

NEUTRAL

Price	Rs336
Target Price	-
Investment Period	-

Stock Info

Sector	IT
Market Cap (Rs cr)	4,085
Beta	0.88
52 WK High / Low	990 / 204
Avg Daily Volume	103335
Face Value (Rs)	10
BSE Sensex	12,135
Nifty	3,654
BSE Code	532755
NSE Code	TECHM
Reuters Code	TEML.BO
Bloomberg Code	TECHM@IN

Shareholding Pattern (%)

Promoters	83.3
MF/Banks/Indian FIs	2.0
FII/ NRIs/ OCBs	1.8
Indian Public/ Others	12.9

Abs.	3m	1yr	3yr*
Sensex (%)	(31.9)	(31.1)	4.4
Tech Mah. (%)	45.5	(64.7)	(39.3)

* Since listing on August 28, 2006

Harit Shah

Tel: 022 – 4040 3800 Ext: 345
 e-mail: harit.shah@angeltrade.com

Performance Highlights

■ **Top-line falls in Rupee and Dollar terms; top client BT continues to pressurise business:** During 4QFY2009, Tech Mahindra recorded a disappointing 7.1% qoq fall in consolidated Top-line in Rupee terms. This was recorded in spite of the Rupee depreciation witnessed over the quarter, with the realised Rupee rate being higher by 1.8% qoq (Rs49.71 v/s Rs48.82 in 3QFY2009). Apart from this, the significant depreciation of the British Pound against the US Dollar during the quarter resulted in reported Dollar revenues coming in significantly lower. Dollar Revenues fell by 9.8% qoq to US \$211.5mn (US \$231.9mn in 3QFY2009). Volumes fell by around 2% qoq, pricing continued to remain under stress, declining by 2.5% qoq and the remaining fall in Revenue was accounted for by cross-currency fluctuations (British Pound v/s US Dollar). Revenues from British Telecom (BT), the company's top client, declined by 17% qoq in US Dollar terms (lower decline of around 6% qoq in British Pound terms). Revenues booked from the BTGS (Barcelona) deal declined to £19mn as against £22.2mn in 3QFY2009 (14.4% qoq fall), a major disappointment. The company's traditional BT business also remains under pressure. On a yoy basis, Tech Mahindra recorded a 2.9% growth in Top-line in Rupee terms, while Dollar Revenues de-grew by 19%, mainly on account of Pound depreciation v/s the US Dollar.

Segment-wise, the major Telecom Service Provider (TSP) segment de-grew 9% qoq during the quarter (de-growth of 2.1% yoy) mainly on account of the fall in the BT account. On the other hand, the Telecom Equipment Manufacturer (TEM) segment grew 15.4% qoq (65.8% yoy growth), which is a positive and indicates that the company has been able to get new business from these clients to diversify away from BT. The BPO segment de-grew by over 20% qoq (11.8% yoy growth).

■ **Margins fall on pricing pressure, higher SG&A costs:** In 4QFY2009, Tech Mahindra recorded a 105bp qoq fall in EBITDA Margins on the back of pricing pressure and higher SG&A costs. On a yoy basis, Margins soared 527bp mainly due to Rupee depreciation and strong cost control measures.

■ **Higher Other Income boosts Bottom-line:** Tech Mahindra recorded a 3.3% qoq rise in 4QFY2009 Bottom-line in spite of the Margin fall. This was mainly due to higher Other Income.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	3,766	4,465	4,281	4,680
% chg	28.6	18.5	(4.1)	9.3
Net Profit	330	1,015	771	843
% chg	171.4	207.5	(24.0)	9.3
EBITDA Margin (%)	21.9	28.7	27.5	27.2
FDEPS (Rs)	58.9	77.5	58.9	64.4
P/E (x)	5.7	4.3	5.7	5.2
P/BV (x)	3.5	2.3	1.8	1.5
RoE (%)	70.8	63.4	35.2	31.0
RoCE (%)	66.1	58.4	24.8	24.1
EV/Sales (x)	1.1	0.8	0.6	0.5
EV/EBITDA (x)	4.9	2.8	2.3	1.8

Source: Company, Angel Research; Note: Financials exclude Satyam

FY2009 Top-line grows 19%; cross-currency plays spoil-sport with Dollar Revenues

Tech Mahindra recorded an 18.6% yoy growth in its FY2009 Top-line primarily on account of the significant Rupee depreciation witnessed during the year. The realised Rupee rate was higher by 12.5% yoy at Rs45.33 per US Dollar in FY2009 (Rs40.29 in FY2008). In US Dollar terms, the growth was fairly tepid at 5.4% yoy, with Sales touching US \$985mn (US \$934.7mn in FY2008). The major cross-currency fluctuations witnessed over the year, with the British Pound depreciating significantly against the US Dollar, led to reported Dollar numbers being subdued. Tech Mahindra's top client, BT, saw Revenues growing by just 8.1% yoy during the year in Rupee terms, while in US Dollar terms, it de-grew 3.4% yoy. Going forward, we expect this account to continue to face pressure owing to the difficult business environment.

