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A case for the IT sector,

A safe haven in these troubled volatile times

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30th May, 2006

India’s IT sector

Revenues of $17 bn (IT+ITES) for 2005

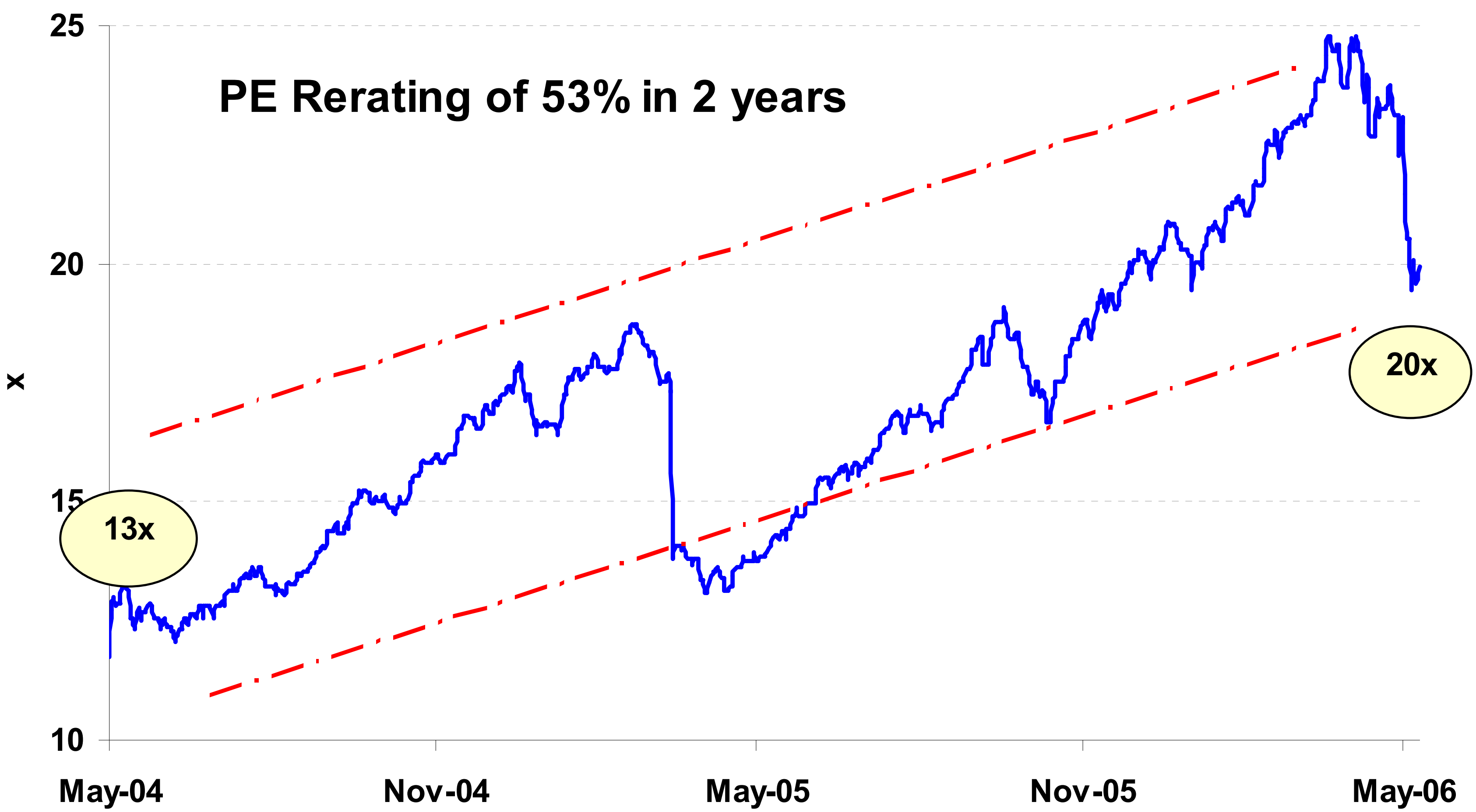
Employment – 0.8 mn people

IT Index is 20% of the BSE market cap at around $75 bn

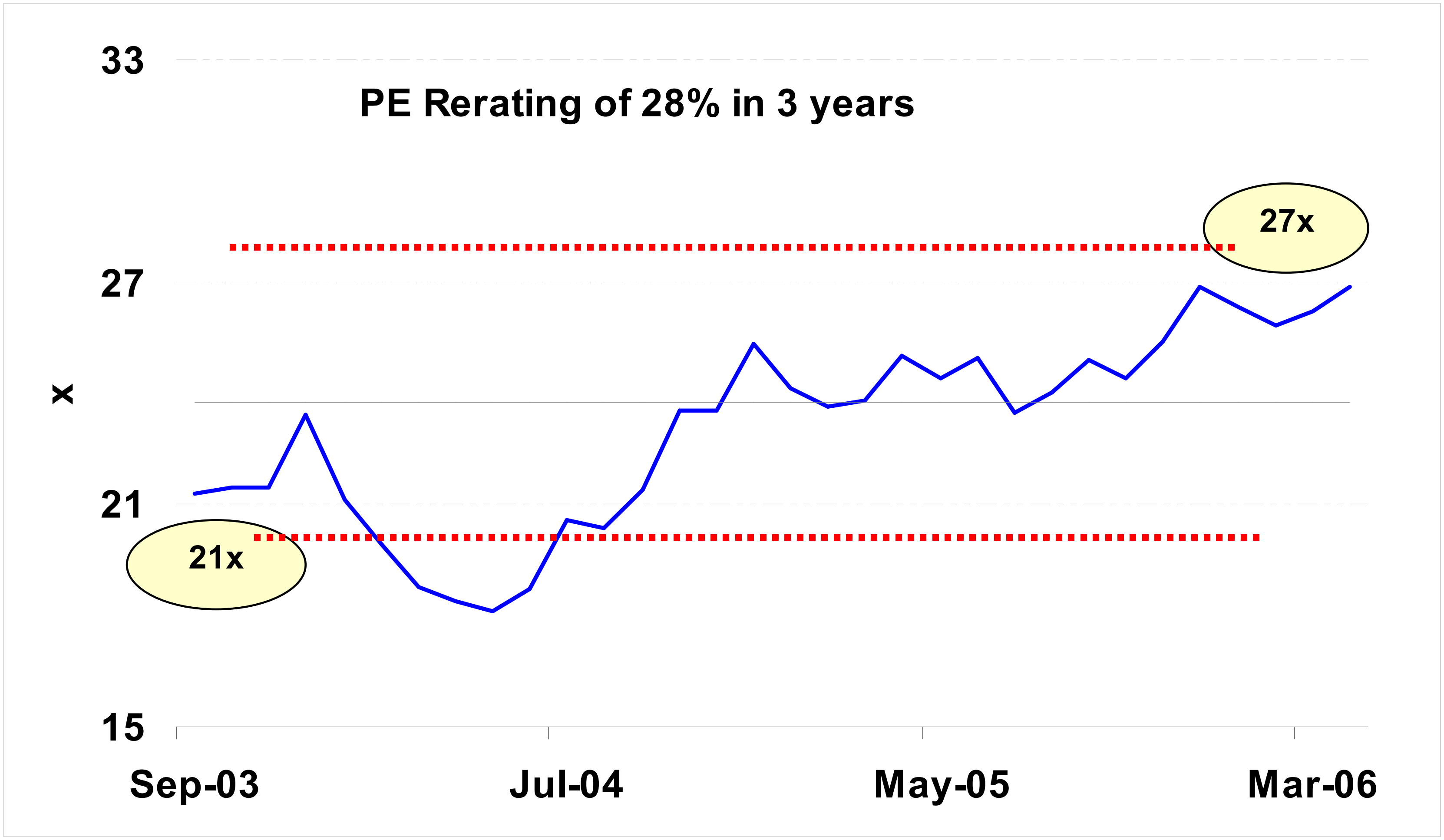
Total Addressable market $200- $300 bn

(Indian companies have expanded their addressable market 3 x in the last 5 years by expanding their service offerings)

BSE Sensex Trailing 12mths Price Earning Band



Infosys 1 year Forward Price Earning Band



The stock has not gone below its 3 yr avg earnings multiple in the last 18 months

Infosys, the bellwether IT stock's re-rating has under performed the BSE Sensex by 47%

Comparative returns

Company	1 Week Return (17th - 26th May' 06)	1 year returns
Infosys Tech.	(5.97)	31.53
Satyam Com	(4.23)	51.59
TCS	(6.74)	42.38
CNX IT	**(7.00)**	**34.00**

