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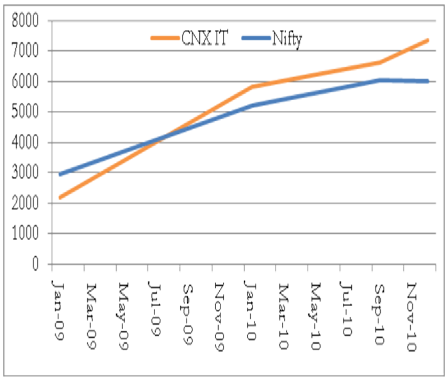
Company Report
Infosys, TCS & Wipro

Indian IT Sector—Turning the corner

Price performance (%)	Q-t-D	'10-t-D	'09-t-D
Nifty	-11.1%	4.9%	84.4%
Infosys	-9.5%	19.7%	179.3%
TCS	-4.4%	48.5%	366.1%
Wipro	-13.6%	3.9%	202.9%



Particulars	EPS	P/E	EV/EBIDTA
Infosys			
FY10	109.8	27.7	20.7
FY11E	121.1	25.1	17.2
FY12E	144.9	20.9	13.9
FY13E	159.3	19.1	11.7
TCS			
FY10	35.7	30.5	23.3
FY11E	45.5	23.9	17.6
FY12E	52.5	20.8	14.9
FY13E	59.2	18.4	12.8
Wipro			
FY10	18.9	22.3	19.9
FY11E	21.6	19.5	17.3
FY12E	22.9	18.4	15.9
FY13E	24.7	17.0	13.8

February 23,2011

The Indian IT sector led by the top three namely, Infosys, TCS and Wipro were badly bruised by the recession in the US. With more than 50% of its' revenue coming from that region, the revenue outlook for the software companies' became bleak and valuations tanked to historic lows.

However, with the US coming out of recession and a slow recovery in the Euro region, sector outlook started to turn positive. The software companies also started to turn their focus at other upcoming areas of growth like IMS (Infrastructure Management Service), Asia Pacific to reach the next level of incremental growth.

The top three software companies have started to see revival with volume growth and order flow showing marked improvement in the last couple of quarters. Pricing has remained stable at current levels and we do not expect a major uptick in it atleast by the second half of FY12. With wage pressure coming into play in a big way and tax benefits coming to an end, margins are likely to come under pressure. We, therefore, see limited upside in the top three IT stocks as we believe current valuations have factored in an improved demand environment. We, thereby, initiate coverage on Infosys, TCS and Wipro with an '**ACCUMULATE**' on dips call.

Key Investment Positives

- **Leading indicators showing upturn**: The PMI of US as well as that of leading European countries like Germany and France has shown marked improvement in the last couple of quarters thus taking away fears of a double-dip recession.
- **Revenue growth from banking sector to remain strong:** Compliance/financial regulation will continue to boost revenues from BFSI well into FY12E which can be expected to provide steady growth with healthy margins.
- **Cost-cutting to increase off-shoring:** With the recession taking away sheen from most of the top companies in the world, cost-cutting has gained even more importance today. Thus, it has become even more imperative for foreign companies to cut cost and therefore we do not see a real threat from protectionist measures that are doing the rounds.

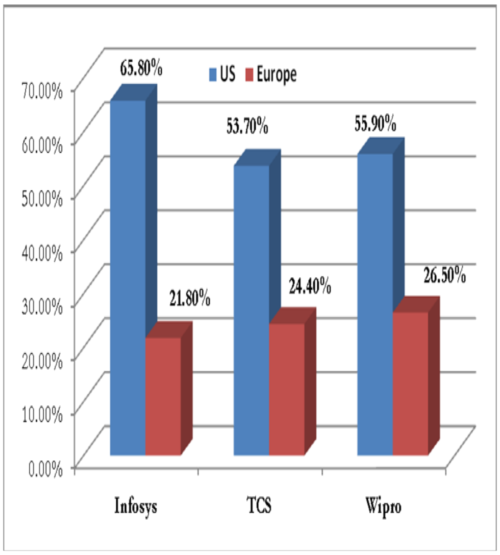


Fig: % Geographical revenue contribution

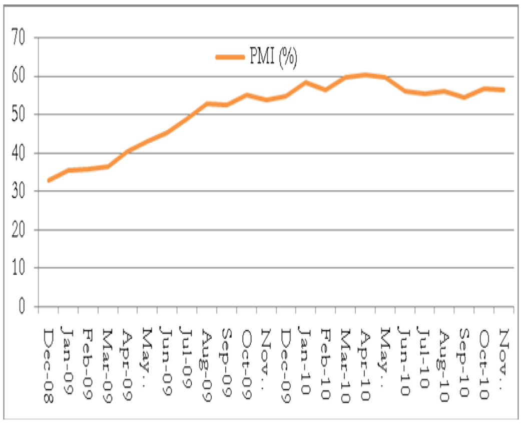


Fig: US PMI indicator

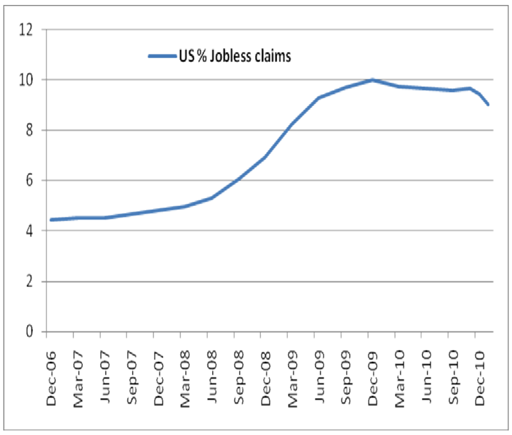


Fig: % Jobless claims in US

- **Leading indicators showing upturn**

Global economic indicators have taken a definitively positive turn in the last two quarters. As the top three software companies of India derive more than half of their revenue from the US, it becomes imperative that we take a close look at the health of that economy.

Macro indicators all over the world especially in the US took a major beating during the credit crisis-led recession. The US government induced public as well as private spending has gone a long way in reviving the economy and bringing it back on its foot. Though, all the economic indicators are not overtly positive, there is a general consensus that the worst-case scenario of a double-dip recession can be given a safe burial.

The PMI index of US which is an indication of its' manufacturing scenario has shown a secular uptick in the past months as can be seen from the adjoining figure. A reading of above 50 generally indicates an expansion of manufacturing economy and vice-versa. The sales figure of the S&P 500 companies also indicates a pick-up in demand and with the Obama administration's extension of the tax-cuts we believe consumer spending will gradually increase thus boosting the profits of the US companies.

We, believe that this will help the US companies to continue with their discretionary spending on IT requirements. The fact that corporate clients have slowly started to commit to long-term projects with back-ended ROIs can be taken as a definite return to good times albeit at a slow pace.

The major cause of worry in the US economy is the high jobless claims that have stubbornly stayed at 10% odd levels. However, if we look at the recent data, we can see a definite downward trend. Though the improvement on the job scene will be slow, nevertheless we believe it has taken a definite positive turn.

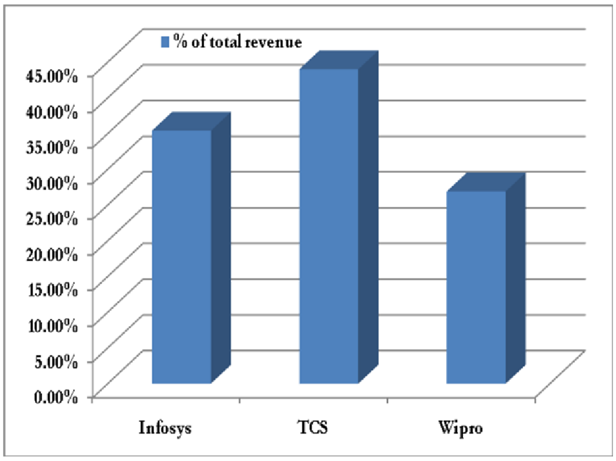


Fig: % BFSI contribution

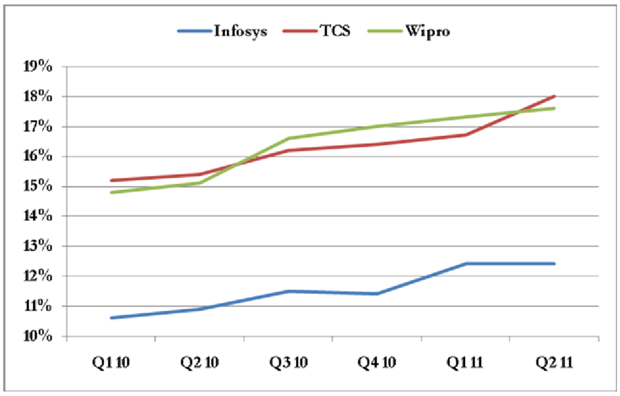


Fig: % contribution from non-US markets

- **Revenue growth from banking sector to remain strong**

BFSI has been a major source of revenue for the Indian IT sector. In all the three tier 1 companies, more than 25% of their revenues come from the financial sector. This was also the hardest hit sector during the US recession. However, after a number of bailouts, mergers and re-structuring the dusts have settled down and the US banks have come out stronger with improving results in the recent quarters.

A number of new reforms are being implemented requiring lower propriety trading, separation of investment banking and merchant banking, higher capital adequacy, increased regulatory supervision, etc. which will result in an immediate need of new systems/software.

This can already be seen in the 9MFY11E numbers which have been exceptionally good on a YoY basis mainly on the back of pent up demand of 2H2008, 1H2009 and the slow and wobbly recovery being seen in the western world. We also expect the spill over of these projects to happen upto FY12E. However, we expect FY13E to see 'normalisation' of IT budgets of US companies which will result in growth slowing down.

Nevertheless, we believe the IT companies' efforts to diversify into newer geographies as well as non-linear technologies will materialise further by that time. This will more than make up for lower revenues from the US banks once the reforms-related software requirements are over. As seen in the adjoining figure, the proportion of revenue from non-US and non-Europe region has seen a steady increase over the past few quarters.

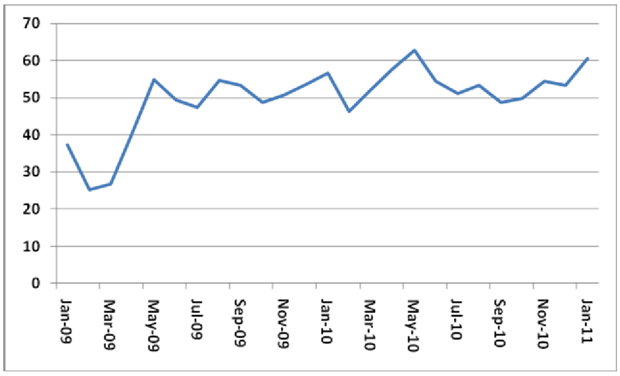


Fig: US consumer confidence data

- **Cost-cutting to increase off-shoring**

The recession has left many of the US corporations badly scathed. This resulted in them curtailing their IT budgets. Though the economic situation has started to look up now as can be gauged by the increase in the consumer confidence data of US, the recovery has been very gradual. There are also concerns about the health of some of the European economies commonly referred to as the ‘PIIGS’ economies—though it must be noted that these countries contributes less than 1% of the top three company’s revenues.