Margins soar on Rupee depreciation, cost efficiencies

Tech Mahindra recorded a strong 529bp yoy expansion in EBITDA Margins in FY2009 primarily due to the significant Rupee depreciation witnessed during the year and cost efficiencies on the SG&A front.

Lower Other Income, higher Taxes impact Bottom-line growth

In spite of the strong Margin expansion witnessed during the year, due to significantly lower Other Income and a higher effective Tax rate (11.1% v/s 8.9% in FY2008), Tech Mahindra recorded a 23% yoy growth in its FY2009 Bottom-line (excluding Extraordinary items), which while decent, trailed Top-line and EBITDA growth.

Satyam financials likely to be available by year-end

Tech Mahindra has indicated that the restated financials of the recently-acquired Satyam Computer Services are likely to be available by the year-end. The company, in order to finance the acquisition, has raised around Rs2,000cr debt on its books at an interest rate of 11%, with the balance debt being on the books of the SPV formed for the purpose of acquiring Satyam. We believe that while over the long term, the acquisition gives Tech Mahindra greater diversification into newer verticals and a complementary set of businesses, there remain challenges arising from the law suits filed against Satyam in the US, apart from the financials being needed to be restated over the past several years. The integration of Satyam's work force of over 45,000 personnel is also likely to pose a stiff challenge for the Tech Mahindra management. The company intends to keep Satyam as a separate entity as of now.

Outlook and Valuation

Going ahead, we expect Tech Mahindra to record a 2.4% CAGR in Top-line over FY2009-11E, while Bottom-line is expected to clock an 8.9% compounded de-growth over the mentioned period (Tech Mahindra consolidated excluding Satyam financials). At the CMP, the stock trades at 5.7x FY2010E EPS. The significant debt taken by the company on its books to finance the Satyam acquisition will pressurise its Bottom-line in FY2010 due to significantly higher Interest costs. Key uncertainties related to the Satyam acquisition, viz. the law suits filed and the potential liabilities arising on account of them, and the restatement of accounts, could lead to an overhang on stock price performance till greater clarity is provided on these issues. Moreover, the increasingly difficult business environment is also likely to lead to disappointing financial performances by the software major going forward, with business from its top client, BT, declining and likely to continue to fall in the near term. Post the declaration of the audited financial numbers by the auditors of Satyam and getting a better understanding of the claims that could be borne by the company, we would re-visit Tech Mahindra's financials for consolidation of Satyam's financials with it. **We maintain our Neutral view on the stock pending further clarity on the above-mentioned issues, even as valuations may appear reasonable.**

Exhibit 1: FY2009 Consolidated Financial Performance

Y/E March (Rs cr)	FY2009 4Q	FY2009 3Q	% chg (qoq)	FY2008 4Q	% chg (yoy)	FY2009	FY2008	% chg
Net Revenues	1,051	1,132	(7.1)	1,022	2.9	4,465	3,766	18.6
Cost of Revenues	611	657	(7.0)	656	(6.8)	2,638	2,385	10.6
Gross Profit	440	475	(7.4)	366	20.3	1,827	1,381	32.3
SG&A Expenses	156	157	(0.8)	143	8.6	612	555	10.2
Operating Profit (EBITDA)	284	318	(10.6)	222	27.8	1,215	826	47.2
Other Income	8	(40)		36		(38)	104	
Interest	2	0		1		3	6	
Depreciation	29	29	0.0	23	24.9	110	80	37.8
Income before Income Taxes	261	250	4.6	235	10.9	1,065	844	26.2
Tax	31	27	13.8	17	85.5	118	75	57.4
Minority Interest	(0)	0		(0)		(0)	1	
Extraordinary Items	-	-		(440)		67	(440)	
Net Income	230	223	3.3	(221)		1,014	330	207.6
Diluted EPS (Rs)	17.9	17.2	4.4	(16.9)		78.8	25.2	212.3
Gross Profit Margin (%)	41.8	42.0		35.8		40.9	36.7	
EBITDA Margin (%)	27.0	28.1		21.8		27.2	21.9	
Net Profit Margin (%)	21.9	19.7		(21.7)		22.7	8.8	

Source: Company, Angel Research



Research Team: Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539

Ratings (Returns) :	Buy (Upside > 15%)	Accumulate (Upside upto 15%)	Neutral (5 to -5%)
	Reduce (Downside upto 15%)	Sell (Downside > 15%)	