

## Research calls

### In-house view

<p><b>TCS</b></p> <p><b>Price: Rs 598</b></p> <p><b>Target: Rs 694</b></p> <p><b>Rating: Buy</b></p> <p><b>Risk: Medium</b></p>	<p><b>Tata Consultancy Services – Strong all-round performance; estimates beaten</b></p> <p><b>Results better than expected:</b> Strong volume growth enabled Tata Consultancy Services (TCS) to report a 3.9% QoQ growth in revenues to US\$ 1,538mn (in US \$ terms) during Q2FY10; this was marginally ahead of our expectations of US\$ 1,525mn. In rupee terms, revenues stood at Rs 74.4bn, up 3.2% QoQ. EBITDA margins expanded 148bps QoQ to 28.7% (26.8% estimated) due to continued cost control measures. This translated into a 6.8% QoQ growth in net profits to Rs 16.2bn, again beating our estimates of Rs 15.2bn.</p> <p><b>Volume growth strengthens:</b> After recovering by 3.5% QoQ in Q1FY10, TCS' volume growth picked up in Q2FY10 to 5% QoQ. The growth is attributed to continued ramp-ups in the BFSI vertical and volume stability in other verticals. Blended pricing declined 1.4% QoQ in constant currency terms due to higher offshore efforts and increased contribution from BPO and emerging markets.</p> <p><b>EBITDA margins expand on cost control:</b> Continued cost control initiatives translated into a 148bps and 144bps expansion in TCS' EBITDA and EBIT margins respectively during the quarter under review. This was despite a 94bps negative impact on margins arising from the payment of 150% of the quarterly component of the variable pay in Q2FY10. The company's margins derived support from higher gross utilisation rates (73.6% vs. 71.3% QoQ) and lower SG&amp;A expenses (121bps QoQ to 18.6%).</p> <p><b>Top clients steal the show again:</b> Like in the previous quarter, revenue growth in Q2FY10 derived strength from TCS' top-10 clients that grew 7.3% QoQ, outperforming the company's overall growth. Revenue contribution from these clients increased from 26.9% in Q4FY09 to 28.9% in Q2FY10. Moreover, amongst these clients, the growth was more prominent in the top client that grew 24% QoQ to 6.8% of total revenues, thus recording high growth for two consecutive quarters.</p> <p><b>BFSI outperforms; hi-tech, manufacturing &amp; telecom stabilises:</b> Driven by the strong growth in the top client, the company's BFSI vertical continued to grow ahead of other verticals. More importantly, the pressure on manufacturing, hi-tech, and telecom verticals eased, with these verticals growing at 2.2%, 1.8% and -1.0% QoQ respectively during the quarter. The management has indicated that the worst is over for these verticals.</p> <p><b>Estimates/ target price increased:</b> In view of the better-than-estimated Q2FY10 results and the high likelihood of EBITDA margins sustaining in the 26-27% range, we are increasing our estimates for FY10 and FY11 by 4.4% and 8.4% respectively. We also increase our target price to Rs 694, 19.5x its FY11 earnings. Maintain Buy.</p>
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### Event-based calls

- ❖ Sail stake sale in two phases. (ET)
- ❖ ABG raises new allegations. (ET)

## Market outlook

<b>Dow: Negative</b>	US markets closed down and other Asian markets are negative. Asian stocks declined, led by materials and technology companies, on declines in commodity prices and worse-than-forecast US housing starts. Treasuries and the dollar advanced. We are positive on our market for today. While we expect the market to open down, we see a rally in the latter part of the day.
<b>Asia: Negative</b>	
<b>Day's view: Positive</b>	

## Stocks in focus

Stock	Rationale
<b>Reliance Industries</b>	Reliance Industries' main growth story would be its E&P business as gas production is likely to expand to 80mmscmd by Q3FY10. However, its refinery business is likely to be adversely impacted by the southward trend in GRMs. To mitigate the risk, the company has merged its refining subsidiary RPL to get the benefit of better combined GRM due to the higher refining complexity of the RPL refinery. The RIL-RPL merger is a win-win proposition for both the companies. We recommend a Hold on the stock.

