand geography. These geographies have grown at a pace greater than the company and HCL is looking to grow these accounts actively to reduce dependence on the US.

Geographical breakup of revenues (%)

	3QFY08	2QFY08	3QFY07
USA	55.90	55.00	54.30
Europe	29.60	29.70	30.20
Asia Pacific	14.50	15.30	15.50

Source : company

Macro scenario - 2 out of Top 10 customers see potential slowdown

- The management has re-iterated that, in its recent interactions with CEOs/CIOs, it has not seen any major slowdown/delays in client spending or offshoring, except in two accounts.
- These two accounts are within the Top 10 accounts of the company and these clients have indicated stable budgets in CY08 v/s CY07.
- With budgets having been frozen at previous year levels, HCLT is re-organizing its strategy for these two accounts.
- This may take time to yield results, potentially impacting revenues in the near term.
- We will closely watch the developments in these and any other account, if impacted, in the future.
- The management also indicated that, in case of a recession in the US, while there may be pressure on the discretionary spend (change-the-business budgets), some segments of the same (SOA, ERP implementation, CRM roll-outs) are expected to see increased traction.
- This is because CIOs are looking at such IT spends to bring in greater productivity and efficiency. HCL plans to focus more on such areas of discretionary spends.

Margins improve – in line with expectations

- EBIDTA margins improved over the previous quarter on the back of rupee appreciation, higher realizations, mix changes and higher utilization.
- We believe the company has further levers for protecting margins, including better utilization, further leverage on SG&A expenses, realization gains and potential improvement in margins in large deals.

Other income

- The company reported other income of Rs.228 mn (Rs.542 mn QoQ). The forex losses stood at Rs.270 mn v/s gains of Rs.58 mn in Q2FY08.
- This loss was mainly due to marking - to - market of the outstanding hedges (rupee has depreciated on a QoQ basis). The company directly took $14 mn ($7 mn) to the balance sheet in Q3FY08 in the form of "other comprehensive income" rather than recognizing it as part of profits.
- The company has increased its forex hedges to $2.7 bn ($2.3 bn as at Q2FY08 end) and this is expected to provide cushion to the company in the event of sustained appreciation in rupee v/s US dollar.

Future prospects

(Rs mn)	FY07	FY08E	% chg	FY09E	% chg
Turnover	**60,338**	**74,760**	**24**	**91,763**	**22.7**
Expenditure	46,967	58,496		72,093	
EBIDTA	**13,371**	**16,264**	**22**	**19,671**	**20.9**
Depreciation	2,531	2,996		3,620	
EBIT	**10,840**	**13,268**	**22**	**16,051**	**21.0**
Other Income	4,259	1,924		2,625	
PBT	**15,099**	**15,192**	**1**	**18,676**	**22.9**
Tax	1,487	1,576		2,241	
Adj. PAT	13,612	13,616	0	16,434	20.7
Share of income	-46	-44		20	
ESOP charge	503	902		926	
Minority interest	18	-2		27	
PAT	**13,045**	**12,672**	**- 3**	**15,502**	**22.3**
Shares (mns)	664	677		691	
EPS (Rs) *	**19.7**	**18.7**		**22.5**	
EBIDTA (%)	22.2	21.8		21.4	
EBIT (%)	18.0	17.7		17.5	
PAT (%)	22.6	18.2		17.9	

*Source : Company, Kotak PCG * - Based on diluted equity*

- We have made suitable changes to our earnings estimates to take into account the Q3FY08 results
- We expect revenues and EBITDA to grow at 24% and 22%, respectively in FY08.
- For FY09, we expect revenues to rise by 23% and EBIDTA margins to reduce because of assumed rupee appreciation (Rs.38.25 per US dollar by Q4FY09) and salary increases.
- We expect the company to report an EPS of Rs.18.7 in FY08 and Rs.22.5 in FY09. This is after assuming a further 2% equity dilution in FY08 and FY09 due to Esops.

Valuations

- We have accorded a discount to HCLT as compared to its peers because of relatively lower margins.
- After according a relatively lower P/E multiple to our FY09E EPS, we arrive at a price target of Rs.349 for HCLT and maintain BUY on the stock.
- However, we prefer Infosys, Satyam and TCS over large cap peers.

Concerns

- A prolonged recession in major user economies may impact our projections.
- A sharp acceleration in the rupee from our assumed levels may impact our earnings estimates for the company.

