Equity Research

January 4, 2007

Technology

Time for prudence

Top picks

Satyam Computers

Infosys Technologies

Tata Consultancy

While we expect Q3FY07E results to be impressive, we recommend investors to cut exposure in the Indian Software stocks on the back of the sharp run-up in stock prices. Revenue growth, though robust in US dollar terms, would be affected mainly due to the sharp rupee appreciation during the quarter. However, the biggest surprise this quarter would be the sequential expansion in EBITDA margin despite a sharp rupee appreciation – We estimate Satyam, Infosys and TCS to register sequential margin expansion during the quarter. Specific factors causing this margin expansion are discussed in the company sections. As mid-cap IT stocks have already performed well and, now, with valuations approaching large-cap levels, we advise investors to cut exposures in mid-caps.

- **Satyam, Infosys and TCS to register strong growth among large-caps.** Q3FY07E would be a strong performance quarter for Satyam, Infosys and TCS – we estimate 6-8% QoQ revenue growth for these companies. This revenue growth implies almost a 9-11% growth in dollar denominated revenues. Additionally, sequential margin expansion in these three companies would ensure a healthy, near double-digit EBITDA growth. Patni, HCL Technologies (HCLT) and Wipro might marginally disappoint – Patni, on the back of a ramp-down in some key clients; Wipro mainly on account of the full impact of offshore salary hike kicking in this quarter and HCLT due to muted IT services growth (though we expect BPO and Infraservices to do well). PAT growth for most companies would be weak on account of lower other income (translation losses more than neutralising the forward cover gains).

- **MphasiS and Sasken to outperform among mid-caps.** Among mid-caps, we expect MphasiS to report further margin expansion during the quarter, while Sasken would likely register robust revenues on the back of full integration of Botnia (it was integrated for just one month in Q2FY07). Further, Infotech Enterprises might see some margin contraction. We expect Polaris to do well on the back of robust product revenues (which are difficult to predict and not advisable to extrapolate).

- **What should investors do?** Satyam continues to be our top large-cap pick followed by Infosys and TCS. We believe Wipro and HCLT might take some more time to generate excitement in the market. On Patni, we continue to maintain our SELL recommendation. However, from a 3-4 months perspective, we would advise investors to cut exposure in IT stocks, mainly on expectations of a weaker guidance for FY08. Similarly in mid-caps, IT stocks' exposure should be trimmed since these would be impacted the most if the slowdown in the US continues. Stocks such as MphasiS are preferable considering that business flow is dependent on EDS shifting its business to India. MphasiS remains our top mid-cap pick in the sector.

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Table 1: Quarterly summary

Company (Rs mn)	Sales OND 06*	Sales % Chg (YoY)	Sales % Chg (QoQ)	EBITDA OND 06*	EBITDA % Chg (YoY)	EBITDA % Chg (QoQ)	PAT OND 06*	PAT % Chg (YoY)	PAT % Chg (QoQ)
HCL Technologies	14,759	40.0	7.0	3,167	33.2	6.0	2,483	37.1	8.0
Infosys Technologies	36,844	45.5	6.8	11,911	38.3	7.4	9,571	47.5	3.0
Infotech Enterprises	1,415	50.4	7.8	289	62.8	2.0	211	58.9	4.2
MphasiS	3,161	30.3	8.3	544	-3.3	12.1	354	(13.5)	51.3
Patni Computer Systems	6,878	22.2	(1.7)	1,388	41.7	(7.8)	1,121	76.6	(4.9)
Polaris Software Lab	2,829	39.2	10.7	485	312.3	6.0	320	NM	18.2
Sasken Communications	1,412	85.9	20.1	288	138.6	31.0	165	137.8	38.9
Satyam Computers	17,007	34.4	6.2	3,967	26.1	9.4	3,412	26.5	6.7
Tata Consultancy Services	48,327	40.0	7.8	13,558	38.7	10.3	10,946	45.8	10.4
Wipro	36,707	32.7	3.2	8,351	20.9	0.8	6,948	27.8	-0.8

