

23<sup>rd</sup> July 2009**ACCUMULATE**

Price	Target Price
<b>Rs 770</b>	<b>Rs 742</b>
<b>Sensex</b>	<b>14,843</b>

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	4	142	239	3
Rel. to Sensex	0	78	101	(2)

Source: Capitaline

**Stock Details**

Sector	IT Services
Reuters	TEML.BO
Bloomberg	TECHM@I N
Equity Capital(Rs mn)	1217
Face Value(Rs)	10
52 Week H/L	860/204
Market Cap(Rs bn//US\$ mn)	94/1,935
Daily Avg Volume (No of shares)	2437663
Daily Avg Turnover (US\$)	32.8

**Shareholding Pattern (%)**(30<sup>th</sup> June'09)

Promoters	83.2
FII/NRI	1.9
Institutions	2.2
Private Corp.	2.1
Public	10.5

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**In line operational results; though top client woes continue**

TechM reports revenues of US\$ 228 mn(+7.7% QoQ) V/s expectations of ~US\$ 223 mn

Reported op margins at 25.2% (-180 bps QoQ) up 20 bps sequentially adjusted for Q4FY09 one off.

Top client woes continue with revenues from top client down marginally QoQ to GBP 75.9 mn. However are negatively surprised by management's stance on not sharing revenue contribution from the BTGS and the ANDES contracts (given deal payment terms). We would not be surprised by a negative reaction on the stock price from this.

Revise standalone EPS Estimates for FY10/FY11 to Rs 40.9/47.6 V/s Rs 41.9/45.9 earlier driven by change in tax rate assumptions

Consolidated base case EPS estimates revised to Rs 58.1/67.1 for FY10/FY11 (as against Rs 62.6 and Rs 67.5 earlier) on a/c of change in assumption to consolidate ~42.7% profits from Satyam (V/s an assumption of ~51% earlier)

Maintain ACCUMULATE with a revised TP of Rs 742 (V/s Rs 550 earlier) based on 11x FY11 Consolidated FY11 EPS estimates of Rs 67.5.

**Q1FY10 Highlights**

Tech Mahindra reported US\$ revenues of US\$ 228 mn (+7.7% QoQ, -16.3% YoY) V/s our expectations of US\$ 223 mn. Operating profits at Rs 2,805 mn was marginally below estimates as company reported operating margins of 25.2% (V/s expectations of 25.8%, note operating margin decline on reporting basis is higher at ~200 bps declines as Q4FY09 involved one time provision write back of ~Rs 250 mn). Net profits at Rs 1,316 mn missed expectations (our estimate at Rs 1,658 mn) on account of other income losses of ~Rs 261 mn.

**Top client woes continue; Expect more pressure ahead**

Revenues from the top client were up 7.7% QoQ in US\$ terms at US\$ 118.4 mn however were down marginally in GBP mn at GBP 75.9 mn V/s GBP 77.5 mn during Q4FY09. We believe that revenues from core BT segment would continue to be under pressure as IT spending priorities continue to evolve driven by macro weakness. We are surprised by the co's stance of not disclosing the revenue contribution from the BTGS and the ANDES deals (revenues from ANDES were to kick in from Q1FY10 onwards) and would have appreciated the disclosure of financial given the nature of deal structures for them (**note that Tech M has made upfront payments for both of these contracts with significant investor and our attention focused on NPV's of these contracts**). Tech M management during the call noted that it was renegotiating the scope and nature of business under these contracts with BT and expected more clarity to emerge by end of Q2FY10.

**Maintain ACCUMULATE with revised TP of Rs 742**

We maintain ACCUMULATE on Tech Mahindra with a revised target price of Rs 752 based on 11x consolidated base case FY11 EPS estimates of Rs 67.1 (V/s Rs 550, based on 8x earlier). However we would not rule out near term correction in the stock given ~100%+ run up in the stock over the past 3 months as well as negative reaction to business prospects at the top client.