EVENT UPDATE

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RANBAXY LABORATORIES LTD

PRICE: RS.482 **RECOMMENDATION: HOLD**
TARGET PRICE: RS.548 **CY08E P/E: 20.4X**

Ranbaxy settles US Nexium patent litigation with AstraZeneca

- **Ranbaxy has entered into an out-of-court settlement agreement with AstraZeneca for Nexium (a US$5.5 bn drug to treat heartburn) patent infringement litigation;**
- **The settlement agreement will allow Ranbaxy to commence exclusive sales of a generic version of Nexium under a license from AstraZeneca on May 27 2014.**
- **Both companies have separately entered into an agreement under which Ranbaxy will supply a significant portion of AstraZeneca's US supply of Nexium from May 2010, including supply of APIs to AstraZeneca from May 2009 till 2014.**
- **AstraZeneca and Ranbaxy have also entered into two separate agreements designating Ranbaxy as the US distributor for the authorized generic versions of Plendil (felodipine capsules) and Prilosec (omeprazole 40 mg tablets).**
- **We believe this settlement with AstraZeneca on generic Nexium is in line with Ranbaxy's strategy for monetizing its Para-IV pipeline and is significantly positive for Ranbaxy in the long-term. The company expects total revenue of US$1.2-1.5 bn in the next six years from the AstraZeneca deal;**
- **We revise our target price to Rs.548 attaching 20x PE multiple to CY09 earnings mainly due to improved revenue and earning visibility over the next few years. We upgrade the stock to HOLD.**

Summary table

Rs mn	CY07	CY08E	CY09E
Sales	69,427	76,944	86,655
Growth (%)	13.0	10.8	12.6
EBITDA	9,981	13,616	15,968
EBITDA margin (%)	15.1	18.2	18.9
Net profit	7,901	8,834	10,262
Net Margin (%)	11.4	11.5	11.8
EPS (Rs)	21.1	23.6	27.4
Growth (%)	53.3	11.8	16.2
DPS (Rs)	8.5	8.5	8.5
RoE (%)	28.2	27.0	26.6
RoCE (%)	16.7	16.9	18.4
EV/Sales (x)	2.7	2.7	2.4
EV/EBITDA (x)	18.6	15.5	12.8
P/E (x)	22.8	20.4	17.6
P/BV (x)	5.0	5.1	4.3

Source: Company, Kotak Securities - Private Client Research

Ranbaxy settles US Nexium patent litigation with AstraZeneca

Ranbaxy has entered into an out-of-court settlement agreement with AstraZeneca for Nexium (a US$5.5 bn drug to treat heartburn) patent infringement litigation. The agreement settles the patent infringement litigation filed by AstraZeneca following Ranbaxy's submission to the USFDA of an abbreviated new drug application (ANDA) for a generic version of Nexium (Esomeprazole magnesium). Under the settlement agreement, Ranbaxy concedes that all six patents asserted by AstraZeneca in the patent litigation are valid and enforceable.

The settlement agreement will allow Ranbaxy to launch Nexium with 180-days exclusivity in May 27 2014. Since Nexium is a US$5.5 bn plus drug currently, so it is likely to be a very significant opportunity for Ranbaxy by 2014.

Manufacturing and distribution Agreements

AstraZeneca and Ranbaxy have separately entered into an agreement under which Ranbaxy will formulate a significant portion of AstraZeneca's US supply of Nexium from May 2010, including supply of APIs to AstraZeneca from May 2009 till 2014.

Further, both companies have also entered into two separate agreements designating Ranbaxy as the US distributor for the authorized generic versions of Plendil (felodipine capsules) and Prilosec (omeprazole 40 mg tablets). Ranbaxy will be compensated for its distribution services on standard commercial terms.

Focus on monetization of Para-IV ANDAs with FTF status to continue

Ranbaxy's Para-IV pipeline comprises 18-20 first-to-file products representing a market size of ~US$26 bn valued at innovator prices. We believe the company will continue to monetize its Para-IV (first-to-file) ANDAs in the US market. Ranbaxy plans to launch at least one exclusive product in the US market each year for the next three to four years.

Ranbaxy likely to launch Imitrex in US markets in December 2008

In January, Ranbaxy has settled possible patent litigation with GlaxoSmithKline Inc relating to Sumatriptan Succinate tablets (Imitrex), used for treating migraine. According to the terms of the settlement, Ranbaxy will distribute a generic version of Sumatriptan Succinate Tablets in multiple strengths of 25 mg, 50 mg and 100 mg in the US markets. The company is likely to launch Imitrex in US markets in December 2008. Ranbaxy, however, has not disclosed the additional terms of the settlement agreement like monetary compensation etc. The annual market sales for Imitrex were US$985 mn, according to IMS MAT September 2007 data.

