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#### Results

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**Sintex Industries:** Plastics fire, textiles bear the rupee brunt

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### News Roundup

#### Corporate

- The board of Delhi-based consumer goods company Dabur India (DIL) today announced the decision to merge its wholly owned subsidiary, Dabur Foods (DFL), with itself to consolidate its growth with the parent company. (BS)
- Telecom infrastructure major GTL has sold off its IT enterprise and management business unit to France Telecom's subsidiary, Orange Business Services, for an undisclosed sum. GTL is now planning to hive off its application management, BPO and KPO processes valued at around Rs 2.5 bn and has initiated discussions with global majors. (BS)
- Fresh from its recent success in Turkey, GMR Infrastructure plans to set up two teams to look for business opportunities in energy, roads and airport projects in India and abroad. (BL)
- DP World, the world's third-biggest container terminal operator, is seeking to buy or expand port facilities in China and India as trade booms in the world's two fastest growing major economies. (ET)

#### Economic and political

- A meeting of the Energy Coordination Committee, headed by the prime minister, scheduled for tomorrow to review availability and pricing of natural gas may be put off by a week as a secretaries panel is yet to firm up its views on the issue. (BS)
- Within a week of a Parliamentary committee asking the government to put a freeze on notification of special economic zones (SEZs), the Board of Approval will meet tomorrow to consider 41 cases, the approval of which will take the total clearances above 500. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

### EQUITY MARKETS

India	Change, %			
	11-Jul	1-day	1-mo	3-mo
Sensex	14,911	(0.7)	5.5	13.7
Nifty	4,387	(0.4)	5.6	14.6
<b>Global/Regional indices</b>				
Dow Jones	13,578	0.6	2.1	8.2
Nasdaq Composite	2,652	0.5	4.0	6.9
FTSE	6,615	(0.2)	1.5	3.1
Nikkie	18,120	0.4	2.0	3.3
Hang Seng	22,607	(1.2)	9.5	10.9
KOSPI	1,906	0.9	10.2	24.9
<b>Value traded - India</b>				
		Moving avg, Rs bn		
	11-Jul	1-mo	3-mo	
Cash (NSE+BSE)	164.0	146.7	141.7	
Derivatives (NSE)	340.4	289.4	228.8	
Deri. open interest	778.0	631.1	487.0	

#### Forex/money market

	Change, basis points			
	11-Jul	1-day	1-mo	3-mo
Rs/US\$	40.4	-	(41)	(248)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	(2)	(33)	(11)

#### Net investment (US\$m)

	10-Jul	MTD	CYTD
FIs	172	1,759	6,839
MFs	(42)	111	(171)

#### Top movers -3mo basis

Best performers	Change, %			
	11-Jul	1-day	1-mo	3-mo
BALAJI TELEFILMS L	255	4.8	19.2	80.1
RELIANCE CAPITAL	1,158	(0.3)	20.0	74.0
STATE BANK OF IND	1,542	(0.5)	15.8	59.4
MOSER BAER INDIA	493	0.2	14.7	52.3
INDUS DVLP BANK C	117	0.1	21.3	48.8
<b>Worst performers</b>				
POLARIS SOFTWARE	152	(2.3)	(4.5)	(15.6)
ESSEL PROPACK LT	65	0.1	(3.3)	(10.0)
SUN PHARMACEUTI	987	(0.9)	(6.5)	(9.5)
BAJAJ AUTO LIMITE	2,129	0.0	1.1	(9.4)
CIPLA LTD	212	0.0	1.6	(9.0)

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**Technology****INFY.BO, Rs1930**

Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	2,250
52W High -Low (Rs)	2439 - 1572
Market Cap (Rs bn)	1,108

**Financials**

March y/e	2007	2008E	2009E
Sales (Rs bn)	138.9	171.6	221.6
Net Profit (Rs bn)	37.5	46.3	57.4
EPS (Rs)	67.0	80.7	99.9
EPS gth	48.7	20.5	23.8
P/E (x)	28.8	23.9	19.3
EV/EBITDA (x)	23.8	19.8	15.0
Div yield (%)	0.7	0.8	1.0

**Shareholding, March 2007**

	% of		Over/(under)
	Pattern	Portfolio	weight
Promoters	16.5	-	-
FIs	51.7	9.8	5.7
MFs	3.3	3.9	(0.1)
UTI	-	-	(4.0)
LIC	1.9	2.0	(2.1)

**Infosys Technologies: Looking beyond the obvious. Maintain OP**

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- **Re EPS guidance revised downwards to Rs79 from 81.6 earlier; revised guidance based on Re/US\$ rate of 40.58 vs. 43.1 earlier**
- **Revised revenue growth guidance of 31% is conservative in our view**
- **1QFY08 results-remarkable on operating margin performance**
- **Maintain Outperform rating with a Mar'09 DCF based target price of Rs2,250**

Infosys' 1QFY08 operating results were in line with our expectations. Net income was higher than our expectations and aided by non-operational items like tax reversal and forex gains. We are tad disappointed with the extent of the upward revision (1%) in FY2008 US\$ terms revenue growth guidance; though there are obvious indicators that the outperformance would be handsome. Consequently, we expect outperformance of the company's revised FY2008 EPS guidance of Rs78.2-79. With the floor established for FY2008 EPS numbers, we expect the focus to revert back to core business, the outlook of which remains healthy in our view. We have adjusted our FY2008 EPS to Rs80.7 (Rs83.8 earlier) and FY2009 EPS estimate to Rs99.9 (Rs103.4 earlier). Our new estimates build in a Re/US\$ rate of 40.5 for FY2008 (42 earlier) and 40 for FY2009 (42 earlier). Note that we have excluded the tax write back from our recurring EPS numbers for FY2008. We adjust our end-March 2009 DCF-based target price to Rs2,250 (Rs2,300 earlier). Further strengthening of the rupee is the key risk to our call.

**Valuations—FY2008 EPS guidance sets the floor, upside emanates from**

**outperformance on \$ revenues:** We believe that Infosys' EPS guidance of Rs78.2-79 sets the floor at a Re/US\$ rate of 40.58. We believe the outperformance of the guidance would be led by robust revenue growth (37% in our model as against the company guidance of 31%). We do recognize that the guidance would have been lower but for (a) tax write back of Rs510 mn (or Rs0.9 of EPS) and (b) higher other income built into the guidance. We forecast EPS of Rs80.7 (Rs 81.6 including tax write back) led by a higher revenue growth assumption of 37%. Our US\$ EPS estimate of 1.98 implies 33.7% growth. We project EBITDA growth of 17.8% in rupee terms, remarkable given a 10% appreciation in rupee. Our end-FY2009 DCF-based target price of Rs2250 implies a P/E multiple of 22.5X. This is 10% lower than the historic trading range but fair noting impact of FY2010 tax rate increase on the earnings growth trajectory.

**Revised revenue growth guidance may be conservative, expect meaningful**

**outperformance:** Infosys has revised upwards its FY2008 US\$ revenue growth guidance by only 1% to 29-31%, despite several positive indicators including (a) upward revision in gross hiring guidance—Infosys has raised its gross hiring target for the fiscal to 26,500 from 24,500 earlier; we note that Infosys had a gross hiring of 30,900 in FY2007 but operated at historically low utilization rates (b) solid deal pipeline—Infosys stated that it had won three US\$50 mn+ deals in the Jun '07 quarter and indicated that it is pursuing another 12 large deals (c) sustained strong performance in new service offerings (testing, package implementation, and BPO) and large verticals. More important, the guidance implies CQGR of 5.8% from 2Q-4Q, conservative in our view. We forecast a revenue growth rate of 37% (US\$ terms) in our model for FY2008.