Nevertheless, these lingering concerns have made western clients very cost-conscious and now they look for getting more for every dollar spent. This will inevitably result in clients opting for more off-shoring notwithstanding the taboo that is being associated with the word ‘off-shoring’ by the US govt.

The Euro zone has also shown better than expected growth in CY10. However, considering the fact that a number of austerity measures are being implemented in the Euro-zone, growth may see a decline. This will again bring about the need for cost-cutting. We believe this will force the European companies to start opting for off-shoring and over-come their previous hesitations as off-shoring is taken to be more of a religious decision and not simply a business decision in Europe.

Initiating coverage on

Infosys Technologies Ltd.

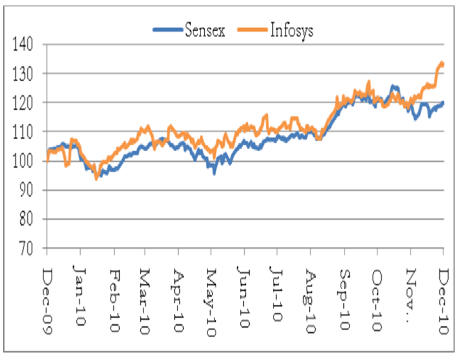
Infosys Technologies Ltd.

CMP:	Rs.3090
Target Price:	Rs.3663
Recommendation:	**ACCUMULATE**

Stock Info	
BSE Group	A
BSE Code	500209
NSE Symbol	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
BSE Sensex	18332
NSE Nifty	5480

Market Info	
Market Capital	Rs.191551cr
Equity Capital	Rs.287cr
Avg. Trading Vol.	99415 (Qtly.)
52 Wk High/ Low	3370/2333
Face Value	Rs.5

Shareholding Pattern (%) (31st Dec.,2010)	
Promoters	16
Domestic Institutions	8.4
Foreign Institutions	55.7
Non Promoters Corp.	6.4
Public & Others	13.8
Govt. Holdings	0



Infosys has long been at the fore-front of the Indian IT industry. Considered as the bellwether of the Indian IT sector, the industry's trends can be best gauged by looking at its numbers as well as the commentary that the Infosys' management gives.

The management in the recent times has turned positive from cautious and has indicated seeing healthy demand recovery in all geographies—though they are keeping a 'close look' on the global financial scenario.

- **Demand recovery being seen**

Infosys management has indicated a near-term robust demand outlook mainly driven by pent-up demand as well as due to competitive needs, compliance requirements, rapid growth and expansion plans of banks and the need to replace old legacy software systems. Financial institutions are looking to launch new financial products quickly which older legacy systems do not have the flexibility for. Also, in many organisations, the staff maintaining these legacy systems is retiring and people skilled in older systems are difficult to find. This will result in a spurt in new deals which can be expected to put up good numbers in FY11E and FY12E.

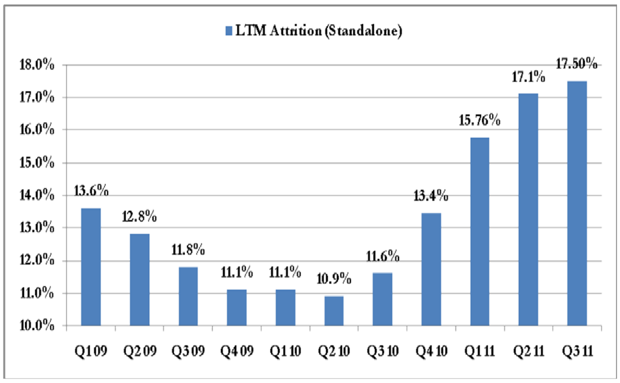
Though we must add that given the general weakness that still persists in the macro environment, any further shock will inevitably force clients to curtail their budgets. Currently, indications for the CY11E budgets of clients has points to only a marginal increase YoY.

- **Stable pricing**

Infosys management says that they are witnessing stable pricing and all cut on billing rates related matters has come to end. However, in the near-term they are not expecting any improvement in pricing. We believe that any significant improvement in billing rates can only be expected by the second half of FY12E.

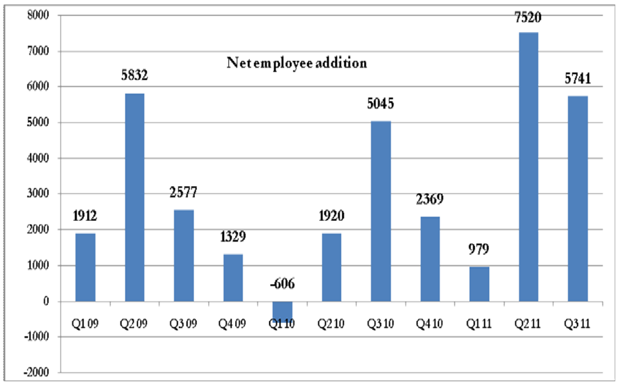
- **Attrition slowing down**

A major worry that has come about with the improvement in demand is the rise in attrition. A majority of the people who have churned has been in the 3-6 years band. Though, Infosys was one of the few companies which continued hiring even during the weak period between 2008-2010 we believe their HR



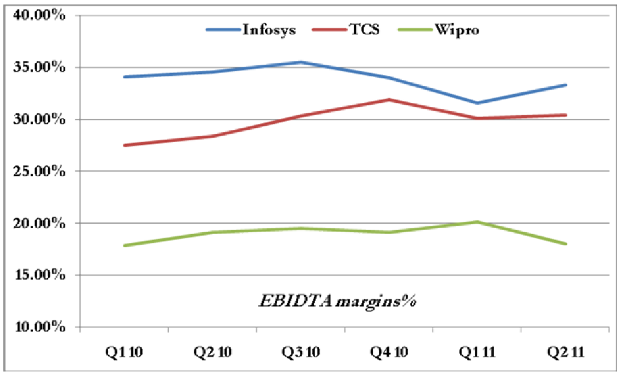
initiative iRace that started in Oct 2009 was badly timed as it created a lot of resentment among employees. It ultimately resulted in a number of employees resigning once demand returned.

The management in their recent commentary claims to have curbed down on attrition. Though, attrition in Q2 was at 17.1% as compared to 15.8% in Q1, in absolute numbers the number of people who has left has come down to 4200 in Q2 from 5400 in Q1.



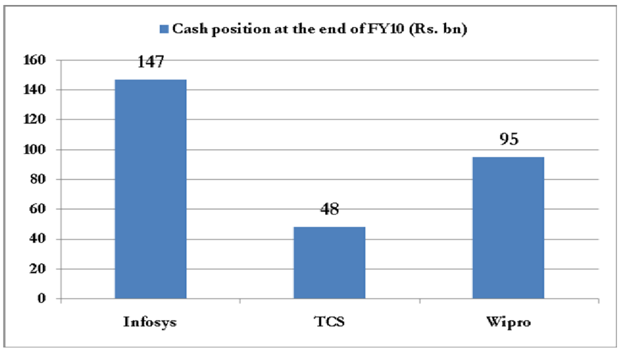
- **Blockbuster employee addition plan**

With the increasing demand that is being slowly witnessed all over the world, Infosys has also buoyantly increased its employee intake plan. From an intake of around 30k employees that was planned at the beginning of FY11E, Infosys consecutively upped its hired after every quarter indicating demand recovery. At the end of Q2, Infosys is planning to hire 40k in FY11. For FY12E, it plans to hire another 50k. It is also increasing its' hiring of high-end business consultants to beef up its' consulting capabilities.



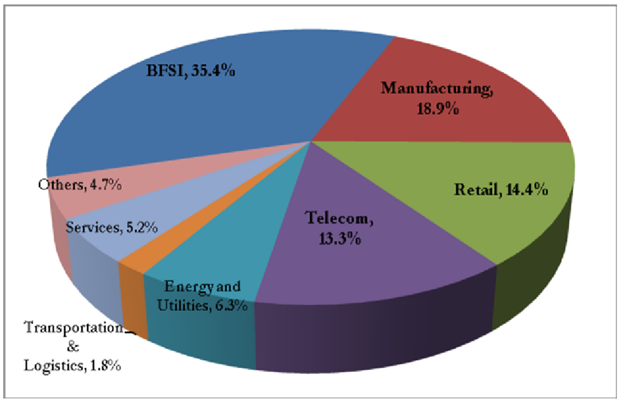
- **Still commands the best margins in the industry**

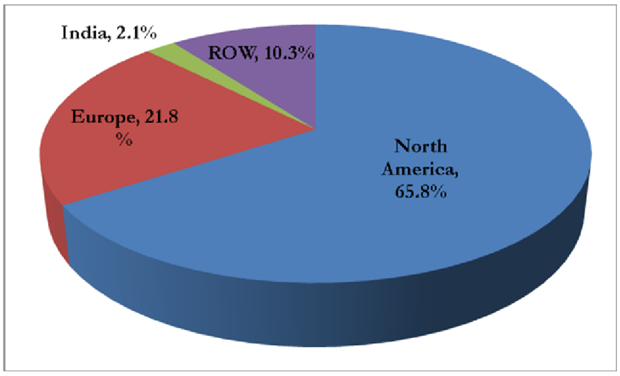
Infosys for long has been able to maintain higher margins in comparison to its peers—though it has come off its' historic highs. Though in the recent past, TCS has done well to catch up with it. A point to be noted is that Infosys' better margin is not on account of premium pricing vis-à-vis its' peers. Rather, the main contributor to the better margin of Infosys has been its' lower SG&A (Selling, General & Administrative) spend. The management has indicated that though SG&A expenses are expected to go up in the coming quarters however, as a percentage of total sales it is expected to remain at the same levels. The fact that it is increasing the base of employee pyramid by taking in more freshers as compared to laterals will also help it to sustain margins.



- **Highest cash among its' peers**

Infosys has the highest amount of cash and cash equivalent among its' peers thus providing a cushion to it in case of any unforeseen negative developments in the world economy. Its' cash position at the end of Q2FY11 stood at Rs.147 bn as compared to TCS' Rs.48 bn and Wipro's Rs.95 bn. This also makes the company well-equipped to go for any acquisition if a proper opportunity comes its' way.



