

**November 29, 2006**
**FOR PRIVATE CIRCULATION**
**Equity**

	28 Nov 06	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	13,602	(1.2)	5.4	16.2
Nifty	3,922	(1.2)	4.9	14.5
Banking	7,105	(1.4)	11.0	34.7
IT	3,516	(2.0)	7.0	22.5
Healthcare	3,717	(0.5)	2.4	5.7
FMCG	1,986	(0.6)	(1.2)	(0.6)
PSU	6,247	(1.1)	4.9	11.6
CNX Midcap	5,037	(0.8)	4.0	16.1
<b>World indices</b>				
Nasdaq	2,412.6	0.3	2.6	11.1
Nikkei	15,855	(0.2)	(3.9)	0.8
Hangseng	18,640	(2.9)	2.2	9.5

**Value traded (Rs cr)**

	28 Nov 06	% Chg - 1 Day
Cash BSE	3,781	(8.8)
Cash NSE	7,973	(2.7)
Derivatives	41,425	41.9

**Net inflows (Rs cr)**

	27 Nov 06	% Chg	MTD	YTD
FII	405.6	(59.2)	6,897	40,009
Mutual Fund	7.4	103.5	883	14,626

**FII open interest (Rs cr)**

	27 Nov 06	% chg
FII Index Futures	10,248.6	8.0
FII Index Options	7,289.3	1.3
FII Stock Futures	17,209.6	1.4
FII Stock Options	271.8	(0.6)

**Advances/Declines (BSE)**

	28 Nov 06	A	B1	B2	Total	% Total
Advances	56	192	479	727	39	
Declines	151	464	446	1061	58	
Unchanged	3	11	41	55	3	

**Commodity**

	28 Nov 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	61.0	1.1	0.4	(13.6)
Gold (US\$/OZ)	640.0	(0.1)	6.6	4.0
Silver (US\$/OZ)	13.8	1.8	13.5	11.5

**Debt/forex market**

	28 Nov 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.37	7.39	7.61	7.95
Re/US\$	44.70	44.66	44.97	46.51

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- India's trade deficit increased to \$6.20 billion in October, up sharply from \$2.93 billion in October 2005 as demand for imports in the world's second-fastest-growing major economy outstripped exports. (BS)
- Users of petrol and diesel may get some respite from high domestic retail prices. Even while the Petroleum Ministry remained tight lipped on the quantum of reduction, indications are that petrol may be cheaper by Rs 2 per litre and diesel by Re 1 per litre. (BL)
- Steel prices in the domestic market are likely to come down in December. The reduction would be in the range of Rs 500 to Rs 800 per tonne depending on various categories. (BL)
- The government has opened the doors for private investment in the coal sector by allowing domestic and overseas mining companies to directly access captive coal blocks reserved for cement, steel and power sector players. (ET)
- Indian corporates will find it easier to buy brands, trademarks and franchises of overseas players for use in India. (ET)
- The government should allow the RBI to increase the share of gold in the country's foreign exchange reserves to diversify risks arising from volatility in global currencies and also to make it work as a hedge against global inflation, said S S Tarapore, former deputy RBI governor & the head of the committee on Fuller Capital Account Convertibility. (BS)

**CORPORATE NEWS**

- **ONGC Videsh (OVL)** along with Italy's ENI SpA, Spain's Repsol YPF and Norway's Norsk Hydro ASA has won oil exploration blocks in Brazil. (BS)
- **TCS** is aiming to achieve \$4 billion in revenue by the end of fiscal 2007, growing at 30%, according to S Ramadorai, CEO & MD of the company. (BS)
- **Hilton**, DLF in JV to develop 75 hotels and service apartments in India (BS)
- **AV Birla group** has decided to roll out its retail business within the next 7-8 months. (ET)
- **IVRCL Infrastructures & Projects** has bagged irrigation related works of Telugu Ganga Project in Andhra Pradesh worth Rs388.16 crore. (BS)
- **Hindustan Zinc** has repaid its External Commercial Borrowing (ECB) worth \$125 million. The payment includes prepayment to the tune of \$95 mn. (BS)
- **Steel Authority of India Ltd** today ruled out the possibility of sharing Chiria mines with any other player. (BS)
- **Wipro Technologies** on the prowl for acquisitions in the \$50-100m range. (ET)
- The **Sahara group** has attempted to turn around the airline after parting ways with Jet Airways. The current quarter has shown a sharply improved performance and the Sahara group promoters believe that it will be a good time to scout around for buyers. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

