

**IIFL**

INDIA PRIVATE CLIENTS

# Weekly Wrap

## Investment idea

September 09, 2010

### Infotech Enterprises

**BUY**  
**CMP Rs172**

Our recent conversation with Infotech makes us believe that business conditions are set to improve. Management believes that worst is behind in the UTG segment and sequential revenue growth would resume from Q2 FY11. The recent acquisition of Wellsco would act as an inorganic fillip and the full-year growth would likely be in high single digits. The growth momentum in EMI business is anticipated to continue with company experiencing strong ramp-ups in multiple accounts, especially in aerospace and heavy engineering verticals. Revenue visibility remains high in this segment and management expects a robust 25%+ growth for the year. Operating margin is expected to recover by 200-250bps over Q2-Q4 FY11 after a steep fall in Q1 FY11. Margin expansion would be mainly driven by utilization improvement and SG&A leverage. Adjusting for the significant cash balance (Rs3.5-4bn), Infotech trades at 8.5-9x FY12 P/E which is not expensive in our view.

#### Worst behind in UTG vertical; revenue growth to resume

UTG segment revenues have declined sequentially in the past three quarters (6.2% de-growth in Q1 FY11) mainly impacted by early termination of the large Swisscom contract and sharp depreciation in Euro/GBP. Further, company had to cope with a price reduction in BT account (one of the Top 5 clients in this segment) during Q1 FY11. However, Infotech survived the vendor consolidation exercise conducted by BT. On the positive side, company has recently bagged a large contract (size similar to Swisscom) from TNB Malaysia.

Infotech acquired a telecom engineering company based out of US, Wellsco Inc, having an annual revenue run rate of US\$12mn. Wellsco has 180 domain experts and 5 delivery centers spread across the US. For Infotech, this acquisition adds a new service line, strengthens onsite presence and gives access to marquee clients like AT&T, Verizon, etc. With 100% onsite presence, Wellsco has an OPM of 7-9% which the management expects to improve to ~12% in the medium term aided by offshoring. The acquisition is estimated to add US\$8-9mn of revenues in FY11 through its contribution for 8 months.

Company expects the worst is behind in this segment and the revenues would grow sequentially from Q2 FY11 and reach ~Rs850mn by Q4 FY11. Including Wellsco, full-year growth in UTG is likely to be in high single digits.

#### EMI vertical to be the main engine of growth

The EMI vertical that forms a majority 65% of Infotech's has been witnessing robust growth (10.2% qoq volume growth in Q1 FY11) driven by strong demand from various verticals such as aerospace, heavy engineering, automotive and hi-tech. Clients in aerospace and heavy engineering such as Pratt & Whitney (Top client), Hamilton Sundstrand, Vought Aircrafts, Terex Corp, Boeing, etc have been ramping up well. Infotech is also in pricing re-negotiations with a couple of customers where rate increases are likely. Management expects EMI vertical to grow at robust 25%+ in FY11. Company's confidence stems from a strong order book

#### Margins to recover by 200-250bps over the next three quarters

Infotech's operating margin fell by sharp 560bps qoq in Q1 FY11 impacted by the implementation of annual salary hikes, adverse currency movements and jump in indirect expenses. The wage hikes given by the company were competitive and averaged about 14% offshore and 3-4% onsite and this solely impacted margin by ~500bps. Other expenditures in the quarter included annual expenses for softwares, high communication costs and the doubling of power cost due to use of captive power.

In the coming quarters, we expect margin to recover by ~200-250bps reaching near 18.5% by Q4 FY11 despite the headwind from lower profitability of Wellsco (7-8%). Key levers that would drive margin improvement would be 1) utilization improvement in both UTG (current 78%, headroom 2-3%) and EMI (current 70%, headroom 4-5%) verticals 2) SG&A leverage (especially the higher communication, power and software AMC costs) 3) employee pyramid optimization through recruitment of freshers 4) increased offshoring and 5) any potential pricing increases. Any extreme adverse currency movements (though favourable QTD) could be a spoil sport to our assumption. However, the company is having hedges at higher than prevailing rates.

#### People management remains challenging

In Q1 FY11, Infotech faced attrition of 431 people, 257 voluntary and 174 involuntary. There was a net man power reduction of 82 people in UTG segment while there was a net addition of 105 employees in EMI vertical. Though the attrition is running at detrimental 20%+, it is likely to get arrested by the implemented satisfactory wage hikes. Presently, management does not foresee the need for giving further hikes in the current year.