* October - December '06
Source: i-SEC Research

Table 2: Valuations

Company	Rating	Price (Rs)	EPS (Rs) FY07E	EPS (Rs) FY08E	P/E (x) FY07E	P/E (x) FY08E	EV/EBITDA (x) FY07E	EV/EBITDA (x) FY08E
HCL Technologies	BUY	620	31.0	37.3	20.0	16.6	14.8	12.1
Infosys Technologies	BUY	2286	68.5	87.6	33.3	26.1	26.1	18.7
Infotech Enterprises	BUY	333	18.6	23.9	17.9	13.9	13.1	9.4
MphasiS	BUY	309	6.3	8.6	49.0	36.1	29.3	21.8
Patni Computer Systems	SELL	411	22.2	23.9	18.5	17.2	11.7	10.4
Polaris Software Lab	SELL	195	5.2	7.8	37.5	25.2	16.9	12.7
Sasken Communications	SELL	587	15.9	21.8	36.9	26.9	21.1	15.5
Satyam Computers	BUY	502	21.6	28.0	23.2	17.9	18.9	14.0
Tata Consultancy Services	BUY	1264	42.2	55.4	29.9	22.8	24.0	17.7
Wipro	BUY	606	19.7	25.7	30.8	23.6	23.8	17.4

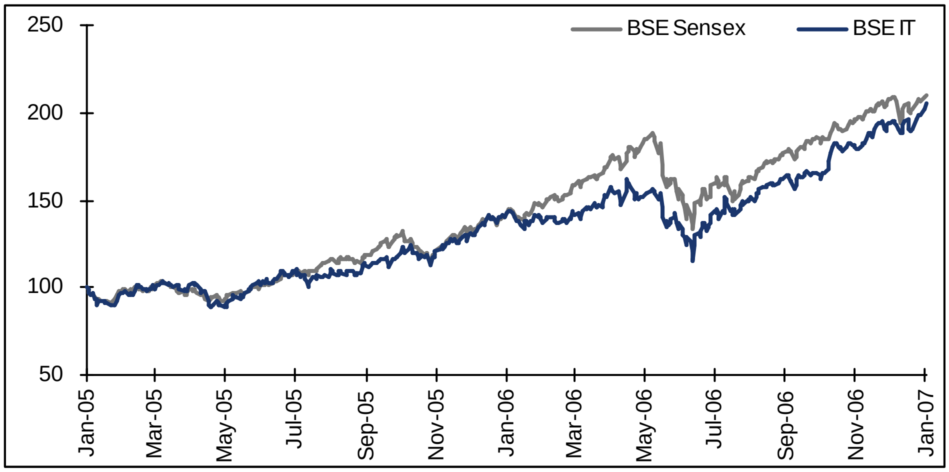
Source: i-SEC Research

Table 3: Stock performance

	Absolute performance (%) MoM	Absolute performance (%) QoQ	Absolute performance (%) YoY	Relative to Sensex (%) MoM	Relative to Sensex (%) QoQ	Relative to Sensex (%) YoY
HCL Technologies	(2.4)	12.0	12.0	(1.9)	(0.1)	(31.7)
Infosys Technologies	2.1	22.1	49.8	2.6	10.0	6.0
Infotech Enterprises	3.9	57.8	90.2	4.3	45.7	46.5
MphasiS	16.5	58.1	96.5	16.9	46.0	52.8
Patni Computer Systems	1.7	0.7	(16.4)	2.1	(11.4)	(60.2)
Polaris Software Lab	48.6	49.8	45.8	49.1	37.7	2.0
Sasken Communications	22.6	46.3	58.7	23.0	34.2	14.9
Satyam Computers	8.8	23.8	31.1	9.3	11.7	(12.7)
Tata Consultancy Services	6.3	27.2	44.9	6.8	15.1	1.1
Wipro	2.2	17.9	26.0	2.7	5.8	(17.8)

