

Here's a sector snapshot that looks into the performance of the top companies, major gainers and future stars to help you make a wise investment decision

Talking Stock

LARGE CAP

Saurabh Rana
head of research, SMC Global

INFOSYS TECHNOLOGIES

CMP: Rs 1,226.70

Infosys is the leading software company in India and is held in high esteem by clients and competitors alike. The company has a global footprint with over 40 offices and development centres in India, China, Australia, the Czech Republic, Poland, the UK, Canada and Japan. The company's stock quotes below 15 times trailing FY08 EPS hence offer margin of safety for long-term investor. The company is virtually debt-free hence insensitive to rising interest rates. Funding won't be problem for Infosys due to under leveraged balance sheets and positive free cash flow generation capacities, which is evident from Infosys' cash offer for buying AXON Group Plc, for a consideration of \$753 million. The appreciation of Dollar against Indian Rupee is a very healthy sign for the IT sector in the current environment. The company is on track to meet the volume growth guidance for the fiscal.

TCS

CMP: Rs 523

At current levels, the company generate positive free cash flow for an investor. We believe in these testing times, Tata Consultancy Services can widen their product portfolio through inorganic route. For instance, TCS acquired Citigroup captive catering to banking, financial services and insurance (BFSI) clients for Rs 2,272 crore. TCS had guided for gross employee additions of 30,000-35,000 employees for FY2009 at the end of FY2008. It has maintained this target, signifying confidence in its ability to win more deals and drive growth. The unchanged hiring target is an encouraging sign. Further, TCS is expected to incur minimum losses on account of forex due to conservative hedging practices. It is an attractive bet as the current valuations factor in the worst and downside from the current stock price is limited.

MID CAP

Kumar Vaibhav
head of research, Invest Shoppe

ROLTA

CMP: Rs 146.75

The company has strong order book of Rs 1500 crore as on June 2008 with 75% executable over FY09. Of the order book, 55% is domestic and 45% is international. For FY09 the company has guided 23%-24% growth in its earnings post MTM losses. At the current market price, stock trades at 8.9x of FY09E earnings. This makes the stock very attractive, keeping in mind its strong visible growth estimated in all the segments. Since more than 50% of the revenue is from domestic operations and the company does not focus on BFSI Sector, it has limited risk from exchange fluctuations and negligible fear of delay in execution of orders due to the turmoil in international markets. Further, we believe that various JVs in particular their partnership with Stone and Webster for exploiting opportunities in the nuclear power space seems very promising for the long run.

ALLIED DIGITAL SERVICES

CMP: Rs 504

Allied Digital Services (ADSL) is riding on high-growth domestic markets of system integration (SI), IT infrastructure management services (IMS) and remote infrastructure management (RIM). RIM is expected to be \$13-15-billion opportunity for the Indian IT industry by 2013 from the current US\$3.6billion, as per the latest Nasscom and McKinsey report. Recent acquisition of EnPointe Global Services (EGS), the US-based IMS provider, marks ADSL's foray into international markets. Strong revenue visibility, changing business mix, improving margins and higher return ratio make it a good investment bet. We expect 60%-70% compounded annual growth rate in earning per share over the next three years. At the current market price, stock trades at 11x and 6.8x of FY09E and FY10E earnings, which makes it quite an attractive investment bet.

SMALL CAP

Anil Advani
head of research, SBICAP Securities

TAKE SOLUTIONS

CMP: Rs 33.15

TAKE leverages management bandwidth and domain expertise to deliver products for niche supply chain management and life sciences. Supply chain management and life sciences are less impacted by US meltdown (compared to banking, financial services and insurance). The company conducts business in 12 countries with more than 300 customers. TAKE has high exposure (64%) to North America and has to withstand competition from international players. TAKE's management is optimistic on its growth prospects for the coming years and also looking at inorganic growth initiatives to strengthen its growth prospects. Its non linear model will help deliver 35% revenue compounded annual growth rate for three years. It looks attractive at FY09 P/E of 6x, FY10 P/E of 4x for a company with return on capital employed and return on equity of over 25%.

MEGASOFT

CMP: Rs 32.20

Megasoft is a domain centric, intellectual property driven, technology solutions company in the telecom and IT sector. The company's telecom product focus and geographic profile (USA 50%, Europe 25%) reduces the impact of US meltdown and banking, financial services and insurance (BFSI) turmoil. The company has reported revenues of Rs 850 million and PAT of Rs 121 million for the quarter ended June 30, 2008 as compared to revenues of Rs 601 million and PAT of Rs 94 million in the corresponding quarter last year. The company has high revenue visibility with an order book - 65% CY10 revenues. Trigger comes from value unlocking of its Rs 3 billion real estate (greater than market capitalisation of Rs 2 billion). It has a non-linear model with high offshore revenues (80%). The stock is extremely attractive at CY10 P/E of 2x with good dividend yield.

TOP 10 Infotech STOCKS

Company name	3-month returns
Nexsoft Infotel	208.10
Shyam Software	188.49
Victory Projects	179.91
Panoramic Universal	145.98
Integrated HiTech	124.82
Crystal Software Sol.	102.34
Empower Ind. India	83.11
Core Projects & Tech.	52.89
Tutis Technologies	49.02
Sterling Int. Enterprises	46.63

(in %)

* As on October 3, 2008 on BSE

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