

IT services

EVENT UPDATE

Analyst: Hitesh Shah, CFA (91-22-6622 2565; hitesh.shah@idfcsski.com)
Event: Cognizant Technology Solutions Q4CY09 results
Comment: Strong CY10 guidance from Cognizant: Read for Indian IT services sector

Key Result highlights

Cognizant Technology Solutions reported Q4CY09 results:

- Revenues grew 5.8% qoq – largely volume driven growth; pricing was stable
- BFSI grew ~4% qoq, Healthcare grew ~6% qoq while Retail/ Mfg/ Logistics grew ~11% qoq, Other verticals grew ~4% qoq
- Company hired 10,000 employees during the quarter (~16% of quarter-ago base) – Strong hiring reflects rising utilization and confidence in business pipeline, in our view

Guidance:

- For Q1CY10, company has guided for “at least 3.6% qoq growth”; for CY10, company guided for “at least 20%” revenue growth
- Full year guidance builds 3.4% CQGR for remaining three quarters of CY10.

Management commentary on environment:

Overall environment:

- *“the economies of the world have begun to recover and there is a more stable business climate when compared to a year ago”*
- *“however, there remains considerable debate on the shape of the recovery and the so-called new normal in terms of long term growth rates for key economies of the world”*

IT budgets/ spend and offshore increase:

- *“clients IT budgets in 2010 will probably range from flat to slightly up; however..”*
- *“the proportion of IT budgets that will be dedicated to offshoring will rise compared to 2009”*
- *“clients are beginning to spend more both on the lights on stuff but also on discretionary projects”*
- *“there is still caution out there.. clients are still not sure what the new normal is going to be”*
- *“clients are still not willing to commit to the big transformational programs”*

Guidance comments

- *Full year growth guidance is conservative and management is “taking a cautious view on the second half of 2010”*

US vs. Europe

- *“U.S. being a little bit ahead of Europe in terms of the return to discretionary spending”*
- *“seeing very good signs in Europe as well so Europe might be a quarter behind the U.S. at this point, not more”*

View on Indian IT services stocks:

Overall demand environment for IT services has improved and IT budgets for 2010 are likely to be flat with some positive bias. Management commentary on increased offshore spends despite flat budgets gels with our **“Accelerated Offshore Adoption”** thesis. We expect three tier1 Indian IT companies to report 20%+ revenue growth in FY11 in USD term. Infosys, the only company amongst Indian large cap to guide for full year revenues, might guide for ~10% revenue growth to begin with and then beat-and-raise quarterly and annual guidance as year progresses. We maintain positive sector view and Outperformer rating on all three tier1 Indian IT stocks – Infosys is our top pick in Indian IT services space.

Indian IT services – Valuation comparison table

Company	Price (Rs)	Mkt Cap (Rs bn)	Mkt Cap (US\$ m)	Reco	Target Price (Rs)	PER (x)			EPS CAGR		EV/EBITDA FY10E	EV/Sales FY10E
						FY10E	FY11E	FY12E	FY10-12E	FY09-12E		
Infosys	2,474	1,413	30,276	OP	3,500	23.1	20.6	16.9	16.9	11.9	20.6	7.2
TCS	735	1,439	30,835	OP	970	21.5	19.8	17.4	11.2	16.9	16.5	4.8
Wipro	654	961	20,584	OP	920	21.4	19.6	17.1	11.8	12.9	21.6	3.4

Source: IDFCSSKI Research

Please refer following notes for detail analysis on Tier1 IT services companies' result notes:

- Infosys Technologies (Outperformer) - **Upping the Ante** (Company update) – dated 12-Jan-10
- TCS' Q3FY10 results (Outperformer): **Good Results!!** – dated 15-Jan-10
- Wipro's Q3FY10 results (Outperformer): **Good results - in-line with raised expectations** – dated 20-Jan-10

Please refer our recent sector reports for our view on Indian IT services sector:

- Indian IT Services - **Buoyant offshore demand, best is yet to come** – dated 25-Jan-10
- The Extra Mile: **IDFC-SSKI IT Mid-cap Conference** – dated 29-Jan-10