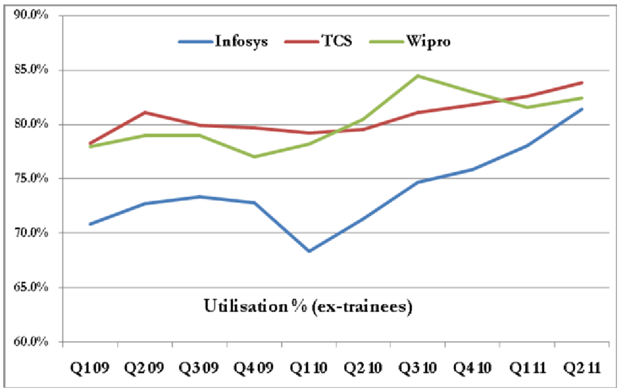


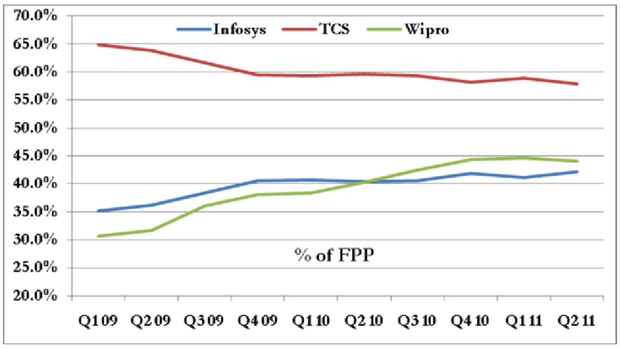
- **Well diversified portfolio**

Infosys has one of the most well-diversified portfolio in the IT sector across both horizontals and verticals that it caters to.

Geographically too, the company is well-diversified—though it is still skewed towards North America. However, over the years, Infosys has done well in getting projects from all over the world in an effort to reduce its' dependence on the US. The current geographical diversification of revenues is as shown in the figure.

Like its peers it also derive a major part of its revenues from the BFSI vertical—though in proportion terms it has come down over the years as it is trying to further diversify its offerings.





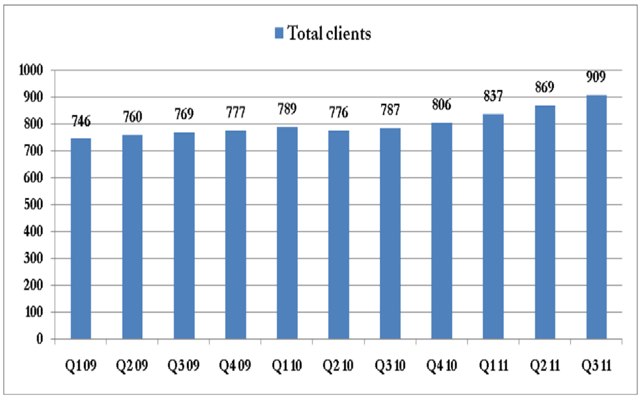
- **Margin control levers still available**

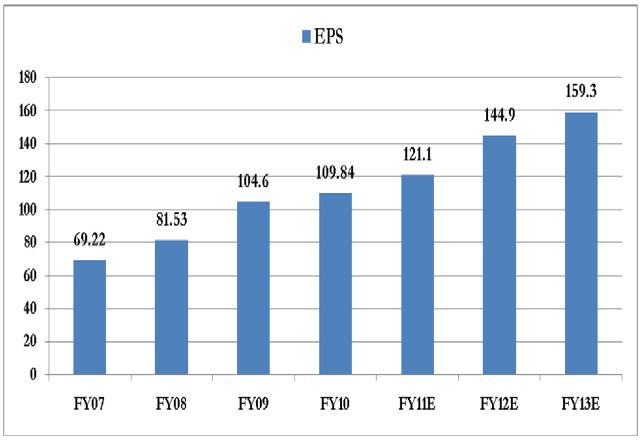
Though Infosys had to do away with most of the pricing premium it used to charge clients on account of adverse global conditions and high competition in the off-shore space, it was still able to weather the storm of the global crisis by turning more working capital intensive. We believe Infosys still has a number of levers that it can use to keep margins in check in case the need arises.

It has one of the lowest utilisation among its peers and its' percentage of off-shoring is also scalable. A very positive point that was made in their latest commentary was that Infosys is seeing the proportion of off-shoring going up in FY12E. This would help Infy to supports its' margins as off-shore component has better margins in the event of any currency headwinds that it may face going forward.

It also has the option to take in more Fixed priced project (FPP) as its' percentage of FPP is currently the lowest among its' peers. However, it remains to be seen how well the Infosys' management employs these levers.

In our calculations we have factored in slight decrease in margins as we believe employee cost might inch up further in FY12E and FY13E.





Company description

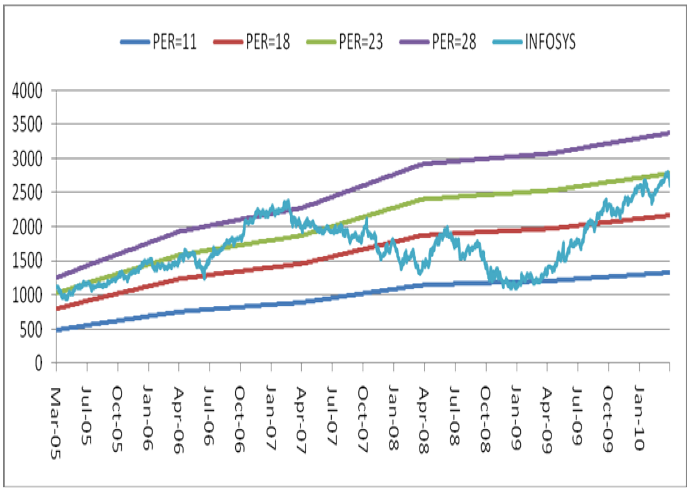
Infosys is the second largest software company in India providing a range of services like application development and maintenance, consulting, product engineering services, etc. to clients all over the world. Currently the company has a client base of 869 spread across 50 countries which constitutes some of the best corporations in the world. Besides its' service lines it also has a number of products in its' kitty—chief among them being Finacle-a core banking software that is used by some of the leading banks all over the world.

Investment theme

Infosys is one of the best managed company not only in India but all over the world. It follows the highest level of corporate governance and ethical standards which we believe is an important point to be taken into consideration in light of the number of scams that has come out in the recent time in India Inc. With one of the best sales and marketing engine in place and excellent project execution skills, Infosys is well-poised to take advantage of the spurt in demand for IT services and an improving macro environment that we expect in FY11E and FY12E.

Key risks

The two main risks that Infosys along with the whole IT sector faces currently are currency risks and attrition. To counter any sharp movement in the Indian rupee, Infosys has been gradually increasing its' hedged position in the recent times. At the end of Q3FY11E, Infosys' total hedged position stood at $585mn. We believe Infosys is following the correct and the most prudent way of handling its currency risk as it has never taken an aggressive stance and went on to hedge a large proportion of its' receivables only to suffer a huge MTM loss in case the call goes wrong. Our long-term view on the rupee is that it will appreciate. However, in the short term, on account of a rising current account deficit that has arose due to higher trade deficit on account of increasing oil prices will keep the rupee under pressure. Thus, Infosys stands to benefit from such a scenario in the short term. As far as attrition is concerned we expect it show a secular downtrend by the end of 1QFY12 as the new batch of engineers and software professionals make their way into the job market.



- **Valuation**

Infosys—the second largest software company in India has seen demand momentum picking up in the latest quarters which has made the management more confident about its' prospects going forward. In their latest commentary, the management indicated that they are seeing strong traction in the all important North American market, while the macro-environment in the European Union is still 'under pressure'. Nevertheless, the company won 10 deals in EU in the last quarter.

We believe being the bellwether of the Indian IT sector Infosys is best valued using PE valuation. As can be seen from the PE graph Infosys has been trading in the 23x brand in recent times. We expect it to trade in the same range moving ahead. Therefore using a PE multiple of 23x for its' FY13E EPS of Rs.144.98 per share we arrive at a target price of Rs.3663. We thereby initiate coverage on Infosys Technologies Ltd with an "**ACCUMULATE**" rating.

Q3 FY11 result

Rs. in cr	Q3FY11	Q3FY10	YoY%chng.	Q2FY11	QoQ%chng.
Income	7106.00	5,741	23.8%	6947	2.3%
Software development expenses	3848	3,009	27.9%	3756	2.4%
Gross Profit	**3258**	**2,732**	**19.3%**	**3191**	**2.1%**
Sales and marketing expenses	393	314	25.2%	380	3.4%
General and administration expenses	503	380	32.4%	498	1.0%
SG&A	***896***	**694**	29.1%	***878***	2.1%
Operating profit (EBIDTA)	**2362**	**2,038**	15.9%	**2313**	2.1%
Interest	0	0	0.0%	0	0.0%
Depreciation and amortization	215	231	-6.9%	215	0.0%
Operating profit after Int., Dep. & Amort.	**2147**	**1,807**	18.8%	**2098**	2.3%
Other income	290	231	25.5%	267	8.6%
Provision for investments	0	1	0.0%	0	0.0%
Profit before tax, min. int. and excep. items	**2437**	**2,037**	19.6%	**2365**	3.0%
Provision for taxation	657	455	44.4%	628	4.6%
Profit after tax but before min. int. & excep. items	**1780**	**1,582**	12.5%	**1737**	2.5%
effective tax rate%	*26.96%*	*22.34%*		*26.55%*	
Extraordinary income	0	0		0	0
Minority interest	0	0		0	0
Net profit after tax, min. int. & excep. items	**1780**	**1,582**	**12.5%**	**1737**	**2.5%**
EPS	***31.15***	***27.75***	*12.3%*	***30.41***	*2.4%*

Infosys' 3QFY11 results were largely flattish in nature with top-line and bottom-line growth of only 2.3% and 2.5% respectively on a sequential basis. The company attributed this to a weaker economic recovery in the developed markets and also due to seasonality. Nevertheless, the company managed to beat its' own guidance that it had given at the start of the 3QFY11 and also upped its' guidance for the full year to Rs.118.68-118.9 from Rs.115-117 given earlier.

The management also gave positive commentary on the demand scene going into FY12E. They see FY12 as a 'normal year' and feels that the Indian IT industry will definitely clock growth of 18-20% in that year. Considering the fact that Infosys has always shown 'market-plus' results, we can safely expect it to clock 24-25% growth in FY12E.

A few key highlights of Q3FY11 results are as follows:

1. Volume growth was at 3.1% while pricing went up by 1.6%.
2. Clients' budgets are flat to marginally up.
3. Attrition came at 17.5% v/s 17.1in Q2. In absolute numbers, it came down to 3061 from 4233 in Q2.
4. Infy is seeing proportion of off-shoring going up in FY12. This is good news as it means that inspite of currency headwinds Infy will be able to support margins as off-shore component has better margins.
5. Net employee addition was at 5741 in Q3.