## FROM OUR RESEARCH TEAM

### COMPANY UPDATE

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**We maintain BUY on the stock with a price target of Rs.228**

## R SYSTEMS INTERNATIONAL LTD (RS) (Rs.173, CY07E P/E: 9.2x, BUY)

We met up with the management of the company recently. We maintain our positive bias on the company and continue to recommend a BUY with a price target of Rs.228.

The integration with WebConverse is progressing as per schedule and the company expects to start yielding the benefits of cross-selling of services soon. The addition of a major client due to the acquisition is expected to lend further stability and sustainability to the revenue stream.

While RS has as its customers start ups and software tool development companies, it also serves a set of large customers like Virgin, UK, Siemens, Open Solutions, InstallShield, TMA Resources, etc.

Penetration of the Indus suite of products into a new vertical is a positive and should open up avenues for revenue growth in non-BFSI, service related verticals.

A consistent high growth in outsourced and off-shored product development services along with long standing relationships with large corporations, make us optimistic on the future growth prospects of RS. Recent entry into the US for Indus suite of products and potential acquisitions may provide further upsides.

We expect revenues and profits to grow at a CAGR of 32% and 43%, respectively over CY05 – CY07. At 9.2x CY07E earnings, we maintain our **BUY** with a DCF-based one year price target of Rs.228. At our target price, our CY07E earnings will be discounted by 12x.

The main takeaways are as under:

### Integration of WebConverse

- The company acquired WebConverse in an all-cash deal, recently. WebConverse is engaged in the technical help-desk business, mainly in the mobile applications market. Technical helpdesk is the final leg of the Product Lifecycle Management business of R Systems. Thus, it will be a natural extension of the company's services and will expand the range of offerings by the company.
- The integration of WebConverse is progressing well with the Hyderabad employees already getting absorbed at the Noida facilities and cross selling of services having already started.
- WebConverse has brought with it several clients. One of the clients is a two year relationship in the telecom space (competitor to Blackberry) for Webconverse which employed about 110 employees (80 in USA and 30 in Noida) for that customer. This customer has now become the 2<sup>nd</sup> largest customer for RS, after GE. The company expects significant revenues from this client, going forward.
- We believe that, R Systems will benefit from this acquisition by way of access to large clients and expansion of services range. Shifting of work off-shore should allow improvement in margins of that company. Also, the earn outs will, most probably, be paid out of the earnings from that company.

### **iPLM services**

- The iPLM business bagged 5 new accounts in the Internet and Media space in 3QCY06. These companies are mainly operating in areas like search engine and optimization services, gaming, etc. R Systems is providing services currently in areas involving delivery of video, search and media content over the internet.
- These contracts are progressing along expected lines and should start contributing to revenues from 4QCY06.
- The GE business formed 18% of 3QCY06 revenues v/s 12% in the previous quarter. While the volumes from GE have remained stable, the contract re-negotiations in 1QCY07 will be important for RS from a billing rates perspective.
- GE has been a hard bargainer and any reduction in realizations may impact revenue growth and profitability in the years ahead.

### **Indus**

- The Indus Collection suite has been made versatile and can now be used by any company which is present in the utilities (services) space.
- In fact, the company has already got its first telecom client in India and has started implementing the solution for that client.
- This opens up new avenues of growth for the Indus suite as it can target companies in the non-BFSI space, if the implementation with this client succeeds.

### **EcNet**

- EcNet registered 2 wins during 3QCY06 including a major European embedded computer systems manufacturer for which it will deliver a solution in advanced planning and scheduling.
- This SCM product was deployed for a company in the pharma sector, which is a new focus area for the company.