Company	1 Week Return (17th - 26th May' 06)	1 year returns
BSE Sensex	**(7.18)**	**60.26**
BSE Metal	(9.02)	51.05
BHEL	(15.00)	126.00
L&T	(16.00)	110.00
ACC	(15.00)	99.00
ITC	(15.00)	72.00
ONGC	(19.00)	31.00
Tata motors	(19.00)	74.00

In performance too, the CNX IT index has under performed the BSE Sensex by 43%

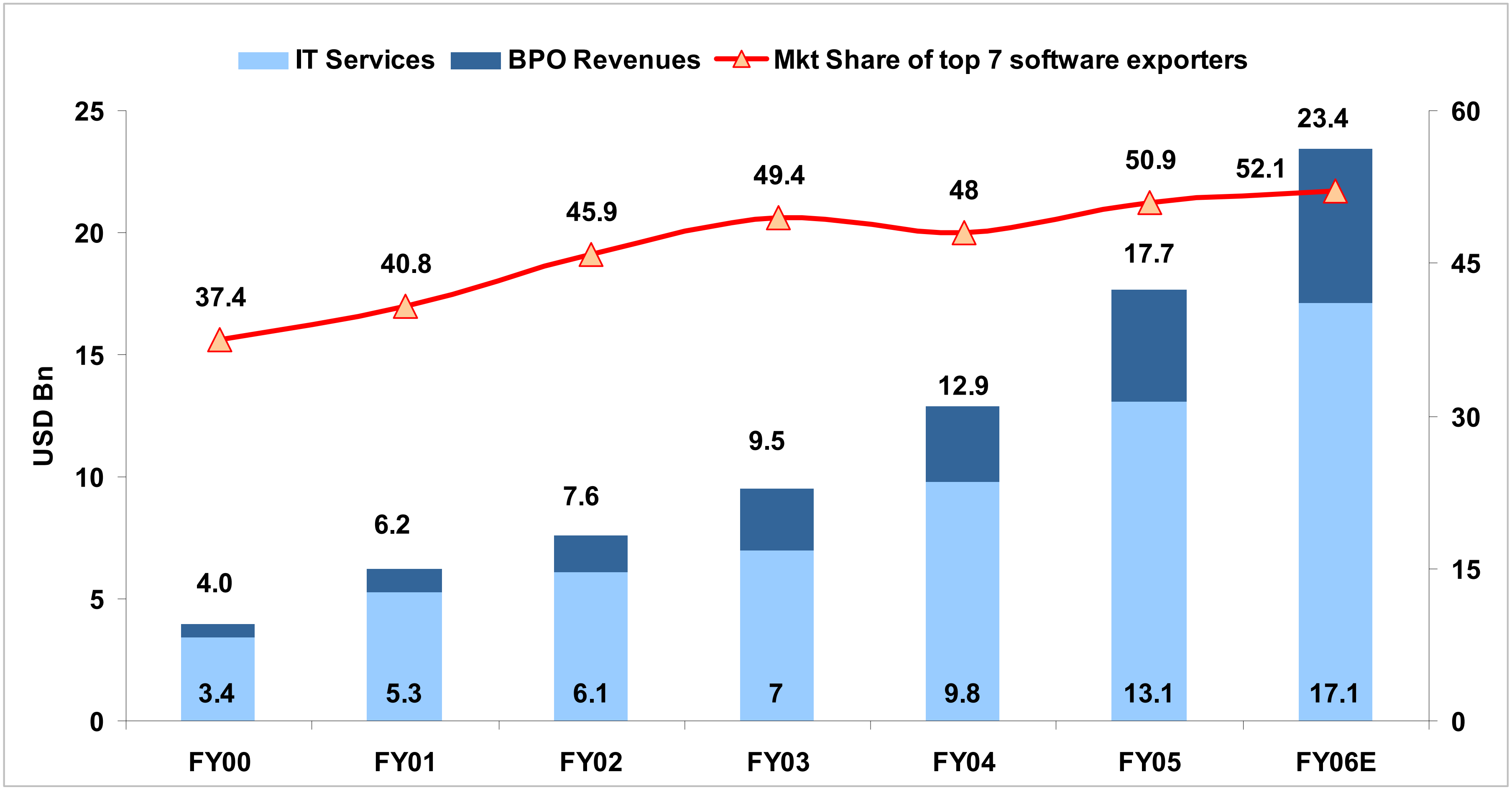
Superior Business Economics

Parameter	IT Sector	Best Performing Sensex Stocks
Debt Equity (x)	0.0	0.40
Fixed Asset TO (x)	4.50	2.11
RONW (%)	51.00	21.96
ROIC (%)	90.00	38.00
NPM (%)	24.00	10.60
1 Year Returns (%)	98.00	217.00