Profit and Loss Statement Extract (consolidated)

Y/E March (Rs. in cr)	FY10	FY11E	FY12E	FY13E
Net Sales	**22742**	**27932**	**33491**	**38182**
YoY%	*4.8*	*22.8*	*19.9*	*14.0*
Software dev. exp.	12071	15222	18260	20825
Gross Profit	***10671***	***12710***	***15231***	***17357***
Selling & Marketing exp	1184	1562	1960	2170
G&A expense	1626	2007	2370	2565
EBIDTA	***7861***	***9141***	***10901***	***12422***
EBIDTA%	*34.6*	*32.7*	*32.6*	*32.5*
Depreciation	905	860	940	1100
Other income	934	1086	1265	1140
Provision for inv.	-9	0	0	0
Tax	1681	2451	2945	3365
Effective tax rate%	*21.3*	*26.2*	*26.2*	*27.0*
Exceptional item	48	0	0	0
Profit before minority int.	6266	6916	8281	9097
Minority int.	0	0	0	0
Net Profit	**6266**	**6916**	**8281**	**9097**
YoY%	*4.6*	*10.4*	*19.8*	*9.8*

Cash Flow Statement

Y/E March (Rs.in cr)	FY10	FY11E	FY12E	FY13E
Profit before tax, min.int., & exceptional item	7899	9366	11226	12461
Add: Depreciation	905	860	940	1100
Int. & Dividend income	-881	-1086	-1265	-1140
Other items	74	0	0	0
(Inc.)/Dec in WC	-40	-325	-760	-575
Direct Taxes	-1753	-2451	-2945	-3365
Net cash provided by operating activities	**6204**	**6362**	**7197**	**8482**
(Inc)/ Dec in FA	-675	-1561	-1100	-1150
(Inc)/Dec in investments	-3698	0	0	0
Other items	753	1086	1265	1080
Cash Inflow/ (outflow) from Investments	**-3620**	**-475**	**165**	**-10**
Proceeds from exercise of stock options	89	-	-	-
Dividend Paid	-1346	-1434	-1434	-1434
Dividend tax paid	-228	-240	-240	-240
Cash Inflow/ (outflow) from Financing	**-1485**	**-1674**	**-1674**	**-1674**
Effect of change in exchange rate	-31	0	0	0
Net Cash Inflow/ (outflow)	**1068**	**4216**	**5688**	**6798**
Cash at beginning	10993	12111	16326	22014
Add: Opening bal. of cash on consol. of controlled trust	50	0	0	0
Net Cash carried forward	**12111**	**16327**	**22014**	**28813**

Balance Sheet

Y/E March (Rs. in cr)	FY10	FY11E	FY12E	FY13E
Sources of Funds:				
Eq. capital(FV-Rs.5)	286	287	287	287
Reserves & Surplus	22763	28858	35305	42678
Shareholder's equity	***23049***	***29145***	***35592***	***42965***
Deferred tax liability	232	232	232	232
Minority int.	0	0	0	0
Total Liabilities	**23281**	**29377**	**35824**	**43197**
Application of funds:				
Gross block	7939	9400	10500	11650
Less: Acc. depreciation	2893	3753	4693	5793
Net Block	*4946*	*5647*	*5807*	*5857*
CWIP	409	409	409	409
Investments	3712	3712	3712	3712
Deferred tax asset	432	432	432	432
Current Assets:				
Debtors	3494	4285	5138	5858
Cash & bank balance	10556	16326	22014	28812
Loans & Advances	4187	4600	5500	6200
Total	***18327***	***25212***	***32652***	***37725***
Current Liabilities	2343	2934	3527	4022
Provision	2112	2400	2800	3150
Net Current Asset	***13782***	***19877***	***26324***	***33697***
Total Asset	**23281**	**29377**	**35824**	**43197**

Important Ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Performance Ratios				
EBIDTA %	34.6	32.7	32.6	32.5
Net Profit %	27.6	24.8	24.7	23.8
Sales per share (SPS)	3981.5	4890.0	5863.4	6684.6
Price/SPS	0.8	0.6	0.5	0.5
Dividend %	500	500	500	500
Cash per share	2120.3	2857.2	3805.1	4954.8
Assets Turnover	0.9	0.9	0.9	0.9
Du Pont Analysis				
PAT / Net Sales	0.3	0.3	0.2	0.2
Net Sales / Assets	0.9	0.9	0.9	0.9
Assets / Equity	1.0	1.0	1.0	1.0
ROE %	27.2	23.7	23.3	21.2
Valuation Ratios				
Diluted EPS	109.7	121.0	144.9	159.2
Cash EPS	414.3	504.1	602.8	687.7
P/E	27.7	25.1	20.9	19.1
P/BV	7.5	5.9	4.9	4.0
EV/ EBIDTA	20.7	17.2	13.9	11.7
EV/ Sales	7.2	5.6	4.5	3.8
ROCE%	33.8	31.1	30.4	28.8

Initiating coverage on

Tata Consultancy Service Ltd.

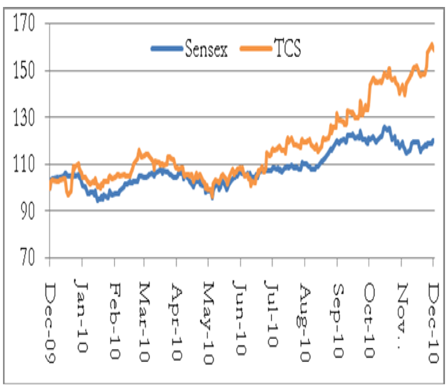
Tata Consultancy Services Ltd.

CMP:	Rs.1130
Target Price:	Rs. 1361
Recommendation:	**ACCUMULATE**

Stock Info	
BSE Group	A
BSE Code	532540
NSE Symbol	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
BSE Sensex	18332
NSE Nifty	5480

Market Info	
Market Capital	Rs.225048.6cr
Equity Capital	Rs.195.7.0
Avg. Trading Vol.	211364 (Qtly.)
52 Wk High/ Low	1174/692
Face Value	Rs.1

Shareholding Pattern (%) (31st Dec.,2010)	
Promoters	74.1
Domestic Institutions	7.9
Foreign Institutions	12.8
Non Promoters Corp.	0.7
Public & Others	4.6
Govt. Holdings	0



Tata Consultancy Service (TCS), a part of the Tata group of companies is the largest and one of the oldest software companies of India. It operates in 42 countries and has more than 155 offices worldwide.

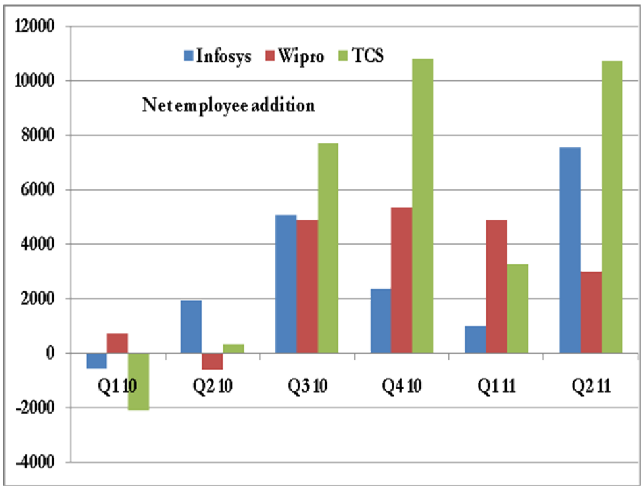
In the recent quarters, TCS has continuously surprised everyone with their spectacular results with improving margins. The management also looks upbeat about demand recovery and their confidence is well exhibited in their robust employee intake plan which is also the highest in the industry.

- **Revenue growth better than the best**

TCS has done exceedingly well in the last few quarters and has shown better revenue traction. In terms of sequential revenue growth in dollar terms, TCS has outpaced Infosys in five of the past seven quarters. TCS also has seen an improvement in their margins. TCS has the highest exposure to BFSI as compared to its peers which helped it to capture maximum spurt in growth that came in the BFSI sector. A low attrition also helped it to keep project deliveries unaffected and take up maximum number of discretionary projects that came up. The management has also exuded confidence about continued business traction, no significant margin headwind and positive intent of customers on off-shoring.

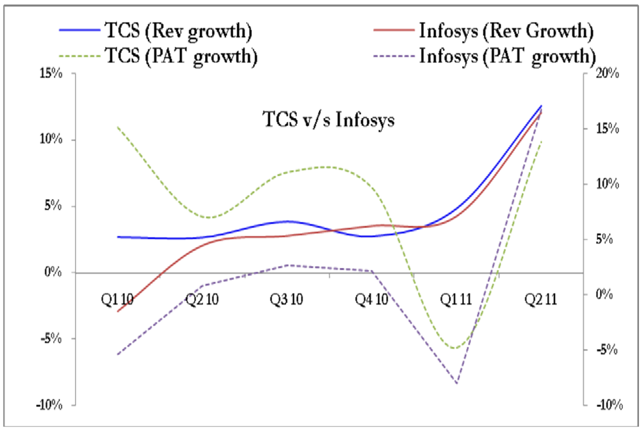
- **Pricing uptick expected earlier than peers**

In contrast to most of its peers TCS has already started to see an uptick in its billing rates and believes that there is still an upward bias to it going ahead, as compared to other IT firms which sees a stable to even slight pressure on billing rates. The management has exuded confidence that with discretionary spending picking up, TCS is well-poised to achieve a 25% revenue growth in FY12E. In the unlikely event that discretionary spending do not see an uptick even then the management is confident of clocking a growth of 16-18%. We also see pricing moving up in the coming quarters especially onsite billing rates on account of an increase in traction in higher level service lines like consulting and product business.



Sector leading hiring targets implies robust growth ahead

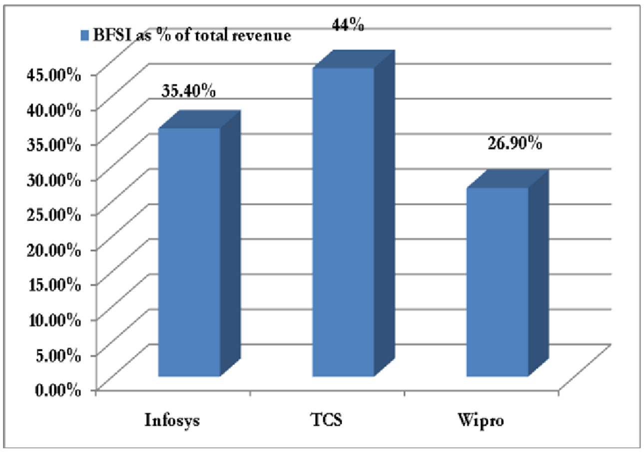
TCS had previously upped its hiring targets for two consecutive quarters in an indication that it is experiencing growth ahead of its' own expectation. The company raised its' gross hiring target to 50,000 from 40,000 that was planned at the end of 1QFY11. It is to be noted that TCS has already surpassed its' hiring target of 30,000 that it had given for the whole of FY11 in the first two quarters itself. In 3Q, its gross employee addition was at an all-time high of 20,000. Though attrition has gone up to a level which is the highest since the company got listed (14.4% in 3QFY11), it is still lower than the other two biggies of the sector. We believe that the comparatively lower attrition number will act as a major differentiator in the coming quarters as project continuity and deployment of quality experienced employees gains importance in the eyes of clients.