**1QFY08 results—remarkable on operating margin performance:** Noting the cyclicity in operating margins, we note that yoy margin comparison is important. On a yoy basis, EBITDA margins of Infosys were down a mere 80 bps to 28.7% despite (a) 11% appreciation of the rupee and (b) 2.2% decline in utilization rates excluding trainees. We believe that this indicates the number of levers at the company's disposal and the variable nature of its cost structure. Infosys 1QFY08 EBITDA was in line with our expectations. Net income at 10.79 bn was 7.9% higher than our expectations and led by (a) tax refund of Rs510 mn and (b) higher interest income of Rs1.85 bn and higher than expected forex gain of Rs680 mn. Revenues grew 7.5% qoq (in US\$ terms) to US\$928 mn, 0.3% higher than our expectations. Growth was consistent across various verticals (BFS grew 5.8% qoq, telecom 8.1%, retail 7.6% and manufacturing 13.5%). The only dampener is revenues from new clients in the first quarter, perhaps the lowest since 1QFY03 in absolute dollar value, though this could be attributed to just quarterly volatility.

**Operating margin—quarterly improvements ahead, though FY2008 EBITDA margin will likely be down 100-200bps:** Infosys has guided for 100-200 bps decline in EBITDA margin for FY2008 from 50-100 bps earlier. The incremental revision emanates from a further 5.8% appreciation in the rupee; revised guidance is based on a Re/US\$ rate of 40.58 versus 43.1 earlier. We have modeled a 150bps decline in EBITDA margin for FY2008. We believe that there is scope for outperformance on this guidance since the company has not built in the following factors which may have further scope to play out

1. **Company has not factored in any further improvement in utilization rates:** Utilization rate at 73.9% (excluding trainees) is still lower than the historic band of 77-78%. We believe that there is scope for further improvement.
2. **Pricing improvement:** The company has not built in any pricing improvement from 1QFY08 levels. Noting the buoyant demand environment, we find this assumption particularly conservative.

**2QFY08 guidance.** Infosys has given 2QFY08 revenue growth guidance of 4.9-6% to US\$974-984 mn. The company has built in an OPM improvement of 120-130 bps. EPS guidance stands at Rs18.88, a qoq growth of 5.3% (excluding tax write back in 1QFY08)

**Estimates—several changes:** We have made several changes to our earnings model. We have reduced our EPS estimates for FY2008 and FY2009 to Rs80.7 and Rs99.9 from Rs83.8 and Rs103.4 respectively. Change in EPS estimates is driven by several factors— (a) we have revised our Re/US\$ exchange rate assumptions to 40.5 for FY2008 and 40 for FY2009 from 43 earlier (b) we have marginally reduced our FY2008 revenue growth assumption to 37% from 38% earlier and (c) built in pricing improvement of 6.3% onsite and 7.9% offshore from 6% and 7.7% earlier, respectively.

**FY2008 US\$ revenue guidance revision was lower than our expectations**

FY2008 (Revised versus earlier)

	Revised		Earlier (end of 4QFY07)	
	Lower end	Upper end	Lower end	Upper end
Revenues (US\$ mn)	4,000.0	4,050.0	3,953.0	4,016.0
Growth yoy (%)	<b>29.0</b>	<b>31.0</b>	<b>28.0</b>	<b>30.0</b>
Revenues (Rs bn)	162.4	164.3	170.4	173.1
Growth yoy (%)	16.9	18.3	22.6	24.6
EPS (Rs) (a)	77.3	78.1	80.3	81.6
Growth yoy (%)	15.6	16.8	20.0	22.0
EPADS (US\$)	1.90	1.92	1.86	1.89
Growth yoy (%)	28.4	29.7	25.7	27.7
Re/US\$ rate	40.58		43.1	

Note:

(a) Excluding tax reversal of Rs510 mn

(b) Pre 1QFY08 results guidance expectations

Source: Company, Kotak Institutional Equities

**Infosys missed its Re revenue guidance for a second consecutive quarter**

1QFY08 (actuals versus guidance)

	Actuals 2QFY08	Guidance Upper end	Actual vs guidance	Kotak estimates
Revenues (US\$ mn)	928	908	2	925
Revenues (Rs bn)	37.73	39.13	(4)	37.85
EPS (Rs) (a)	17.93	17.84	1	17.45
EPADS (US\$)	0.46	0.41	12	

Note:

(a) Excluding tax reversal of Rs510 mn

Source: Company, Kotak Institutional Equities

**Infosys needs to grow its revenues at a CQGR of 5.7% over 3Q-4QFY08 to meet FY2008 guidance**

	1QFY08 Actual	2QFY08 Guidance (a)	FY2008 Guidance (a)	CQGR (%) (b) To meet guidance
Revenues (US\$ mn)	928	984	4,050	<b>5.7</b>
Growth qoq (%)	7.5	6.0		
EPS (Rs) (a)	17.9	18.9	78.1	<b>6.1</b>
Growth qoq (%)				

Note:

(a) Guidance at the upper end

(b) 3Q-4Q CQGR required

Source: Company, Kotak Institutional Equities estimates

**Infosys has witnessed substantial improvement in revenue productivity per employee in the past few quarters**

Infosys' per capita revenue productivity (US\$/ year), 3QFY06-1QFY08

Per capita revenue productivity	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Onsite (US\$/ year)	130,782	130,700	131,499	132,895	134,807	137,418	139,818	141,806
Offshore (US\$/ year)	54,821	54,904	55,078	55,180	55,782	56,727	57,510	58,107
Blended (US\$/ year)	78,823	78,892	79,477	80,908	81,900	83,086	84,495	85,381

**Growth qoq (%)**

Onsite (US\$/ year)	1.0	(0.1)	<b>0.6</b>	<b>1.1</b>	<b>1.4</b>	<b>1.9</b>	<b>1.7</b>	<b>1.4</b>
Offshore (US\$/ year)	0.2	0.2	<b>0.3</b>	<b>0.2</b>	<b>1.1</b>	<b>1.7</b>	<b>1.4</b>	<b>1.0</b>
Blended (US\$/ year)	0.8	0.1	<b>0.7</b>	<b>1.8</b>	<b>1.2</b>	<b>1.4</b>	<b>1.7</b>	<b>1.0</b>

**Growth yoy (%)**

Onsite (US\$/ year)	0.1	0.5	(0.2)	2.6	3.1	5.1	6.3	<b>6.7</b>
Offshore (US\$/ year)	0.8	0.9	0.3	0.9	1.8	3.3	4.4	<b>5.3</b>
Blended (US\$/ year)	0.5	1.4	1.4	3.5	3.9	5.3	6.3	<b>5.5</b>

Source: Company reports

**Infosys' subsidiary performance improved substantially in the Jun '07 quarter**

Infosys' subsidiary performance over the past few quarters

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
<b>Revenues - US\$m</b>									
Progeon	18.0	20.6	22.5	24.4	28.4	33.9	40.5	44.7	49.7
Infosys Australia	18.7	19.3	17.2	17.6	18.4	25.0	23.9	32.0	35.4
Infosys Consulting	5.5	8.9	8.3	9.6	10.2	11.6	12.1	13.5	12.8
Infosys China	0.8	1.3	2.0	1.8	2.1	3.7	5.0	2.5	3.5
<b>Overall - subsidiaries</b>	<b>43.1</b>	<b>50.0</b>	<b>50.0</b>	<b>53.4</b>	<b>59.1</b>	<b>74.2</b>	<b>81.5</b>	<b>92.6</b>	<b>101.4</b>
<b>Net profits - US\$m</b>									
Progeon	4.4	5.3	5.5	5.9	6.0	7.7	9.6	8.7	8.9
Infosys Australia	0.2	1.1	1.4	1.5	0.8	4.2	3.4	7.5	5.7
Infosys Consulting	(2.1)	(1.2)	(2.7)	(2.2)	(4.1)	(3.3)	(6.6)	(11.0)	(0.1)
Infosys China	(0.6)	(0.7)	(1.0)	(1.5)	(2.3)	(1.2)	(0.7)	(2.3)	(0.1)
<b>Overall - subsidiaries</b>	<b>1.9</b>	<b>4.5</b>	<b>3.1</b>	<b>3.7</b>	<b>0.4</b>	<b>7.4</b>	<b>5.7</b>	<b>2.9</b>	<b>14.3</b>
<b>Net profit margin (%)</b>									
Progeon	24.6	25.7	24.4	24.0	21.1	22.6	23.6	19.5	17.8
Infosys Australia	1.0	5.9	7.9	8.4	4.3	16.8	14.3	23.5	16.0
Infosys Consulting	(38.3)	(13.9)	(32.8)	(22.4)	(40.0)	(28.1)	(54.0)	(81.7)	(0.6)
Infosys China	(72.6)	(51.5)	(50.8)	(80.6)	(109.1)	(33.1)	(14.6)	(93.5)	(2.8)

