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# Indian IT Services

## Strong CY10 Budgets Likely: Raise Wipro to Buy, Lower Infy to Hold

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- **"Pent up" demand in play?** — With most US and global macro data points suggesting stability or recovery, India's IT services sector is seeing increased deal discussions and the start of ramp-ups. If the economic climate remains stable over the next few months, IT budgets could be strong in CY10E. Note that IT spends increased by an ~8% CAGR over the 3 years post the previous downturn.
- **US recovery, liquidity raising valuations and making them converge; be selective** — Tier-one IT players are trading at ~10-25% premiums to the market, despite our earnings increase of ~3-18%. Valuations within the sector are converging as visibility into demand uptick improves, a trend that we think will continue. Absolute valuations remain liquidity-driven. We recommend staying selective.
- **Upgrade Wipro to Buy; downgrade Infosys to Hold** — We now prefer Wipro to Infosys. Wipro will have a higher EPS CAGR over the next couple of years, on our estimates, and trades at a ~15% discount to Infosys. Wipro is also strong in India/Asia, and we believe there is upside to FY11 consensus estimates. TCS and Wipro are the only Buys in the sector (target multiples imply ~10% discount to Infosys).
- **TechM, Patni, Mindtree: Hard to see more valuation convergence** — TechM faces challenges in its core business. Patni's margin increase has positively surprised but its sharp moves leave little on the table, in our view. Expect better 2Q from Mindtree, but valuations leave little room for upside. Risk ratings revised.
- **Macro risks exist** — Positive risks: demand recovering faster than expected; concern on domestic sectors due to monsoon and fiscal deficit (relative market play). Negative risks: negative US data ("W" shaped recovery); and strong INR.

| Ticker | Company | Rating | Target Price | FY10E EPS | FY11E EPS |
|---|---|---|---|---|---|
| HCLT.BO | HCL Technologies | 2M | Rs345.00 | Rs16.72 | Rs23.10 |
| | *previously* | - | Rs215.00 | Rs13.70 | Rs17.16 |
| INFY.BO | Infosys Technologies | 2L | Rs2,290.00 | Rs101.45 | Rs109.01 |
| | *previously* | 1L | Rs2,060.00 | Rs97.23 | Rs102.69 |
| MINT.BO | MindTree | 3M | Rs485.00 | Rs39.81 | Rs38.84 |
| | *previously* | 3H | Rs415.00 | Rs44.97 | Rs46.93 |
| PTNI.BO | Patni Computer Systems | 3M | Rs440.00 | Rs32.95 | Rs36.64 |
| | *previously* | 3H | Rs240.00 | Rs25.73 | Rs27.61 |
| TCS.BO | Tata Consultancy Services | 1L | Rs630.00 | Rs29.80 | Rs33.19 |
| | *previously* | - | Rs525.00 | Rs28.97 | Rs29.58 |
| TEML.BO | Tech Mahindra | 3M | Rs825.00 | Rs48.33 | Rs58.07 |
| | *previously* | 3H | Rs640.00 | Rs63.21 | Rs64.17 |
| WIPR.BO | Wipro | 1L | Rs620.00 | Rs27.60 | Rs32.32 |
| | *previously* | 2L | Rs450.00 | Rs25.43 | Rs27.60 |

**See Appendix A-1 for Analyst Certification and important disclosures.**

# Contents

# Demand Rising; Pre-slowdown Valuations

**With the business environment stabilizing and pent-up demand likely to have an impact, IT budgets could be good in CY10E (unless something catastrophic unfolds in the next 4-5 months). Note that IT spends increased by an ~8% CAGR over the 3 years following the previous downturn. Heavy liquidity in the markets is making it difficult to take a call on absolute valuations for sectors and stocks. We continue to take a bottom-up approach and have Buys on only TCS and Wipro. Despite raising earnings, we downgrade Infosys to Hold/Low Risk due to the high valuations and ownership of the stock. We upgrade Wipro to Buy: it will have the highest EPS CAGR over the next couple of years in the sector, on our estimates, and trades at a ~15% discount to Infosys. Our TCS and Wipro target multiples imply a ~10% discount to Infosys. Macro risks still exist, and the next few months are crucial for IT budgets in CY10. If recovery is steady, QoQ growth rates could recover faster than expected and provide further upside potential.**

## Global economy: Signs of recovery

Global economies continue to show signs of improvement. Some recent positive data points are highlighted below.

