

- ✓ Infosys is likely to guide 2-5% USD revenue growth for FY10, considering moderate back-ended growth on lower base
- ✓ Infosys and other top tier companies expected to report second consecutive sequential decline in organic USD revenues for March quarter, June quarter guidance unlikely to be very encouraging
- ✓ Management likely to remain cautious while guiding for future considering uncertainty over economic outlook and less business visibility
- ✓ Commentary on business outlook to follow visibility of clients' IT spending and mining potential of new accounts
- ✓ Pricing and employee hiring plan (considering utilization levels and honoring commitments made) to provide better understanding of demand dynamics and readiness for grabbing opportunities in future when situation improves
- ✓ Vendor consolidation, Client specific issues and inorganic initiatives lead to divergent growth rates among top tier companies
- ✓ Large hedging positions might lead to real and/or opportunity loss - Changes in hedging positions and strategies would be important factors to look for
- ✓ IT Sector has outperformed markets by ~5% YTD, although missing catalysts to maintain significant out-performance in coming quarters - Weaker rupee and cash generation capacity supported valuations at the time when other sectors of economy faced demand destruction and credit crunch

Demand Outlook

Growth prospects of global economies deteriorated materially which would impact demand for IT and ITES in near to medium term. BFSI, Retail, Auto and Manufacturing are severely affected by financial crisis and demand destruction which would result into lower demand with significant pressure on pricing and longer sales cycle. Possibility of higher off-shoring due to cost pressures gives hope for some growth for Indian IT services, however mounting protectionism measures, such as changes in immigration policy or discouraging skilled labor arbitrage, remain major threats.

Demand is likely to remain lower than its long-term trend line, till global economy shows some signs of revival. We believe downside risks to our demand estimates remain high for next 2-4 quarters. IT companies have invested in EMEA and APAC regions in last few years to broaden geographic market exposure which would likely to support business momentum.

We believe continued emphasis on cutting operational costs, better acceptance of outsourcing in Euro-region, adoption of technology in emerging markets and transforming into a global service oriented business would augur well for the demand in medium to long term. Series of events, including iconic independent investment banks, Goldman Sachs and Morgan Stanley, converted into Banks, government bail-out packages to industries across the globe, in recent past have increased demand for compliance and regulations considerably which would provide tremendous business opportunities for Indian IT service providers once the dust settle downs.

4QFY09 Quarterly Earning Estimates

Company (Rs)	Income		EPS	
	QoQ	YoY	QoQ	YoY
HCL Tech	16.2%	48.8%	-28.0%	-22.0%
Infosys	-2.7%	23.9%	-7.1%	21.9%
TCS	1.2%	20.8%	1.2%	9.2%
Wipro	-0.3%	15.1%	-6.5%	6.5%

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Developments during the quarter

Positives

- ✓ Weak rupee would help IT companies post relatively decent numbers (although not in operating terms) in otherwise poor demand environment
- ✓ Employee attrition rate - No longer a concern in near future, Wage inflation likely to be under control at least till the demand recovers
- ✓ Cost containment measures
- ✓ Government pro-active actions globally to revive economy
- ✓ Valuations not too demanding
- ✓ Free cash flow likely to remain strong

Concerns / Negative

- ✓ Prolong Global economy slowdown - Economists consensus expects recovery by end of CY09 or early CY10
- ✓ Demand environment remain very challenging - IT majors are likely to post second consecutive sequential decline in organic USD revenues, Demand revival is getting deferred and now expected by 2HFY10, Moderate growth expected in FY10
- ✓ Clients are dealing with M & A activities, going out of business, or getting government supports with many restrictions which could lead to delay in decision making
- ✓ Government bail-out packages with stiff conditions, Rising unemployment in developed countries - Protectionism measures against out-sourcing
- ✓ Pricing power and volume growth under pressure - We would like to focus on combined number rather than numbers in isolation as companies might adopt different strategies for growth
- ✓ Currency volatility: Forex market remained highly volatile in recent past reflecting growing economic uncertainties which could increase cost of hedging. Sharp swing in cross-currency rates affected USD revenue numbers materially.
 - Hedging - Companies which had increased their hedging exposure significantly during FY08 would likely miss substantial gain (opportunity loss) from rupee depreciation. Companies had increased hedging exposures in anticipation of business in future which gets impacted due to global slowdown. Thus, they are facing risk of loss (real loss) on open positions without any underlying. We prefer companies following consistent hedging policy irrespective of levels and trend of rupee.