Note

(a) Jun '07 US\$ revenues and net profits computed using Re/US\$ rate of 40.66

Source: Kotak Institutional Equities

## Comments Infosys Interim Results (consolidated Indian GAAP)

Rs mn	1QFY07	4QFY07	1QFY08	% chg.		Deviation from Kotak estimates		Comments
				qoq	yoy	1QFY08	% chg.	
<b>Revenues</b>	<b>30,150</b>	<b>37,720</b>	<b>37,730</b>	<b>0.0</b>	<b>25.1</b>	<b>37,847</b>	<b>(0.3)</b>	Revenue growth of 7.5% qoq in US\$ terms vs. guidance of 5.2% and our estimated 7.2%. Led by (a) volume expansion of 5.9% and (b) pricing improvement of 1.1%
Software Development Costs	(16,660)	(20,210)	(21,690)	7.3	30.2	(21,421)	1.3	
<b>Gross profit</b>	<b>13,490</b>	<b>17,510</b>	<b>16,040</b>	<b>(8.4)</b>	<b>18.9</b>	<b>16,426</b>	<b>(2.3)</b>	390 bps decline in gross margin as a result of (a) rupee appreciation of 7% and (b) wage revisions
Selling and marketing exp	(2,040)	(2,680)	(2,050)	(23.5)	0.5	(2,373)	(13.6)	
Administration exp	(2,560)	(2,860)	(3,150)	10.1	23.0	(3,022)	4.2	
Total SG&A Expenses	(4,600)	(5,540)	(5,200)	(6.1)	13.0	(5,395)	(3.6)	SG&A expenses 90bps lower than previous quarter. Driven by severe decline in SG&A expenses (Rs630 mn absolute decline qoq)
<b>EBITDA</b>	<b>8,890</b>	<b>11,970</b>	<b>10,840</b>	<b>(9.4)</b>	<b>21.9</b>	<b>11,031</b>	<b>(1.7)</b>	EBITDA margin declined 300bps qoq. Driven by (a) rupee appreciation of 7% (b) wage revisions and (c) higher visa costs. OPM decline was arrested by improvement in utilization rates and pricing improvements (1.4% onsite and 1% offshore)
Depreciation	(1,060)	(1,450)	(1,440)	(0.7)	35.8	(1,176)	22.5	
EBIT	7,830	10,520	9,400	(10.6)	20.1	9,855	(4.6)	
Interest	-	-	-	-	-	-	-	
Other Income	1,310	1,190	2,530	113	93.1	1,463	72.9	Includes forex gains of Rs680 mn as against Rs50 mn loss in the previous quarter. We had factored in a forex gain of Rs280 mn in our estimates
Provision for investments	-	-	-	-	-	-	-	
Profit Before Tax	9,140	11,710	11,930	1.9	30.5	11,318	5.4	
Provision for Tax	(1,060)	(1,510)	(1,650)	9.3	55.7	(1,304)	26.5	
<b>Net Profit</b>	<b>8,080</b>	<b>10,200</b>	<b>10,280</b>	<b>0.8</b>	<b>27.2</b>	<b>10,014</b>	<b>2.7</b>	Net income 2.7% higher than expectations on the back of higher than expected forex gains
Minority Interest	(80)	(10)	-	-	-	(12)	-	
Extraordinaries	-	1,250	510	-	-	-	-	Tax reversal of Rs510 mn in the quarter
<b>Net Profit- Reported</b>	<b>8,000</b>	<b>11,440</b>	<b>10,790</b>	<b>(5.7)</b>	<b>34.9</b>	<b>10,002</b>	<b>7.9</b>	Reported net profits for 4QFY08 included tax write back of Rs1.25 bn
EPS (Rs/ share)	14.5	18.1	17.9	(1.0)	23.9	17.4	2.8	
No of shares outstanding (mn)	552.7	562.8	573.3	1.9	3.7	574.0	(0.1)	
<b>As % of revenues</b>								
Gross Profit Margin (%)	44.7	46.4	42.5			43.4		
Operating Margin	29.5	31.7	28.7			29.1		
Selling Expenses	6.8	7.1	5.4			6.3		
Admin Expenses (%)	8.5	7.6	8.3			8.0		
SG&A Expenses (%)	15.3	14.7	13.8			14.3		
<b>Billing Rates (US\$/annum)</b>								
Onsite	132,895	139,818	141,804	1.4	6.7	-	-	Pricing improvement (1.4% onsite and 1% offshore) primarily driven by change in business mix
Offshore	55,180	57,510	58,107	1.0	5.3	-	-	
<b>Volumes growth</b>	9.4	2.8	5.9			6.3		
<b>Revenue Mix (%)</b>								
Onsite	52.3	52.1	52.3					
Offshore	47.7	47.9	47.7					
<b>Total Employees</b>	58,409	72,241	75,971					
<b>Guidance (consolidated)</b>	<b>2QFY08</b>		<b>FY2008</b>					
	<b>Lower end</b>	<b>Upper end</b>	<b>Lower end</b>	<b>Upper end</b>				
Revenues (Rs bn)	39.52	39.93	162.4	164.3				
Growth (%)	4.7	5.8	16.9	18.3				
Revenues (US\$ mn)	974	984	4,000	4,050				Revenue growth guidance raised by 1% at the upper end (below our expectation of 4% upward revision)
Growth (%)	5.0	6.0	29.0	31.0				
EPS (a)	18.88	18.88	77.3	78.1				FY2008 EPS guidance (excluding tax reversals) revised downwards to Rs77.3-78.1 from Rs80.3-81.6 earlier
Growth (%)	5.3	5.3	15.6	16.8				

Guidance based on Re/ US\$ rate of 40.58

(a) Excluding tax reversals of Rs1.25 bn and Rs510 mn in FY2007 and FY2008 respectively