### **MoU with Aisel Corporation, Japan**

- R Systems entered into an understanding with Aisel to form a strategic alliance and target customers in the Japanese market. This is just at initial stages and formalization of this alliance is expected to take some time.
- Under the terms of the understanding, R Systems will allot 5% of its equity to Aisel which in turn will give a 15% stake in Aisel to R Systems. Aisel plans to go public in CY08.
- The strategic intent behind this is to create a beach head in Japan, which will allow R Systems to cross sell its iPLM and Indus offerings to several large multinational Japanese companies.
- R Systems is currently offering EcNet services to companies like Pioner, Sharp and Panasonic but outside of Japan.
- On the other hand, Aisel is looking at off-shore capabilities in the embedded systems space in which it is operating. It has forecasted demand for additional 100 such engineers in the next calendar.

<b>Future prospects</b>					
<b>Rs mns</b>	<b>CY05</b>	<b>CY06E\$</b>	<b>YoY (%)</b>	<b>CY07E</b>	<b>YoY (%)</b>
<b>Income</b>	<b>1573.8</b>	<b>2088.6</b>	<b>32.7</b>	<b>2744.3</b>	<b>31.4</b>
Expenditure	1380.0	1818.0		2374.3	
<b>EBDITA</b>	<b>193.8</b>	<b>270.5</b>	<b>39.6</b>	<b>370.0</b>	<b>36.8</b>
Depreciation	48.9	54.9		86.0	
<b>EBIT</b>	<b>144.9</b>	<b>215.6</b>		<b>284.0</b>	
Interest	8.4	3.8		2.0	
Other income	7.7	29.3		19.0	
<b>PBT</b>	<b>144.2</b>	<b>241.2</b>	<b>67.3</b>	<b>301.0</b>	<b>24.8</b>
Tax	19.4	33.6		45.2	
<b>PAT</b>	<b>124.8</b>	<b>207.5</b>	<b>66.3</b>	<b>255.9</b>	<b>23.3</b>
<b>EPS (Rs)</b>	<b>9.2</b>	<b>15.3</b>		<b>18.9</b>	
<b>Margins (%)</b>					
EBDITA	12.3	13.0		13.5	
EBIT	9.2	10.3		10.3	
PAT	7.9	9.9		9.3	

Source : Company, Kotak Securities - Private Client Research Estimates;  
\$ - includes WebConverse WEF 3QCY06

We expect revenues and profits to grow at a CAGR of 32% and 43%, respectively during CY05 – CY07.

The main assumptions are as under :

