

Stock Rating
Overweight

Industry View
Attractive

April 26, 2007

Patni Computer Systems

Addressing 1½ Concerns of 3

What's Changed

C2007E EPS	From Rs30.80 to Rs31.58
C2008E EPS	From Rs37.43 to Rs38.10

Conclusion: There have been three key concerns that have depressed Patni's valuations, in our view: margin-related issues, lackluster revenue growth, and HR-related issues. Improvement in margins has been impressive over the past four quarters. Revenue growth appears to be picking up, but 2Q guidance is modest. HR-related concerns continue.

What's New: 1Q numbers were well ahead of expectations driven by better margins. Revenue rose 1% QoQ, marginally ahead of estimates, reported OPM expanded 175 bps (vs. expectations of a 140 bps decline) and net income rose 4% excluding one-time gains (vs. expectations of a 12% decline). OPM was up 330 bps YoY, excluding forex gains, thus OP was 9% ahead of expectations. Management guided towards 4.5% QoQ revenue growth in 2Q. The company added 292 employees (vs. guidance of 500) and attrition rose further from 27.4% to 29.1%.

Implications: This was the third consecutive quarter of a significant positive surprise on the net income line. Given the operational momentum, we continue to believe the stock is well placed, especially in light of attractive valuations. We estimate the stock trades at 13.7x 2007E earnings, a 45% discount to the top names, and 2.2x 2007 revenue, a 50-70% discount. Cash constitutes 20% of its market capitalization.

Key Ratios and Statistics

Reuters: PTNI.BO Bloomberg: PATNI IN

India Software

Price target	Rs600.00
Shr price, close (Apr 25, 2007)	Rs432.15
Mkt cap, curr (mn)	US\$1,466
52-Week Range	Rs511.40-251.00
Sh out, basic, curr (mn)	138.3

Fiscal Year (Dec)	2005	2006	2007e	2008e
EPS, basic, rpt'd (US\$)	0.48	0.56	0.73	0.89
Prior EPS, basic, rpt'd (US\$)	-	-	0.69	0.84
ModelWare EPS (US\$)*	0.48	0.56	0.73	0.89
Prior ModelWare EPS (US\$)	-	-	0.69	0.84
Revenue, net (US\$ mn)	450	579	677	813
ModelWare net inc (US\$ mn)	61	78	102	123

* = Please see explanation of Morgan Stanley ModelWare later in this note.

e = Morgan Stanley Research estimates

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Patni Computer Systems: Financial Summary

Profit and Loss Statements

US\$ 000; Year to June 30	F2004	F2005	F2006	F2007E	F2008E
Net Revenues	326,581	450,333	578,851	677,498	812,738
Cost of revenue	193,438	278,067	364,077	429,608	516,086
Selling, general and admin exp	58,388	85,082	104,636	109,098	125,974
Total Operating costs	251,826	363,149	468,713	538,706	642,060
EBIDTA	74,755	87,184	110,138	138,791	170,678
Depreciation	11,333	15,213	19,107	28,661	32,034
Misc Expenses/Provisions, etc	1,519	-152	1,191	2,792	3,350
Forward gain/loss	-2,082	-1,693	-2,748	2,630	0
EBIT	59,821	70,430	87,092	109,968	135,294
Other Income	2,558	4,239	11,322	13,739	15,964
Profit before Tax	62,379	74,669	98,414	123,707	151,258
Income Tax	7,695	13,803	20,674	22,202	28,739
Net Profit	54,684	60,866	77,740	101,505	122,519
ModelWare EPS (US\$)	0.44	0.48	0.57	0.73	0.89
Basic EPS (Rs)	18.93	19.44	25.83	31.58	38.10
DPS (Rs)	1.4	2.1	3.9	4.7	5.7

