



## Economy News

- ▶ The petrol pricing strategy of oil marketing companies (OMCs) is likely to be clear in the second fortnight of this month. The oil companies have been consulting each other to decide the periodicity of petrol price revision (BS).
- ▶ The tax incentive to exporters, duty reimbursement on imported inputs going into exports is likely to be extended beyond the end of the year to at least till the time the proposed goods and services tax or GST is rolled out (ET).
- ▶ The new guidelines on sharing of database for distribution of insurance products issued by the insurance regulator, IRDA have allowed insurers to tap databases of public companies and agencies subject to some restrictions (ET).

## Corporate News

- ▶ A consortium led by Bangalore's **MindTree Ltd** and US-based Accenture has emerged the frontrunner to win a contract from the Unique ID Authority of India. The contract is valued at nearly Rs2bn initially. The MindTree team, which includes biometric providers Daon of Ireland and Lithuania's Nueurotechnologia, pitched the lowest at Rs 2.75 a biometric authentication, according to details of the financial bids available with ET. (ET)
- ▶ **Essar Power Ltd (EPL)**, has entered into binding agreement for the acquisition of a 100% interest in Navabharat Power Pvt Ltd. EPL will initially acquire 76 per cent of the existing equity with the balance 24 per cent being acquired upon completion of certain project milestones. Navabharat Power is a 2,250 MW coal-fuelled power plant being set up in Dhenkanal district in Orissa. (ET)
- ▶ **Sun Television Network** and the **Network18 Group** announced an alliance to launch a pan-India distribution entity, to be called Sun18. Said Kalanithi Maran, chairman & MD of Sun: "This is being created to leverage our very successful television brands across the country. Group CEO of Network18 Haresh Chawla said: "This unique alliance will bridge one of the widest gaps that has existed in the Indian television space for long - the gap between the South and the rest-of-India markets." (BS)
- ▶ **Super Religare Laboratories Ltd (SRL)** is set to buy the diagnostics services business of Piramal Healthcare Ltd for Rs5-5.5bn, according to three people familiar with the development. "We cannot make any official comments on this at the moment," an SRL spokesperson said. A Piramal spokesperson said: "I don't have any information yet from the management." (The Mint)

### Equity

	13 Jul 10	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	17,986	0.3	3.7	0.9
NIFTY Index	5,401	0.3	3.9	1.5
BANKEX Index	11,303	0.8	4.1	5.5
BSET Index	5,398	(2.7)	0.9	(1.9)
BSETCG INDEX	14,907	1.0	6.0	4.5
BSEOIL INDEX	10,723	1.3	3.5	3.7
CNXMcap Index	8,373	0.7	5.3	5.4
BSESMCAP INDEX	9,394	0.7	7.4	3.4
<b>World Indices</b>				
Dow Jones	10,363	1.4	1.7	(6.8)
Nasdaq	2,242	2.0	(0.1)	(10.5)
FTSE	5,271	2.0	1.3	(9.1)
Nikkei	9,537	(0.1)	(0.7)	(12.5)
Hangseng	20,431	(0.2)	3.1	(6.5)

### Value traded (Rs cr)

	13 Jul 10	% Chg - Day
Cash BSE	4,102	11.5
Cash NSE	14,061	11.2
Derivatives	80,272.0	7.7

### Net inflows (Rs cr)

	12 Jul 10	% Chg	MTD	YTD
FII	1,116	(68)	6,271	36,516
Mutual Fund	(137)	(27,420)	(244)	(8,371)

### FII open interest (Rs cr)

	12 Jul 10	% Chg
FII Index Futures	16,876	4.9
FII Index Options	51,502	1.5
FII Stock Futures	31,540	2.0
FII Stock Options	1,466	4.2

### Advances / Declines (BSE)

	13 Jul 10	A	B	S	Total	% total
Advances	132	1,100	254	1,486	56	
Declines	65	814	182	1,061	40	
Unchanged	8	76	17	101	4	

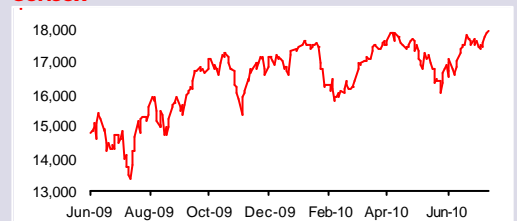
### Commodity

	13 Jul 10	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	77	(0.1)	2.6	(10.2)
Gold (US\$/OZ)	1,212	1.3	(0.7)	4.9
Silver (US\$/OZ)	18	1.6	0.2	(1.1)

### Debt / forex market

	13 Jul 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.62	7.61	7.69	N/A
Re/US\$	46.82	46.78	46.49	44.47

### Sensex



**RESULT UPDATE****Dipen Shah**dipen.shah@kotak.com  
+91 22 6621 6301**INFOSYS TECHNOLOGIES LTD****PRICE: Rs.2797****TARGET PRICE: Rs.2956****RECOMMENDATION: BUY****FY11E P/E: 22.9x**

Infosys' 1QFY11 results were almost in line with our estimates at the revenues and EBIT levels. However, PAT came in lower than our expectations due to a higher tax provision and a forex loss.