## Key changes in FY2008 and FY2009 estimates

Rs mn	New			Old			Change (%)		
	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E
<b>Revenues</b>	<b>171,632</b>	<b>221,569</b>	<b>272,870</b>	<b>180,064</b>	<b>232,106</b>	<b>279,413</b>	<b>(4.7)</b>	<b>(4.5)</b>	<b>(2.3)</b>
EBITDA	51,726	65,953	79,243	55,434	70,445	81,482	(6.7)	(6.4)	(2.7)
Depreciation	(6,279)	(7,899)	(9,776)	(6,161)	(7,896)	(10,272)	1.9	0.0	(4.8)
EBIT	45,447	58,054	69,467	49,273	62,550	71,210	(7.8)	(7.2)	(2.4)
<b>Net Profit</b>	<b>46,320</b>	<b>57,365</b>	<b>63,000</b>	<b>48,141</b>	<b>59,447</b>	<b>63,210</b>	<b>(3.8)</b>	<b>(3.5)</b>	<b>(0.3)</b>
Net Income (after minorities)	46,320	57,365	63,000	48,079	59,367	63,141	(3.7)	(3.4)	(0.2)
<b>EPS (Rs/ share)</b>	<b>80.7</b>	<b>99.9</b>	<b>109.8</b>	<b>83.8</b>	<b>103.4</b>	<b>110.0</b>	<b>(3.7)</b>	<b>(3.4)</b>	<b>(0.2)</b>
<b>Revenues (US\$ mn)</b>	<b>4,234</b>	<b>5,538</b>	<b>6,820</b>	<b>4,282</b>	<b>5,520</b>	<b>6,808</b>	<b>(1.1)</b>	<b>0.3</b>	<b>0.2</b>
<b>Volume Growth (%)</b>	<b>30.4</b>	<b>29.7</b>	<b>21.4</b>	<b>33.3</b>	<b>27.6</b>	<b>21.6</b>			
<b>Billing Rates (US\$/ manmonth)</b>									
Onsite	11,863	11,982	12,102	11,847	11,934	12,083	0.1	0.4	0.2
Offshore	4,893	5,000	5,080	4,885	4,977	5,040	0.1	0.5	0.8
<b>Margins (%)</b>									
EBITDA	30.1	29.8	29.0	30.8	30.4	29.2			
EBIT	26.5	26.2	25.5	27.4	26.9	25.5			
Rs/ US\$ rate	40.5	40.0	40.0	42.0	42.0	41.0	(3.6)	(4.8)	(2.5)

Source: Kotak Institutional Equities Estimates

**Infosys Technologies: Consolidated Indian GAAP Income Statement (Rs mn)**

Rs mn	2006	2007	2008E	2009E	2010E
<b>Income From Software Development</b>					
Overseas	93,542	136,732	168,931	218,862	269,809
Domestic	1,668	2,198	2,701	2,707	3,061
<b>Revenues</b>	<b>95,210</b>	<b>138,930</b>	<b>171,632</b>	<b>221,569</b>	<b>272,870</b>
Software Development Costs	(50,654)	(74,580)	(95,314)	(123,837)	(154,421)
<b>Gross profit</b>	<b>44,556</b>	<b>64,350</b>	<b>76,318</b>	<b>97,732</b>	<b>118,449</b>
Selling and marketing exp	(6,005)	(9,290)	(10,625)	(14,401)	(17,962)
Administration exp	(7,639)	(11,150)	(13,967)	(17,378)	(21,244)
Total SG&A Expenses	(13,643)	(20,440)	(24,592)	(31,779)	(39,205)
<b>EBITDA</b>	<b>30,912</b>	<b>43,910</b>	<b>51,726</b>	<b>65,953</b>	<b>79,243</b>
Depreciation	(4,371)	(5,140)	(6,279)	(7,899)	(9,776)
<b>EBIT</b>	<b>26,541</b>	<b>38,770</b>	<b>45,447</b>	<b>58,054</b>	<b>69,467</b>
Interest	-	-	-	-	-
Other Income	1,380	3,750	7,618	7,603	8,896
<b>Profit Before Tax</b>	<b>27,921</b>	<b>42,520</b>	<b>53,065</b>	<b>65,657</b>	<b>78,364</b>
Provision for Tax	(3,132)	(5,100)	(6,745)	(8,292)	(15,364)
<b>Net Profit</b>	<b>24,790</b>	<b>37,420</b>	<b>46,320</b>	<b>57,365</b>	<b>63,000</b>
Minority Interest	(210)	(110)	-	-	-
<b>Net Income</b>	<b>24,580</b>	<b>37,310</b>	<b>46,320</b>	<b>57,365</b>	<b>63,000</b>
Extraordinaries	-	1,250	510	-	-
<b>Net Profit- Reported</b>	<b>24,580</b>	<b>38,560</b>	<b>46,830</b>	<b>57,365</b>	<b>63,000</b>
<b>EPS (Rs/ share)</b>					
	<b>45.0</b>	<b>67.0</b>	<b>80.7</b>	<b>99.9</b>	<b>109.8</b>
No of shares outstanding (mn)	550.2	562.8	574.0	574.0	574.0
<b>Margins (%)</b>					
Gross Profit margin	46.8	46.3	44.5	44.1	43.4
EBITDA Margin	32.5	31.6	30.1	29.8	29.0
EBIT Margin	27.9	27.9	26.5	26.2	25.5
NPM	26.0	26.9	27.0	25.9	23.1
<b>Growth Rates (%)</b>					
Revenues	33.5	45.9	23.5	29.1	23.2
Gross Profit	32.4	44.4	18.6	28.1	21.2
EBITDA	32.4	42.0	17.8	27.5	20.2
EBIT	29.7	46.1	17.2	27.7	19.7
Net Profit	34.4	50.9	23.8	23.8	9.8
Net Income	33.2	51.8	24.1	23.8	9.8
<b>As percentage of Sales</b>					
-Overseas Revenue	98.2	98.4	98.4	98.8	98.9
-Domestic Revenue	1.8	1.6	1.6	1.2	1.1
Revenues	100.0	100.0	100.0	100.0	100.0
Software Development Expenses	53.2	53.7	55.5	55.9	56.6
Gross Profit	46.8	46.3	44.5	44.1	43.4
Selling Expenses	6.3	6.7	6.2	6.5	6.6
Administrative Expenses	8.0	8.0	8.1	7.8	7.8
S G & A Expenses	14.3	14.7	14.3	14.3	14.4
EBITDA	32.5	31.6	30.1	29.8	29.0
Depreciation	4.6	3.7	3.7	3.6	3.6
EBIT	27.9	27.9	26.5	26.2	25.5
Net Profit	26.0	26.9	27.0	25.9	23.1



**Diversified****SINTX.BO, Rs283**

Rating	OP
Sector coverage view	-
Target Price (Rs)	330
52W High -Low (Rs)	308 - 125
Market Cap (Rs bn)	34.3

**Financials**

March y/e	2007E	2008E	2009E
Sales (Rs bn)	11.1	14.2	18.2
Net Profit (Rs bn)	1.3	1.9	2.5
EPS (Rs)	10.8	15.3	20.8
EPS gth	15.3	42.6	35.4
P/E (x)	26.3	18.4	13.6
EV/EBITDA (x)	15.0	12.5	9.0
Div yield (%)	0.4	0.4	0.6

**Shareholding, March 2007**

	% of	Over/(under)	
	Pattern	Portfolio	weight
Promoters	33.1	-	-
FIs	16.8	0.1	0.1
MFs	10.0	0.2	0.2
UTI	-	-	-
LIC	-	-	-

**Sintex Industries: Plastics fire; textiles bear the rupee brunt**

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- **Sintex reported 1Q net income of Rs306 mn (vs. our expectation of Rs350 mn), up 50% on a yoy basis.**
- **Revenues, at Rs3 bn, grew 34%, largely on back of growth in the Plastics business. Textile revenues improved 15%-but were impacted by rupee appreciation.**
- **EBITDA margins for the quarter improved 30bps on yoy basis, primarily driven by better margins in both businesses.**
- **We roll-forward our target price to FY2009E basis, which results in revision to Rs330/ share (from Rs260 earlier) and maintain our Outperform rating.**

Sintex, in its 1Q results reported a PAT of Rs306 mn (our estimate Rs350 mn), up 50% on a yoy basis. Revenues, at Rs3 bn, were up 34% yoy. Operating margins grew 30 bps with both businesses contributing. Plastics revenue grew at 43%, faster than textiles (at 15%). We reiterate with our Outperform rating and roll our target price to FY2009E basis to Rs330/share (from Rs260 earlier).