In Rs mn	Q1FY10	Q4FY09	QoQ(%)	Q1FY09	YoY (%)
<b>Net sales</b>	<b>11130</b>	<b>10513</b>	<b>5.9%</b>	<b>11164</b>	<b>-0.3%</b>
Total Income	11,130	10,513		11,164	
Operating expenses	8325	7671		8295	
<b>EBITDA</b>	<b>2,805</b>	<b>2,842</b>	<b>-1.3%</b>	<b>2,869</b>	<b>-2.2%</b>
Margins (%)	25.20	27.03		25.7	
Depreciation	296	286		258	
<b>EBIT</b>	<b>2,509</b>	<b>2,556</b>	<b>-1.8%</b>	<b>2,611</b>	<b>-3.9%</b>
Margins (%)	22.5	24.3		23.4	
Interest Paid	571	23		2	
Other income	-261	78		261	
Pre-tax profit	1,677	2,611		2,870	
Tax provided	268	306		283	
Profit after tax	1,316	2,305		2,585	
<b>Emkay Net profit</b>	<b>1,316</b>	<b>2,305</b>	<b>-42.9%</b>	<b>2,583</b>	<b>-49.0%</b>
EPS, Rs	10.0	17.6		19.7	

Source : Emkay Research

	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10
<b>Quarterly Revenues (in US\$ mn)</b>	257.8	272	270	232	212	228
QoQ growth, %	5.1%	5.5%	-0.8%	-14.0%	-8.8%	7.70%
YoY growth, %	30.4%	28.9%	22.2%	-5.4%	-18.0%	-16.30%
Top client	65%	63%	60%	57%	52%	52%
<b>Top client revenues (in US\$ mn)</b>	<b>167.6</b>	<b>171.3</b>	<b>161.9</b>	<b>132.2</b>	<b>110</b>	<b>118.4</b>
QoQ growth, %	12.0%	2.2%	-5.5%	-18.3%	-16.8%	7.70%
YoY growth, %	26.5%	26.9%	12.8%	-11.6%	-34.4%	-30.90%
<b>Top 2- 5 client revenues</b>	<b>46.4</b>	<b>57.1</b>	<b>59.4</b>	<b>51</b>	<b>55</b>	<b>59.2</b>
QoQ growth, %	-9.9%	23.0%	4.0%	-14.0%	7.8%	7.70%
Top 5	83%	84%	82%	79%	78%	78%
<b>Top 5 client revenues</b>	<b>214</b>	<b>228.4</b>	<b>221.2</b>	<b>183.2</b>	<b>165</b>	<b>177.6</b>
QoQ growth, %	6.4%	6.7%	-3.1%	-17.2%	-10.0%	7.70%
<b>Top 5-10 clients</b>	<b>15.5</b>	<b>16.3</b>	<b>18.9</b>	<b>18.6</b>	<b>12.7</b>	<b>18.2</b>
QoQ growth, %	5.1%	5.5%	15.8%	-1.8%	-31.6%	43.50%
Top 10	89%	90%	89%	87%	84%	86%
<b>Top 10 client revenues</b>	<b>229.4</b>	<b>244.7</b>	<b>240.1</b>	<b>201.8</b>	<b>177.7</b>	<b>195.8</b>
QoQ growth, %	6.3%	6.7%	-1.9%	-16.0%	-11.9%	10.20%
<b>Non Top 10 client revenues</b>	<b>28.4</b>	<b>27.2</b>	<b>29.7</b>	<b>30.1</b>	<b>33.8</b>	<b>31.9</b>
QoQ growth, %	-3.6%	-4.1%	9.2%	1.6%	12.2%	-5.80%

Source : Company, Emkay Research

	FY10E			FY11E		
	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	856	876	2.30%	956	956	0.00%
Revenues	41964	42893	2.20%	45890	45906	0.00%
EBITDA	9810	10215	4.10%	10904	10908	0.00%
EBITDA mgns, %	23.4	23.8	1.90%	23.8	23.8	0.00%
Net profits	5493	5364	-2.30%	6016	6231	3.60%
Standalone EPS	41.9	40.9	-2.30%	45.9	47.6	3.60%

Source : Emkay Research

Revenues from BT were down marginally in GBP to GBP 75.9 mn V/s GBP 77.5 mn earlier.

Standalone EPS estimates changed for change in tax rate assumption to 17% V/s 17%/20% earlier for FY10/FY11.