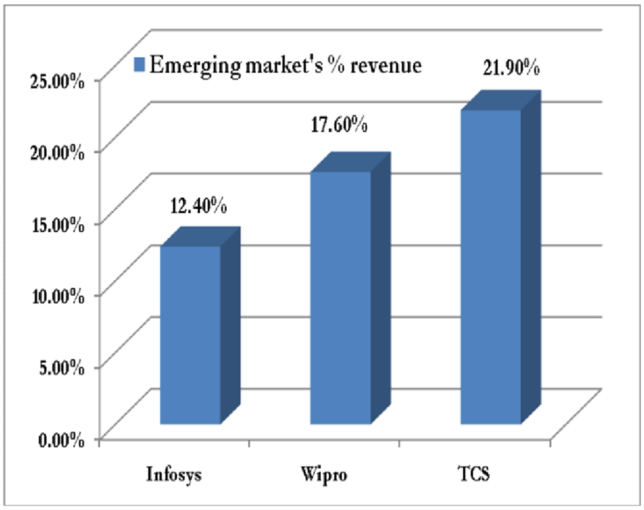


High BFSI exposure to ensure strong revenue growth

TCS has the highest BFSI exposure among the top three IT companies. As compared to Infosys' 35.4% and Wipro's 26.9%, BFSI contributes 44.0% of TCS's revenues. BFSI has shown strong traction owing mainly to pent-up demand of FY09 and 2HFY10. We can safely expect the strong growth to continue to FY12E on account of higher spending by banking and insurance companies on areas like M&A integration, risk and compliance and active cost reduction.

The global crisis led to a lot of M&A activities in the BFSI space which would necessitate IT expenditure at the new entity. Though there is a limit to integration work, we believe that the possibility of these drying up totally is remote as we can safely expect that all the integration related work will lead to the creation of downstream revenues like maintenance of the new IT infrastructure. The new regulation and compliance measures that are being implemented worldwide in the BFSI domain would also require the creation of newer infrastructure for proper compliance thus increasing IT-related expenditure of BFSI companies. Apart from M&A and compliance related expenditure, BFSI companies would also be looking at all available options to control costs post the crisis—which has given them a clearer picture of core and non-core activities. We believe the drive to out-source non-core activities will gain prominence which will provide a BFSI-concentrated company like TCS with both long-term and short-term contracts for IT infrastructure creation as well maintenance of BFSI companies.





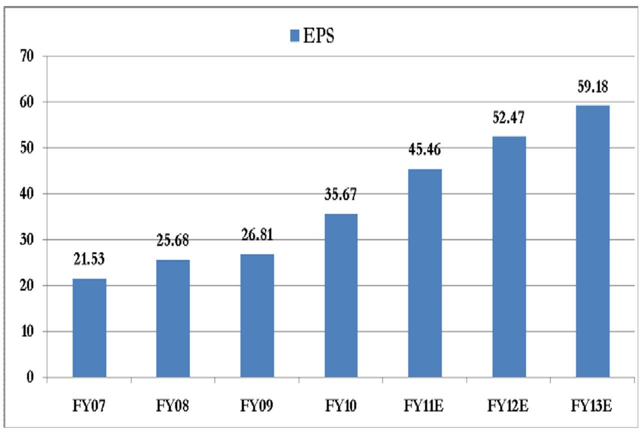
Higher focus on emerging market to benefit

TCS has the highest exposure towards the emerging market among the top three software companies. As compared to Infosys and Wipro which receives 87.6% and 82.4% of revenues from the US and UK respectively, TCS gets only 78.1% of their revenue from that region. TCS has been exhibiting higher focus on the emerging markets (EMs) as compared to its peers which is evident from the number of deals that it continues to grab from the region including India and China. Considering the fact that the next leg of super-normal growth is expected in the emerging market, TCS looks well-equipped to grab a large chunk of it.

However, a trade-off between strong revenue growth and pressure on margins is a dilemma that TCS will have to encounter, since EMs offer lower margins. But we believe with cloud computing gaining traction and other non-linear measures being initiated, such pressures will be arrested to a large extent.

Reduction in hedges minimises risk of MTM hit

TCS has the highest amount of hedges for its receivables among the top three. The company always had aggressive strike-rates which resulted in the company suffering huge MTM losses in the past. Over the years, however, TCS has been reducing its' overall hedged position. They follow a very cautious policy and takes the minimum of hedges. At the end of 3QFY11E, TCS' hedged position stood at ~$225mn. The minimisation of uncertainty will ensure that the stock of TCS trades at a higher PE multiple than it used to earlier.



Company description

One of the oldest IT firms in India, TCS is also the largest employer in the IT domain with a total employee strength of ~1,90,000. TCS provides IT services, business solutions, and outsourcing across a wide range of verticals like BFSI, manufacturing, telecommunications, retail, etc. It has presence in 42 countries and has a well-diversified client base that includes seven of the Fortune top-10 companies.

- **Investment theme**

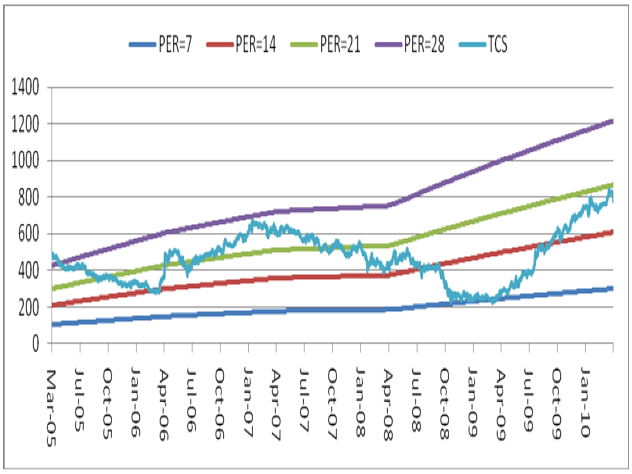
TCS being the largest software company in India—both in terms of revenue and employee number is well poised to capture the spurt in growth that is currently being witnessed especially in the finance domain. With TCS having a huge exposure to this domain itself, its expertise and experience will be hard to match with by its peers. To further capture the upcoming growth, the management has under-taken robust employee addition plans. Its continuous outperformance is a testimony to the fact that it deserved to be rated at par with the best in the industry.

- **Key risks**

Besides the two main risks that the whole IT sector is facing currently namely, currency risks and attrition, TCS's high exposure to the BFSI domain also poses a risk. Though, on the outside it seems that the worst is over, however, the apprehension of some more skeletons tumbling out from the cupboards of the American or European banks remains. A cloud of uncertainty still lurks over the health of the PIIGS economy in particular and Europe in general. In case of any further economic shock, the BFSI segment will surely curtail down all major projects and that has the potential to negatively affect TCS.

- **Valuation**

TCS in the recent times has been outperforming Infosys. It has also been able to catch up with it on the margins' front. This has given us the belief that TCS now deserves to treated at par with Infosys as far as PE multiple valuation is concerned. Therefore, as compared to the PE multiple of 21x that TCS has been trading for a long time now we value TCS with a PE multiple of 23x similar to that of Infosys for its' FY13E EPS of Rs.59.18 per share, and hence arrive at a target price of Rs.1361 per share. We thereby initiate coverage on Tata Consultancy Service Ltd with an "**ACCUMULATE**" call.



Q3FY11 result

Rs. in cr	Q3FY11	Q3FY10	YoY%chng.	Q2FY11	QoQ%chng.
Information technology & consultancy services	9331.5	7445.3	25.3%	8899.8	4.9%
Sale of equipment and software licences	331.9	203.2	63.3%	386.6	-14.2%
Other income, (net)	194.2	65.5	196.5%	70.8	174.5%
Total income	**9857.6**	**7714.0**	**27.8%**	**9357.1**	**5.3%**
Employee costs	3552.2	2711.8	31.0%	3411.2	4.1%
Operation and other expenses	3211.5	2664.0	20.6%	3099.0	3.6%
Interest	4.9	3.7	33.1%	15.3	-68.1%
Depreciation	188.4	167.9	12.2%	172.5	9.2%
Total expenditure	6957.0	5547.4	25.4%	6698.0	3.9%
Profit before tax	**2900.6**	**2166.7**	**33.9%**	**2659.2**	**9.1%**
Provision of taxes					
Current tax	566.1	487.4	16.1%	587.7	-3.7%
Deferred tax benefit	36.8	-122.5	-130.0%	15.5	136.7%
Fringe benefit tax	-1.8	-4.3	-57.2%	-0.1	1207.1%
MAT credit entitlement	-96.9	-38.1	154.2%	-143.0	-32.3%
Profit for the year before min.int	2396.5	1844.2	29.9%	2199.0	9.0%
Effective tax rate%	*17.4%*	*14.9%*		*17.3%*	
Minority interest	26.6	20.3	31.5%	29.8	-10.7%
Share of loss of associates					
Net profit for the year	**2369.8**	**1823.9**	**29.9%**	**2169.2**	**9.2%**
EPS	*12.01*	*9.31*	*29.0%*	*11.06*	*8.6%*

TCS put up spectacular third quarter results wherein they posted top-line and bottom-line growth of 5.3% and 9.2% respectively. Volumes grew by 5.7% on a QoQ basis. With this TCS out-performed Infosys in terms of volume growth over the last four quarters. Pricing also saw an improvement of 1.18% after seven quarters.

The management says that they are seeing good business momentum and have seen decent growth across all verticals and geographies. BFSI continues to remain strong and increase in discretionary spending is being seen. The management expects larger allocation of discretionary projects in CY2011. They expect clients' budgets to remain flat with an upward bias.

Margins are expected to remain stable at current levels this year though the management is apprehensive of facing headwinds going ahead on account of rupee appreciation. The company is likely to go for a round of wage hikes in around March though the management at present is uncertain about the quantum of wage hikes that would be given. This is another factor that might pressurise margins. Yet another factor would be a dip in utilisation which is at an all-time high.

However, taking into account the fact that strong volumes are expected in the coming quarters, the impact of wage hike can be minimised.