A strong 7.6% volume growth in IT services was the highlight of the quarter. This is the highest sequential volume growth in past eight quarters. In our opinion, this reflects the increased spending velocity of clients and the increase in off-shore content of budgets. Overall volumes rose by 6.9% QoQ.

However, average realizations were lower by 0.6% QoQ on a CC basis. This is the second successive quarter of moderation. Also, attrition has increased to 15.8% on an LTM basis and is also higher-than-expected. These are areas of concerns and we will closely watch these in future quarters.

The revenue growth guidance in USD terms has been increased to 19% - 21% (16% - 18%) and reflects the increased visibility and confidence for the quarters going ahead. Higher business velocity and increased discretionary spends, as indicated by the management, make us optimistic on the future prospects.

The revised USD EPS guidance at \$2.42 - \$2.52 per ADS indicates a growth of 5% - 10% and reflects the pressures on pricing and cross currency impact, we believe. The rupee EPS guidance stands at Rs.112 - Rs.117. The guidance also accommodates an average of 14% off-shore salary hike and impact of cross currency movements. The higher-than-expected salary hike follows higher confidence in the future and but is also a step towards reigning in the high attrition levels.

Infosys is benefiting from the positive change in client sentiments and the presence of various margin levers, we opine. Infosys has set its FY11 gross hiring target at 36,000 v/s 30,000 earlier. Infosys's long term strategy is geared towards providing services through new engagement models. We tweak out FY11 EPS estimates to Rs.122. The price target stands revised to Rs.2956 (Rs.2949 earlier). We remain optimistic on the company's future prospects, led by a strong management team and maintain BUY, noting the potential for further upsides, if any.

**Summary table**

(Rs mn)	FY09	FY10	FY11E
Sales	216,930	227,420	271,397
Growth (%)	30.0	4.8	19.3
EBITDA	71,950	78,610	81,759
EBITDA margin (%)	33.2	34.6	30.1
Net profit	58,970	62,190	69,697
Net cash (debt)	102,040	105,560	132,751
EPS (Rs)	103.1	108.9	122.1
Growth (%)	29.9	5.6	12.1
CEPS	116.4	124.8	122.1
DPS (Rs)	13.5	25.0	35.0
ROE (%)	36.8	30.1	27.5
ROCE (%)	43.1	38.3	36.7
EV/Sales (x)	7.4	7.0	5.9
EV/EBITDA (x)	22.3	20.3	19.6
P/E (x)	27.2	25.7	22.9
P/Cash Earnings	24.1	22.4	22.9
P/BV (x)	8.8	6.9	5.8

Source: Company, Kotak Securities - Private Client Research

**1QFY11 results - almost in line with estimates**

(Rs mn)	1QFY11	4QFY10	% Chg	1QFY10	% Chg
Turnover	61,980	59,440	4.3	54,720	13.3
Expenditure	42,380	39,220		36,040	
<b>EBIDTA</b>	<b>19,600</b>	<b>20,220</b>	<b>-3.1</b>	<b>18,680</b>	<b>4.9</b>
Depreciation	2,050	2,200		2,220	
<b>EBIT</b>	<b>17,550</b>	<b>18,020</b>	<b>-2.6</b>	<b>16,460</b>	<b>6.6</b>
Other Income	2,390	2,080		2,690	
<b>PBT</b>	<b>19,940</b>	<b>20,100</b>	<b>-0.8</b>	<b>19,150</b>	<b>4.1</b>
Tax	5,060	4,410		3,880	
<b>PAT</b>	<b>14,880</b>	<b>15,690</b>	<b>-5.2</b>	<b>15,270</b>	<b>-2.6</b>
E. O items	0	480		0	
PAT after EO items	14,880	16,170		15,270	
<b>EPS (Rs)</b>	<b>26.1</b>	<b>27.5</b>		<b>26.7</b>	
EBIDTA (%)	31.6	34.0		34.1	
EBIT (%)	28.3	30.3		30.1	
Net Profit (%)	24.0	26.4		27.9	