Balance Sheets

US\$ 000; Year to June 30	F2004	F2005	F2006	F2007E	F2008E
Liabilities					
Share Capital	186,449	305,322	292,102	292,102	292,102
Reserves & Surplus	101,980	148,909	216,189	302,468	406,610
Shareholders' Funds	288,429	454,231	508,291	594,570	698,711
Loan Funds	-	-	-	-	-
Non current liabilities	29,941	11,544	11,519	11,519	11,519
TOTAL LIABILITIES	318,370	465,775	519,809	606,088	710,230
Assets					
Gross Block	89,056	116,862	186,862	246,862	337,862
Less: Depreciation	39,594	51,687	70,794	99,455	131,489
Net Block	49,462	65,176	116,069	147,407	206,373
Capital Work in Progress	5,612	26,834	9,700	9,700	-
Net Fixed Assets	55,075	92,010	125,769	157,107	206,373
Deferred Tax Assets	3,635	3,402	3,402	3,402	3,402
Investments	85,623	141,776	62,162	62,162	62,162
Current Assets	103,765	121,952	150,637	172,655	202,841
Cash	77,143	148,820	241,072	306,306	360,629
Less: Current Liabilities	49,523	86,276	119,937	142,883	172,517
Net Current Assets	131,386	184,496	271,772	336,079	390,954
Other assets	42,653	44,092	56,705	47,339	47,339
TOTAL ASSETS	318,370	465,775	519,809	606,088	710,230

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Cash Flow Statements

US\$ 000; Year to June 30	F2004	F2005	F2006	F2007E	F2008E
Net profit	54,684	60,866	79,153	101,505	122,519
Depreciation	11,333	15,213	19,107	28,661	32,034
Interest	0	0	0	0	0
Change in working capital	-18,976	19,048	-10,869	-601	-7,088
Operating cash flow	47,041	95,127	87,391	129,565	147,465
Interest expense	0	0	0	0	0
Tax paid	423	-482	15,845	1,528	6,537
Dividend paid	-4,083	-6,532	-11,873	-15,226	-18,378
Capital expenditure	-24,902	-52,148	-52,866	-60,000	-81,300
Shares issued	64,785	118,873	-13,221	0	0
Investment in securities	-3,545	-69,364	79,614	0	0
Other items	-17,682	-27,008	-12,638	9,366	0
Net debt change	62,037	58,465	92,252	65,234	54,324
Opening Net (debt)/cash	70,479	132,516	190,981	283,234	348,467
Net (debt)/cash	132,516	190,981	283,234	348,467	402,791

Ratio Analysis

US\$ 000; Year to June 30	F2004	F2005	F2006	F2007E	F2008E
Growth (%)					
Revenues	30.1%	37.9%	28.5%	17.0%	20.0%
EBIDTA	32.4%	16.6%	26.3%	26.0%	23.0%
EBIT	26.5%	17.7%	23.7%	26.3%	23.0%
EBT	24.1%	19.7%	31.8%	25.7%	22.3%
Net Profit	29.6%	11.3%	27.7%	30.6%	20.7%
EPS	15.5%	1.0%	29.6%	28.2%	20.7%
Margins (%)					
EBIDTA	22.9%	19.4%	19.0%	20.5%	21.0%
EBIT	18.3%	15.6%	15.0%	16.2%	16.6%
EBT	19.1%	16.6%	17.0%	18.3%	18.6%
Net Profit	16.7%	13.5%	13.4%	15.0%	15.1%
Return (%)					
ROE	23.7%	16.4%	16.2%	18.4%	18.9%
ROCE	23.9%	18.0%	17.7%	19.5%	20.6%
ROA	18.6%	13.2%	13.0%	14.6%	15.0%
Gearing					
Net Debt/Equity		NC	NC	NC	NC
Valuations					
EV/EBITDA	14.9	13.3	9.5	1.5	5.8
P/E	22.8	22.2	16.7	13.7	11.3
P/BV	3.9	2.9	2.5	2.3	2.0
Dividend Yield (%)	0.33%	0.48%	0.90%	1.10%	1.32%

Addressing 1½ Concerns of 3

Summary & Conclusions

In our view, there have been three concerns on this stock that have resulted in depressed valuations:

1. **Issues on cost controls:** Patni's OPM fell significantly in 2005, leading to concerns since then on the company's ability to control costs effectively.
2. **Muted revenue growth:** Revenue growth has been muted for the past two quarters on account of client-specific issues.
3. **High attrition and low employee addition:** Attrition has been high relative to peers, and Patni had the lowest employee additions in 2006 in percentage terms among the top companies in the sector.