**US and Eurozone data points suggest early signs of recovery….**

**Figure 1. Macro Environment — Recent Positive Data Points**

| | |
|---|---|
| **US GDP** | US recession seems to be easing off with a marked improvement in GDP growth to -1.0% in 2Q, down from a sharp decline of 6.4% in 1Q. |
| **Euro zone growth** | Euro zone is projected to have contracted by 0.1% in 2Q, compared to -2.5% in 1Q. Germany's and France's reported 0.3% growth each may seem negligible, but considering that German GDP shrank by 3.5% in 1Q and France's by 1.3%, it is quite a marked improvement. |
| **US unemployment** | US unemployment rate dropped slightly to 9.4% in July, down from 9.5% in June - the first decrease since early 2008. |
| **US home sales** | The overall number of existing home sales rose 7.2% in July from June. It was the largest monthly gain since the tracking of existing home sales began in 1999. |
| **US manufacturing** | The Empire State Manufacturing Survey's general business conditions index increased 13 points, to 12.1, its best reading since Nov-07. |

Source: Citi Investment Research and Analysis

The global economic improvement has resulted in customers starting to spend their IT budgets. Most customers are still cautious, but any optimism could result in meaningful growth in IT budgets next year – assuming there is no major negative event in the next 4-5 months.

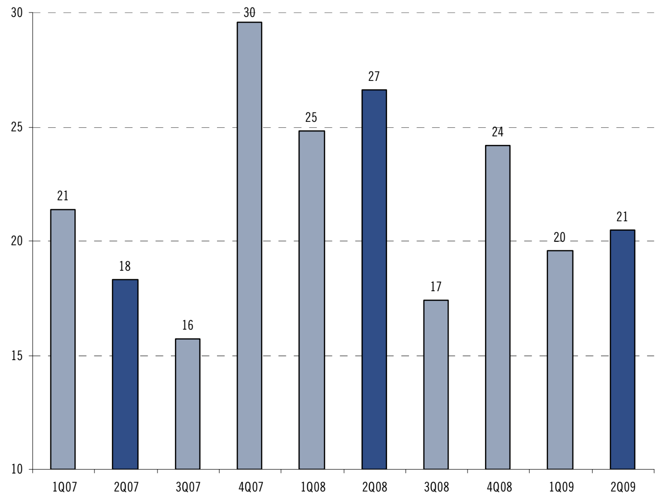
### TPI data also suggest stability

**TPI data suggest stability…however, decision-making still slow**

Total Contract Value (TCV) was down 23% yoy in 2Q. Annualized Contract Value (ACV) was down 29% yoy, but note last year's 2Q was very strong. Sequentially, there is stability – TCV was up ~5% qoq and ACV down ~5%. The pace of contract awards has stabilized between US$17-24b in the last 4 quarters (post a strong 1H08).

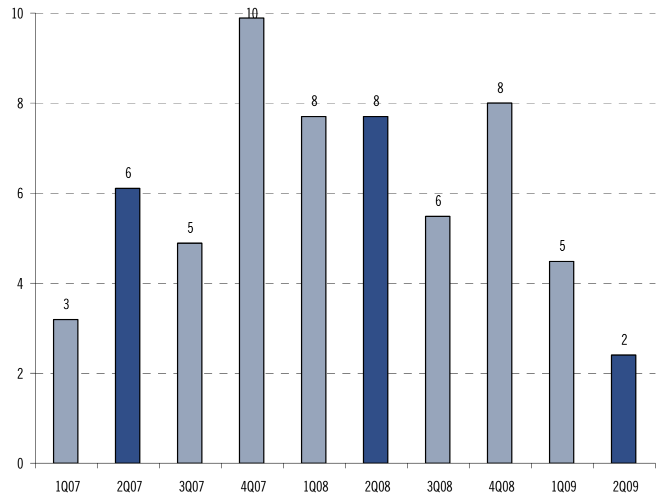
TPI does not see a market rebound soon, although the award profile could hint at sustained values through the year. Though pipelines remain strong, decision-making is still slow.