Source : Company

**Revenues grew by 6% on CC basis, volumes by 6.9%**

- The company reported a 6% (6.1%) CC revenue growth, which beat estimates. This was led by a 6.9% (5.2%) rise in volumes while average realizations fell by 0.6%.
- In fact, IT services reported a 7.6% volume growth, which was the highest in the past seven quarters.
- Volumes grew as the company penetrated deeper into the existing clients. Clients, in turn, released more orders during the quarter, engaging Infosys for diverse services.
- The growth was led by the Top clients of Infosys. Revenues from the Top 10 clients grew by 5.5% as against an overall growth of 4.3% in INR terms.
- The company's ability to provide Business Transformation services also allowed it to increase wallet share.
- Infosys added 38 new clients during the quarter. Infosys is now looking at garnering a larger share of the Fortune 2000 accounts, globally.
- Infosys currently services 137 Fortune 500 clients and added 6 new Fortune 500 accounts in 1QFY11, according to the management.
- Infosys continued to win large deals and closed a couple of them during the quarter.
- According to the management, it is pursuing 12 such large deals currently.
- Revenues from Europe declined by 0.8% QoQ, in CC terms.
- We opine that, though there was a decline, it was much lower than feared. We will watch the growth rates in this geography in the future quarters for any potential impact.

**Average realizations down for the second consecutive quarter**

- On a constant currency basis, average realizations were lower by about 0.60% while in reported terms, there were down 1.6%, largely because of the currency impact.
- The 0.6% fall came as a surprise to us. The management indicated that, this was due to the tailwind impact of the re-negotiations happened during the previous fiscal and this is expected to continue for another two quarters.
- The clients with whom Infosys has re-negotiated rates, grew much faster during the quarter and thus, impacted average realizations.
- We also believe that, the mix change may have had an impact. During the quarter, ADM revenues contributed 40.8% to revenues v/s 39.6% in previous quarter.
- Infosys is not witnessing any out-of-the-turn pricing re-negotiations and we expect pricing to improve in line with the demand trends.

**Margins down QoQ - currency impact**

- Infosys reported a near 200bps dip in EBIT margins in 1QFY11.
- The appreciation of the INR against all major currencies (30bps), CC impact (60bps), lower bill rates (10bps) and salary increments (300bps) impacted margins. The company was able to mitigate the same through increased utilization rates (220bps)

### Employee additions and salary increments

- Infosys added 1026 employees on a net basis. This was lower than expected and was a result of the higher attrition rates at 15.8% on an LTM basis.
- Infosys has set a target of adding 36000 employees on a gross basis in FY11 (30000, earlier).
- According to the management, a part of this (about 2000) is expected to set off the higher attrition and the balance (about 4000) to support higher growth.
- After accounting for attrition, we have assumed a net addition of 19000 employees during the fiscal.
- Infosys also raised salaries for its off-shore employees by 14% and on-site employees by 2% - 3%, on an average, WEF 1QFY11. These increments follow the near 8% and 2% increments, respectively, made in 3QFY10.
- We opine that, this is a sign of the improved confidence levels of the company in the future revenue growth.
- The increments have also been made to reign in attrition levels which jumped to about 13.4% in 4QFY10 and 15.8% in 1QFY11. According to the management, the higher attrition levels were a result of poaching by other companies.

### Forex hedges

- Infosys suffered forex loss of about Rs.200mn during the quarter.
- The company had hedges of more than \$700mn as at 1QFY11 end v/s \$503mn in the previous quarter.

### FY11 guidance - solid volume growth expected

- Infosys has guided to a 19% - 22% (16% - 18%) revenue growth in FY11 in USD terms. This is expected to be largely led by volume growth with average realizations assumed to be slightly lower for the fiscal.
- The management has assumed FY11 average realizations at the 1QFY11 levels.
- The volume growth guidance was above our estimates and reflects the optimism about business flows going ahead.
- In INR terms, the company expects revenues to grow by about 16% - 18%.
- The EPS in INR terms is expected to be Rs.112 - Rs.117 (Rs.107 - Rs.111), indicating a 3% - 7% growth.
- The guided growth for EPS is lower than the revenue growth and we believe that, this reflects the impact of currencies and also the lower average realizations expected during the fiscal.
- The EPS guidance in INR terms already accommodates the impact of the cross currency fluctuations, near 2% appreciation in the rupee v/s USD and the 14% off-shore salary hike for FY11.
- Thus, we believe that, the margins could be at risk only if the rupee appreciates significantly from the assumed levels of Rs.46.45 per USD or if there are large cross-currency movements.