For the year FY11, Infotech plans to hire 1,678 employees in FY11. Bulk of this addition is planned in EMI in-line with strong visibility and robust order book in this vertical. Further, company plans to hire 400-500 freshers to optimize the employee pyramid and contain overall cost.

#### Financials

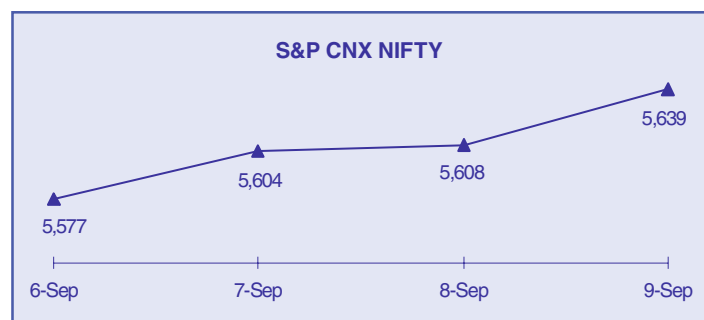
Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	8,899	9,531	11,285	13,263
yoy growth (%)	32.0	7.1	18.4	17.5
Operating profit	1,786	2,083	1,967	2,382
OPM (%)	20.1	21.9	17.4	18.0
Pre-exceptional PAT	925	1,708	1,433	1,663
yoy growth (%)	8.1	84.7	(16.1)	16.1
EPS (Rs)	8.3	15.4	12.9	15.0
P/E (x)	19.6	10.6	12.6	10.9

Source: Company, India Infoline Research

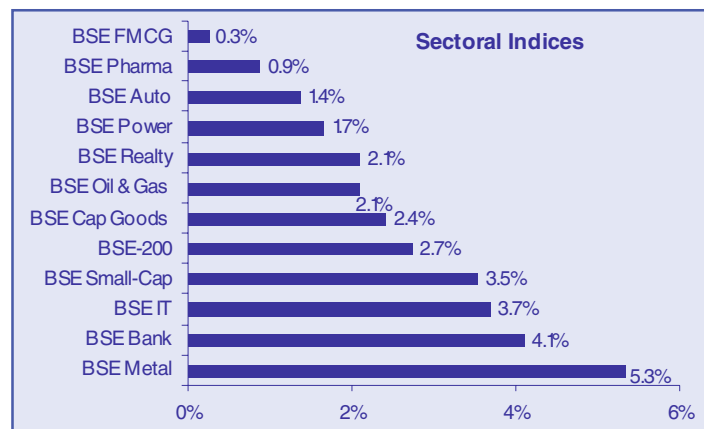
# India Infoline Weekly Wrap

## Market review

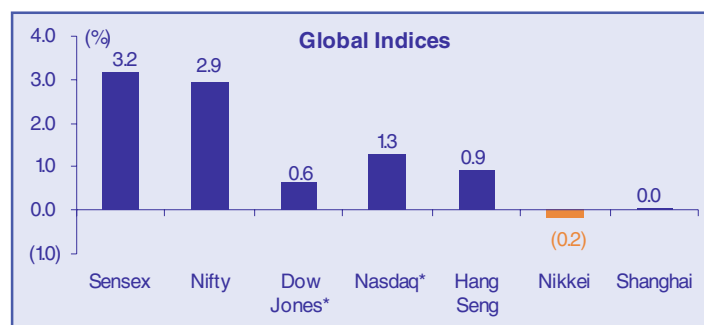
During the week, world markets were a bit subdued, but India managed to out-perform largely due to rally in large-cap stocks. It was the short and sweet week for the bulls as the Nifty managed to scale up 2.9% and Sensex advanced by 3.2%. Not only did the Nifty crossed 5600 but it managed to end above that milestone for three consecutive sessions, notwithstanding mixed global cues.



Metal stocks rallied smartly after domestic steel players announced price hikes. Bank stocks continued to trade firm on expectations that lending growth will be strong in a growing economy. The RBI will next week take up a review of its monetary policy. IT stocks made a significant recovery despite news that Ohio has banned outsourcing to India. A lot of other sectors like Tyre, Sugar, Agri, Fertilizers, etc. gained as well.



Economic data from the US was good last week. However, we had a few downbeat reports from the euro-zone (particularly from Germany) this week. Euro-zone banks were in focus amid lingering worries over the region's sovereign debt issues. Talk of proposed new capital rules for global banks have also pressured some of these financials. However, a successful bond auction by Portugal eased some of the worries plaguing the debt-strapped region. Most central banks left their key rates unchanged amid uncertainty over the outlook for the global economy.