We estimate that Ranbaxy may clock revenues of around US$90-100 mn from the Imitrex launch during the exclusivity period, the financial impact of which will come in CY09. In our estimates, we have assumed 50% price erosion during the exclusivity period and a 40% market share. Dr Reddy's will also sell the drug during the same period as an authorized generic according to the agreement with GlaxoSmithKline.

New therapies/alliances likely to fuel growth in the next two years

In the next two years, the company is expected to benefit from the launch of complex injectables in the area of Penems and Limuses, which has a market potential of over US$3 bn. Ranbaxy has also made strategic investments into smaller Indian companies that give it access to new products/ technology, mainly in the area of oncology and bio-similars. Such investments are likely to broaden the portfolio with the limited use of corporate resources.

Valuation and Recommendation

We believe this settlement with AstraZeneca on generic Nexium is in line with Ranbaxy's strategy for monetizing its Para-IV pipeline and is significantly positive for Ranbaxy in the long-term. The company expects total revenues of US$1.2-1.5 bn in the next six years from the AstraZeneca deal.

We recommend HOLD on Ranbaxy with a price target of Rs.548

We expect EPS of Rs.23.6 and Rs.27.4 for CY08 and CY09, respectively. At the current market price of Rs.482, the stock is trading at 20.4x CY08 and 17.6x CY09 earning estimates. We believe the potential advantage arising out of a strong Para-IV pipeline (20 first-to-file products) and strong growth from domestic and semi-regulated markets will be key growth drivers. As of now, we are not changing our earning estimates for CY09 for supplies of APIs to AstraZeneca due to lack of clarity. However, we are revising our target price to Rs.548 attaching 20x earning multiple to CY09 earnings mainly due to improved revenue and earning visibility over the next few years. We upgrade the stock to **HOLD.**

RESULTS PREVIEW

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Q4FY08 RESULTS PREVIEW - BANKING SECTOR

Outlook: Neutral

Q4FY08 was a tough quarter for Indian banks on account of various concerns. There were various concerns like many PSU banks lowering their PLR without any similar cut in the deposit rates, many clients of private sector banks having large exposure to exotic forex derivatives, the scheme of farm loan waivers announced in Budget 2008-09, losses on international business due to widening credit spread and mounting inflation worries.

In Short term, we expect stocks to trade side ways because of the high inflation and the related potential impact on banking sector. The concerns of slower economic growth may also keep the stock prices benign. However, we maintain our medium to long term positive stand on the banking sector as we opine that economic growth is expected to be healthy on the back of domestic consumption and investment demand. Apart from this the above mentioned concerns are overdone and are already priced in the banking stocks.

Moderation in credit growth continues

Credit growth continues to exhibit moderation on the back of lower retail credit demand as demand for housing loans declined with higher property prices being aligned to higher interest rate. The higher interest rate has also affected the demand for corporate loans. Credit grew at 22.1% YoY (reported for fortnight ending March 28 2008) as compared to 28.5% in FY07.

During the same period, deposit growth has also moderated to 23.0% YoY (reported for fortnight ending March 28 2008) from 24.3% a year ago. However, the comforting factor is that deposit growth is higher than credit growth.

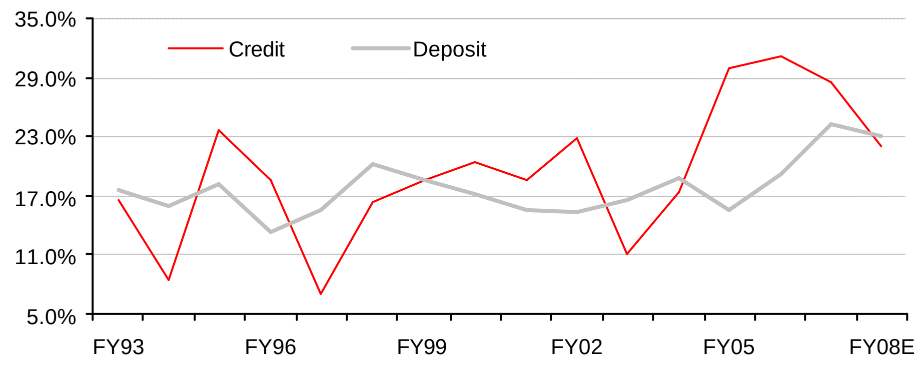
Credit & Deposit growth

(Rs bn)	28-Mar-08	31-Mar-07	YTD (%)
Aggregate Deposits	**31921**	**25943**	**23.0**
Demand Deposits	5167	4231	22.1
Time Deposits	26754	21711	23.2
Bank Credit	**23485**	**19232**	**22.1**
Non-food credit	23041	18767	22.8
SLR Investments	**9727**	**7904**	**23.1**
C/D Ratio (%)	73.6	74.1	
I/D Ratio (%)	30.5	30.5	