**Figure 2. Industry-wide TCV (> $25m)**




Source: TPI Index

**Figure 3. BPO TCV (> $25m)**



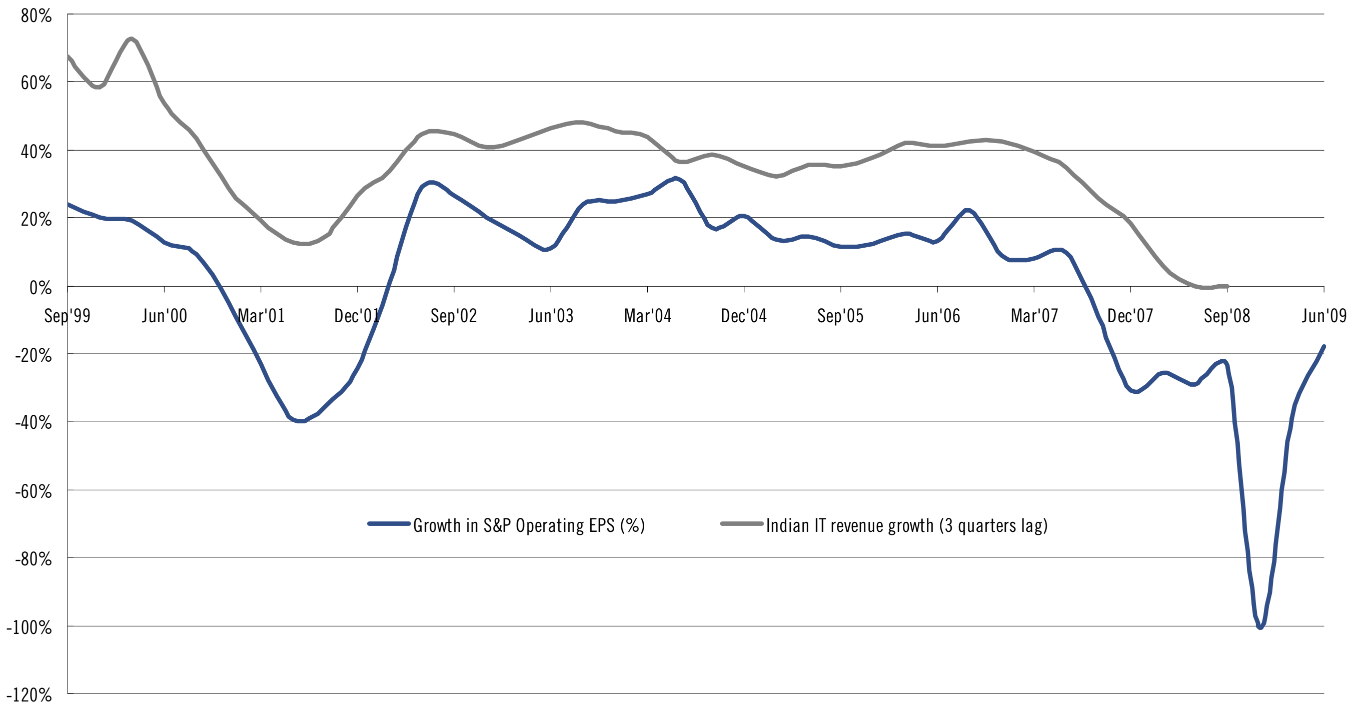

Source: TPI Index

## S&P EPS data suggest recovery from low base

**S&P earnings improving...will Indian IT follow?**

Indian IT has been a late cyclical, as the close correlation (~82%) with S&P earnings shows. Interestingly, the impact on the IT sector comes with a three-quarter lag. If the US recovers over the course of FY10, Indian IT should see a positive impact in FY11E. However, multiples have to move up in advance (at least partly) to factor that in.

**Figure 4. S&P Operating EPS vs. Indian IT Services Revenue (3-Quarter Lag)**




Source: Citi Investment Research and Analysis

# Tech spending: Likely to revive in CY10?

**Most sector participants expect pick-up....unless something catastrophic happens in next 4-5 months**

Our interactions with most sector participants suggest that they expect IT budgets/spends to improve in CY10 given the improving economic outlook and the impact of pent-up demand, as clients had cut back on IT spends over the past couple of years.