We see significant improvement on the first issue, some pick-up in revenue growth, while the HR-related issues remain of concern to us.

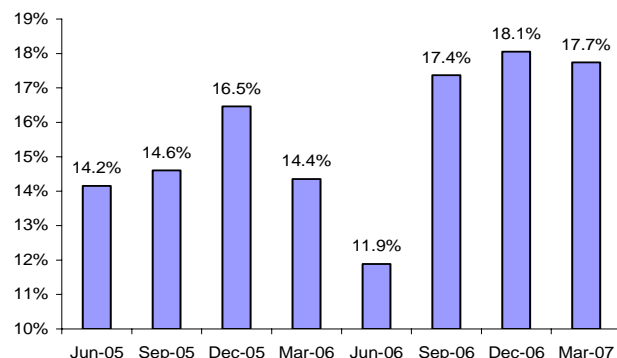
We believe that the valuations more than adequately compensate for the remaining concerns. The stock trades at 13.7x 2007 earnings, a 45% discount to large peers. It trades at 2.2 times revenue, a 50–70% discount. It trades at 1.5x EV/sales. The stock has also seen strong upward earnings revisions in the past few months.

Positive OPM Performance in Recent Quarters

Patni's OPM fell significantly from 19.7% in 2004 to 16% in 2005 (excluding forex impact), leading to concerns since then of the company's ability to manage cost inflationary factors. However, we note significant improvement in the past four quarters. OPM declined sequentially in June-06, but the decline was lower than expected given the wage increases and visa costs that kick in during the quarter. Patni has recorded smart OPM improvement in the three quarters since then (Exhibit 1).

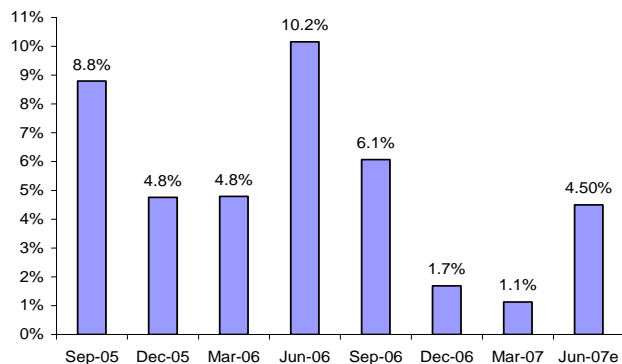
We believe that the company has been able to do so as a result of several measures, including pricing discipline, improvement in utilization, having more entry-level employees, and G&A controls. Utilization has improved from around the 67–68% levels for most of 2005 to around 73% now. G&A had accounted for around 12% of revenue on average for 2005 and 2006, but has been 10–10.5% in the past two quarters. We think these improvements made by the company will make

Exhibit 1
Smart OPM Improvement in F2H06



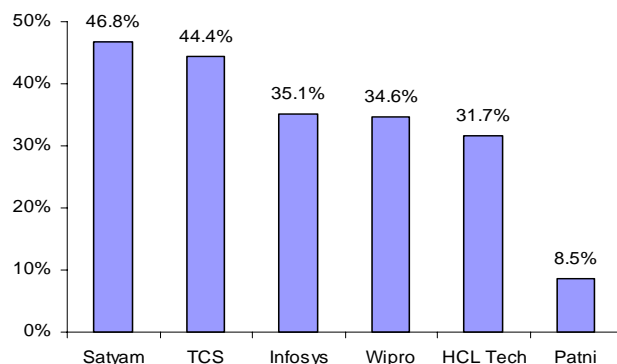
Source: Company data, Morgan Stanley Research

Exhibit 2
Slight Look-up in Revenue Growth in F2Q07 (QoQ)



Source: Company data, Morgan Stanley Research

Exhibit 3
Low Headcount Addition in 2006



Source: Company data, Morgan Stanley Research

comparisons easier in 2007 and there could be further benefits from these factors, especially on average pricing, in 2008.