Profit and Loss Statement Extract (consolidated)

Y/E March (Rs. in cr)	FY10	FY11E	FY12E	FY13E
Net Sales	**30300.9**	**37749.9**	**44006.4**	**49536.7**
YoY%	*10.1*	*24.6*	*16.6*	*12.6*
Employee cost	10879.6	13702.5	16186.0	18333.4
Op. & other exp.	10454.8	12379.2	14330.0	15920.0
EBIDTA	**8966.6**	**11668.2**	**13490.4**	**15283.2**
Interest	16.1	27.8	20.0	20.0
Depreciation	660.9	712.4	795.0	920.0
Profit before tax	**8289.6**	**10927.9**	**12675.4**	**14343.3**
Tax	1196.9	2097.5	2285.0	2640.0
Effective tax rate%	*14.4*	*17.2*	*18.0*	*18.4*
Min. interest	90.9	118.1	120.0	120.0
Share of loss of associates	1.0	0.3	0.0	0.0
Net Profit	**7000.6**	**8927.5**	**10270.4**	**11583.2**
YoY%	*33.2*	*27.5*	*15.0*	*12.8*

Balance Sheet

Y/E March (Rs. in cr)	FY10	FY11E	FY12E	FY13E
Sources of Funds:				
Eq. capital (FV-Rs.1)	295.7	295.7	295.7	295.7
Reserves & Surplus	18171.0	22504.3	28180.1	35168.7
Shareholder's equity				
Secured loans	31.2	31.2	31.2	31.2
Unsecured loans	72.0	72.0	72.0	72.0
Total	***103.3***	***103.3***	***103.3***	***103.3***
Minority interest	361.7	361.7	361.7	361.7
Deferred Tax Liability	68.7	68.7	68.7	68.7
Total Liabilities	**19000.4**	**23333.7**	**29009.7**	**35998.1**
Application of funds:				
Goodwill	3215.9	3215.9	3215.9	3215.9
Gross block	6419.5	7200.0	8100.0	9100.0
Less: Acc. depreciation	2897.5	3609.9	4404.9	5324.9
Net Block	*3522.0*	3590.2	3695.2	3775.2
CWIP	1017.4	1017.4	1017.4	1017.4
Investments	3682.1	3682.1	3682.1	3682.1
Deferred tax asset	167.9	167.9	167.9	167.9
Current Assets:				
Int. accrued on inv.	26.6	26.6	26.6	26.6
Inventories	17.8	22.1	25.5	28.9
Debtors	5855.4	7185.4	8308.2	9412.4
Cash & bank balance	4718.2	7853.6	12202.5	17778.4
Loans & Advances	3969.8	4600.0	5300.0	6000.0
Total				
Current Liabilities	4093.8	5004.7	5855.6	6572.8
Provision	4300.1	4600.0	4600.0	4600.0
Net Current Asset	***7395.0***	***11660.2***	***17231.0***	***24139.7***
Total Asset	**19000.4**	**23333.7**	**29009.5**	**35998.1**

Cash Flow Statement

Y/E March (Rs.in cr)	FY10	FY11E	FY12E	FY13E
Profit before taxation	8289.6	10927.9	12675.4	14343.2
Add: Depreciation	660.9	712.4	795.0	920.0
Interest expense	16.1	27.8	20.0	20.0
Other items	-132.6	174.0	174.0	174.0
(Inc.)/Dec in WC	479.5	-1129.8	-1221.9	-1332.8
Cash generated from operations	9313.5	10712.4	12442.6	14124.5
Direct Taxes	-1907.3	-2097.5	-2285.0	-2640.
Net cash provided by operating activities	**7406.2**	**8614.9**	**10157.6**	**11484.5**
(Inc)/ Dec in FA	-1044.8	-780.5	-900.0	-1000.0
(Inc)/Dec in investments	-1200	0.0	0.0	0.0
Other items	-3168.4	106.2	-2033.2	-2919.1
Cash Inflow/ (outflow) from Investments	**-5413.2**	**-674.3**	**-2933.2**	**-3919.1**
Interest paid	-16.6	-27.8	-20.0	20.0
Dividend Paid	-1958.4	-1958.4	-1958.4	-1958.4
Other items	-406.3	-11.1	-11.1	-11.1
Cash Inflow/ (outflow) from Financing	**-2381.4**	**-1997.4**	**-1989.5**	**-1989.5**
Net Cash Inflow/ (outflow)	**-388.3**	**5943.3**	**5234.9**	**5575.8**
Effect of change in ex. rate	-46.8	0.0	0.0	0.0
Cash at beginning	1459.5	1024.4	6967.6	12202.5
Net Cash carried forward	**1024.4**	**6967.6**	**12202.5**	**17778.4**
Deposits with maturity over 3 months	3652.7	885.9	0.0	0.0
Restricted cash	41.5	0.0	0.0	0.0
Cash & bank bal. at end of the year	**4718.6**	**7853.6**	**12202.5**	**17778.4**

Important Ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Performance Ratios				
EBIDTA %	29.9	31.3	31.3	31.3
Net Profit %	24.1	24.9	24.4	24.2
Sales per share (SPS)	154.8	192.9	228.4	253.1
Price/SPS	7.0	5.7	4.8	4.3
Dividend %	2000	2000	2000	2000
Cash per share	24.1	40.1	62.4	90.8
Assets Turnover	1.6	1.6	1.5	1.4
Du Pont Analysis				
PAT / Net Sales	0.2	0.2	0.2	0.2
Net Sales / Assets	1.6	1.6	1.5	1.4
Assets / Equity	1.0	1.0	1.0	1.0
ROE %	37.9	39.2	36.1	32.7
Valuation Ratios				
Diluted EPS	35.7	45.7	52.5	59.2
Cash EPS	39.1	49.3	56.5	63.9
P/E	30.5	23.9	20.8	18.4
P/BV	11.5	9.4	7.5	6.0
EV/ EBIDTA	23.3	17.6	14.9	12.8
EV/ Sales	6.9	5.4	4.6	3.9
ROCE%	47.2	50.0	46.5	42.5

Initiating coverage on

Wipro Ltd.

Wipro Ltd.

CMP: Rs.440

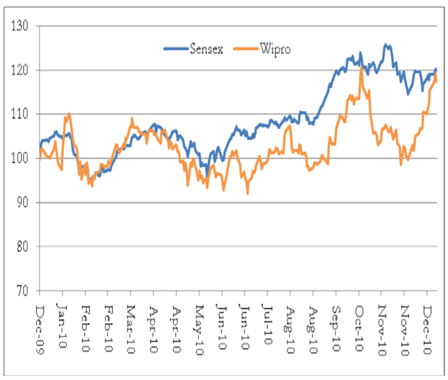
Target Price: Rs.495

Recommendation: **ACCUMULATE**

Stock Info	
BSE Group	A
BSE Code	507685
NSE Symbol	WIPRO
Bloomberg	WPRO IN
Reuters	WPRO.BO
BSE Sensex	18332
NSE Nifty	5480

Market Info	
Market Capital	Rs.117380.5cr
Equity Capital	Rs.490.7cr
Avg. Trading Vol.	185626 (Qtly.)
52 Wk High/ Low	499/321
Face Value	Rs.2

Shareholding Pattern (%) (31st Dec.,2010)	
Promoters	79.3
Domestic Institutions	3.6
Foreign Institutions	8.1
Non Promoters Corp.	2.9
Public & Others	6.2
Govt. Holdings	0



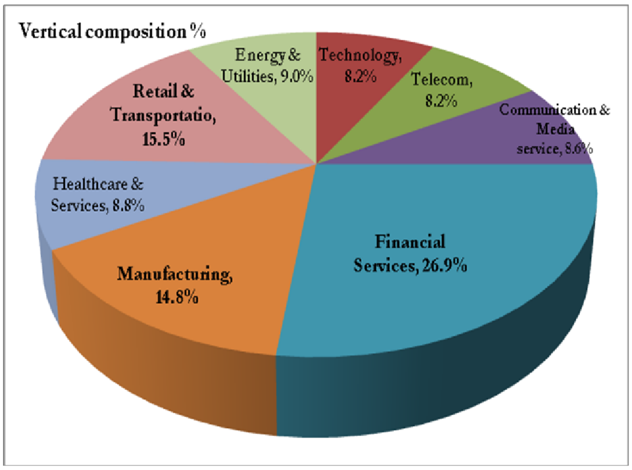
Wipro is the third largest software company of India. Among the top three IT companies of India, Wipro has the most diversified revenue verticals. Over the years, Wipro has positioned itself as an entity with broader service capability than its' peers in the offshore IT service space with special concentration on new emerging lines of business like infrastructure management service (IMS) and healthcare. With a leadership position in an emerging vertical like IMS, Wipro looks well placed to capture future growth in these areas.

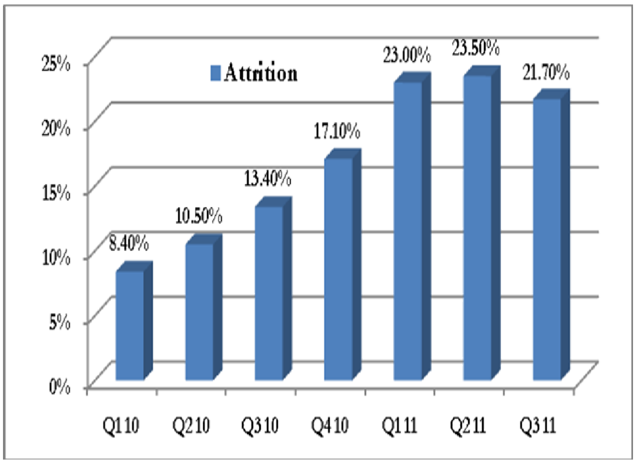
Widest breadth in service line among peers

Among the top-tier companies, Wipro has got the most diversified service lines—with the lowest client concentration as well as vertical dependency. The company's revenue profile is quite diverse with healthy contribution from verticals like healthcare (9%) and energy & utilities (9%)—and notably a lower than industry contribution from BFSI at 27%. Thus, in case of another unexpected crisis in the financial sector, Wipro is the best placed among the top three to weather through such a storm.

If we look at the service lines the fact that a fast upcoming vertical like the IMS contributes 21.2% puts Wipro on a very strong footing to take advantage of the boom that is widely expected to come in this vertical. Besides IMS, other verticals like testing and BPO also makes a healthy contribution of 11.4% and 9.8% respectively to its' top-line. Besides, Wipro has also one of the lowest client concentration in the IT space with the top client contributing only ~2.6% of its' total revenue.

In order to acquire this breadth in their service lines, Wipro had acquired a number of companies to plug holes in their offerings as well as introduce new services. In the past, Wipro had acquired Spectramind in 2002 for BPO, Nervewire in 2003 for IT-consulting and Infocrossing in 2007 for IMS. Thus, we believe Wipro's diversification makes it a good long-term bet with potential upsides from growth in emerging verticals.