IT Sector - is the average of Infosys, TCS, Wipro, Satyam
Bset Performing Sensex Stocks - is the average of BHEL, Bajaj Auto, ACC, ITC, Reliance

Time is the friend of a good business and an enemy of a bad one, we believe the return ratios of the sector speak for itself

Growing Industry with increasing consolidation



IT Industry : Macro Scenario

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Last 3 years Revenue CAGR : 32%

Last 5 years Revenue CAGR : 45 %

- Mckinsey-Nasscom (Apex Indian IT sector body) study puts the Indian IT+ITES industry to reach between $60-80 by 2010, which is an implied growth rate of 25% plus for the industry.
- As visibility has improved with clients planning for 3 yr + augmentation and project specifications, companies are using this as the default Industry growth rate underlining their bullishness by guiding to better Industry growth rates
- Accenture is seeing its Outsourcing business grow at 30%+
- The $1.3bn Nasdaq listed IT outsourcing major Cognizant Tech has given a revenue guidance of 47% yoy growth for the year and has increased manpower by 44%. The company is seeing good growth in all geographies.
- US corporate Profits up by 10-15% yoy
- SAP- Oracle license fee growth has been 15% (Package implementation is around 12-15% of revenues for Tier 1 Indian cos.)
- Employee Additions in Indian IT companies has been 35%+ yoy

Large Deals

According to leading IT outsourcing consultant TPI, $100 bn worth of long term IT outsourcing contracts are up for renewal in the next two years and the new strategy of unbundling of contracts is very favorable to the Indian players as they can bid separately for the ADM pie in the contracts, which we estimate could be around $25 bn which is 2x the current size of the Industry.

THE COMPANY Dennis Mcguire founded in 1989, TPI, is today known as the Brahmin of Outsourcing. Numbers tell the true story of his firm's dominance in global outsourcing arena: since inception, TPI has supported over 780 transactions, worth over $285 billion and in the last five years, it has advised on 28% of the total contract value awarded in the sourcing marketplace for commercial contracts

The robust deal flow is showing signs of acceleration with 325 global deals coming up for renewal in 2006 and 2007, representing over a fifth of the active contracts. According tosourcing advisory firm TPI, $100 billion worth of outsourcing contracts are due for renewal in the next two years, of which 72 per cent is held by the big six — the likes of Accenture, ACS, CSC, EDS, HP and IBM.

Some recent large deals

Vender	Clients	Deal details	Deal Size
TCS	Pearl Group	◘ 12 year deal to provide BPO services for life and pension businesses	USD 847 Mn
	ABN Amro	◘ 5 year contract with the ABN Amro bank to provide Applications support and Enhancements across the bank	USD 264 Mn
		◘ Expected to generate committed revenues of over EUR 200 mn over the next 5 years.	
Infosys	ABN Amro	◘ 5 year deal with the ABN Amro Bank to develop, support and enhance a wide spectrum applications across geographies.	USD 140 Mn
Wipro	General Motors	◘ 5 year Global service contract with the client to integrate its USD 300 mn Middleware and Information Systems and Services (IS&S) software tools around the world.	USD 300 Mn

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Substitutes

China, Mexico and Eastern Europe are touted as the next frontiers for the labour arbitrage advantage that India currently has, however as we see wage inflation and attrition affecting Indian companies, with the low base of skilled labour in these countries one can only imagine what could happen there

low

Suppliers

Wage pressure especially In the middle management space already has and will continue to cause worries for the Indian IT companies as the war for talent with the MNC's heats up, although salaries are getting rationalised and the the MNC's are trying to lower their costs in line with the Indian players. As offshore salaries make up around 30% of the total salary costs, the margin pressure can be controlled with levers like,the bloat mix,offshore move & G&A leverage

Medium

Competitive landscape:
MEDIUM

Medium

Customers

As customers get mature and understand the long term benefits of offshoring . Captive centers could start becoming a big trend,especially with Banks for whom technology and operations is the main and continuing cost and who are large clients (30% of revenues) for the sector. However this option has been around since a few years and labour management issues, top management time and specialization are deterrents for the same. As the Industry continues to get consolidated with the big getting bigger, pricing power could come back in the sector.