We expect 2Q margins to fall significantly. This is a seasonal phenomenon given the wage inflation in 2Q. Management has indicated 300 to 320 bps of margin impact due to wage inflation and 80 bps of impact due to currency (it has assumed an average exchange rate of 42.50). It expects to offset some of these pressures. It absorbed H-1 visa costs (100 bps impact) in 1Q itself. It expects net income of US\$22.5–23 million, net of forex gains or losses, which includes one-time treasury income of US\$1.2 million.

Pick-up in Revenue Growth, but Modest

One of the recent concerns has been on muted revenue growth. Sequential growth has been 1% for the past two quarters (Exhibit 2) on account of client specific issues. Revenue growth should pick up going forward, given that these issues are now behind the company. Management has guided for 4.5% revenue growth in 2Q – while this does represent a pick-up, we see it as modest and not as a positive surprise.

The reported contribution of business from GE declined significantly in the quarter from 13.5% to 11.1%; however, we believe that adjusting for some reclassification (GE sold one of its units which is a customer for Patni), this revenue stream has been broadly stable.

HR-Related Issues Still a Concern

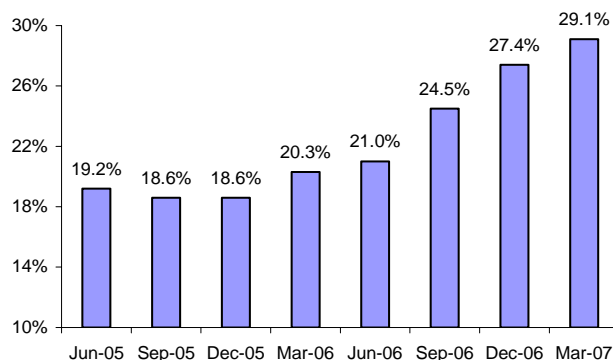
Attrition (for the trailing 12 months) has increased further from 27.4% in 4Q06 to 29.1% in 1Q07 (Exhibit 4). Management did clarify that turnover in absolute terms declined sequentially though the reported numbers for the trailing 12 months went up due to more difficult comparisons – it did not report a specific number for the quarter though. While the positive momentum is good, we think the number is high in absolute terms related to top peers and poses risk of project execution on a worst case basis.

Management also announced 18–20% average offshore wage increase and 4–4.5% onsite wage increase. The offshore increases are well ahead of those announced by its peer group (12–15%) for the second year in a row, though they have been in line with earlier management indications.

A related aspect has been low employee additions in the past few quarters by the company. Patni added 8.5% to its employee base in C2006, far lower than the additions made by top peers (Exhibit 3). It added 292 employees in 1Q, versus earlier guidance of 500. One reason for the low addition in

Exhibit 4

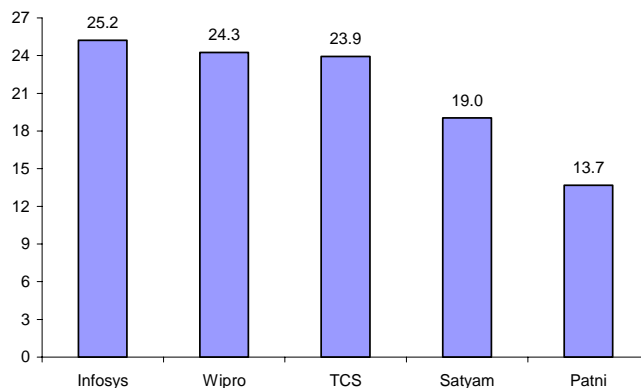
Attrition is Still a Concern



Source: Company data, Morgan Stanley Research
 Note: The attrition numbers are for the trailing 12-month periods

Exhibit 5

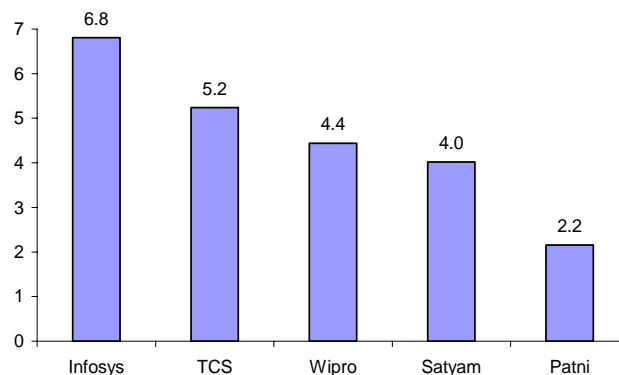
Attractive on P/E Multiples (C2007)...