## New Consolidated Financials

	FY10E			FY11E		
	Worst Case	Base Case	Best Case	Worst Case	Base Case	Best Case
US\$ revenues	1,300	1,300	1,300	1,170	1,235	1,365
Revenues(in INR mn)	62,400	62,400	62,400	56,160	59,280	65,520
Assumed EBIT mgns, %	3	10	12	5	12	15
EBIT, in Rs mn	1,872	6,240	7,488	2,808	7,114	9,828
Less :Taxes	280.8	936	1123.2	421.2	1067.04	1474.2
<b>Tax rate</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>
Net profits	1,591	5,304	6,365	2,387	6,047	8,354
<b>Less:Minority Interest</b>	<b>918</b>	<b>3060</b>	<b>3672</b>	<b>1,377</b>	<b>3,489</b>	<b>4,820</b>
Contribution to Tech M	673	2,244	2,692	1,010	2,558	3,534
Tech M standalone profits	5,364	5,364	5,364	6,231	6,231	6,231
Consolidated Net profits	6,037	7,608	8,056	7,241	8,789	9,765
<b>Standalone Tech M EPS</b>	<b>40.9</b>	<b>40.9</b>	<b>40.9</b>	<b>47.6</b>	<b>47.6</b>	<b>47.6</b>
<b>Consolidated EPS</b>	<b>46.1</b>	<b>58.1</b>	<b>61.5</b>	<b>55.3</b>	<b>67.1</b>	<b>74.5</b>

Source : Emkay Research

## Old consolidated financials

	FY10E			FY11E		
	Worst Case	Base Case	Best Case	Worst Case	Base Case	Best Case
US\$ revenues	1,300	1,300	1,300	1,170	1,235	1,365
Revenues(in INR mn)	62,400	62,400	62,400	56,160	59,280	65,520
Assumed EBIT mgns, %	3	10	12	5	12	15
EBIT, in Rs mn	1,872	6,240	7,488	2,808	7,114	9,828
Less :Taxes	281	936	1,123	618	1,565	2,162
Tax rate	15	15	15	22	22	22
Net profits	1,591	5,304	6,365	2,190	5,549	7,666
Less:Minority Interest	780	2,599	3,119	1,073	2,719	3,756
Contribution to Tech M	812	2,705	3,246	1,117	2,830	3,910
Tech M standalone profits	5,493	5,493	5,493	6,016	6,016	6,016
Consolidated Net profits	6,305	8,198	8,739	7,133	8,846	9,926
<b>Standalone Tech M EPS</b>	<b>42.3</b>	<b>42.3</b>	<b>42.3</b>	<b>46.3</b>	<b>46.3</b>	<b>46.3</b>
<b>Consolidated EPS</b>	<b>48.1</b>	<b>62.6</b>	<b>66.7</b>	<b>54.5</b>	<b>67.5</b>	<b>75.8</b>

Source : Emkay Research

Consolidated estimates are changed to reflect lower stake in Satyam at 42.7% V/s 51% assumed earlier as well as lower tax incidence at Satyam on a/c of STPI extension

## Standalone Financials

## Income Statement

Y/E, Mar (Rs. m)	FY08	FY09	FY10E	FY11E
<b>Net Sales</b>	37,661	44,647	42,893	45,906
Growth (%)		19	(4)	7
<b>Total Expenditure</b>	(29,403)	(32,495)	(32,678)	(34,999)
Growth (%)		11	1	7
<b>EBIDTA</b>	8,258	12,152	10,215	10,908
Growth (%)		47	(16)	7
<b>EBIDTA %</b>	21.9	27.2	23.8	23.8
Other Income	1,044	(378)	(81)	520
Depreciation	(796)	(1,097)	(1,306)	(1,500)
<b>EBIT</b>	<b>8,506</b>	<b>10,677</b>	<b>8,828</b>	<b>9,928</b>
Interest	(61)	-	(2,386)	(2,420)
<b>EBT</b>	<b>8,445</b>	<b>10,677</b>	<b>6,442</b>	<b>7,508</b>
Tax	(748)	(1,179)	(1,078)	(1,276)
<b>EAT</b>	<b>7,697</b>	<b>9,498</b>	<b>5,364</b>	<b>6,231</b>
Growth (%)		23	(44)	16
EAT (%)	20.4	21.3	12.5	13.6