\*As per previous close

## FII & MF activity

Date	FII	MF
	Net Investment	Net Investment
02-Sep	148	20
03-Sep	486	65
06-Sep	1,040	354
07-Sep	201	-
08-Sep	-	-
<b>Total 2010</b>	<b>61,490</b>	<b>(14,920)</b>

## BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
ACC	981	9.4	Essar Shipping	114	11.9
Tata Steel	594	9.7	Ultratech Cem	1,023	11.2
SBI	2,984	7.6	Bajaj Holdings	861	10.6
Infosys	2,895	4.2	Mercator Lines	56	10.4
Hindalco	182	7.0	Shree Renuka	76	9.7

## BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
ITC	162	(1.0)	Ashok Leyland	72	(4.2)
Reliance Infra	1,011	(2.1)	Eih Ltd	141	(6.5)
HDFC	630	(0.1)	IOC	410	(3.5)
-	-	-	United Breweries	314	(3.9)
-	-	-	Power Grid Corp	105	(3.0)

## Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
6-Sep	IFCI	Atlas Cycle	B	0.4	298
6-Sep	Credit Suisse	Hanung Toys	B	1.5	309
6-Sep	RBS	Phillips Carbon	B	3.4	223
7-Sep	Macquarie Bk	Jupiter Biosci	S	1.2	107
7-Sep	LIC	TIL	S	0.8	603
7-Sep	Morgan Stan	Vakrangee Soft	S	2.4	200
8-Sep	Credit Suisse	Lakshmi Energy	S	9.0	95

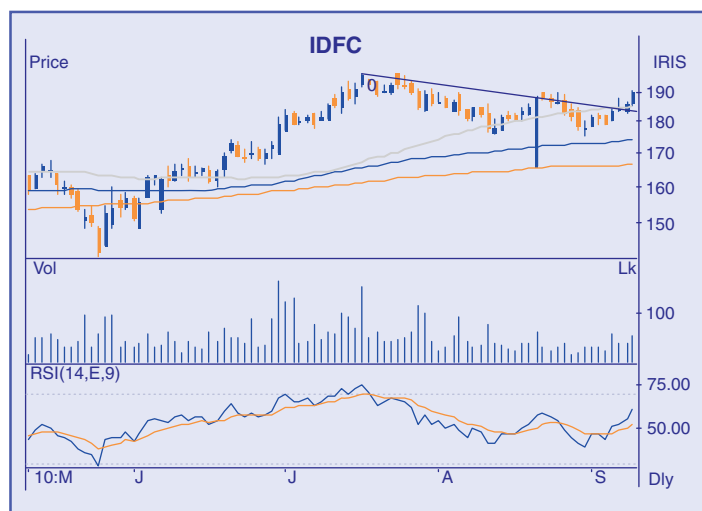
## Book closures and record dates

Company	Date	Purpose
Kotak Bank	13-Sep-10	Stock Split
Parental Drug	13-Sep-10	Bonus
Astra Poly	15-Sep-10	Stock Split

# India Infoline Weekly Wrap

## Technical ideas

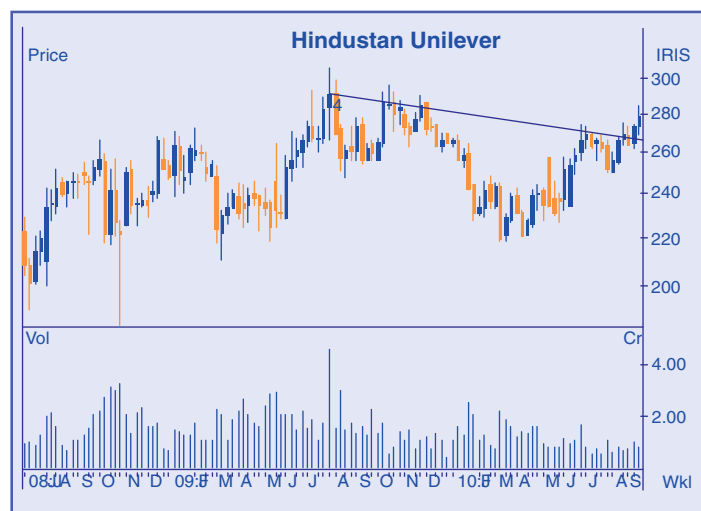
### IDFC BUY CMP Rs189



The stock has rallied smartly from a low of Rs175 in last week of August 2010 to the present levels. On the daily charts, it has formed a pattern of a higher bottom after breaking out from critical resistance levels of Rs184-185 with impressive volumes this week. The daily RSI is already in strong buy mode, indicating that the prices are set to rally from the current levels.