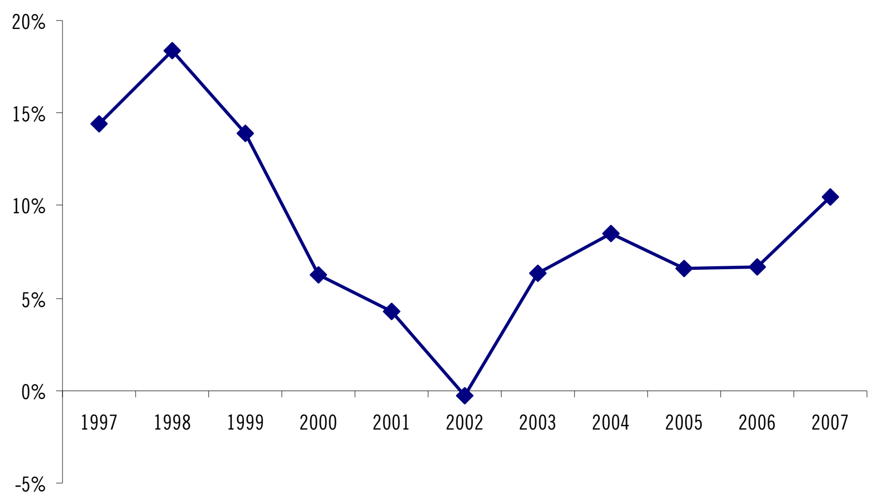
CTSH's 2Q results suggested good growth in discretionary spend as well; our conversations with major companies suggest that discretionary spend is still tight and only in areas where immediate benefits are visible. We do not expect a big uptick in CY09 as client budgets will likely remain unchanged and there is still some caution as far as the environment is concerned.

## What happened to tech spending after previous slowdown?

**IT spend in 2003–07 increased by an ~8% CAGR, post a decline in 2002...**

We have looked at IT spend data over the past 10-12 years. While it is difficult to make a strong case given that this data captures only one downturn, it however supports our discussion with various companies. *IT spend from 2003–07 increased by an ~8% CAGR, post a decline in 2002.* It does suggest that there is some impact of pent-up demand and things could recover nicely in the next couple of years starting CY10E. The key risk to this thesis remains any catastrophic event, which can result in clients returning to conserving cash.

**Figure 5. Worldwide IT Spending — YoY growth (1997-2007)**




Source: Gartner

# Channel checks suggest stability

**Directionally things are improving but too early to call it a recovery**

The key points from our channel checks and company interactions are:

- While there is improvement on the ground, customers are still not ready to commit big budgets. However, the number and quality of discussions are improving.
- Most of the pipeline contracts and awards are still in the maintenance space. Discretionary IT spend is still challenging unless it is very short cycle and involves immediate savings.

- Pricing has stabilized. However, some of the cuts are likely to reflect in 2Q and 3Q pricing data. However, large deals are still very competitive and involve pricing discounts.

**BFSI looking up…likely to be driver of growth**

- In terms of segments, most companies believe that BFSI is looking up while technology and manufacturing continue to pose challenges.

**Medium-term growth can revert to 10-20% levels…companies believe**

- Tier-I companies still believe that the industry can grow 10-20% over the medium term. In the near term, a lot will depend on IT budgets next year.

On balance, customer confidence is up and is being reflected in some improvement in terms of discussions and ramp-ups. However, the key driver for medium-term growth is next year's IT budgets.

### CTSH results: Key takeaways

- CTSH reported ~4% qoq revenue growth and guided to ~3% qoq.
- CTSH indicated that 2Q was the first full quarter where IT budgets were stable; clients started spending as per plans. Application development increased ~4% qoq – in line with application management.

**CTSH posted good growth…discretionary spend recovered**

- CTSH indicated that a large part of the pipeline was cost containment kind of work and clients were cautious on development in the near term.
- On pricing, management was confident that the downward trend was largely over; pricing should be stable sequentially over the rest of CY09.
- BFSI stabilized – In core banking, some growth in America/Continental Europe was offset by a decline in a couple of UK banks. Healthcare and Retail & logistics continue to be growth drivers – increased ~8% qoq.