Gainer: Infosys

Loser: HCL Tech, TCS, Wipro

Valuation

Near term demand outlook for Indian IT players remain bleak as clients may delay projects due to worsening economic conditions and uncertainties over government's policy (pro-employment in tough time) resulting into lower demand. IT Sector out-performed market by ~5% YTD (year-to-date) which would limit significant out-performance in near future especially when demand environment is not that encouraging and at the same time scope of currency depreciation expected to be limited. We prefer selective stocks, expected to have limited downside-risk, considering valuations and free cash flow. **We prefer Infosys, TCS and Rolta.**



Sector Performance on Bourses

CNX IT index has out-performed broader markets by ~4% in 4QFY09. However, poor demand environment and limited scope of further currency depreciation would limit significant out-performance in near future. CNX IT index broadly performed in-line with broader markets in FY09.

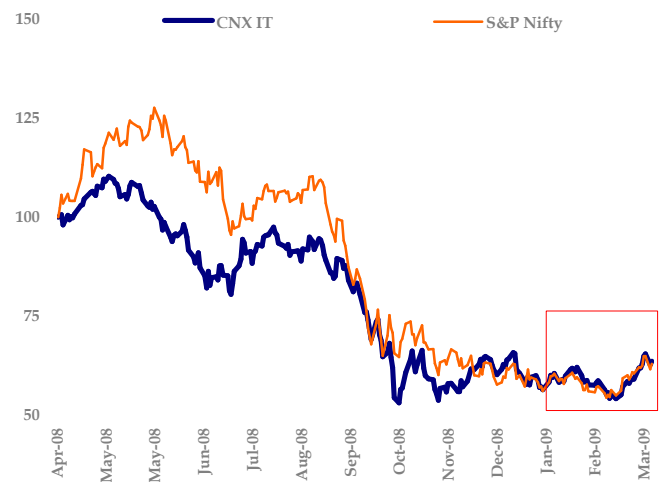
Rupee growth numbers remain positive due to ~14% average rupee depreciation in FY09

IT Index performed broadly in-line with benchmark indices, down by ~37% in FY09

Demand uncertainty negated currency optimism - Sentiment for IT stocks remained negative



Source: Khandwala Research, Bloomberg



Source: Khandwala Research, Bloomberg



Currency Movement

Average rupee rate depreciated by 2.1% and 1.1% against USD and Euro respectively, while appreciated against GBP by 6.5% in March quarter over last quarter. Forex market volatility recede a bit from December quarter, however cross-currency headwinds, mainly GBP, Euro and AUD depreciation, would impact USD revenues. Some IT companies have taken significant hedging positions during the times of appreciating rupee which would result into opportunity loss (during the challenging demand environment) on account of sharp rupee depreciation and this trend is unlikely to reverse in near future. More importantly, companies had taken hedging positions in anticipation of business also which would expose them to currency risk if the company would not get anticipated business due to worsening economic outlook.