Source: Company data, Morgan Stanley Research

Exhibit 6

...And on P/S Multiples



Source: Company data, Morgan Stanley Research

2006 was the company's focus on improving utilization in its efforts to improve OPM. However, we would like to see acceleration in employee additions to give us comfort on revenue growth. The company has guided for 1,200 additions (on a gross basis) for 2Q.

Valuation Discussion

We continue to find value in the stock. Patni trades at a significant discount to its top peers on P/E as well as P/S multiples (Exhibits 5 and 6) and has US\$295 million of cash and equivalents, which represents 20% of market capitalization. We have also seen positive momentum in

earnings revision for this stock over the past few months and Patni has surprised positively for the past few quarters.

Our earnings estimates remain broadly unchanged for 2007 and 2008. We maintain our target price of Rs600, which is based on a 35% discount to our target multiple on the larger stocks in the sector. The discount is to reflect the lower margins and the risks on the HR front. Better-than expected improvement in margins or volume growth present upside risks to our price target. Delivery issues or margin slippages driven by employee-related issues pose downside risks.

Exhibit 7

Patni: Quarterly Financials

US\$ '000s	Jun-06	QoQ	YoY	Sep-06	QoQ	YoY	Dec-06	QoQ	YoY	Mar-07	QoQ	YoY
Revenues	143027	10%	32%	151707	6.1%	28.3%	154271	1.7%	24.5%	156011	1.1%	20.2%
Cost of revenues	93227	15%	35%	94526	1%	26%	95551	1%	25%	96326	1%	19%
Depreciation	3190	7%	40%	3091	-3%	12%	3910	26%	37%	3809	-3%	28%
Gross Profit	46,610	1%	25%	54,090	16.0%	33%	54,810	1.3%	23%	55,876	1.9%	21%
<i>Gross margin (%)</i>	<i>32.6%</i>	<i>-291 bps</i>	<i>-176 bps</i>	<i>35.7%</i>	<i>307 bps</i>	<i>120 bps</i>	<i>35.5%</i>	<i>-13 bps</i>	<i>-39 bps</i>	<i>35.8%</i>	<i>29 bps</i>	<i>32 bps</i>
SG&A	28163	9%	36%	25722	-9%	17%	24796	-4%	8%	24771	0%	-5%
<i>as % of revenue</i>	<i>19.7%</i>	<i>-30 bps</i>	<i>65 bps</i>	<i>17.0%</i>	<i>-274 bps</i>	<i>-169 bps</i>	<i>16.1%</i>	<i>-88 bps</i>	<i>-247 bps</i>	<i>15.9%</i>	<i>-20 bps</i>	<i>-411 bps</i>
Depreciation	1284	-6%	-9%	1500	17%	21%	1790	19%	32%	2791	56%	105%
Prov for doubt debts and adv	161	20%	-199%	520	223%	167%	376	-28%	-266%	643	71%	380%
Foreign exchange (gain) / loss, net-98	-110%	-164%	1262	-1388%	-333%	590	-53%	-75%	-2630	-546%	-365%	
Operating income	17,100	-3%	12%	25,086	46.7%	41%	27,258	8.7%	51%	30,301	11.2%	72%
<i>Operating margin (%)</i>	<i>12.0%</i>	<i>-164 bps</i>	<i>-206 bps</i>	<i>16.5%</i>	<i>458 bps</i>	<i>147 bps</i>	<i>17.7%</i>	<i>113 bps</i>	<i>309 bps</i>	<i>19.4%</i>	<i>175 bps</i>	<i>583 bps</i>
Other income / (expense), net	4073	231%	192%	2946	-28%	88%	4484	52%	628%	3582	-20%	191%
PBT	21,173	12%	27%	28,032	32%	45%	31,742	13%	70%	33,883	7%	79%
Income taxes	4473	1%	91%	5751	29%	83%	6013	5%	51%	6034	0%	36%
<i>Tax rate (%)</i>	<i>21.1%</i>	<i>-238 bps</i>	<i>701 bps</i>	<i>20.5%</i>	<i>-61 bps</i>	<i>432 bps</i>	<i>18.9%</i>	<i>-157 bps</i>	<i>-233 bps</i>	<i>17.8%</i>	<i>-114 bps</i>	<i>-569 bps</i>
Net income	16,700	15.6%	17%	22,281	33.4%	37%	25,729	15.5%	75%	27,849	8.2%	93%
Extraordinary Item	19905											
Net income after extraordinary	-3,205	-122.2%	-122.4%	22,281	-795.2%	37.2%	25,729	15.5%	75.0%	27,849	8.2%	92.8%