**1Q FY08 was a good quarter for plastics—aided by monolithic construction.** Plastics revenue grew 43% yoy, largely owing to better growth in monolithic constructions. Textile revenues grew 15% yoy, on the back of better realizations; but would have been 10% higher had the exchange rate remain stable.

**On track for all expansions.** Sintex maintains that it is on track for its 5mn meters of textile and expansion in pre-fabs at Nagpur and Kolkata are likely to start on schedule. However, the company said it has delayed the start of its garmenting facility by 6 months at the behest of clients. Besides, the management also declined to give a revised date for acquisition.

**Not a quarter-over-quarter story any longer.** We note that analysis of Sintex numbers on a quarterly basis is increasingly getting difficult owing to non-linear revenue recognition in its Plastics (especially Pre-fabs division). We recollect that Plastics' revenues in 3Q FY2007 dramatically underperformed that of Textiles, which completely reversed in 4Q of the last fiscal.

**Raise target price to Rs330/share.** We roll our target price forward to FY2009E basis, which results in revision to Rs330/ share vs. Rs260 earlier. At this target price, the stock would trade at 10.6X EV/EBITDA. We continue to rate the stock as Outperform.

**Exhibit 1: Sintex reports 50% growth in standalone earnings**

Interim results of Sintex, March fiscal year-ends (Rs mn)

	1QFY08	1QFY07	Y-o-y growth (%)	4QFY07	Q-o-q growth (%)	FY2007	FY2008	Y-o-y growth (%)
<b>Net revenue</b>	<b>3,000</b>	<b>2,238</b>	<b>34.0</b>	<b>3,649</b>	<b>(17.8)</b>	<b>11,082</b>	<b>14,180</b>	<b>28.0</b>
<b>Total expenditure</b>	<b>2,473</b>	<b>1,851</b>		<b>2,882</b>		<b>9,005</b>	<b>11,502</b>	
Raw material cost	1,959	1,387		2,308		6,954	8,579	
Stock adjustment	(174)	(121)		(148)		(397)	-	
Employee expenses	142	89		192		479	453	
Other expenses	545	495		531		1,969	2,471	
<b>EBITDA</b>	<b>527</b>	<b>387</b>	<b>36.2</b>	<b>766</b>	<b>(31.2)</b>	<b>2,173</b>	<b>2,678</b>	<b>23.2</b>
<b>Margin (%)</b>	<b>17.6</b>	<b>17.3</b>		<b>21.0</b>		<b>19.6</b>	<b>18.9</b>	
Other income	121	65		80		267	191	
Depreciation	130	100		109		415	506	
EBIT	519	352		738		2,025	2,362	
Interest	120	79		127		410	33	
PBT	399	273		611		1,615	2,330	
Taxes	93	68		74		309	466	
Current taxes	87	67		30		200	356	
Deferred taxes	6	2		43		110	110	
<b>Adjusted PAT</b>	<b>306</b>	<b>205</b>	<b>49.4</b>	<b>537</b>	<b>(43.1)</b>	<b>1,306</b>	<b>1,864</b>	<b>42.7</b>
Extra-ordinary items	-	(0)		-		(0)	-	
<b>Reported PAT</b>	<b>306</b>	<b>204</b>	<b>49.5</b>	<b>537</b>	<b>(43.1)</b>	<b>1,306</b>	<b>1,864</b>	<b>42.7</b>

Source: Company data, Kotak institutional equities

**Exhibit 2: Monolithic construction powers Plastics business, forex movement hit Textiles**

Segmental results of Sintex, March fiscal year-ends (Rs mn)

	1QFY08	1QFY07	Y-o-y growth (%)	4QFY07	Q-o-q growth (%)
<b>Revenues</b>	<b>3,121</b>	<b>2,271</b>	<b>37.4</b>	<b>3,729</b>	<b>(16.3)</b>
<b>Textiles</b>	<b>753</b>	<b>653</b>	<b>15.3</b>	<b>923</b>	<b>(18.4)</b>
Collection	197	153		260	
RMG	510	480		640	
Others	45	21		23	
<b>Plastics</b>	<b>2,289</b>	<b>1,600</b>	<b>43.0</b>	<b>2,761</b>	<b>(17.1)</b>
Tanks	336	210		370	
Prefab structures	1,371	760		1,753	
Industrial custom mouldings	460	440		608	
Others	122	190		30	
<b>Others</b>	<b>79</b>	<b>18</b>		<b>45</b>	
<b>EBIT</b>	<b>519</b>	<b>352</b>	<b>47.4</b>	<b>738</b>	<b>(29.6)</b>
Textiles	120	79		289	
Plastics	368	218		364	
Unallocated	31	55		84	
<b>EBIT Margins (%)</b>					
Textiles	16.0	12.2		31.3	
Plastics	16.1	13.6		13.2	

Source: Company communication, Kotak institutional equities

**Sintex industries, SOTP Valuation, FY2008E basis, March fiscal year-ends (Rs mn)**

	EBITDA	EV/EBITDA (X)	EV	Remarks
Textiles	1,329	10.0	13,287	Similar to high-end textile companies
Pre-fabs	1,457	11.0	16,028	Similar to engineering companies
Custom mouldings	749	10.0	7,489	Similar to auto component companies
Water tanks	58	3.0	174	Low entry barrier, low volume growth
Others			100	
<b>Total enterprise value</b>			<b>37,078</b>	
Net debt			(2,934)	
<b>Arrived market cap</b>			<b>40,012</b>	
Fully diluted number of shares (#)			121	
<b>Equity value per share (Rs)</b>			<b>329</b>	
<b>Target price (Rs)</b>			<b>330</b>	

**Sintex profit model, March fiscal year-ends, 2004-2009E, (Rs mn)**

	2004	2005	2006	2007E	2008E	2009E
Net revenues	5,297	6,587	8,534	11,082	14,180	18,247
Other operating income	—	—	—	—	—	—
<b>Gross operating revenues</b>	<b>5,297</b>	<b>6,587</b>	<b>8,534</b>	<b>11,082</b>	<b>14,180</b>	<b>18,247</b>
<b>Operating expenses</b>						
Cost of goods sold	(2,690)	(3,961)	(5,190)	(6,738)	(8,579)	(11,039)
Staff costs	(265)	(306)	(374)	(412)	(453)	(498)
SG&A expenses	(1,449)	(1,188)	(1,527)	(1,760)	(2,471)	(3,117)
<b>Total expenditure</b>	<b>(4,404)</b>	<b>(5,455)</b>	<b>(7,091)</b>	<b>(8,909)</b>	<b>(11,502)</b>	<b>(14,654)</b>
(% of revenues)	83.1	82.8	83.1	80.4	81.1	80.3
<b>EBITDA</b>	<b>893</b>	<b>1,132</b>	<b>1,443</b>	<b>2,173</b>	<b>2,678</b>	<b>3,593</b>
EBITDA Margin (%)	16.9	17.2	16.9	19.6	18.9	19.7
Net finance cost	(262)	(249)	(291)	(410)	(33)	—
Other income	88	105	298	267	191	188
<b>PBDT</b>	<b>719</b>	<b>989</b>	<b>1,450</b>	<b>2,030</b>	<b>2,836</b>	<b>3,781</b>
Depreciation and amortisation	(226)	(283)	(307)	(415)	(506)	(626)
<b>Pretax profits before extra-ordinaries</b>	<b>492</b>	<b>706</b>	<b>1,143</b>	<b>1,615</b>	<b>2,330</b>	<b>3,155</b>
Exceptional items	(2)	38	(0)	—	—	—
Prior period items	—	—	—	—	—	—
<b>Profit before tax</b>	<b>494</b>	<b>668</b>	<b>1,143</b>	<b>1,615</b>	<b>2,330</b>	<b>3,155</b>
Current tax	(55)	(76)	(173)	(201)	(280)	(393)
Deferred tax	(100)	(129)	(49)	(108)	(186)	(238)
Minority / Associate earnings	—	—	—	—	—	—
Reported PAT	340	463	921	1,307	1,864	2,524
<b>Adjusted net profit</b>	<b>338</b>	<b>501</b>	<b>920</b>	<b>1,307</b>	<b>1,864</b>	<b>2,524</b>
Primary EPS (using wtd avg shares)	4.6	6.6	10.0	11.9	15.3	20.8
Diluted EPS	2.8	4.1	7.6	10.8	15.3	20.8
Year end no of shares (mn)	72.8	92.4	98.7	121.5	121.5	121.5
Weighted average no of shares (mn)	72.8	75.5	92.5	110.1	121.5	121.5
Fully diluted no of shares (mn)	121.5	121.5	121.5	121.5	121.5	121.5
<b>Margins (%)</b>						
EBITDA margin	16.9	17.2	16.9	19.6	18.9	19.7
PBT margin	9.3	10.1	13.4	14.6	16.4	17.3
Net profit margin (w/o extraordinaries)	6.4	7.6	10.8	11.8	13.1	13.8
Effective tax rate (%)	31.3	29.0	19.5	19.1	20.0	20.0
<b>Growth (% p.a)</b>						
Revenues	—	24.4	29.6	29.9	28.0	28.7
EBITDA	—	26.7	27.5	50.6	23.2	34.2
PBT	—	35.3	71.1	41.3	44.3	35.4
Net profit (w/o extraordinaries)	—	48.2	83.6	41.9	42.6	35.4
Diluted EPS	—	48.2	83.6	41.9	42.6	35.4