## Key market data

Market turnover	Value (US\$ mn)	% Chg	Forex / Crude	% Chg			
				20-Oct-09	1-day	1-mth	3-mth
BSE	1,161	(14.3)	Rs/US\$	46.1	0.4	4.4	4.5
NSE	3,933	(5.3)	Euro/US\$	1.5	(0.2)	1.6	4.9
Derivatives (NSE)	16,078	32.5	Crude (\$/bbl)	78.7	(0.5)	12.9	21.6

Emerging markets	20-Oct-09	% Chg			
		1-day	1-mth	3-mth	6-mth
Brazil	65,303	(2.9)	7.2	22.7	47.0
Shanghai	3,074	(0.3)	3.6	(4.3)	21.2
Hong Kong	22,225	(0.7)	3.5	14.0	45.4
India	17,223	(0.6)	2.9	14.3	58.0
South Korea	1,652	(0.4)	(2.5)	11.0	23.6
Taiwan	7,708	(0.6)	2.7	10.9	31.1

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## Derivative trends

### F&O synopsis

<b>Nifty futures: 5104.45</b> <b>P/C ratio: 1.50</b> <b>COC: -85.5bps(Annu)</b>	<ul style="list-style-type: none"> <li>❖ Though the market ended lower than its previous close, there appears to be stock-specific activity.</li> <li>❖ P/C ratio for the current series is at 1.50. The most active strike was 5100 in both Calls (13.93Lac calls sold) and Puts (6.50Lac puts covered), indicating support between 5000-4950 and resistance between 5100-5150.</li> <li>❖ Markets are expected to trade between 5071-5031 on the lower side while resistance lies between 5123-5149.</li> </ul>
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### Derivatives outlook

<b>IT stocks appear positive</b>	<ul style="list-style-type: none"> <li>❖ <b>Market view:</b> Volatile.</li> <li>❖ <b>Sector-specific:</b> IT stocks appearing positive.</li> <li>❖ <b>Stock-specific:</b> IOB, ITC, Infosys appearing positive.</li> </ul>
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### Support & resistance levels

Particulars	Level	Support	Resistance
<b>Bank Nifty</b>	First	9379	9513
9448.05	Second	9287	9572
<b>Nifty Futures</b>	First	5071	5123
5104.45	Second	5031	5149
<b>Market-wide open interest: Rs 1,07,997Cr.</b>			

### FII trends

(Rs Cr)	20-Oct-09	17-Oct-09	16-Oct-09
Cash	275.9	0.3	576.8
Index Futures	(362.8)	5.4	300.2
Index Options	93.8	3.1	402.1
Stock Futures	102.6	(35.7)	(39.1)
Stock Options	(5.7)	0.0	(3.8)

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# Technical analysis

## BSE Sensex daily trend



Source: ASA

## Technical outlook daily

SENSEX (17223.01 ↓ 103)	NIFTY (5114.45 ↓ 27.35)
<p>Sensex opened in the green but remained subdued and lackluster however, bias was negative and has given a close at 17223 down by 103 points.</p> <p>Sensex for last two trading session has been trading lower but appears to be normal corrective downtrend.</p> <p>As indicated earlier our short term long position should have a stop loss placed at 17126 (Nifty 5077), if able to maintain its move above 17493 would lead to further uptrend up to 17512-17686-17817 (Nifty 5240-5277-5313) levels. In case Sensex breaches 17126 (Nifty 5077) then neutral view is to be maintained.</p> <p>Sensex has given a breakout of the consolidation which was intact for eleven trading sessions, the consolidated pattern as compared to its surrounding patterns, appears to be a normal corrective pattern and the follow-up breakout from 16600 could be a fresh corrective upward pattern or a part of the Sensex larger upward trend that has begun from 15358.</p> <p>If the present rise is a fresh corrective upward trend, then the wave-g of the 7 legged diamond shape Diametric pattern beginning from 13219 could be considered to have ended at 16943 and the follow-up consolidated pattern would then be a wave-x and the Sensex rise from 16600 would be a fresh uptrend which could move up to 17552-17686-17817(Nifty 5240-5277-5313), in case the present follow-up breakout is part of the ongoing 7 legged Diametric pattern beginning from 13219 then wave-g is still under formation and in the last stage, once completed would be followed by a downward corrective move, wave-g has achieved 82.1% retracement level of wave-a and its 100% retracement level is placed at 17512(Nifty 5220) levels.</p> <p>Sensex trend would turn negative below 16600 (Nifty 4934) levels.</p> <p><b>Sensex Intraday Support levels:</b> Support 17126-17092-17021 Resistance 17457-17512.</p> <p><b>Nifty Intraday Support levels:</b> Support 5100-5077-5054 Resistance 5182-5220.</p>	
<p><b>Sector Specific &amp; Sock Specific:</b> BSE Metal index is positive. Hexaware Technology and LIC Hsg. Finance is positive, while MTNL and Idea Cellular is having a negative bias.</p> <p>1) Buy Hexaware Technology LTP Rs.91, stop loss Rs.85 target Rs.105.</p>	

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