Source: RBI

In FY08, the C/D ratio declined marginally to 73.6% (reported for fortnight ending March 28 2008) from 74.1% in FY07. At the end of Q3FY08, the C/D ratio was 72.8% (reported for fortnight ending December 28 2007). Hence, this implies that in Q4FY08, the incremental C/D ratio improved and this stood at 83.7%.

Trend in Credit & Deposit growth (%)



Source: RBI

Margins expected to be stable sequentially

The PLR cut by many banks without a similar reduction in deposit rates is likely to put some pressure on their margins. However, the shedding of the excess bulk deposits or its re-pricing at the lower rate is likely to help the banks in maintaining their NIMs sequentially. Last year during Q4FY07, many banks raised high cost bulk deposits, which impacted their NIMs. However, many banks are replacing it with core retail deposits when it is coming for re-pricing. Even the bulk deposit rate has come down by 100-150 bps from the rate prevailing a year ago.

The incremental C/D ratio for the banking sector stood at 83.7% during Q4FY08 (reported for fortnight ending March 28 2008) higher than 72.8% (reported for fortnight ending December 28 2007). However, its positive impact was diluted due to higher growth in time deposits vis-à-vis low cost current account & saving account (CASA).

Deposit growth in the system continues to be higher than credit growth. This has led the banks to park surplus liquidity in short-term government paper. The yields on these instruments are 200-250 bps lower than the yield on advances. Therefore, banks are likely to see some pressure on their margins (YoY).

MTM hit on investment book

In Q4FY08, the 10-year government bond has risen by about 17 bps over levels as on Q3FY08. The increase in yields would mean that MTM provisioning requirements would have to be made by banks on their AFS/HFT books. However, we believe that MTM provisioning on AFS/HFT book during Q4FY08 would not be very significant as it was in Q4FY07, as many banks have already transferred their AFS HFT to HTM category.

Impact on other income

In previous quarters, many banks had robust treasury incomes, which boosted their earnings growth. However, in Q4FY08, on the back of volatile equity market conditions and bond yield rising by around 30 bps in the last fortnight on the back of high inflation numbers, trading gains are likely to be subdued. So, for PSU banks, absence of trading gains would be a dampener in this quarter.

Growth in fee income for banks would see some moderation on the back of moderation in the overall credit growth. However, for private sector banks, the issue of exotic forex derivative would impact the fee-income growth.

However, recoveries are likely to be strong in the last quarter of this fiscal. So it would somewhat contribute to the other income.

Close watch on asset quality

Lending rates during the last year have gone up 300-500 bps. This may lead to higher NPLs and, therefore, higher provisioning requirement. We will keep a close watch on asset quality trends in the coming quarters as hardening of interest rate in recent times may reverse the asset quality cycle. Higher delinquencies and resultant increase in NPA provisioning can act as a negative surprise for Q4FY08E earnings.

Quality rather than quantity would matter

Q4FY08 was a tough quarter for Indian banks on account of various concerns like many PSU banks lowering their PLR without any similar cut in deposit rates, many clients of private sector banks having large exposure to exotic forex derivatives, the scheme of farm loan waivers announced in Budget 2008-09, losses on international business due to widening credit spread and mounting inflation worries.

In Short term, we expect stocks to trade side ways because of the high inflation and the related potential impact on banking sector. The concerns of slower economic growth may also keep the stock prices benign. However, we maintain our medium-long term positive stand on the banking sector as we opine that economic growth is expected to be healthy on the back of domestic consumption and investment demand. Apart from this the above mentioned concerns are overdone and are already priced in the banking stocks.

In our view, the origin of the current inflationary spike lies more in supply factors. Therefore, we believe the action should be targeted more towards dismantling supply side constraints. However, the current level of inflation is politically unacceptable. Therefore, it could prompt the RBI to adopt tightening measures in its annual credit policy scheduled to be announced on April 29 2008, if inflation is not tamed.