Source: Company data, Kotak institutional Equities estimates.

**Sintex balance sheet, March fiscal year-ends, 2004-2009E, (Rs mn)**

	2004	2005	2006	2007E	2008E	2009E
<b>Equity</b>						
Share capital	146	185	197	243	243	243
General reserves and surplus	1,724	3,376	4,351	8,300	10,018	12,335
<b>Net worth</b>	<b>1,870</b>	<b>3,561</b>	<b>4,549</b>	<b>8,543</b>	<b>10,261</b>	<b>12,578</b>
Deferred tax liability	441	570	619	727	914	1,152
<b>Debt</b>						
Secured	2,982	3,382	3,595	780	—	—
Unsecured	4	2	2,231	1	1	1
<b>Total Debt</b>	<b>2,986</b>	<b>3,384</b>	<b>5,827</b>	<b>781</b>	<b>1</b>	<b>1</b>
Current liability and provisions	1,104	1,578	1,797	2,389	2,994	3,803
<b>Total capital</b>	<b>6,400</b>	<b>9,094</b>	<b>12,792</b>	<b>12,440</b>	<b>14,170</b>	<b>17,534</b>
<b>Assets</b>						
Cash and cash equivalents	192	783	3,553	1,058	(788)	522
Inventory	755	1,068	863	1,214	1,554	2,000
Sundry Debtors	1,157	1,481	1,507	1,974	2,525	3,249
Loans and Advances	360	445	370	370	370	370
Gross block	4,645	5,044	6,750	7,800	10,600	12,150
Less: Accumulated depreciation	1,493	1,760	2,054	2,469	2,975	3,601
Net fixed assets	3,153	3,284	4,695	5,330	7,624	8,549
Capital -WIP	183	296	190	700	230	190
<b>Net fixed assets (incl. C-WIP)</b>	<b>3,336</b>	<b>3,581</b>	<b>4,885</b>	<b>6,030</b>	<b>7,855</b>	<b>8,739</b>
Investments	569	1,675	1,568	1,748	2,609	2,609
Miscellaneous expenditure	32	61	45	45	45	45
Intangibles	—	—	—	—	—	—
<b>Total Assets</b>	<b>6,400</b>	<b>9,094</b>	<b>12,792</b>	<b>12,440</b>	<b>14,170</b>	<b>17,534</b>
<b>Leverage and return ratios (%)</b>						
Debt/Equity	129.2	81.9	112.7	8.4	—	—
Debt/Capitalisation	56.4	45.0	53.0	7.8	—	—
Net Debt/Equity	116.6	43.7	63.4	33.9	8.3	1.5
Net Debt/Capitalisation	53.8	30.4	38.8	25.3	7.7	1.5
Net Debt/EBITDA	301.7	159.3	227.2	144.5	34.6	5.8
ROE (%)	14.8	13.2	18.0	14.2	16.7	18.4

Source: Company data, Kotak institutional Equities estimates.

**Sintex cash flow statement, March fiscal year-ends, 2004-2009E, (Rs mn)**

	2004	2005	2006	2007E	2008E	2009E
<b>Operating cash flows</b>						
Pre-tax profits and extraordinary items	492	706	1,143	1,615	2,330	3,155
Depreciation & amortization	226	283	307	415	506	626
Taxes paid	(43)	(133)	(121)	(201)	(280)	(393)
Dividend and other income	—	(19)	(68)	—	—	—
Interest expense	262	249	291	410	33	—
Interest paid	(261)	(247)	(287)	(410)	(33)	—
Foreign exchange loss/(gain)	—	4	(7)	—	—	—
Extraordinaries (incl. prior period items)	(12)	(0)	(157)	—	—	—
Other non-cash items	14	23	24	—	—	—
Working capital changes	(124)	(189)	400	(227)	(286)	(361)
<b>Cash flow from operations</b>	<b>555</b>	<b>676</b>	<b>1,525</b>	<b>1,603</b>	<b>2,270</b>	<b>3,027</b>
<b>Operating, excl. working capital</b>	<b>679</b>	<b>865</b>	<b>1,124</b>	<b>1,829</b>	<b>2,556</b>	<b>3,388</b>
<b>Investing</b>						
Capex incl. capital issue expenses	(363)	(579)	(1,621)	(1,560)	(2,330)	(1,510)
(Purchase)/sale of assets/businesses	—	—	—	(180)	—	—
(Purchase)/sale of investments (incl. inv. in subsidiaries)	(453)	—	240	—	(861)	—
Advances to subsidiary	—	—	—	—	—	—
Interest/dividend received	13	19	68	—	—	—
<b>Cash flow from investing</b>	<b>(803)</b>	<b>(560)</b>	<b>(1,313)</b>	<b>(1,740)</b>	<b>(3,191)</b>	<b>(1,510)</b>
<b>Financing</b>						
Proceeds from issue of share capital	—	1,236	266	578	—	—
Net proceeds from borrowings	332	394	2,367	(2,815)	(780)	—
Effect of FX changes	—	—	—	—	—	—
Dividends paid (incl. tax)	(42)	(50)	(84)	(121)	(146)	(206)
<b>Cash flow from financing</b>	<b>291</b>	<b>1,581</b>	<b>2,549</b>	<b>(2,358)</b>	<b>(926)</b>	<b>(206)</b>
Net change in cash/cash equivalents	43	1,697	2,761	(2,495)	(1,847)	1,310
Beginning cash	150	648	2,345	5,106	2,611	764
<b>Ending cash</b>	<b>192</b>	<b>2,345</b>	<b>5,106</b>	<b>2,611</b>	<b>764</b>	<b>2,074</b>
<b>Reconciliation</b>						
Cash and bank balance	—	783	3,553	1,058	(788)	522
Marketable securities	—	1,562	1,552	1,552	1,552	1,552

Source: Company data, Kotak institutional Equities estimates.

