ICICIdirect.com
On-line Share Trading

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Stock Switch

INFORMATION TECHNOLOGY √

EXIT STOCKS

Company Name	ICICIdirect Code
LARGECAPS	
Patni Computer Systems	PATCOM
Hexaware Technologies	APTECH
MIDCAPS	
Polaris Software	POLSOF
Cambridge Solutions	SCASOL
SSI	SOFSOL
CMC	CMC
Geometric Software	GEOSOF
Sonata Software	SONSOF
SMALLCAPS	
Aftek Infosys	AFTINF
Subex Limited	SUBSYS
Ramco Systems	RAMSYS
Helios & Matheson Information	HELMAT
Moldtek Plastics Ltd	MOLTEK
Foursoft	FOUSOF
Hov Services	HOVSER
Aurionpro Solutions	AURSOL
FCS Software Solutions	FCSSOF
Visesh Infotecnics	VISINF
Onward Technologies	ONWTEC
Blue Star Infotech	BLUIN
Paradyne Infotech	PARINF
Jetking Infotrain	JETELE
RS Software	RSSOFT
Kale Consultants	KALCON

ENTRY STOCKS

Company Name	ICICIdirect Code
LARGECAPS	
TCS	TCS
Infosys	INFTEC
Satyam Computers	SATCOM
Wipro	WIPRO
HCL Technologies	HCLTEC
Tech Mahindra	TECMAH

The global economy has been going through a phase of slowdown. The financial crises have only added to this slowdown. Reigning high crude prices, escalating costs and fears of recession have cast a cloud of uncertainty over the IT spends of clients. Given such a backdrop we advise investors to shift their portfolio to large cap stocks due to the following reasons:

- Clients would go in for vendor consolidation. This would benefit large companies (the big companies are among the top three to four vendors for most of their top clients).
- IT budgets are expected to remain flat as compared to last year, but we expect offshoring to increase, which would benefit the larger players the most.
- The bigger companies have the scale and the management bandwidth to withstand a period of flattish growth in revenues. Also, they have greater flexibility in managing client's accounts.
- Larger companies with a wider base of customers will be relatively less impacted by lack of spending by a particular client unlike mid or small tier companies who are more dependent on single clients.

Infosys

Infosys is globally known for its leadership in the space of IT Services setting valuation benchmarks for the entire IT industry.

- The company is known to manage its cost very well. Therefore, Infosys has been able to sustain its margin compared to its peers. We expect the company to retain its margin leadership in spite of stagnant pricing and increasing cost on account of rise in wage cost, H1B visa cost as well as travel cost faced across the industry.
- The company is very focused on enhancing the skills of its IT professional. Infosys is the only company to have set up a training facility at Mysore, which is estimated to be worth Rs1650 crore. This is one of the largest educational infrastructures globally with the capacity to train over 13,000 graduates in a single sitting with over 500 faculty rooms and 10,300 residential rooms. This is one of its steps to impart quality skills to its employee.
- We expect the first half of FY09 to remain subdued. However, the recent depreciation of the rupee (almost 5%) would help the company in this difficult time. Hence, we expect margins to be impacted negatively by just around 150 bps over the last quarter.
- We expect an EPS of Rs 101.3 and Rs 115.9 for FY09E and FY10E, respectively.

TCS

Our confidence in the company's ability to meet this target stems from the following key pointers:

- The company is gradually increasing the offshore component of its business. It has been successful in convincing some of its UK and Europe clients to opt for low cost offshore servicing. This will help the company to improve its margin.
- TCS has established TCS Financial Solutions as a separate strategic business unit (SBU) recently. This will be a high-margin product business specializing in universal banking solutions. These may require lower levels of customization, paving the way for reduced manpower on projects and quicker implementation.
- There has been a change in its business mix with growth in revenue from enterprise solution, business intelligence solution as well as emerging services. This also provides future revenue opportunities for upgrade and support services.
- The company has an order book of around $2.5 billion spread over a period of time. This provides strong revenue visibility for the company over the next couple of years. The management is also taking steps to curtail its cost by various initiatives like higher utilization, offshore shift, SGA cost management and employee cost management.