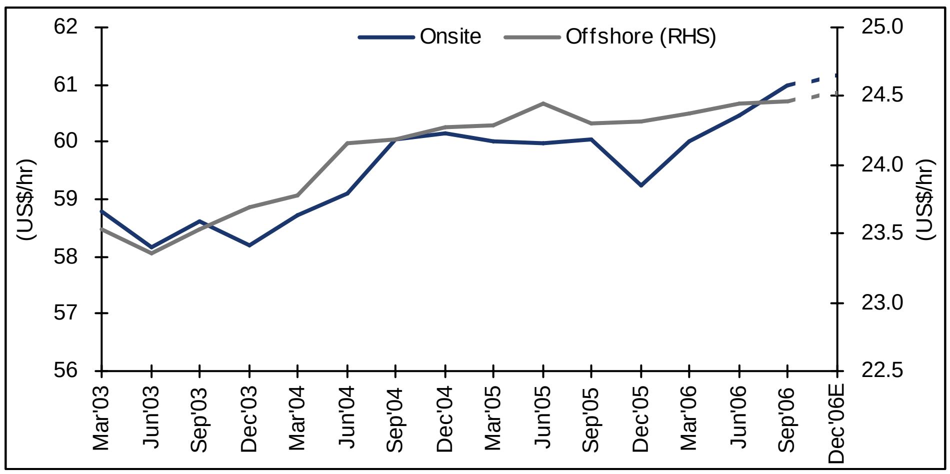
Source: Bloomberg

Chart 1: BSE IT versus Sensex



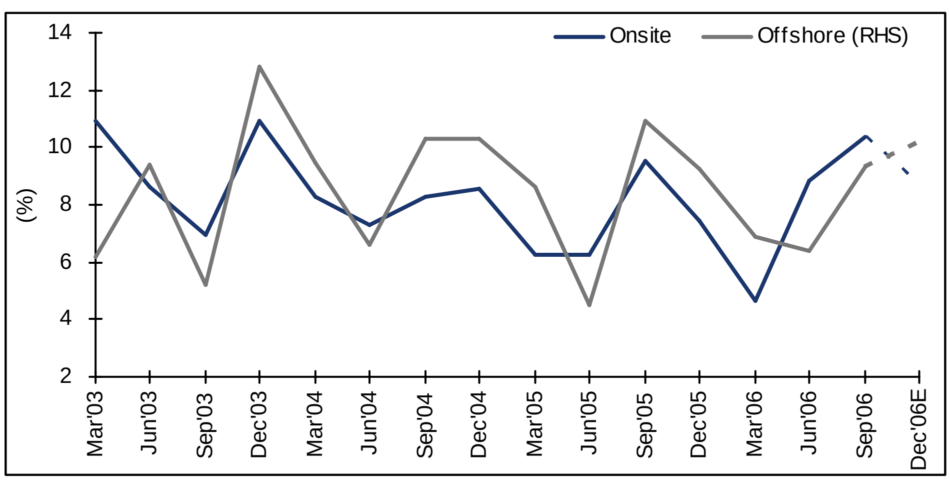
Source: Bloomberg

Chart 2: Billing rates*



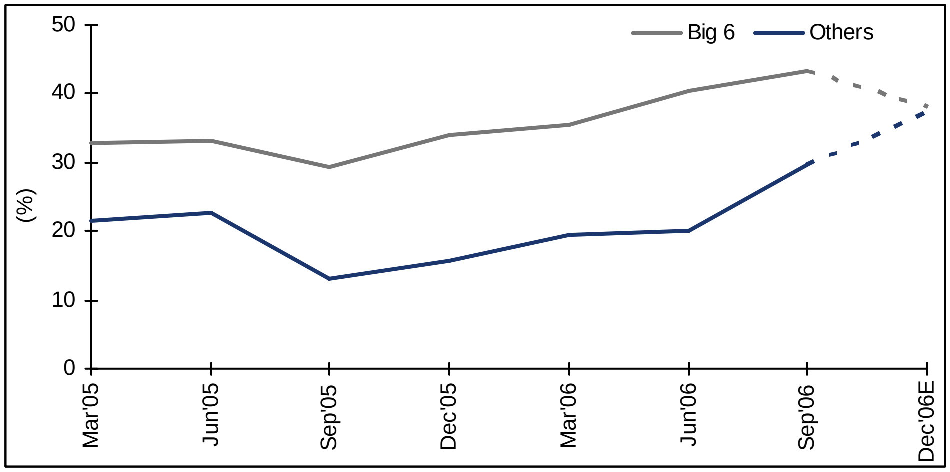
* Infosys, Wipro and Satyam
Source: Company data, i-SEC Research