**Technology****IGAT.BO, Rs288**

Rating	U
Sector coverage view	Attractive
Target Price (Rs)	310
52W High -Low (Rs)	432 - 145
Market Cap (Rs bn)	9.1

**Financials**

March y/e	2007E	2008E	2009E
Sales (Rs bn)	8.1	9.0	10.9
Net Profit (Rs bn)	0.5	0.7	0.9
EPS (Rs)	15.7	22.3	28.5
EPS gth	101.5	42.0	28.0
P/E (x)	18.4	12.9	10.1
EV/EBITDA (x)	9.8	7.6	5.6
Div yield (%)	0.8	0.9	1.0

**Shareholding, March 2007**

	% of		Over/(under)
	Pattern	Portfolio	weight
Promoters	-	-	-
FIs	-	-	-
MFs	-	-	-
UTI	-	-	-
LIC	-	-	-

**iGate Global Solutions: Sub-prime woes continue to hurt topline. Maintain Underperform**

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- **Client acquisition pace critical for acceleration in revenue growth**
- **1QFY08 revenue growth disappoints; will likely remain sluggish in Sep '07 quarter.**
- **Operational efficiencies restrict OPM damage, pricing improvement the only meaningful lever to maintain margins**
- **Revising estimates and reducing target price, maintain Underperform rating**

iGate reported net income of Rs143 mn for 1QFY08, higher than our expectation of Rs113 mn. This was achieved though aggressive cost optimization measures, increase in utilization rates and decline in headcount. On expected lines, revenues grew at an uninspiring 2.3% qoq in US\$ terms, a second straight quarter of low single digit growth contributed by revenue decline from clients in the mortgage space. Growth is likely to be anemic for another quarter. New client addition continues to be below expectations and was at a disappointing three for Jun' 07 quarter. While the downside in the stock is limited, upside hinges on sustainable acceleration in revenue growth rate to Tier 1 company levels. We have revised downwards our FY2008 EPS estimate by 1.1% to Rs22.3 and FY2009 estimate by 4.9% to Rs28.5. We maintain our Underperform rating on the stock with an end-March 2009 DCF based target price of Rs310 (Rs325 earlier)

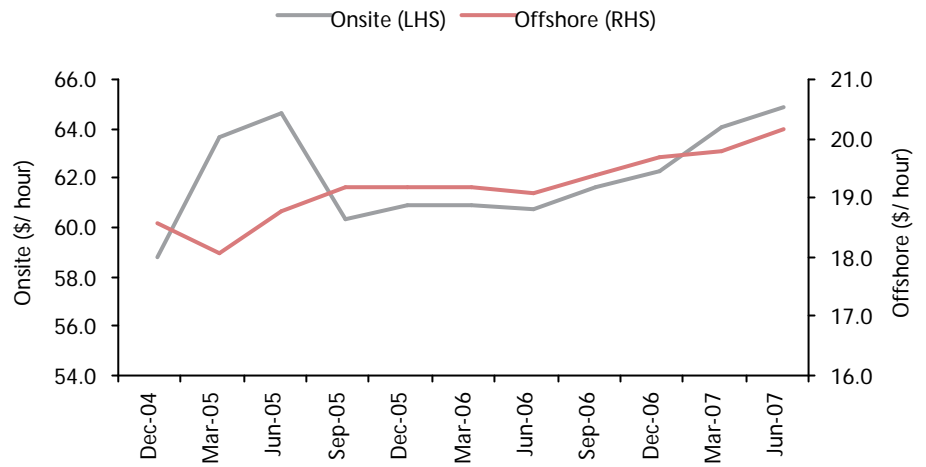
**Client acquisition pace critical for acceleration in revenue growth:** We believe that the most critical factor for sustained stock performance of iGate is acceleration in revenue growth rates, which is contingent on two factors—(a) new client acquisition, which has been slower than the management's stated target of 8-10 new customers each quarters—it added only three new clients in the Jun '07 quarter, and (b) ramp up from existing clients—conversion of new account wins to sustained revenue billing is again below expectations. We expect iGate to once again trail industry revenue growth for FY2008.

**1QFY08 revenue growth disappoints; will likely remain sluggish in Sep '07 quarter.** iGate reported modest revenue growth of 2.3% qoq (US\$ terms). Revenue growth was primarily impacted by a slowdown in revenues from clients in the sub-prime mortgage segment (7% of revenues in Jun' 07 quarter and 9% in 4QFY07) in the US. We note that two out of iGate's top 20 clients are from this segment. Companies in the sub-prime mortgage segment in the US are grappling with pressures from rising default rates and borrowing costs. iGate's business with these clients is largely transaction-based and thus, any slowdown in loan origination and servicing transactions from these clients has an immediate negative impact on revenues. Management indicates that revenues from this segment will further decline in the Sep '07 quarter and expects revenue growth to remain sluggish in the quarter.

**Operational efficiencies restrict OPM damage, pricing improvement the only lever to maintain margins:** iGate reported an operating margin of 13.2%, a qoq decline of 210 bps qoq and better than our OPM expectation of 11.5%. In our view, the company pulled in a fair portion of levers such as utilization, pyramid and offshore leverage. Pricing in our view remains the only sustainable lever to improve margins from here. iGate has absorbed the complete wage revision in this quarter i.e., 2% onsite and 15% offshore.

**Revising estimates and reducing target price, maintain Underperform rating:** We have revised our EPS estimates for FY2008 and FY2009 downwards by 1.1% and 4.9% to Rs22.3 and Rs28.5 respectively. This stems primarily from revision in Re/US\$ assumptions to 40.5 for FY2008 (43 earlier) and 40 for FY2009 (43 earlier) and reduction in revenue growth expectations. We maintain our Underperform rating on the stock with a revised Mar '09 DCF-based target price of Rs310 (Rs325 earlier).

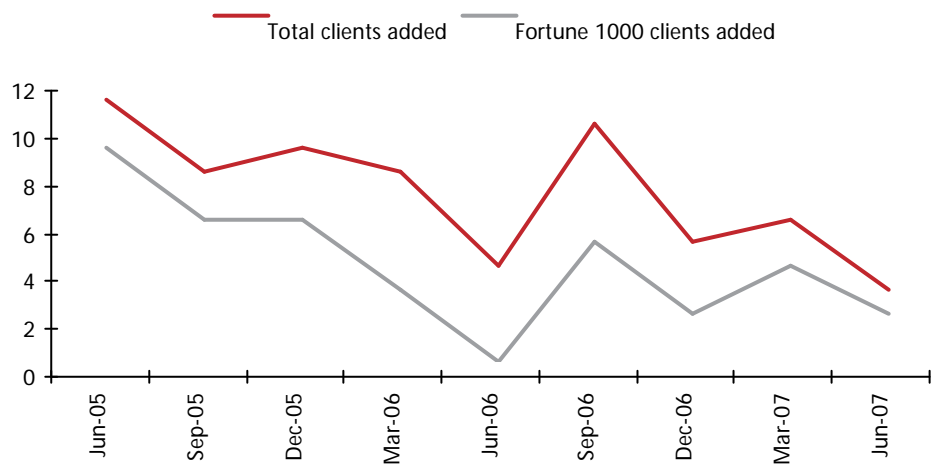
**Margin decline was arrested by improvement in both onsite and offshore billing rates**  
 iGate's onsite and offshore billing rates over the past ten quarters