- We expect number of employees to grow to 2185 by CY07 end.
- Average realizations are expected to remain stable
- Rupee is expected to depreciate to Rs.43 per USD by CY07 end.
- License revenues are expected to rise to Rs.70mn in CY07.
- We have assumed a total capex of Rs.350mn in the two fiscals.
- Thus, we expect PAT to grow to Rs.255mn in CY07 resulting into an EPS of Rs.18.9.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
28-Nov	Amar Remedie	Jain Orna Pvt Ltd	B	200,000	62.57
28-Nov	Ansal Hsg Cn	Ashita Bhavin Parekh	B	72,749	307.70
28-Nov	Artson Engin	Vivek Mehrotra	B	50,000	40.47
28-Nov	Class Diam I	M N Consultancy	S	39,500	501.51
28-Nov	Cupid Ltd	Yogesh Ambekar	B	54,575	34.95
28-Nov	Divyajyo Ind	Mukesh Vijayvargiya	S	50,000	12.82
28-Nov	Dolph Med Se	ISF Securities Ltd	S	86,060	8.95
28-Nov	Donear Indus	Kuvera Capital Partners L	B	300,000	166.50
28-Nov	Donear Indus	M N Consultancy	S	260,000	166.49
28-Nov	Epic Energy	Zaveriben M.Mamania	B	25,000	19.77
28-Nov	Epic Energy	Ashok Pamani	B	38,000	20.12
28-Nov	Epic Energy	Kmuk Premier Investment	S	38,000	20.12
28-Nov	Gagan Gase L	Rajesh Vijayvargiya HUF	B	30,000	6.34
28-Nov	GEI Hamo Ind	Silgo Finance Pvt Ltd	B	150,000	53.45
28-Nov	GEI Hamo Ind	Ajay Dilkhush Sarupria	S	150,000	53.45
28-Nov	Gitanjali Ge	Matribhumi Dealers	B	300,000	218.27
28-Nov	GVK Powerinf	JPMSI Account Copthall Ma	B	250,000	281.05
28-Nov	Infotrek Sys	Lotus Global Investments	B	250,000	43.98
28-Nov	Infotrek Sys	Amalgamated Commercial Tr	S	250,000	44.00
28-Nov	Kamanwala In	Mahesh Santosh Vaswani	S	16,000	160.92
28-Nov	Koff Br Pict	Ketan R Asher	B	25,000	18.57
28-Nov	Maikaa Fibre	Sand Dune Trades Pvt.Ltd.	B	150,000	13.00
28-Nov	Mast Medi Sy	Kapilkumar Agarwak Huf	B	42,521	24.64
28-Nov	Mefcom Agr I	Purshottam Khandelwal	B	58,941	52.22
28-Nov	Mefcom Agr I	Deepak Rana	S	55,000	53.05
28-Nov	Mefcom Agr I	ISF Securities Ltd	S	14,430	53.05
28-Nov	Mefcom Agr I	Kalpana Madhani Securitie	S	17,000	53.05
28-Nov	Mohit Indust	Shaishil Tushar Jhaveri	B	28,910	61.47
28-Nov	Mohit Indust	SRKProjects Pvt. Ltd.	B	61,269	61.76
28-Nov	Panoram Uni	Nirmal N Kotecha	B	64,450	146.28
28-Nov	Pearl Polym	Vijay Kumar Agarwal	B	65,000	22.02
28-Nov	Raj Rayon Li	Accurate Finstock P Ltd	B	400,000	39.04
28-Nov	Raj Rayon Li	Mayrose Capfin Pvt Ltd	S	131,300	39.00
28-Nov	Rajendra Ele	Bajrang Finance Ltd	S	150,000	11.57
28-Nov	Rane Holdin	Sundaram Mutual Fund	B	401,588	185.00
28-Nov	Rane Holdin	Templeton Mutual Fund A C	S	401,588	185.00
28-Nov	Scenario Med	Jayshree Ganesh Patel	B	2,000	103.55
28-Nov	Scenario Med	Ganesh B Patel	B	2,000	103.55
28-Nov	Scenario Med	Manshukhlal Chhotalal Bag	S	2,000	103.55
28-Nov	Shrachi Secu	India Institutional Fund	B	200,000	69.98
28-Nov	Tanej Aero A	Voyager Fund Mauritius	B	186,479	186.23
28-Nov	Texmaco Ltd	Avis Tie Up Private Limit	B	65,000	810.00
28-Nov	Texmaco Ltd	Equi Derive India Pvt Ltd	S	65,000	810.00
28-Nov	Vantel Techn	Saiprakash T	B	110,000	1.06

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
State Bank of India	1,293	1.4	1.9	1.0
Sun Pharma	1,010	1.5	0.6	0.6
Grasim Ind	2,718	0.9	0.4	0.4
<b>Losers</b>				
Infosys Tech	2,165	(2.4)	(5.9)	1.3
Reliance Com	418	(3.1)	(5.5)	4.3
Wipro	585	(2.7)	(4.6)	1.1

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
1-Dec	Indian automakers to detail provisional sales data for November.
2-Dec	Dhampur Sugar Mills to announce earnings and dividend
4-Dec	Nestle India to announce 2nd interim dividend
5-6 Dec	AVCJ organizes Asian Private Equity and Venture Forum
13-Dec	Bharti AXA Life Insurance holds conference for expansion plan

Source: Bloomberg

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