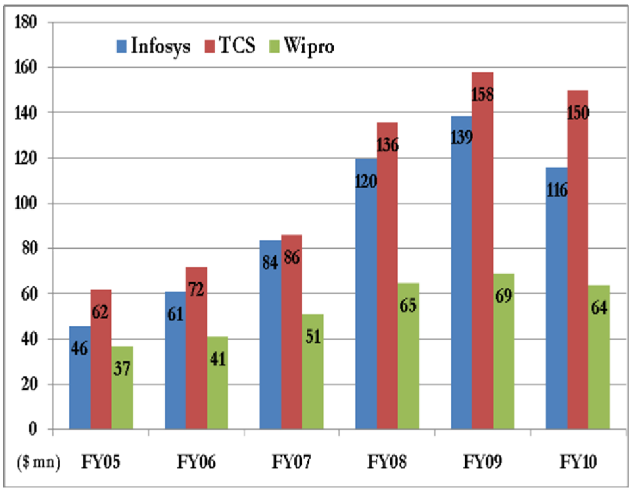


Fig: Avg. top 10 clients' revenue ($mn)

Outperformance in downturn, underperformance in upturn

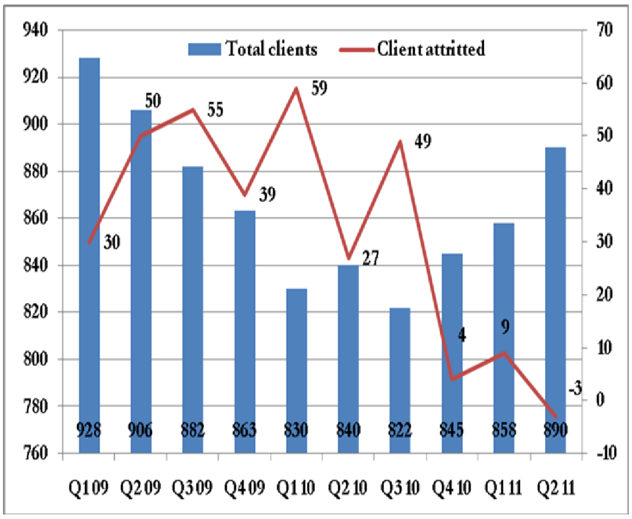
The management of Wipro was widely credited for correctly anticipating the lull in demand during the downturn. It took appropriate measures which helped to better its' margins despite muted revenue growth. However, the spurt in volume due to the pent-up demand of FY2010 and the rise in attrition seems to have caught the management unawares. For Q3FY11, Wipro reported attrition figure which were as high as 21.7%—the highest among the top three (23.5% in Q2). This resulted in the company having to face supply-side constraints wherein projects had to be left on the table due to lack of skilled manpower.

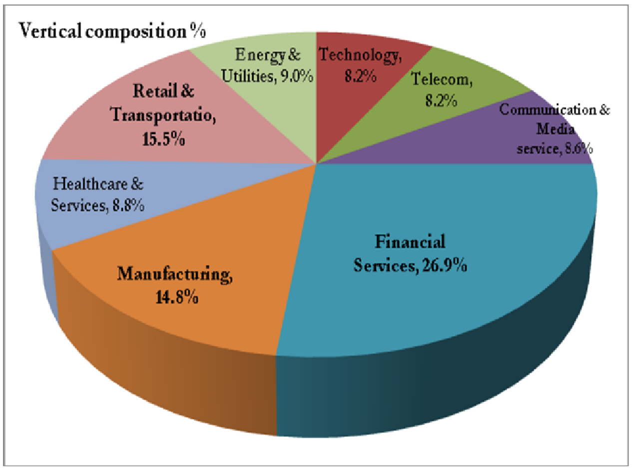
We expect the man-power crunch to continue for another couple of quarters as TCS and Infosys had stepped up hiring greater than previously anticipated. Moreover, we also remain apprehensive about whether Wipro will be able to get attrition under control any time soon as its competitors Infosys and TCS had announced two hikes as compared to just one by Wipro. This would inevitably create wage hike pressure for Wipro going into FY12 as they will end up doling out larger packages to attract talent and pay more to retain internal talent. This could end up affecting its' margins severely in FY12E.

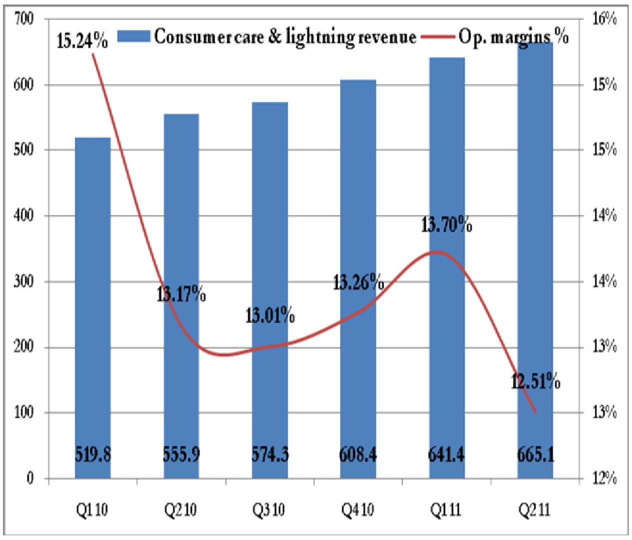
Though the management has stepped up hiring, we believe that retaining talent will be the core challenge that Wipro will have to face going into FY12E.

Client mining concerns remains

Client mining has been a long standing issue with Wipro as over the past few years its growth of top 10 clients has lagged the growth of its non-top 10 clients. Management has tried to overcome this issue by taking an initiative called CEM (client engagement manager) wherein sales and delivery mechanisms have been aligned on the same platform. The management has categorised clients' accounts into mega-gamma accounts on the basis of revenue potential of $50-100mn. However, though no major improvement had been witnessed till the latest quarter, the management believes that the CEM initiative will start bearing fruit in the near future.







Client attrition concerns on the wane

Wipro also has been facing the problem of client attrition for quite some time. However, we have observed that in the recent quarters it has been brought under control (as indicated by the negative 3 in Q2'11). This gives us confidence that the management is taking enough measures to keep its clients satisfied—though we must add that as compared to the other two biggies the addition of active clients has been slower.

Gradual pick-up in telecom to help Wipro's growth

Wipro's comparatively lesser exposure to BFSI came as a blessing in disguise during the downturn as it continued receiving deals from other service lines like telecom, technology, etc. However, this also resulted in Wipro lagging behind its peers in terms of revenue growth in the recent quarters and expectedly in the coming quarters too for not being able to capture a larger chunk of the BFSI deals that suddenly came up after the financial crisis got over.

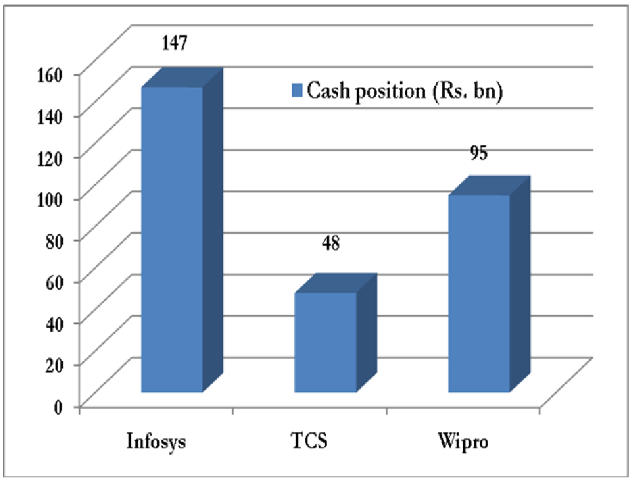
The latest quarter has seen a gradual turnaround in the telecom, technology and the manufacturing verticals which form a substantial amount of Wipro's revenue (~41%). This will help the company to post better QoQ growth.

Consumer care and lightning remains a drag on margins

The consumer care and lightning business continues to be a low-margin business having an operating margin ~13% vis-à-vis ~23% for IT service for Wipro. Going forward, we expect it to remain at more or less at the same levels as margins in the FMCG business are expected to remain static owing to heightened competition, inspite of an increase in the Indian consumer's buying capacity. Thus, this segment will continue to be a drag on Wipro's overall margins.

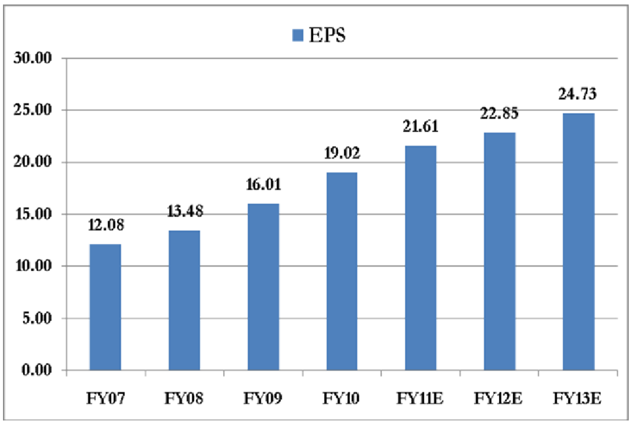
Strong cash position

Wipro has the second best cash position among the top three IT companies (~Rs.95bn) despite having exposure towards capital extensive business like consumer care and lightning. Given a good acquisition deal, Wipro can further expand its offerings by the deploying the cash for better purpose.



Company description

Wipro is the flagship company of the Azim Premji Group and is currently the third largest software company of India. Started originally as a manufacturer of vegetable oil and vanaspati, the company slowly diversified into various other business of which its software business became the most successful. The company's range of offerings include system integration, ITeS, package implementation, ADM, etc. With a client base of 880 from all over the world which includes some of the top-notch banks, telcos, and OEMs, Wipro is all set to take their growth to the next level with its' early investment in upcoming verticals and a new management set-up at the highest level.

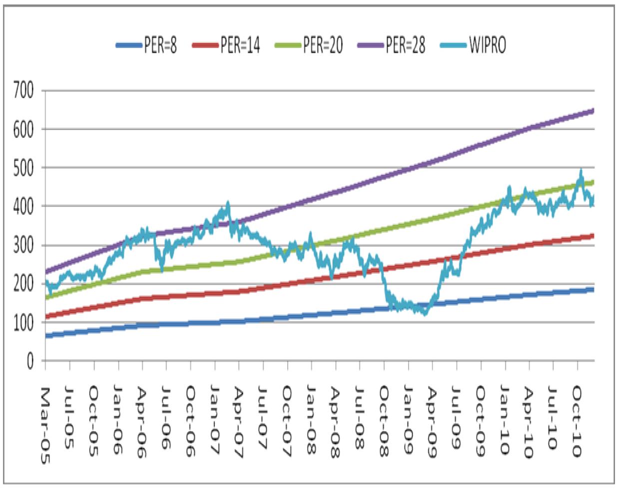


Investment theme

Wipro over the years has made all right investment in terms of getting into newer vertical lines and diversification of its offerings. Though in the near term, the sudden spurt in BFSI deals caught the company unawares resulting in lower than industry average revenue growth. In such a scenario, Wipro's just-in-time hiring policy back-fired as it had to face supply side constraints. We however believe that such concerns are short-term in nature. The company has stepped up hiring and it is only a matter of a couple of quarters before it is again starts matching its bigger peers.