High

New Entrants

MNC IT services companies are expanding very quickly with Accenture and IBM already employing around 20,000 people each (40% of Tier 1 Indian IT majors).Total MNC workforce in India would go up to 100,000 people by this year

Post Annual Results key Industry Takeaways

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- Tier 1 companies have shown 30%+ growth rates for the year with bellwether Infosys giving a 30% growth guidance for next year as well

- The Mckinsey-Nasscom implied growth rates of 25%+ is the anecdotal view taken by the other Tier 1 companies in con calls. **The Key change in management communiqué in the last 2 years is the steady increasing medium term visibility with steady maintable growth rates**

- The return of discretionary spend is the key confidence booster for the Tier 1 companies, especially Infosys, that has decided to forego large deals if they are coming at low prices as they are seeing good ramping up from existing clients at good rates.

- No. of $10-$20 mn a year clients are increasing which shows increasing wallet share gains by the Indian players

- Overall there is high confidence in the companies and the focus area for the year is management of margins by managing the supply costs.

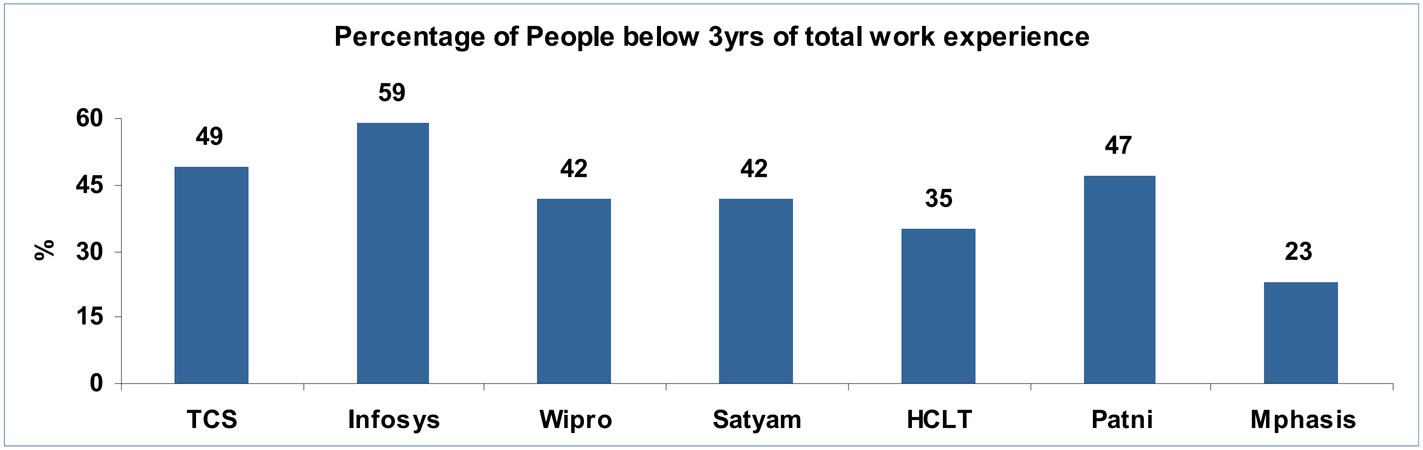
Margin levers to offset salary hikes

- The Tier 1 companies have maintained margins in the last two years even after wage inflation and without a rate increase in the last four years

- The same levers of Higher utilization, better offshore mix of revenues would be used for controlling margins. Improvement in the bloat mix, higher value add services and SGA leverage due to scale would be other levers to help maintain margins.

Offshore Lever

	TCS		Infosys		Wipro	
	FY04	FY06	FY04	FY06	FY04	FY06
EBIT (%)	25.8	26.5	28.0	27.9	17.9	20.9
Offshore Rev. (%)	36.2	37.6	47.6	51.3	41.7	46.3



- The kicker for the IT companies would be increase in rates. Companies have been getting slightly better rates with new clients and have just started talking about old contracts to be negotiated at better rates. The % of rate hikes would be almost linear on margins and hence would be instrumental in getting the sector a re-rating.