Source: Company Data, Morgan Stanley Research

Note: Adjustments related to tax review have been classified as extraordinary items

Exhibit 8

Patni Operating Metrics

Quarter Ending	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07
Geography									
United States	85.5%	85.3%	84.3%	84.3%	83.0%	81.0%	82.1%	77.7%	78.7%
Europe (including UK)	9.2%	9.3%	9.2%	8.8%	10.2%	11.2%	9.7%	15.1%	14.2%
Japan	3.9%	4.2%	4.5%	4.6%	4.5%	3.9%	3.8%	3.0%	3.0%
Asia Pac (ex-Japan)/ RoW	1.4%	1.3%	2.0%	2.3%	2.3%	3.9%	4.4%	4.2%	4.1%
Industry Verticals (% of Revenue)									
Insurance	30.5%	28.2%	27.5%	25.4%	24.1%	23.2%	23.2%	22.5%	24.4%
Manufacturing	22.2%	22.6%	22.1%	20.9%	20.3%	21.4%	22.5%	22.2%	21.9%
Financial services	15.5%	15.3%	17.7%	15.6%	15.8%	15.5%	15.6%	14.3%	14.0%
Telecom	13.6%	14.9%	14.9%	17.4%	18.9%	20.2%	17.1%	19.4%	14.7%
GI	6.8%	6.4%	6.1%	6.6%	6.8%	5.8%	6.9%	7.3%	8.2%
ISV Practice	5.3%	5.7%	4.7%	4.5%	4.1%	4.2%	4.0%	4.2%	NA
Product Eng Practice	6.2%	6.8%	7.1%	9.7%	10.0%	9.7%	10.6%	10.2%	16.8%
Client Concentration									
Million dollar clients	46	50	58	61	61	64	71	74	74
New clients	18	19	18	19	20	23	27	22	26
Active Clients	181	191	191	199	206	220	235	239	252
GE	24.9%	23.0%	23.4%	17.7%	16.5%	14.5%	14.1%	13.5%	11.1%
Top client's contribution	24.9%	23.0%	23.4%	17.7%	16.5%	14.5%	14.1%	13.5%	11.1%
Top 5 clients' contribution	50.5%	48.0%	48.7%	42.1%	39.8%	38.2%	36.9%	38.0%	35.9%
Top 10 clients' contribution	62.5%	60.4%	61.2%	56.9%	55.3%	54.1%	51.6%	52.2%	48.8%
Service Line									
ADM	74.7%	72.7%	72.4%	72.8%	71.6%	71.8%	69.8%	70.1%	65.6%
Enterprise app systems	12.4%	14.0%	13.4%	12.4%	11.7%	13.6%	14.2%	13.2%	13.5%
Enterprise systems Mgt	5.1%	5.5%	5.5%	5.5%	5.2%	4.0%	4.6%	4.7%	5.6%
Embedded tech services	6.5%	6.5%	7.1%	5.5%	10.2%	9.0%	9.7%	9.1%	11.5%
Others	1.3%	1.3%	1.8%	3.8%	1.4%	1.6%	1.8%	2.8%	3.8%
Project Type									
Time & Materials	59.8%	61.0%	56.6%	60.7%	62.7%	64.0%	65.1%	67.0%	67.9%
Fixed Price (including fixed price SLA)	40.2%	39.0%	43.4%	39.3%	37.3%	36.0%	34.9%	33.0%	32.1%
Efforts by Location of delivery									
Onsite efforts	37.1%	36.2%	35.0%	33.6%	33.7%	33.7%	33.9%	32.1%	31.7%
Offshore efforts	62.9%	63.8%	65.0%	66.4%	66.3%	66.3%	66.1%	67.9%	68.3%
Employees									
Total staff	10426	10877	11237	11802	12148	12608	12428	12804	13096
Utilisation rate	64.7%	67.5%	67.7%	68.6%	67.8%	70.2%	72.3%	73.7%	72.8%
Attrition rate	18.3%	19.2%	18.6%	18.6%	20.3%	21.0%	24.5%	27.4%	29.1%