### We tweak our earnings estimates

- We have made necessary changes to our earnings estimates for FY11, based on the improved macro scenario.
- We expect volumes to grow by 22% YoY FY11. Average realizations are expected to be marginally higher than 1QFY11 levels. We have assumed the rupee at Rs.45.50 per USD by FY11 end.
- EBIT margins are expected to be marginally lower in FY11 due to the expected rupee appreciation and salary hikes.
- The revenue growth (pyramid effect), better employee utilization levels and other cost initiatives are expected to restrict the impact to about 50bps.
- Consequently, PAT is expected to rise to about Rs.70bn in FY11, an EPS of Rs.122.

### Valuations

**We maintain BUY on Infosys Technologies with a price target of Rs.2956**

- We have marginally tweaked our price target to Rs.2956 v/s Rs.2949 earlier.
- At our target price, Infosys will quote at about 24x FY11 estimated earnings, which is at the mid-point of the valuation range enjoyed by Infosys in the previous upturn

### Concerns and risks

- A sharp appreciation in the rupee against various currencies will impact our earnings estimates.
- Delay in the economic recovery of major user economies will likely impact future revenue growth of the company.

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Dipen Shah holding 50 shares of Infosys Technologies

## Bulk deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
13-Jul	Akar Tools	Atul Shantilal Kapadia	B	42,000	54.0
13-Jul	Akar Tools	Taruna Rajendra Kothari	S	54,000	54.4
13-Jul	Dazzel Conf	Gale Inc (Prop. Hemant Suresh Lokhnade) Golden	B	30,000	28.9
13-Jul	Dazzel Conf	Bakulesh Kantilal Mehta	S	30,000	28.9
13-Jul	Filatex Fash	Khushal C Jain HUF	B	49,950	13.3
13-Jul	Filatex Fash	Jain Leena Khushal	B	33,652	13.3
13-Jul	Filatex Fash	Vipul Bhatt	S	37,550	13.3
13-Jul	Fomento Res	Kamal Kumar Dugar And Co	B	17,100	100.5
13-Jul	Fomento Res	Sharad Shah	B	18,497	100.5
13-Jul	Fomento Res	ICICI Bank Ltd Investments	S	35,497	100.5
13-Jul	Goldcrest Fin	Tarun Chmanlal Mehta	B	100,000	24.4
13-Jul	Goldcrest Fin	Prabha Dharamshi Pujara	S	98,450	24.4
13-Jul	Gujarat Capital	Sarswati Vincom Limited	B	137,760	110.8
13-Jul	Gujarat Capital	Surendra Singh Bengani	S	66,147	108.8
13-Jul	Gujarat Capital	Prateek Agarwal	S	61,793	111.0
13-Jul	IFL Promoters	Inder Pal Dogra	B	30,000	19.8
13-Jul	IFL Promoters	Balwantsingh Bisht	S	30,000	19.8
13-Jul	Jaihind Syn	Anil Ganpatlal Jain	S	50,000	20.3
13-Jul	Jhs Svendgaard	Shaktiman Steel Casting Pvt Ltd.	B	398,755	71.6
13-Jul	Jhs Svendgaard	Advent Advisory Services Pvt Ltd	S	400,000	71.6
13-Jul	Kailash Ficom	Sparkle Toothbrush Mfg Co Pvt	B	85,000	48.6
13-Jul	Katare Spin	Chimanlal Maneklal Securities Pvt.Ltd	B	21,878	30.4
13-Jul	Kay Power	Bampsl Securities Ltd	S	78,207	19.5
13-Jul	Kay Power	Prakashchand Gupta	S	85,961	20.0
13-Jul	Kesar Enter	Sar Auto Products Limited	S	32,131	72.2
13-Jul	Kinetic Motor	JM Financial Services Private Limited	S	255,000	20.7
13-Jul	Manugraph Ind	Manu Enterprises Ltd.	B	197,060	51.3
13-Jul	Manugraph Ind	Rupalli Pradeep Shah	S	199,060	51.3
13-Jul	Marathwada Re	Himadri Commodities Private Limited	B	9,800	469.9
13-Jul	Marathwada Re	Raghuhari Dalmia	S	10,000	469.9
13-Jul	Master	Mallikhar Junarao V	B	36,042	40.8
13-Jul	Master	Manikyala Raovura	B	38,449	42.2
13-Jul	Master	Vulasa.Babu.Rao	S	27,500	40.8
13-Jul	Morganite Cruc	Jaikarni Holdings Pvt Ltd	B	25,000	317.8
13-Jul	Morganite Cruc	Kamal Kumar Dugar And Co	S	23,367	318.2
13-Jul	Natura Hue Che	Ahmed Sayed	S	91,112	13.2
13-Jul	Oregon Comm	Krupa Sanjay Soni	B	5,003	423.2
13-Jul	Oregon Comm	Mehulkumar Kacharalal Patel	B	5,100	410.1
13-Jul	Parsharti Inv	Radha Hitsharan Goyal	B	19,225	10.5
13-Jul	Ram Ratna Wir	Jaykal Export Pvt Ltd	B	70,000	84.1
13-Jul	Ranklin Sol	Mallikhar Junarao V	B	44,200	119.6
13-Jul	Sanjivani Par	Sandeep Krishna Tandon	S	42,241	43.1
13-Jul	Sankhya Info	Utkarsh Madhav Palnitkar	B	100,000	32.0
13-Jul	Sankhya Info	Arunachalam Vellayan	S	65,625	32.1
13-Jul	Sankhya Info	Venkatachalam Nil A	S	43,140	32.0
13-Jul	Shakti Pumps	Anupam Narain Gupta	B	50,000	202.5
13-Jul	Shakti Pumps	Kinjal Girish Shah	S	31,000	202.5
13-Jul	Shalimar Wires	A B Constructions Pvt Ltd	B	35,366	25.9