Satyam Computers

Satyam is one of our top pick among the large-cap IT stocks. Our key investment arguments for the stock are as follows:

- The company's higher exposure to enterprise solutions will not affect growth even in case of a slowdown in the US economy, since enterprise solutions is not just implementation but also involves support.
- Satyam is known to make proactive use of cash it sits on from the very fact that it did six acquisitions in almost 18 months. The motive was to be able to diversify its business not only in terms of geography, that is, reduce its dependence on North America for sales but also to broaden its portfolio of clientele. This strategy of acquisition of small entities with good client base will help Satyam to establish its footprint globally.
- The company has planned expenditure of $125 million to develop four facilities in SEZs to gain tax advantage.

- The company has been at the forefront of delivering one of the highest Q-o-Q growth rates over the past few quarters (double digit dollar growth rate over the past three to four quarters). We expect this out performance to continue in the near future. In addition the guidance given by the company is best among peers. This reposes our confidence in the future prospects of the company.

Wipro

Wipro has been on an acquisition spree in the past. The benefits of this would start bearing fruit going forward.

- The company derives over 32% of its revenues from the technology/telecom vertical and by increasing its domain strengths by leveraging on acquisitions.
- The company has consistently identified newer service offerings, which are now contributing to revenues positively.
- The recent change in management structure undertaken by the company is also expected to address the growth issues faced by the company. We also expect the margins of the company to improve, going ahead, with improving margins of its recent acquisition (Info crossing one of the companies acquired by the company in the recent past has margins lower than company average, which is expected to correct over the near term).
- Wipro has been the only company to witness better than average growth in the BFSI segment. Also, the company has seen substantial traction in its consumer care business. Hence, we remain positive on the stock.

HCL Technologies

HCL Tech. has seen its performance improve over the past after the setback in its BPO segment. We expect large deal wins of the company to aid future growth.

- The company has continued to win large deals (value of over$500 million in the last quarter), which is comparable to its larger peers. The comfort regarding revenue growth also stems from the fact that the management has maintained its full year guidance of 30% growth for FY08 (HCL is a June ending company).
- The company has won deals across geographies and across verticals. This reflects the benefits of diversification and also safeguards the company from any slowdown in any particular segment or geography.
- The company is comparatively better placed in terms of its lower dependence on the BFSI segment and greater thrust on engineering segment. We feel the recent underperformance has been overdone, which has made the current valuations fairly attractive.

Tech Mahindra

The company has seen improving performance from its main client BT. We believe this is key to its future performance

- The company’s performance in the last quarter was ahead of our expectations due to better-than-expected growth in BT revenues and was also aided by higher utilization.
- We expect the $1 billion deal to grow at an incrementally faster pace with improving margins, going ahead. The company has already completed its investments for the deal and is now in a phase where it would reap the benefits of the same.
- The company has made campus offer for 5,500 employees to join in FY09. This reflects the positive outlook of the management regarding IT spends by key clients.
- The company is also expected to announce another large deal, the upfront payment for which has already been done in the last quarter. This, we believe, would be one of the major triggers for the stock.

Valuations	EPS (Rs)			PE Ratio			CMP*	Target price
	FY08A	FY09E	FY10E	FY08A	FY09E	FY10E	(Rs)	(Rs)
TCS	51.3	59.1	66.1	15.4	13.3	11.9	791	1060
Infosys	81.5	101.3	115.9	19.1	15.3	13.4	1560	1995
Satyam Computers	24.7	33.9	33.5	15.5	11.3	11.4	384	571
Wipro	22.1	25.5	29.2	16.4	14.2	12.5	364	494
HCL Technologies	21.6	25.6	26.1	9.3	7.9	9.3	202	313
Tech Mahindra	59	75.2	81.1	11.3	8.8	11.3	666	802

Source: ICICIdirect Research
Note:* Prices as on 17th July 2008

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