NA = Not Available

Source: Company Data, Morgan Stanley Research

Note: From Mar-04 onwards, the company reports number of client relationships and new client additions based on a revenue threshold from each engagement. Further, attrition rate reflects that during the trailing 12 months instead of an annualized number.

From Mar-07 ISV Practice is merged with others

Exhibit 9

Global Software Valuations

P/E and PEG (April 25, 2007 for Indian companies, April 24, 2007 for others)

Company	Bloomberg Code	Local Curr.	Local Price	Mkt Cap. (US\$m)	Latest Reported Results	EPS (Local Curr)			P/E (x)			EPS Growth (%)			2-Year EPS CAGR	PEG
						Actual	EST (+1)	EST (+2)	Actual	EST (+1)	EST (+2)	Actual	EST (+1)	EST (+2)		
US Companies																
Accenture	ACN	US\$	38.74	32,174	Aug-06	1.63	1.91	2.23	23.8	20.3	17.4	11%	17%	17%	17%	1.20
Amdocs	DOX	US\$	37.88	8,459	Sep-06	1.67	1.85	2.14	22.7	20.5	17.7	16%	11%	16%	13%	1.55
BearingPoint *	BE	US\$	7.42	1,496	Dec-05	0.18	0.29	0.42	40.8	25.4	17.9	333%	60%	42%	51%	0.50
Cognizant Solutions	CTSH	US\$	87.59	13,374	Dec-06	1.55	2.17	2.87	56.5	40.4	30.5	48%	40%	32%	36%	1.12
Computer Sciences *	CSC	US\$	55.36	9,589	Mar-06	3.11	3.58	4.09	17.8	15.5	13.5	19%	15%	14%	15%	1.05
EDS	EDS	US\$	29.35	15,303	Dec-06	0.99	1.53	1.68	29.6	19.2	17.5	65%	55%	10%	30%	0.63
Infosys - ADR	INFY	US\$	53.07	29,384	Mar-06	1.10	1.64	2.05	48.0	32.4	25.9	31%	48%	25%	36%	0.89
Patni - ADR	PTI	US\$	26.49	1,832	Dec-06	1.27	1.55	1.87	20.8	17.1	14.2	33%	22%	21%	21%	0.81
Satyam - ADR	SAY	US\$	25.13	8,383	Mar-06	0.75	1.05	1.25	33.6	23.9	20.1	36%	41%	19%	29%	0.81
Wipro - ADR	WIT	US\$	16.30	23,469	Mar-06	0.35	0.48	0.59	46.7	34.3	27.7	26%	36%	24%	30%	1.15
WNS	WNS	US\$	27.6	1,100	Mar-06	0.47	0.68	0.92	58.8	40.6	30.0	NM	45%	35%	40%	1.02
European Companies																
Cap Gemini	CAP	Euro	57.84	10,533	Dec-06	2.16	2.45	3.33	26.8	23.6	17.4	89%	13%	36%	24%	0.98
Logica PLC	LOG	GBp	184.75	5,674	Dec-05	8.90	10.30	12.60	20.8	17.9	14.7	39%	16%	22%	19%	0.94
TietoEnator	TIE1V	Euro	22.46	2,402	Dec-06	1.06	1.35	1.46	21.2	16.6	15.4	-34%	27%	8%	17%	0.96
Indian Companies																
HCL Tech	HCLT	INR	332.35	5,273	Jun-06	11.34	15.17	18.20	29.3	21.9	18.3	15%	34%	20%	27%	0.82
Hexaware	HEXW	INR	178.85	580	Dec-06	8.99	11.09	13.72	19.9	16.1	13.0	20%	23%	24%	23%	0.69
i-flex	IFLX	INR	2398.55	4,788	Mar-06	28.26	37.64	50.67	84.9	63.7	47.3	7%	33%	35%	34%	1.88
Infosys - Local	INFO	INR	2017.90	27,611	Mar-06	45.03	66.86	83.55	44.8	30.2	24.2	31%	48%	25%	36%	0.83
MindTree Consulting	MTCL	INR	776.65	710	Mar-06	17.35	26.85	30.31	44.8	28.9	25.6	210%	55%	13%	32%	0.90
Mphasis BFL Group	BFL	INR	314.15	1,249	Mar-06	9.26	8.77	13.30	33.9	35.8	23.6	16%	-5%	52%	20%	1.81
Patni - Local	PATNI	INR	432.15	1,466	Dec-06	25.95	31.58	38.10	16.7	13.7	11.3	33%	22%	21%	21%	0.65
Polaris	POL	INR	195.35	471	Mar-06	2.16	11.25	14.20	90.4	17.4	13.8	-68%	421%	26%	156%	0.11
Satyam - Local	SCS	INR	466.45	7,633	Mar-06	15.25	21.45	25.52	30.6	21.7	18.3	36%	41%	19%	29%	0.74
TCS	TCS	INR	1220.80	29,303	Mar-06	29.47	42.22	53.94	41.4	28.9	22.6	26%	43%	28%	35%	0.82
Tech Mahindra *	TECHM	INR	1500.60	4,318	Mar-06	22.63	46.90	66.51	66.3	32.0	22.6	125%	107%	42%	71%	0.45
Wipro - Local	WPRO	INR	556.00	19,635	Mar-06	14.24	19.39	24.02	39.0	28.7	23.1	26%	36%	24%	30%	0.96