**Trade details of bulk deals**

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
13-Jul	Sri Lakshmi Sar	Rathinasamy Narayanasamy Rubesh	B	17,787	22.0
13-Jul	Usher Agro	Asha and Associates Pvt Ltd	S	341,630	99.4
13-Jul	Vadilal Inds	Mansi Share & Stock Advisors Pvt Ltd	B	37,060	158.7
13-Jul	Vakrangee Soft	Bluepearl Trading Company Pvt Ltd	B	200,000	209.9
13-Jul	Vakrangee Soft	Morgan Stanley Mauritius Company Ltd	S	238,279	210.0
13-Jul	Vax Housing	Dharmendra Gajendra Kothari	B	25,000	14.9
13-Jul	Venus Ventures	K Somashekara Rao	S	30,000	16.9
13-Jul	Venus Ventures	Kalpna Madhani Securities Private Ltd	S	40,000	16.8
13-Jul	Vertex Sec	B.K.Khullar & Co	B	80,000	82.1
13-Jul	Vertex Sec	Manish R Vyas	S	80,000	82.1

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
Reliance Ind	1,074	1.7	10.5	3.4
HDFC	3,064	2.0	5.4	0.8
HDFC Bank	2,073	1.1	2.8	0.6
<b>Losers</b>				
Infosys Tech	2,797	(3.4)	(16.5)	3.2
TCS	775	(2.2)	(3.0)	2.8
Bharti Airtel	300	(1.9)	(2.5)	9.6

Source: Bloomberg

## Research Team

**Dipen Shah**

IT, Media  
dipen.shah@kotak.com  
+91 22 6621 6301

**Sanjeev Zarbade**

Capital Goods, Engineering  
sanjeev.zarbade@kotak.com  
+91 22 6621 6305

**Teena Virmani**

Construction, Cement, Mid Cap  
teena.virmani@kotak.com  
+91 22 6621 6302

**Apurva Doshi**

Logistics, Textiles, Mid Cap  
doshi.apurva@kotak.com  
+91 22 6621 6308

**Saurabh Agrawal**

Metals, Mining  
saurabh.agrawal@kotak.com  
+91 22 6621 6309

**Saday Sinha**

Banking, Economy  
saday.sinha@kotak.com  
+91 22 6621 6312

**Sarika Lohra**

NBFCs  
sarika.lohra@kotak.com  
+91 22 6621 6313

**Arun Agarwal**

Automobiles  
arun.agarwal@kotak.com  
+91 22 6621 6143

**Ruchir Khare**

Capital Goods, Engineering  
ruchir.khare@kotak.com  
+91 22 6621 6448

**Huzaifa Suratwala A**

Pharmaceuticals  
huzaifa.a@kotak.com  
+91 22 6621 6306

**Jayesh Kumar**

Economy  
kumar.jayesh@kotak.com  
+91 22 6652 9172

**Shrikant Chouhan**

Technical analyst  
shrikant.chouhan@kotak.com  
+91 22 6621 6360

**K. Kathirvelu**

Production  
k.kathirvelu@kotak.com  
+91 22 6621 6311

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