Top Picks: Axis Bank, HDFC Bank, ICICI Bank, IOB, PNB

Earnings estimate (Rs mn)

	Net Interest Income			Pre-Provisioning Profit			Net Income		
	Q4FY08	Q4FY07	YoY (%)	Q4FY08	Q4FY07	YoY (%)	Q4FY08	Q4FY07	YoY (%)
Axis Bank	7,368.9	4,642.3	58.7	6,504.8	3,973.0	63.7	3,004.8	2,118.9	41.8
HDFC Bank	14,493.7	10,545.1	37.4	10,338.7	7,650.1	35.1	4,538.7	3,435.7	32.1
ICICI Bank	20,431.9	16,087.2	27.0	20,110.0	17,880.7	12.5	9,110.0	8,251.2	10.4
IOB	7,615.0	7,682.3	-0.9	5,330.7	5,617.5	-5.1	3,030.7	2,897.6	4.6
J&K Bank	2,186.7	2,023.8	8.1	1,587.1	1,469.9	8.0	987.1	452.8	118.0
PNB	14,452.3	13,470.3	7.3	9,970.7	8,823.5	13.0	3,470.7	2,377.0	46.0

Source: Kotak Securities - Private client Research, Company

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
15-Apr	Aci Infocom	Alok Gpta	S	50,000	4.28
15-Apr	Almondz Glo	Religare Finvest Ltd	S	99,975	54.04
15-Apr	Birla Cap	Bcb Finance Pvt Ltd	B	129,600	7.71
15-Apr	Birla Cap	Pari Stock Trading Pvt Ltd	S	136,142	7.60
15-Apr	Birla Cap	Ayodhapiti Invstment Pvt Ltd	S	50,551	7.71
15-Apr	Ceat Ltd	Bajaj Allianz Life Insurance Co Ltd	B	380,000	106.00
15-Apr	Ceat Ltd	Morgan Stanley Mauritius Co	S	378,817	106.00
15-Apr	Cybermat Inf	Newgen International Pvt Ltd	S	500,000	7.35
15-Apr	Cybermat Inf	Basmati Sacurities Pvt. Ltd.	S	446,895	7.35
15-Apr	Filat Fash	Jitendra Harivansh Joshi	B	33,740	33.00
15-Apr	Filat Fash	Namdeo H More	S	33,740	33.00
15-Apr	Gemstone Inv	Hemant Madhusudan Sheth	B	75,000	14.85
15-Apr	Gemstone Inv	Mala H Sheth	S	87,025	14.85
15-Apr	GTC Industri	Astute Commodities And Deri	S	100,211	237.90
15-Apr	Inca Finleas	Maharashtra Overseas Limited	S	15,400	48.02
15-Apr	Jumbo Bag Lt	Naveen Kumar	B	40,500	47.81
15-Apr	Kashyap Tec	Om Education It Pvt Ltd	B	4,549,670	2.10
15-Apr	Kashyap Tec	Amrut Securities Ltd	B	1,844,331	2.19
15-Apr	Orchid Chem	Morgan Stanley And Co Intl Limited	B	330,000	269.83
15-Apr	Shyamlal Hol	Emperor Consultancy Ser. Pvt. Ltd	B	3,950	4.91
15-Apr	Shyamlal Hol	Manish D.Ladage	S	3,950	4.91
15-Apr	Silktex Ltd	Kaushik Shah Shares Pl	B	50,000	22.25
15-Apr	Silktex Ltd	Shailesh Babalal Shah	S	50,000	22.25
15-Apr	Softbpo Glob	Anju Advisory Services Pvt. Ltd.	S	2,900	121.61
15-Apr	Vikas Profn	Jitendra Harivansh Joshi	B	25,000	17.35
15-Apr	Vikas Profn	Shripal Shares And Securities Ltd	S	25,000	17.35

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	2,612	2.4	14.6	4.3
TCS	974	7.3	10.8	1.4
Reliance Com	519	5.2	8.8	5.8
Losers				
Cairn India	245	(2.8)	(2.1)	6.2
SAIL	160	(1.4)	(1.6)	14.4
HDFC Bank	1,303	(2.0)	(1.6)	0.9

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
16-Apr	Power Finance Corporation, Petronet LNG, NDTV, Merck, BASF India earnings expected
17-Apr	MMTC, Rolta India, CMC earnings expected
18-Apr	Wipro, South Indian Bank, GTL Infrastructure earnings expected

Source: Bloomberg

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