Chart 3: Billed man-months growth QoQ*



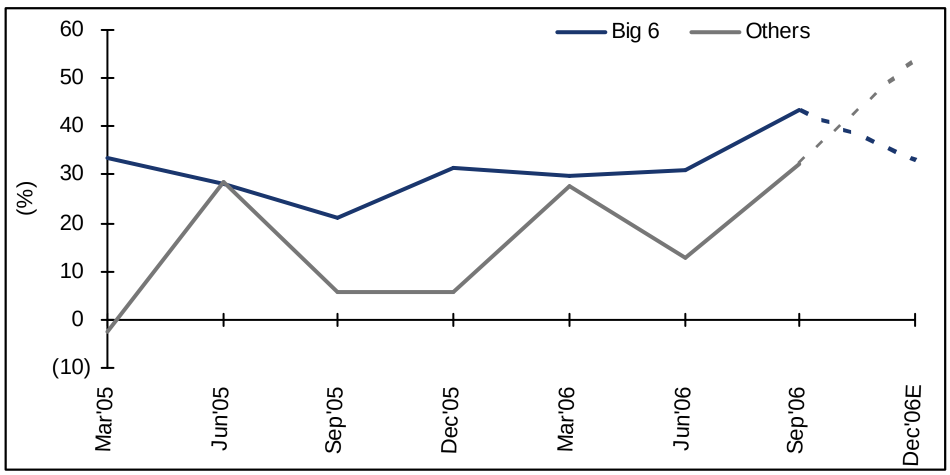
Source: Company data, i-SEC Research, * Aggregate of Infosys, Wipro and Satyam

Chart 4: Revenue growth YoY*



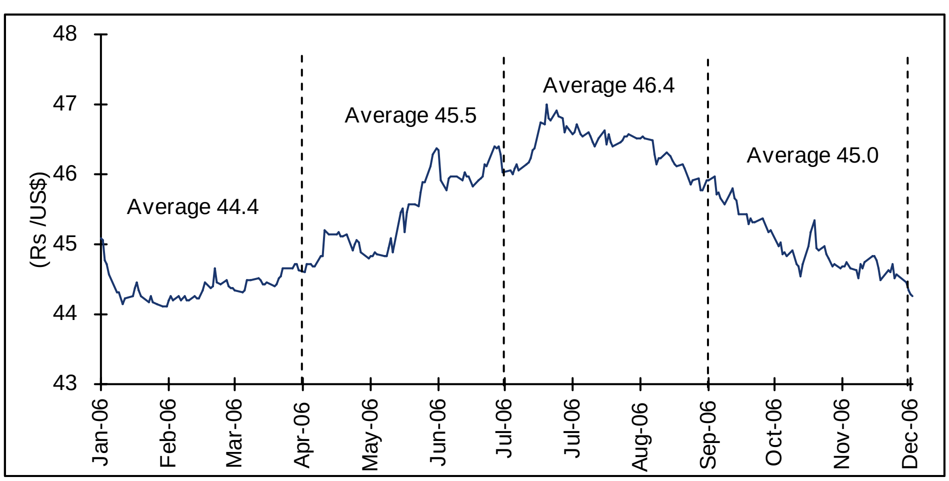
*Big six – Infosys, Wipro, TCS, Satyam, HCLT and Patni
Source: Company data, i-SEC Research,

Chart 5: EBITDA growth YoY*



*Big six – Infosys, Wipro, TCS, Satyam, HCLT and Patni
Source: Company data, i-SEC Research

Chart 6: Re/US dollar rate



Source: Bloomberg

HCL Technologies (BUY)

(QoQ chg: 12.0%; YTD chg: 12.9%)

Quarterly estimates

(Rs mn, year ending June 30)

	Q2FY07E	Q2FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	14,759	10,542	40.0	7.0	13,795	9,707	42.1
EBITDA	3,167	2,377	33.2	6.0	2,987	2,158	38.4
PBT	2,951	2,027	45.6	8.4	2,721	1,835	48.3
PAT	2,483	1,811	37.1	8.0	2,501	1,675	49.3