## Balance Sheet

Y/E, Mar (Rs. m)	FY08	FY09	FY10E	FY11E
Equity share capital	1,214	1,217	1,217	1,217
Reserves & surplus	11,358	18,214	23,124	28,589
Minority Interest	111	112	112	112
<b>Networth</b>	<b>12,683</b>	<b>19,543</b>	<b>24,453</b>	<b>29,918</b>
Secured Loans	-	-	-	-
Unsecured Loans	300	-	22,000	22,000
<b>Loan Funds</b>	<b>300</b>	<b>-</b>	<b>22,000</b>	<b>22,000</b>
<b>Total Liabilities</b>	<b>12,983</b>	<b>19,543</b>	<b>46,453</b>	<b>51,918</b>
- Goodwill	-	-	-	-
Gross Block	7,457	9,079	10,723	11,018
Less: Depreciation	3,101	4,100	5,406	6,906
<b>Net block</b>	<b>4,356</b>	<b>4,979</b>	<b>5,318</b>	<b>4,112</b>
<b>Capital WIP</b>	<b>1,640</b>	<b>1,541</b>	<b>1,500</b>	<b>1,500</b>
<b>Investment</b>	<b>633</b>	<b>4,345</b>	<b>33,274</b>	<b>33,274</b>
<b>Current Assets</b>	<b>15,562</b>	<b>17,370</b>	<b>15,437</b>	<b>23,596</b>
Inventories	17	13	-	-
Sundry debtors	10,965	9,022	9,049	9,810
Cash & bank balance	976	5,382	3,216	10,264
Loans & advances	3,604	2,953	3,173	3,522
Other current assets	-	-	-	-
<b>Current Liab &amp; Prov</b>	<b>9,268</b>	<b>8,888</b>	<b>9,272</b>	<b>10,760</b>
Current liabilities	6,505	6,738	6,698	7,546
Provisions	2,763	2,150	2,574	3,213
<b>Net current assets</b>	<b>6,294</b>	<b>8,482</b>	<b>6,165</b>	<b>12,836</b>
Misc exps	-	-	-	-
Deferred Tax	60	196	196	196
<b>Total Assets</b>	<b>12,983</b>	<b>19,543</b>	<b>46,453</b>	<b>51,918</b>

Cash Flow	FY08	FY09	FY10E	FY11E
Net Profit after Tax	7,697	9,498	5,364	6,231
Add : Depreciation	516	516	516	516
Add : Misc exp w/off	(4,401)	673	-	-
<b>Net changes in WC</b>	<b>(2,297)</b>	<b>(2,188)</b>	<b>2,317</b>	<b>(6,671)</b>
<b>Operational Cash Flows</b>	<b>6,518</b>	<b>12,677</b>	<b>6,820</b>	<b>8,109</b>
<b>Capital expenditure</b>	<b>(2,371)</b>	<b>(1,621)</b>	<b>(1,603)</b>	<b>(294)</b>
Investments	(4,401)	(5,887)	(28,617)	-
<b>Investing Cash Flows</b>	<b>(6,772)</b>	<b>(7,508)</b>	<b>(30,220)</b>	<b>(294)</b>
<b>Borrowings</b>	130	(300)	22,000	-
dividend paid	(781)	(571)	(766)	(766)
Issue of shares	19	107	(0)	(0)
Share Premium	10	27	-	-
<b>Financing Cash Flows</b>	<b>563</b>	<b>(763)</b>	<b>21,234</b>	<b>(766)</b>
changes in cash	308	4,406	(2,167)	7,048
Opening balance	668	976	5,382	3,216
<b>Closing balance</b>	<b>976</b>	<b>5,382</b>	<b>3,216</b>	<b>10,264</b>

Key ratios	FY08	FY09	FY10E	FY11E
EPS (Rs)	58.8	72.5	40.9	47.6
CEPS (Rs)	64.8	80.9	50.9	59.0
Book Value Per Share (Rs)	96.8	149.2	186.7	228.4
Dividend Per Share (Rs)	5.1	3.7	5.0	5.0
<b>Valuations Ratios (x)</b>				
PER	13.1	10.6	18.8	16.2
P/CEPS	3.5	2.8	4.4	3.8
P/BV	8.0	5.2	4.1	3.4
EV/EBIDTA	12.1	7.9	11.7	9.3
EV/Sales	2.7	2.1	2.8	2.2
M-Cap/sales	2.7	2.3	2.4	2.2
<b>Profitability Ratios (%)</b>				
- RoCE	55.8	59.1	25.2	18.1
RoNW	70.0	58.9	24.4	22.9
EBITDA Margin	21.9	27.2	23.8	23.8
EBIT Margins	19.8	24.8	20.8	20.5
Net Profit Margin	20.4	21.3	12.5	13.6

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