Moreover, it has given breakout from falling resistance line. Such a breakout was also accompanied with positive crossover in RSI and MACD buy signal. We expect positive trend in the counter to continue with immediate target placed between Rs208-212. On weekly candlestick, the stock has formed bullish candlestick pattern which is also likely to extend positive momentum in the coming weeks. **We advise buying the stock in the range of Rs188-190 with a stop loss of Rs182 for target of Rs202.**

### Hindustan Unilever (HUL) BUY CMP Rs279



HUL on weekly chart has broken above neckline of bullish inverted head and shoulder pattern after its surpassed resistance of Rs260 with volumes expansion for second consecutive week.

As amplitude of such structure opens scope for 10% upside from current levels and being defensive bet, it is likely to attract significant buying interest. The right shoulder is taking a shape of rounding saucer and has been able to cement its position above the trough of left shoulder, such a formation conceives extreme bullishness and providing better risk reward ratio from current levels.

Breakout can also be witnessed on RSI front from falling intermediate peaks indicating end of consolidation phase in the near term and resumption of new bullish trend. We advise buying stock in the range of Rs274-278 for two week delivery with stoploss of Rs268 for Target of Rs295.

### Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Voltas	4.4	21.2	65.6
Bank India	5.2	15.5	277.7
Can Bank	3.5	12.5	95.4
SBI	2.7	11.3	5.7
IDBI	4.3	10.9	53.4

### Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
BankNifty	2.0	10.2	(2.5)
PNB	(0.2)	9.5	(29.4)
MiNifty	0.6	5.3	(6.0)
Ambuja Cem	(0.4)	4.4	(45.9)
ONGC	1.1	3.6	(24.3)

### Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Corp Bank	636	597	4.6	1.3
AB Nuvo	871	818	6.9	1.9
Tata Chem	425	400	13.9	6.0
M&M	656	625	26.2	14.7
OBC	455	436	11.3	5.1

### Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Patni Comp	448	460	3.3	11.7
IOC	410	418	12.8	17.3
Ashok Leyland	72	74	30.8	50.6
LIC Hous Fin	1,178	1,202	5.3	8.6
BPCL	751	768	8.6	19.4

# India Infoline Weekly Wrap

## Mutual fund round-up

### India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on September 09, 2010							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 (G)	8,307	212.5	2.3	4.3	15.3	18.4	31.8	60.7	65.0	224.7
ICICI Pru Dynamic Plan (G)	2,391	104.8	1.8	1.7	9.5	12.3	30.9	44.5	42.5	181.8
IDFC Small & Midcap Eqty -(G)	826	19.4	2.1	3.8	17.4	22.1	51.6	113.7	--	--
HDFC Tax Saver (G)	2,646	240.9	2.6	4.9	15.9	20.3	41.3	64.7	46.8	148.0
Reliance RSF - Balanced (G)	594	23.4	1.9	4.2	14.7	16.8	33.2	74.1	73.9	132.2

### Fund this week: IDFC Small & Midcap Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Kenneth Andrade	Equity	74.9
Latest NAV	Rs19.4	Debt	0.0
NAV 52 high/low	Rs19/11	Cash/call	25.1
Latest AUM (cr)	Rs826	Top 5 holdings (%)	
Type	Open-ended	Bombay Rayon Fashions Ltd.	3.9
Class	Equity - Diversified	Strides Arcolab Ltd.	3.7
Options	Growth & dividend	Union Bank Of India	3.7
Min investment	Rs5,000	Dewan Housing Finance Corpn. Ltd.	3.6
Benchmark	CNX Midcap	Redington (India) Ltd.	3.3
No. of stocks	40	Top 3 sectors (%)	
No. of sectors	29	Bank - Public	9.8
Expense ratio	1.9%	Pharma	7.4
Exit load	1%	Textile	6.2

### NFO update

Fund Name	Close	Type	Class
HDFC FMP 370D Sept 10 (1)	13-Sep	CE	Debt - FMP
Kotak FMP 6M Series 9	14-Sep	CE	Debt - FMP
-	-	-	-

### Dividend update

Mutual Fund	Dividend %	Record date	Class
Canara Robeco F.O.R.C.E.	10.0	13-Sep	Eq - Div
ICICI Pru Blended Plan -B	0.9	13-Sep	Hybrid
HDFC FMP 90D June 2010	100.0	13-Sep	Debt - FMP

## Commodity, debt and currency graphs



\* As per previous close

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