Source: Company data, i-SEC Research * July - September

- **BPO and infraservices businesses to drive revenue growth.** Among various business segments, we estimate revenues from IT services to grow 4.9% QoQ (most of it being volume growth) and 33.8% YoY to Rs10.7bn. The rupee denominated growth will be much more muted as compared with other companies since HCLT uses convenience translation at quarter end rates (rupee has appreciated 4% this quarter at quarter end rates). The infraservices business is likely to witness a strong performance registering 16.2% QoQ and 76.4% YoY revenue growth to Rs2.12bn. We expect the BPO business to record 9.4% QoQ growth to Rs1.93bn this quarter on the back of strong recruitment in the last quarter (1,769 net employee additions, a growth of 18.9% QoQ).

- **We estimate EBITDA margin to decline marginally by 20bps to 21.5% in Q2FY07E.** Despite sharp rupee appreciation, margins will sustain mainly on account of revenues in IT services and BPO shifting offshore. We expect 2,224 employees to be added during the quarter.

- **Higher other income compared with last quarter.** On account of rupee appreciation, HCLT will report a forex gain on its forward positions. Additionally, interest income will be higher due to higher short-term interest rates this quarter. This implies that other income will increase to Rs381.2mn as compared with Rs290mn in Q1FY07. In line with historical trends, we expect effective tax rate to bounce back to 9% during the quarter as against 8% in Q1FY07. We estimate PAT (post ESOP charge) to increase 8% QoQ and 37.1% YoY to Rs2.48bn (annualised EPS of Rs30.71).

Infosys Technologies (BUY)

(QoQ chg: 22.1%; YTD chg: 51.8%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	36,844	25,320	45.5	6.8	64,660	43,656	48.1
EBITDA	11,911	8,610	38.3	7.4	19,980	13,968	43.0
PBT	10,827	7,390	46.5	2.8	19,610	12,932	51.6
PAT	9,571	6,490	47.5	3.0	17,230	11,369	51.5

Source: Company data, i-SEC Research * April - September

- **Decent operational performance.** We estimate revenues to grow 6.8% QoQ to Rs36.8bn, ahead of the company’s guidance of Rs36.02-36.25bn. Billing rates are estimated to improve 0.4% for onsite and 0.4% for offshore. The steady billing rate increase is in line with our view that Infosys will be the first Indian company to register steady billing rate increases. Volume growth is expected to be driven by employee addition – 3,500 in the software business and 1,400 in BPO. However, average rupee appreciation of close to 3% during the quarter will have a negative impact on revenue growth.

- **Despite rupee appreciation, EBITDA margin is expected to remain steady** due to the following reasons: i) lower visa costs as compared with Q2FY07 ii) Q2FY07 registered a hit of US$2.6mn on account of one-time hike to freshers, which will smoothen out this quarter and iii) SG&A leverage. EBITDA margin is estimated at 32.3% versus 32.1% in Q2FY07.

- **Lower other income will lead to a muted PAT growth.** PAT will be impacted this quarter on the back of lower other income of Rs280mn as compared with Rs660mn in Q2FY07. Key constituents of other income are: i) translation loss of Rs774mn ii) forward cover gain of Rs461mn and iii) higher interest income at Rs594mn. This would have an adverse impact on PAT growth, which has been estimated at 3% QoQ to Rs9.57bn (EPS of Rs17.3 (annualised Rs69.2) versus guidance of Rs16.84).

Infotech Enterprises (BUY)

(QoQ chg: 57.8%; YTD chg: 93.2%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	1,415	941	50.4	7.8	2,483	1,606	54.6
EBITDA	289	178	62.8	2.0	503	295	70.3
PBT	233	139	67.7	5.2	428	199	114.9
PAT	211	133	58.9	4.2	400	205	95.2

Source: Company data, i-SEC Research * April - September

- **Revenues estimated at Rs1.42bn, up 7.8% QoQ and 50.4% YoY.** A ramp-up in orders from clients such as Alstom Transport and Bombardier would drive revenue growth. We estimate an addition of 400 employees during the quarter, taking the total strength to 4,934. The employee addition is in line with the company's guidance of adding close to 1,400 employees in FY07.