Key Risks

- Captive centers being set up by mature offshorers like Banks remains a risk
- A supply crunch in Onsite man power would mean a hard knock on margins

“In a bad economy corporates will outsource for cost saving and in a good economy they will outsource for new project development due to the sheer volume of work, its only uncertainty which hurts which we don't see any of at this time”

-Mr.Azim Premji Chairman, Wipro

Why Infosys

Buy - Price Target Rs. 3675.0

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- Strong guidance and implied visibility
- Capex growth of Rs.1600-1800 cr is a 43% jump in gross block and an 80% jump in capex over last year
- Gross Employee growth guidance of 50% (Infosys overshot its employee growth guidance by 70% last year)
- Highest 1st quarter guidance in 4 years

	1Q FY03		1Q FY04		1Q FY05		1Q FY06		1Q FY07	
	Low End	High End	Low End	High End	Low End	High End	Low End	High End	Low End	High End
Revenue (QoQ) %	0.90%	2.40%	1.90%	2.80%	3.70%	4.40%	0.90%	1.80%	5.90%	6.70%
Full Year Growth (%)	40%		33%		47%		33%			

Highest 1st Quarter Guidance in the last four years

- Predictability
- Premium pricing
- Distinguished management team with the best corporate governance

We strongly believe that Infosys would have to upgrade its yearly guidance in the next two quarters

Why Satyam

Buy - Price Target Rs. 910.0

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- The $1 bn company tag brings with itself further momentum
- Satyam's has been consistently been de risking its revenue mix by reducing its exposure to GE from to

Particulars	2003	2004	2005	2006
GE's share of rev (%)	18.0	14.0	11.0	9.0
Top 5 clients contribution %	40.0	36.0	29.0	25.0
Top 10 clients contribution %	53.0	47.0	42.5	37.0

- SAP & Oracle have had a healthy 15% growth for the year and Satyam's high exposure to the Package implementation service line seems to be under no risk
- With its recent GM and Nissan wins, Satyam is in an enviable position in the Auto space
- Satyam has increased its manpower fairly substantially in the last quarter a qoq increase of 15% which is the highest in the last 7 quarters, we believe the recent Nissan deal could be the reason for this.

Perticulars	Mar 31, 2006	Dec 31,2005	Sep 30, 2005	June 30,2005	Mar 31,2005
Offshore employees	17444	15201	14673	13294	12734
Offshore employee QoQ growth %	14.76	3.60	10.37	4.40	10.03

- We believe Satyam has given a conservative yearly revenue guidance of 25%-27% growth which implies a 6% qoq growth, however the company has grown at an average of 8% qoq for the last 8 quarters.

DCF Valuations

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Taking a cue from the increased visibility with client maturity and long term engagements and Tier 1 players talking about their 2-3 year plans, we believe it would be appropriate to a do a DCF valuation.

For e.g., The underlying growth is demonstrated by the importance placed by the company on Human Resource development and the attendant initiatives required thereon, is evident from the lateral move (from CFO to Head HR) recently undertaken by the high profile and visionary Mr. Mohandas Pai.

Our fair value for Infosys is Rs. 3379

- **3 Stage 15 year implied growth rate – 16%**
- **WACC – 12%**
- **Terminal Growth rate – 3%**

Our fair value for Satyam is Rs. 806

- **3 Stage 15 year implied growth rate – 14%**
- **WACC – 12%**
- **Terminal Growth rate – 2%**

Relative Valuations

Company	Price Rs.	2006 PE	Cash per share (Rs.)	2006 EV/E	2007E Eps	2007E PE	2008E PE (Consensus)
Infosys	2,900.0	32.2	120.0	30.9	119.0	24.4	22.0
Satyam	700.0	23.0	90.0	20.0	38.5	18.2	17.0
TCS	1,850.0	31.3	10.0	31.1	76.0	24.3	20.0
Wipro	470.0	32.6	24.0	31.0	19.0	24.7	23.0
HCL Tech	510.0	21.7	55.0	19.4	31.0	16.5	15.0

Why invest now

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While the sector has grown at an impressive CAGR of 25%+ for the past five years or so, we are also aware that this is a pretty well owned and well covered sector. In other words, we believe that valuations are currently in a "Steady state maturity" kind of phase. Therefore the "Out performance" band will be small. Hence one needs to patiently wait for sudden, sharp declines in stock prices (such as the one we have witnessed since May 18, 2006) and view these as entry points. At these levels we believe that the risk-reward ratio is in the investors' favour.

We unequivocally state “Out performer”.

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