Source: Company reports

**iGate's client acquisition pace has been below management's stated targets over the past 3-4 quarters**

Total and Fortune 1000 client additions for iGate



Source: Company reports



## Key changes to our FY2008 and FY2009 estimates

Rs mn	New		Old		Change (%)	
	FY2008	FY2009	FY2008	FY2009	FY2008	FY2009
<b>Revenues</b>	<b>9,000</b>	<b>10,887</b>	<b>9,883</b>	<b>12,208</b>	<b>(8.9)</b>	<b>(10.8)</b>
EBITDA	1,179	1,467	1,300	1,661	(9.3)	(11.7)
Depreciation	(445)	(488)	(491)	(542)	(9.3)	(9.9)
EBIT	787	1,064	827	1,153	(4.8)	(7.7)
<b>Net Profit</b>	<b>705</b>	<b>912</b>	<b>713</b>	<b>959</b>	<b>(1.1)</b>	<b>(4.9)</b>
<b>EPS (Rs/ share)</b>	<b>22.3</b>	<b>28.5</b>	<b>22.5</b>	<b>30.0</b>	<b>(1.1)</b>	<b>(4.9)</b>
<b>Margins (%)</b>						
EBITDA	13.1	13.5	13.2	13.6		
EBIT	8.7	9.8	8.4	9.4		
<b>Revenue (US\$ mn)</b>	<b>222</b>	<b>272</b>	<b>227</b>	<b>281</b>	<b>(2.2)</b>	<b>(3.0)</b>
<b>Re/US\$ rate</b>	<b>40.5</b>	<b>40.0</b>	<b>43.0</b>	<b>43.0</b>	<b>(5.8)</b>	<b>(7.0)</b>
<b>Revenue Mix - IT Services (US\$ mn)</b>						
Onsite	103	122	105	128	(2.3)	(4.6)
Offshore	96	121	98	122	(2.1)	(1.2)

Source: Kotak Institutional Equities Estimates

**iGate Global Solutions (erstwhile Mascot Systems)**

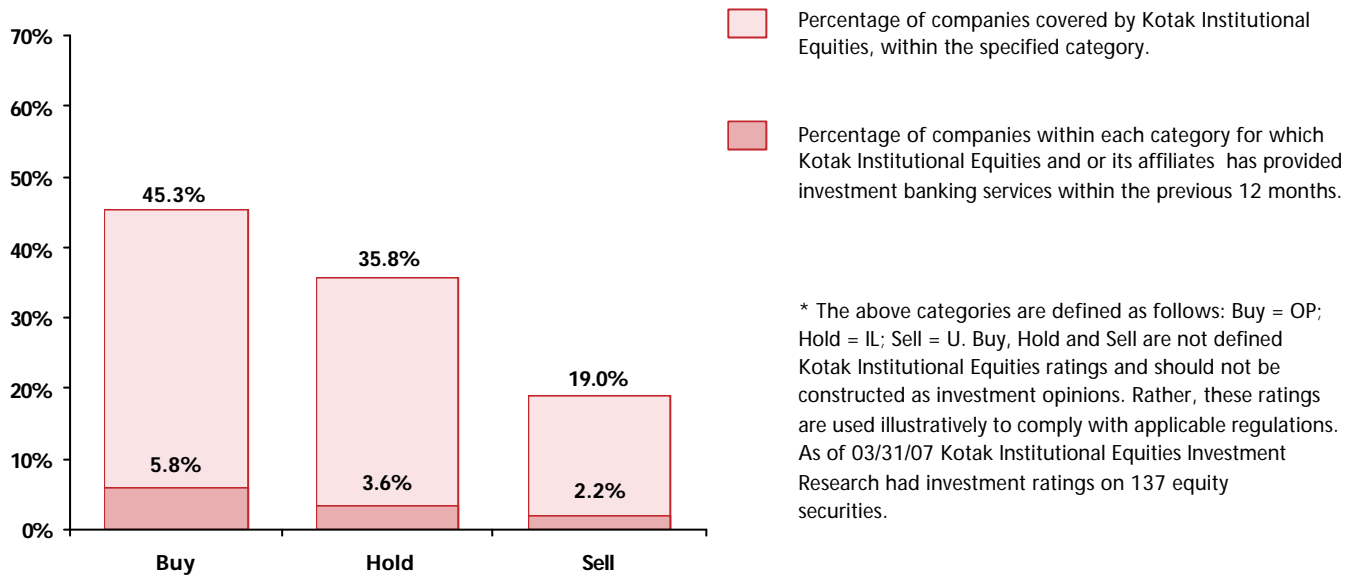
Rs mn	1QFY07	4QFY07	1QFY08	QoQ % chg.	YoY % chg.	Kotak Estimates	Deviation %	Comments on QoQ performance
<b>Revenues</b>	<b>1,816</b>	<b>2,101</b>	<b>1,994</b>	<b>(5.1)</b>	<b>9.8</b>	<b>2,017</b>	(1.1)	Revenue growth of 2.3% qoq in US\$ terms, lower than our expectation of 3% qoq growth. Revenue growth was impacted by a) slowdown in sub-prime mortgage segment and b) offshore shift in revenues
Direct costs	(1,333)	(1,417)	(1,365)	(3.7)	2.4	(1,432)	(4.7)	
<b>Gross profit</b>	<b>483</b>	<b>684</b>	<b>629</b>	<b>(8.0)</b>	<b>30.1</b>	<b>585</b>	7.5	Gross profit margin decline of 110 bps qoq driven primarily by a) rupee appreciation and b) wage revisions. Margin performance impressive in a difficult quarter.
Other expenses	(354)	(362)	(365)	0.9	3.1	(353)	3.5	
<b>Operating profit</b>	<b>129</b>	<b>322</b>	<b>264</b>	<b>(18.1)</b>	<b>104.3</b>	<b>232</b>	13.6	OPM declined 210bps to 13.2%
Other income	(1)	11	14			4	219.7	
EBITDA	128	333	278	(16.6)	117.7	236	17.5	
Depreciation	(99)	(100)	(96)	(4.2)	(3.2)	(115)	(17.0)	
<b>EBIT</b>	<b>29</b>	<b>233</b>	<b>182</b>	<b>(21.9)</b>	<b>532.6</b>	<b>121</b>	50.2	
Interest	(7)	(7)	(7)		(12.2)	(4)	66.1	
PBT-before extra-ord items	21	227	176	(22.4)	721.0	117	49.7	
Extra-ord items	-	5	(26)			-		
PBT-after extra-ord items	21	231	150	(35.2)	599.5	117	27.5	
Tax	(11)	(13)	(15)	18.8	40.7	(14)	7.9	Effective tax rate at 10.2%, lower than our expectations of 12%
<b>PAT-Reported</b>	<b>11</b>	<b>218</b>	<b>135</b>	<b>(38.4)</b>	<b>1,168.9</b>	<b>103</b>	30.2	
Minority Interest	-	8	9	4.9	nmf	10		
<b>Net Income</b>	<b>11</b>	<b>227</b>	<b>143</b>	<b>(36.8)</b>	<b>1,250.0</b>	<b>113</b>	26.3	
<b>Adjusted Net Income</b>	<b>11</b>	<b>222</b>	<b>169</b>	<b>(23.8)</b>	<b>1,495.3</b>	<b>113</b>	49.3	
<b>EPS - reported (Rs)</b>	<b>0.3</b>	<b>7.0</b>	<b>4.5</b>	<b>(35.0)</b>	<b>1,228.0</b>	<b>3.2</b>	39.9	
<b>Margins</b>								
Gross profit margin (%)	26.6	32.6	31.5			29.0		
Operating profit margin (%)	7.1	15.3	13.2			11.5		Aggressive cost optimization and pricing improvements arrested the margin decline to 210bps despite sharp rupee appreciation and wage increases (2% onsite and 15% offshore)
Net profit margin - reported (%)	0.6	10.8	7.2			5.6		
Revenues from GE (Rs mn)	464.8	544.8	496.7	(8.8)	6.9	-		GE revenues continue to show weak trend with an 8.8% decline qoq
<b>Onsite: Offshore mix (Rs mn)</b>								
Onsite	883	993	888	(10.5)	0.6	-		
Offshore	754	898	914	1.7	21.2	-		

Source: Kotak Institutional Equities

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Kawaljeet Saluja, Jigar Mistry."

### Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of March 31, 2007

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#### Current rating system

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Our target price are also on 12-month horizon basis.

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