- **Estimated PAT at Rs211.1mn, up 4.2% QoQ and 59% YoY.** The muted PAT growth is mainly on account of EBITDA margin contracting 120bps QoQ to 20.4% leading to 2% QoQ EBITDA growth at Rs289mn. Last quarter, margin had expanded 290bps, which we believe was more due to one-time items. Additionally, we expect margins to be under pressure due to rupee appreciation. Lower operating profit growth will be offset to some extent by: i) higher forex gains on forward cover leading to other income rising to Rs11mn as compared with Rs5.2mn in Q2FY07 and ii) lower effective tax at 21.5% as compared with 22.1% in Q2FY07. On the back of these, PAT growth is estimated at 4.2% QoQ to Rs211.1mn. Annualised EPS for the quarter stands at Rs18.5.

- **Key issues to watch for** are new client additions, employee additions and margins sustainability.

MphasiS (BUY)

(QoQ chg: 58.1%; YTD chg: 105.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	3,161	2,425	30.3	8.3	5,526	4,471	23.6
EBITDA	544	562	(3.3)	12.1	800	886	(9.7)
PBT	411	408	0.8	51.0	480	734	(34.6)
PAT	354	409	(13.5)	51.3	386	738	(47.7)

Source: Company data, i-SEC Research * April – September

- **Expect steady revenue growth.** We expect 8.3% QoQ and 30.3% YoY revenue growth to Rs3.16bn. The growth will be driven by 7.7% QoQ growth in IT services to Rs2.22bn and 9.6% growth in BPO to Rs945mn. IT services growth will be muted mainly on account of higher number of holidays in the current quarter thus impacting onsite revenues.

- **IT services' business likely to grow 7.7% QoQ to Rs2.22bn.** We believe MphasiS is already seeing some project flow from EDS. This coupled with growth from MphasiS' own clients will ensure that IT services growth will continue. Further, employee additions should also pick up – we expect 460 additions during the quarter. Salary increases are now behind the company; however, retention bonuses to senior executives, which are being charged off on a straight line basis will continue.

- **MsourcE revenues to grow 9.6% QoQ to Rs945mn.** The impressive growth is predicated on strong 883 net employee additions in Q2FY07. We believe revenue growth would be driven by a ramp-up in the domestic business. We estimate 817 net employee additions in the BPO business and expect gross margins to improve.

- **EBITDA margin likely to expand 60bps to 17.2%**. After a sharp 455bps improvement in margin in Q2FY07, we estimate the margin improvement to continue this quarter despite a sharp appreciation in the rupee. Margin expansion is predicated on improving profitability of the BPO business and SG&A leverage. PAT is estimated to grow 51% QoQ, though down 13.5% YoY to Rs354mn. The sharp QoQ growth is on the back of: i) slightly better margins and ii) a forex gain of Rs12mn this quarter as against a forex loss of Rs69mn in Q2FY07. Annualised EPS for the quarter is estimated at Rs8.7.

Patni Computers (SELL)

(QoQ chg: 0.7%; YTD chg: (17.0%))

Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY06E	Q4CY05	YoY (%)	QoQ (%)	YTDCY06*	YTDCY05*	YoY (%)
Revenues	6,878	5,626	22.2	(1.7)	19,240	14,243	35.1
EBITDA	1,388	979	41.7	(7.8)	3,436	2,707	26.9
PBT	1,367	828	65.1	(6.0)	3,233	2,362	36.9
PAT	1,121	635	76.6	(4.9)	2,589	2,022	28.1

Source: Company data, i-SEC Research * January - September

- **Estimated revenue fall in line with the guidance.** We believe revenue growth will be muted for the quarter due to a ramp-down in one of Patni's telecom clients and one client in the BFSI vertical. After a reduction in the total employee strength last quarter, we estimate 176 net employee additions during the quarter. On the back of these, revenue growth is estimated to fall 1.7% QoQ, but would be up 22.2% YoY to Rs6.88bn.
- **EBITDA margin to contract 130bps to 20.2%.** We are following the Indian GAAP. The contraction in margin is predicated on the sharp appreciation of the rupee. Further, the company does not have enough levers to neutralise the impact other than lower visa costs during the quarter.
- **PAT growth will disappoint.** Even after taking into account higher other income at Rs200mn as compared with Rs174mn in Q3CY06 and lower effective tax rate of 18% as compared with 18.9% in Q3CY06, we estimate PAT to fall 4.9% QoQ to Rs1.12bn (annualised EPS of Rs32.4 on 138.4mn equity shares).