IDFC - SSKI INDIA

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6622 2600
Pathik Gandotra	Head of Research; Financials, Strategy	pathik@idfcsski.com	91-22-662 22525
Shirish Rane	Construction, Power, Cement	shirish@idfcsski.com	91-22-662 22575
Nikhil Vora	FMCG, Media, Mid Caps, Education, Exchanges	nikhilvora@idfcsski.com	91-22-662 22567
Ramnath S	Automobiles, Auto ancillaries, Real Estate, Oil & Gas	ramnaths@idfcsski.com	91-22-662 22570
Nitin Agarwal	Pharmaceuticals	nitinagarwal@idfcsski.com	91-22-662 22568
Chirag Shah	Metals & Mining, Telecom, Pipes, Textiles	chirag@idfcsski.com	91-22-662 22564
Bhoomika Nair	Logistics, Engineering	bhoomika@idfcsski.com	91-22-662 22561
Hitesh Shah, CFA	IT Services	hitesh.shah@idfcsski.com	91-22-662 22565
Bhushan Gajaria	Retailing, FMCG, Media, Mid Caps	bhushangajaria@idfcsski.com	91-22-662 22562
Salil Desai	Construction, Power, Cement	salil@idfcsski.com	91-22-662 22573
Ashish Shah	Construction, Power, Cement, Telecom	ashishshah@idfcsski.com	91-22-662 22560
Probal Sen	Oil & Gas	probal@idfcsski.com	91-22-662 22569
Chinmaya Garg	Financials	chinmaya@idfcsski.com	91-22-662 22563
Aniket Mhatre	Automobiles, Auto ancillaries	aniket@idfcsski.com	91-22-662 22559
Abhishek Gupta	Telecom	abhishek.gupta@idfcsski.com	91-22-662 22661
Ritesh Shah	Pharmaceuticals, IT Services	riteshshah@idfcsski.com	91-22-662 22571
Saumil Mehta	Metals, Pipes	saumil.mehta@idfcsski.com	91-22-662 22578
Vineet Chandak	Real Estate	vineet.chandak@idfcsski.com	91-22-662 22579
Swati Nangalia	Mid Caps, Media, Exchanges	swati@idfcsski.com	91-22-662 22576
Sameer Bhise	Strategy, Financials	sameer@idfcsski.com	91-22-662 22574
Nikhil Salvi	Construction, Power, Cement	nikhil.salvi@idfcsski.com	91-22-662 22566
Shweta Dewan	Mid Caps, Education, FMCG	shweta.dewan@idfcsski.com	91-22-662 22577
Dharmendra Sahu	Database Analyst	dharmendra@idfcsski.com	91-22-662 22580
Rupesh Sonawale	Database Analyst	rupesh@idfcsski.com	91-22-662 22572
Dharmesh Bhatt	Technical Analyst	dharmesh@idfcsski.com	91-22-662 22534
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6622 2500
Naishadh Paleja	MD, CEO	naishadh@idfcsski.com	91-22-6622 2522
Paresh Shah	MD, Dealing	paresh@idfcsski.com	91-22-6622 2508
Vishal Purohit	MD, Sales	vishal@idfcsski.com	91-22-6622 2533
Nikhil Gholani	MD, Sales	nikhil@idfcsski.com	91-22-6622 2529
Sanjay Panicker	Director, Sales	sanjay@idfcsski.com	91-22-6622 2530
V Navin Roy	Director, Sales	navin@idfcsski.com	91-22-6622 2528
Suchit Sehgal	AVP, Sales	suchit@idfcsski.com	91-22-6622 2532
Pawan Sharma	MD, Derivatives	pawan.sharma@idfcsski.com	91-22-6622 2539
Jignesh Shah	AVP, Derivatives	jignesh@idfcsski.com	91-22-6622 2536
Sunil Pandit	Director, Sales trading	sunil@idfcsski.com	91-22-6622 2524
Mukesh Chaturvedi	SVP, Sales trading	mukesh@idfcsski.com	91-22-6622 2512
Viren Sompura	VP, Sales trading	viren@idfcsski.com	91-22-6622 2527
Rajashekhar Hiremath	VP, Sales trading	rajashekhar@idfcsski.com	91-22-6622 2516

Disclaimer

This document has been prepared by IDFC-SSKI Securities Ltd (IDFC-SSKI). IDFC-SSKI and its subsidiaries and associated companies are a full-service, integrated investment banking, investment management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities.

This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavor to update the information herein on reasonable basis, IDFC-SSKI, its subsidiaries and associated companies, their directors and employees ("IDFC-SSKI and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent IDFC-SSKI and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved). The investment discussed or views expressed may not be suitable for all investors.

Affiliates of IDFC-SSKI may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDFC-SSKI and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this document may come are required to inform themselves of, and to observe, such applicable restrictions.

Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

IDFC-SSKI and its affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell, or may be materially interested in any of the securities mentioned or related securities. IDFC-SSKI and its affiliates may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall IDFC-SSKI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of IDFC-SSKI and its affiliates.

This document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. IDFC-SSKI will not treat recipients as customers by virtue of their receiving this report.

Explanation of Ratings:

1. Outperformer: More than 5% to Index
2. Neutral: Within 0-5% to Index
3. Underperformer: Less than 5% to Index

Disclosure of interest:

1. IDFC - SSKI and its affiliates may have received compensation from the company covered herein in the past twelve months for issue management, capital structure, mergers & acquisitions, buyback of shares and other corporate advisory services.
2. Affiliates of IDFC - SSKI may have received a mandate from the subject company.
3. IDFC - SSKI and its affiliates may hold paid up capital of the subject company.
4. IDFC - SSKI and its affiliates, their directors and employees may from time to time have positions or options in the company and buy or sell the securities of the company(ies) mentioned herein.