Key risks

Of the two main risks facing the whole IT sector—currency risks and attrition, attrition is more pronounced in the case of Wipro. As high attrition leads to disruption in the continuation of ongoing projects, it results in unhappy clients which may result in client attrition—another problem which Wipro had been facing—though in the recent times, it has been brought under control to some extent. It remains to be seen how the Wipro management gets attrition under control and grab as many orders as it can from all verticals. Low bench strength



- **Valuation**

Wipro in the recent times has lagged behind its larger peers mainly due to high attrition it had to face that came up due to the sudden surge in demand. This led to a severe supply side constraint. However, we believe that such headwind are short term in nature and with the company stepping up hiring and giving up its previous policy of 'just-in-time' hiring, Wipro will be able to catch up with its peers in the mid-term.

We value Wipro at a 15% discount to Infosys and allot it a multiple of 20x at which it generally trades for its FY13E EPS of Rs.24.73. We therefore arrive at a target price of Rs.495. We thereby initiate coverage on Wipro Technologies with an "**ACCUMULATE**" call.

Q3FY11 result

Rs. in cr	Q3FY11	Q3FY10	YoY%chng.	Q2FY11	QoQ%chng.
Net sales	7820.2	6938	12.7%	7771.9	0.6%
Cost of revenue	5353	4776.6	12.1%	5327	0.5%
Gross profit	**2467.2**	**2161.4**	**14.1%**	**2444.9**	**0.9%**
Selling and marketing expenses	548.5	481.7	13.9%	575.1	-4.6%
General and administrative expenses	492.1	365.5	34.6%	425.1	15.8%
Foreign exchange (gain)/loss (net)	-9.1	-39.4	-76.9%	41.4	-122.0%
Total	1435.7	1353.6	6.1%	1403.3	2.3%
Finance expenses	42.7	0.0	100.0%	46.7	-8.6%
Finance and other income	175.1	72.1	142.9%	142.2	23.1%
Share of profit of equity accounted associates	16	12.8	25.0%	19.2	-16.7%
PROFIT BEFORE TAXATION	**1584.1**	**1438.5**	**10.1%**	**1518**	**4.4%**
Income tax expenses	258.2	232.1	11.2%	218.3	18.3%
Net Profit	**1325.9**	**1206.4**	**9.9%**	**1299.7**	**2.0%**
Effective tax rate%	*16.3%*	*16.1%*		*14.4%*	
EPS					
Basic (in Rs.)	*5.41*	*4.94*	*9.5%*	*5.28*	*2.5%*
Diluted (in Rs.)	*5.39*	*4.9*	*10.0%*	*5.25*	*2.7%*

Wipro’s Q3FY11 results were flattish with top-line and bottom-line growing by only 0.6% and 2.0% respectively. Volume growth was at 1.5% QoQ. The management gave impact of seasonality due to higher leave taken by employees during the December quarter as well as their drive on FPP productivity as the main reasons behind the tepid performance.

An important change that took place was the change effected at the top with a new CEO Mr.TK Kurien replacing the joint CEOs Mr.Girish Paranjpe and Mr.Suresh Vaswani. Though generally, a change of this magnitude generally creates fear among investors and people having interest in the company, we believe that considering the fact that Mr.Kurien has been a Wiproite for the last – years, he is an experienced hand and is well capable of taking the compant to the next level of growth under the guidance of Mr.Azim Premji. We believe he has already made a good start by re-aligning its business units headed by a ‘’mini-CEO’’, allotting dedicated sales force to each of them and making the organisation leaner by reducing the layers of hierarchy in reporting. The new CEO has assured that positive results from all these changes will become visible in 3 quarters time. Though Mr.Kurien has a tough task in hand in catching up with the growth rates of its two bigger peers, with a tough rival in Cognizant catching up with it, we believe that he has to act fast and show results at the earliest.

A few other points from Wipros’ Q3FY11 results are as follows:

1. Attrition was down at 21.7% from 23.5%. The management expects a downward trend from here on.
2. Clients budgets were marginally up.
3. DSO was at 69 days.
4. Salary hikes deferred to 1QFY12 from 4QFY11.
5. Net cash at Rs.45bn

Profit and Loss Statement Extract (consolidated)

Y/E March (Rs. in cr)	FY10	FY11E	FY12E	FY13E
Net Sales	**27195.7**	**30695.3**	**32678.2**	**35201.7**
YoY%	*6.5*	*12.9*	*6.5*	*7.7*
Cost of revenue	18629.9	20954.7	22345.0	24000.0
Gross Profit	***8565.8***	***9740.6***	***10389.9***	***11201.7***
Selling & Marketing exp	1860.7	2262.3	2475.0	2595.0
G&A expense	1482.3	1746.0	1825.0	1915.0
Foreign exchange (gain)/loss	71.5	-13.5	0.0	0.0
EBIDTA	***5151.3***	***5745.8***	***6033.2***	***6691.7***
EBIDTA%	*18.9*	*18.7*	*18.6*	*19.0*
Finance expense	0.0	177.7	205.0	220.0
Finance & other income	326.8	612.4	630.0	645.0
Share in earnings of associates	53.0	70.9	85.0	92.0
Profit before tax	5541.2	6251.4	6543.0	7208.7
Tax	-929.3	-961.0	-973.0	-1180.0
Effective tax rate%	*16.8*	*15.4*	*14.9*	*16.4*
Net Profit	**4611.9**	**5290.4**	**5570.2**	**6028.7**
YoY%	*18.7*	*14.7*	*5.3*	*8.2*

Cash Flow Statement

Y/E March (Rs.in cr)	FY10	FY11E	FY12E	FY13E
Profit before taxation	5509.5	6251.4	6543.2	7208.7
Add: Depreciation	754.3	930.0	1080.0	1200.0
Other items	276.9	-0.2	3.1	-3.3
(Inc.)/Dec in WC	-649.5	-640.9	-440.0	-559.7
Cash generated from operations	5891.2	6540.4	7185.9	7845.6
Direct Taxes	-791.4	-929.3	-961.0	-973.0
Net cash provided by operating activities	**5099.8**	**5611.1**	**6224.9**	**6872.6**
(Inc)/ Dec in FA	-1102.9	-2000.0	-2000.0	-2000.0
Other items	-2278.6	0.0	0.0	0.0
Cash Inflow/ (outflow) from Investments	**-3381.5**	**-2000.0**	**-2000.0**	**-2000.0**
Interest & financial charges	-119.4	-177.7	-205.0	-220.0
Dividend Paid	-682.3	-682.3	-682.3	-682.3
Other items	785.3	0	0	0
Cash Inflow/ (outflow) from Financing	**-16.4**	**-860.0**	**-887.3**	**-902.3**
Net Cash Inflow/ (outflow)	**1701.9**	**2751.1**	**3337.6**	**3970.3**
Effect of change in exchange rate	-125.8	0	0	0
Cash at beginning	4911.7	6487.8	9238.9	12576.5
Net Cash carried forward	**6478.8**	**9238.9**	**12576.5**	**16546.8**

Balance Sheet

Y/E March (Rs. in cr)	FY10	FY11E	FY12E	FY13E
Sources of Funds:				
Eq. capital (FV-Rs.2)	293.4	293.4	293.4	293.4
Reserves & Surplus	17949.1	22247.7	26795.7	31975.7
Shareholder's equity				
Secured loans	211.9	211.9	211.9	211.9
Unsecured loans	6039.4	6039.4	6039.4	6039.4
Total	***6251.3***	***6251.3***	***6251.3***	***6251.3***
Minority interest	43.7	43.7	43.7	43.7
Total Liabilities	**24539.3**	**28836.1**	**33384.1**	**38564.1**
Application of funds:				
Goodwill	5334.6	5334.6	5334.6	5334.6
Gross block	8625.3	10625.3	12625.3	14625.3
Less: Acc. depreciation	4231.4	5161.4	6241.4	7441.4
Net Block	*4393.9*	*5463.9*	*6383.9*	*7183.9*
CWIP	1235.5	1235.5	1235.5	1235.5
Investments	3406	3406	3406	3406
Deferred tax asset	25.4	25.4	25.4	25.4
Current Assets:				
Inventories	792.6	894.6	952.4	1025.9
Debtors	5115.0	5751.8	6123.3	6596.2
Cash & bank balance	6487.8	9238.9	12576.5	16546.8
Loans & Advances	5817.5	6500.0	6950.0	7450.0
Total	***18212.9***	***22385.2***	***26602.2***	***31618.9***
Current Liabilities	5734.2	6514.5	6953.5	7440.2
Provision	2334.8	2500.0	2650.0	2800.0
Net Current Asset	***10143.9***	***13370.7***	***16998.7***	***21378.7***
Total Asset	**24539.3**	**28836.1**	**33384.1**	**38564.1**

Important Ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Performance Ratios				
EBIDTA %	18.9	18.7	18.5	19.1
Net Profit %	16.9	17.2	17.1	17.3
Sales per share (SPS)	111.7	126.0	134.1	144.8
Price/SPS	4.3	3.3	3.1	3.4
Dividend %	300	300	300	300
Cash per share	26.6	37.9	51.6	68.2
Assets Turnover	1.1	1.1	0.9	0.9
Du Pont Analysis				
PAT / Net Sales	0.2	0.2	0.2	0.2
Net Sales / Assets	1.1	1.1	0.9	0.9
Assets / Equity	1.4	1.3	1.2	1.2
ROE %	25.3	23.5	20.6	18.8
Valuation Ratios				
Diluted EPS	18.7	21.5	22.9	24.9
Cash EPS	22.1	25.5	27.3	29.9
P/E	22.3	19.5	18.4	19.4
P/BV	5.6	4.6	3.8	3.2
EV/ EBIDTA	19.9	17.3	15.9	13.8
EV/ Sales	3.8	3.2	2.9	2.6
ROCE%	20.9	19.9	18.1	17.4

Other IT companies under coverage:

Company name	Recommendation	Target price	CMP
Patni Computer System	Buy	***583***	454
KPIT Cummins	Accumulate	***196***	150
Polaris Software Lab	Buy	***242***	187
Rolta India	Buy	***210***	142
3i Infotech	Buy	***78***	42

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