Polaris Software (SELL)

(QoQ chg: 49.8%; YTD chg: 46.5%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	2,829	2,033	39.2	10.7	4,876	4,229	15.3
EBITDA	485	118	312.3	6.0	817	540	51.5
PBT	386	(16)	NA	16.9	580	331	75.3
PAT	320	(57)	NA	18.2	474	249	90.4

Source: Company data, i-SEC Research * April - September

- **Product revenues to continue to remain strong.** Polaris registered blockbuster results in the past two quarters mainly on the back of higher-than-estimated product revenues. While it is difficult to estimate product revenues for Polaris, since the company does not disclose the order book position, we expect it to remain robust. Our estimates for Q3FY07 are an extrapolation of Q2FY07 results. We estimate 10.7% QoQ revenue growth to Rs2.83bn. Revenue growth will be driven by 11.9% QoQ services revenue growth to Rs2.3bn, 5% QoQ product revenue growth to Rs447mn and 10% QoQ growth in Optimus' revenues to Rs85mn. Employee additions are expected to be at 180 in Q3FY07E (versus 755 in Q2FY07 and 992 in Q1FY07).
- **EBITDA margin might contract despite healthy product revenues.** EBITDA margin might contract 80bps QoQ to 17.1% mainly on the back of rupee appreciation during the quarter. EBITDA growth is estimated at 6% QoQ and 312.3% YoY to Rs485mn.

- **PAT to grow 18% QoQ to Rs320.4mn** implying an annualised EPS of Rs13.04. Higher PAT growth vis-à-vis EBITDA growth is on account of higher other income of Rs21mn as compared with a negative other income of Rs7.3mn in Q2FY07. Investors, however, should be cautious before buying the stock as: i) the company has a long track record of provisioning for bad and doubtful receivables – revenues of these quarters may finally end up as bad receivables and ii) product license revenues do not occur every quarter.

Sasken Technologies (SELL)

(QoQ chg: 46.3%; YTD chg: 57.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	1,412	759	85.9	20.1	71	81	(13.2)
EBITDA	288	121	138.6	31.0	351	256	37.2
PBT	206	80	158.0	35.6	244	212	15.0
PAT	165	69	137.8	38.9	205	164	24.9

Source: Company data, i-SEC Research * April - September

- **Helped by Botnia, IT services' revenues to rise 20.4% QoQ to Rs1.3bn.** IT services' revenues would continue to show a steady growth. However, a significant portion of incremental revenues (Rs202mn out of the total Rs226mn) would come from the full integration of Botnia (in Q2FY07, it was integrated only for one month). We estimate 230 net employee additions in the services business. Revenues from IT services would account for 94.9% of the total revenues.

- **Volatility in product business.** Last quarter, product revenues impressed on the back of license fee revenues and not royalty revenues. License fee revenues are one time in nature and therefore a fall can happen. However, in the absence of any data points from the company, we are extrapolating last quarter's product revenues to estimate Q3FY07 product revenues at Rs72.2mn, a growth of 15% QoQ. Royalty revenues will pick up only from the March quarter.

- **EBITDA margin to remain steady.** Salary increases have already been factored in last quarter. Additionally, because of Sasken's plans of capitalising close to Rs60mn of cost during the quarter, we believe reported EBITDA margin will be at 20.4% compared with 18.7% in Q2FY07. Annualised EPS for the quarter would be Rs27.3.