Descriptions	INR/USD	INR/GBP	INR/EUR	USD/GBP	USD/EUR	JPY/USD	USD/AUD
Jan-Mar '09							
High	52.0	74.5	69.1	1.5	1.4	99.2	0.7
Low	48.3	67.9	62.4	1.4	1.3	88.8	0.6
Avg	49.8	71.6	65.1	1.4	1.3	93.7	0.7
	QoQ	-2.1%	6.5%	-1.1%	8.5%	1.0%	2.4%
	YoY	-25.1%	9.1%	-9.0%	27.4%	12.9%	11.1%
Close	50.7	72.7	67.2	1.4	1.3	99.0	0.7
	QoQ	-3.9%	-2.1%	1.2%	1.9%	5.2%	-9.2%
	YoY	-26.5%	8.7%	-6.2%	27.8%	16.1%	0.7%
Volatility Q4FY09	7.5%	9.2%	10.4%	10.2%	11.6%	11.1%	14.0%
Volatility Q3FY09	7.5%	19.4%	13.3%	21.2%	14.9%	19.2%	27.7%
Volatility Q4FY08	3.7%	7.0%	11.6%	4.6%	9.3%	13.6%	9.7%
Apr '08-Mar '09							
High	52.0	86.5	69.1	2.0	1.6	110.5	1.0
Low	39.8	67.9	60.3	1.4	1.2	87.2	0.6
Avg	45.8	78.3	65.1	1.7	1.4	100.5	0.8
	YoY	-13.8%	3.1%	-14.1%	14.4%	-0.4%	12.1%
Close	50.7	72.7	67.2	1.4	1.3	99.0	0.7
	YoY	-26.5%	8.7%	-6.2%	27.8%	16.1%	0.7%
Volatility FY09	26.6%	23.8%	13.7%	36.7%	24.8%	23.2%	47.7%
Volatility FY08	9.6%	10.9%	17.2%	8.3%	17.9%	23.2%	18.2%

Source: Khandwala Research, Bloomberg

Note: Volatility is calculated as difference between high and low rate divided by average rate for the period.

FY 2010 guidance

Infosys is likely to guide 2-5% USD revenue growth for FY10. The company is expected to guide EPS in rupee terms to be at FY09 levels.



4QFY09 Results Estimates

Descriptions (INR Mn)	Recommendation	Mar-09 4QFY09E	Mar-08 4QFY08	YoY' % Growth	Dec-08 3QFY09	QoQ' % Growth	FY 2009E	FY 2008	YoY' % Growth
HCL Tech*	NEUTRAL								
Income		28,945	19,453	48.8	24,910	16.2	104,788	76,388	37.2
PAT		2,691	3,425	-21.4	3,739	-28.0	12,948	11,383	13.7
Equity		1,339	1,330		1,339		1,339	1,333	
EPS (INR)		4.0	5.1	-22.0	5.6	-28.0	19.3	17.1	13.2
Infosys	OUTPERFORMER								
Income		56,275	45,420	23.9	57,860	-2.7	216,855	166,920	29.9
PAT		15,247	12,490	22.1	16,410	-7.1	58,997	46,590	26.6
Equity		2,863	2,860		2,863		2,863	2,860	
EPS (INR)		26.6	21.8	21.9	28.7	-7.1	103.0	81.5	26.5
TCS	OUTPERFORMER								
Income		73,638	60,947	20.8	72,770	1.2	280,022	226,654	23.5
PAT		13,716	12,559	9.2	13,553	1.2	52,322	50,190	4.2
Equity		979	979		979		979	979	
EPS (INR)		14.0	12.8	9.2	13.8	1.2	53.5	51.3	4.2
Wipro	NEUTRAL								
Income		65,767	57,156	15.1	65,997	-0.3	257,483	199,796	28.9
PAT		9,382	8,799	6.6	10,039	-6.5	38,281	32,829	16.6
Equity		2,927	2,923		2,927		2,927	2,923	
EPS (INR)		6.4	6.0	6.5	6.9	-6.5	26.2	22.5	16.4

Source: Khandwala Research, Companies

* HCL Technologies year-end is June.

Face Value - Infosys Tech (Rs. 5); HCL Tech, Wipro (Rs. 2); TCS (Re. 1)

Consolidated Results: Infosys, Wipro - Indian GAAP; TCS, HCL Technologies - US GAAP

Result Dates (Likely)

Infosys	15-Apr-09	TCS	20-Apr-09
HCL Tech	22-Apr-09	Wipro	3rd Week of April



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