E = Morgan Stanley Research Estimates except for those marked with an asterisk (*), which are the consensus estimates as provided by IBES.

NM = Not Meaningful

For Infosys, TCS, Satyam and Wipro Est (+1) and Est (+2) refer to F2007 and F2008 respectively

Note 1: Estimates for Indian ADRs are Indian Rupee estimates converted to US\$; For HCLT and Patni US\$ estimates are converted to INR

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Source: Bloomberg, Morgan Stanley Research



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(as of March 31, 2007)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total	% of Rating Category
Overweight/Buy	843	38%	292	44%	35%
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Total	2,198		671		

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Industry Coverage: India Software

Company (Ticker)	Rating (as of)	Price (04/25/2007)
Anantha Narayan		
HCL Technologies (HCLT.BO)	E (01/30/2004)	Rs332.35
Hexaware Technologies Limited (HEXT.BO)	O (06/22/2006)	Rs178.85
Infosys Technologies (INFY.BO)	O (04/17/2006)	Rs2,017.9
MindTree Consulting Limited (MINT.BO)	U-V (04/10/2007)	Rs776.65
MphasiS BFL Group (MBFL.BO)	E (03/15/2004)	Rs314.15
Patni Computer Systems (PTNI.BO)	O (08/08/2005)	Rs432.15
Polaris Software Lab Ltd. (POLS.BO)	E (02/20/2007)	Rs195.35
Satyam Computer Services (SATY.BO)	O (03/18/2002)	Rs466.45
Tata Consultancy Services (TCS.BO)	O (09/29/2004)	Rs1,220.8
Wipro Ltd. (WIPR.BO)	E (03/22/2002)	Rs556
i-flex Solutions Ltd. (IFLX.BO)	E (10/31/2005)	Rs2,398.55

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