Satyam Computers (BUY)

(QoQ chg: 23.8%; YTD chg: 35.1%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	17,007	12,653	34.4	6.2	30,448	22,137	37.5
EBITDA	3,967	3,146	26.1	9.4	7,175	5,171	38.8
PBT	3,750	3,108	20.6	7.0	7,413	5,048	46.8
PAT	3,412	2,697	26.5	6.7	6,739	4,276	57.6

Source: Company data, i-SEC Research * April - September

- **Steady revenue growth.** We estimate Q3FY07 revenues at Rs17bn, ahead of Satyam's guidance of Rs16.66-16.72bn. Growth would be primarily volume led with 0.4% increase in billing rates for onsite and 0.2% for offshore, but impacted by close to 3% appreciation of the rupee during the quarter. In line with historical trends, employee addition would be muted at 1,300.
- **Margins to move up marginally despite rupee appreciation.** We estimate EBITDA margin to expand 70bps to 23.3% versus 22.6% in Q2FY07. The margin expansion is predicated on: i) marginally higher billing rates ii) lower visa costs and iii) average cost of delivery decreasing.
- **PAT to increase 6.7% QoQ and 26.5% YoY to Rs3.41bn** implying an EPS of Rs5.22 (annualised EPS of Rs20.88) versus a guidance of Rs5.09-5.11. Marginally lower PAT growth versus EBITDA growth would be on account of lower other income at Rs173mn versus Rs282mn in Q2FY07. Other income has been arrived at by taking: i) interest income of Rs343mn ii) forward cover gain of Rs315mn and iii) translation loss of Rs485mn.

Tata Consultancy Services (BUY)

(QoQ chg: 27.2%; YTD chg: 45.9%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	48,327	34,526	40.0	7.8	86,265	60,695	42.1
EBITDA	13,558	9,773	38.7	10.3	22,310	17,025	31.0
PBT	12,668	8,876	42.7	11.0	21,346	16,292	31.0
PAT	10,946	7,505	45.8	10.4	18,541	13,379	38.6

Source: Company data, i-SEC Research * April - September

- **Favourable quarter led by robust revenue growth and some margin expansion.** Growth is likely to remain strong mainly on the back of good project starts and significant employee additions over the past few quarters. Employee additions have been estimated at 7,000 during Q3FY07E. Revenue growth will be driven by volume growth, marginal billing rate increases though neutralised by rupee appreciation at Rs48.33bn, up 7.8% QoQ. We have assumed domestic revenues at Q3FY06 levels.
- **EBITDA margin to expand 70bps to 28.1%** on the back of: i) absence of transition-related costs in some new project starts ii) better pricing iii) SG&A leverage and iv) shift of business to offshore. EBITDA growth is estimated at 10.3% QoQ and 38.7% YoY to Rs13.56bn.

- **PAT to rise 10.4% QoQ to Rs10.9bn.** We are maintaining other income at last quarter's level since TCS uses an active combination of options and forwards to hedge its forex exposure, making it almost impossible to arrive at an estimation. Annualised EPS for the quarter is estimated at Rs44.7.

Wipro (BUY)

(QoQ chg: 17.9%; YTD chg: 28.0%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	36,707	27,652	32.7	3.2	67,032	47,659	40.7
EBITDA	8,351	6,905	20.9	0.8	15,882	11,332	40.1
PBT	7,856	6,289	24.9	(1.3)	15,140	10,382	45.8
PAT	6,948	5,435	27.8	(0.8)	13,206	9,060	45.8

Source: Company data, i-SEC Research * April - September

- **Strong IT services and stable BPO operations.** IT services' revenues are expected to rise 6.6% QoQ to Rs28.99bn (US$644.3mn versus the company's guidance of US$633mn). Of the US$644.3mn, we estimate Spectramind to account for US$54.5mn (a growth of 10% QoQ). Pure software services' revenues are estimated to grow 9.4% QoQ to US$590mn (Rs26.54bn, 6.6% QoQ growth). Among other businesses, the India Asia-Pacific IT business would register weak QoQ growth due to seasonality in the business.

- **We estimate 4,124 net employee additions** in the IT services business (versus 5,328 in Q2FY07) and 1,536 net additions in the BPO business (versus a fall of 584 in Q2FY07). Billing rates are likely to remain steady.

- **EBITDA margin to fall 50bps to 22.8%.** Margin will be affected by the full impact of offshore salary increases given last quarter (effective September 1, '06) and rupee appreciation. However, the margin impact will be cushioned by: i) lower visa costs and ii) higher percentage of revenues from higher profit margin IT services business. PAT is expected to fall 0.8% QoQ to Rs6.95bn, resulting in an annualised EPS of Rs19.5.