## Currency: INR appreciation is a risk

**INR appreciation a risk…Citi economists expect appreciation going forward**

Currency remains a big wild card in the sector. The movement of the USD against the INR as well as cross-currency movements (USD against GBP/EUR/AUD) continue to have a significant impact on the sector. We model in Rs47 for the remainder of FY10E and Rs46/45 for FY11/12E. In terms of stocks, Infosys remains best placed to face a depreciating INR, while HCL Tech is relatively better placed in an appreciating INR scenario.

**Figure 6. INR/USD Chart**


Source: Powered by dataCentral

# Estimate changes

## Building in recovery – raising revenue forecasts

We have revised our EPS estimates materially as we factor in a recovery in IT budgets next year. History suggests that IT spends in the years following a sharp slowdown are usually robust – was ~8% CAGR in the 3 years following the previous slowdown. In that scenario, we expect tier-one firms to increase their revenues by ~10-15% in FY11E and ~14-18% in FY12E.

## Short-term operating leverage, but investments to start

**Operating leverage will only be short-term as companies start investing for the long term while recovery trends strengthen**

Most companies surprised positively in 1Q with their cost rationalization efforts, which we have factored in. In the short term, we expect operating leverage to kick in for a part of our coverage given that some companies (Infosys, TCS) can raise their utilization to grow, without any meaningful hiring. However, we believe that this operating leverage will be only a short-term positive as companies will start hiring as they become comfortable about demand. Other investments, which have taken the backseat in a difficult environment, will likely be kick started, impacting margins going forward.

## STPI sunset clause extension to benefit reported earnings

**STPI sunset extension implies upside to our FY11 estimates**

We also factor in extension of STPI sunset to FY12. Our FY11 tax rates have come down for most companies. Infosys is an outlier as we have increased the tax rates for FY10/11E following discussions with management.

**Figure 7. Estimates Revisions**

| | | Net Profit (Rs m) | | | EPS (Rs) | | | EPS Change | | | Dividend (Rs) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY10E | FY11E | FY12E | FY10E | FY11E | FY12E | FY10E | FY11E | FY12E | FY10E | FY11E | FY12E |
| TCS | New | 58,335 | 64,975 | 70,961 | 29.8 | 33.2 | 36.3 | 2.9% | 12.2% | 11.2% | 9.0 | 9.0 | 9.0 |
| | Prev | 56,706 | 57,898 | 63,829 | 29.0 | 29.6 | 32.6 | | | | 9.0 | 9.0 | 9.0 |
| Infosys | New | 58,197 | 62,534 | 73,186 | 101.5 | 109.0 | 127.6 | 4.3% | 6.2% | 9.6% | 30.0 | 33.0 | 38.0 |
| | Prev | 55,775 | 58,907 | 66,778 | 97.2 | 102.7 | 116.4 | | | | 29.0 | 31.0 | 35.0 |
| Wipro | New | 40,266 | 47,152 | 51,196 | 27.6 | 32.3 | 35.1 | 8.5% | 17.1% | 13.2% | 7.0 | 8.0 | 9.0 |
| | Prev | 37,037 | 40,199 | 45,151 | 25.4 | 27.6 | 31.0 | | | | 5.0 | 6.0 | 7.0 |
| HCL Tech | New | 11,276 | 15,581 | 18,112 | 16.7 | 23.1 | 26.9 | 22.1% | 34.6% | na | 4.0 | 6.0 | 6.0 |
| | Prev | 9,175 | 11,497 | na | 13.7 | 17.2 | na | | | | 4.0 | 6.0 | na |
| Tech Mahindra | New | 6,282 | 7,549 | 8,109 | 48.3 | 58.1 | 62.4 | -23.5% | -9.5% | na | 0.0 | 4.0 | 6.0 |
| | Prev | 8,139 | 8,263 | na | 63.2 | 64.2 | na | | | | 0.0 | 4.0 | na |
| Patni Computers* | New | 4,241 | 4,715 | 5,187 | 33.0 | 36.6 | 40.3 | 28.1% | 32.7% | 25.8% | 2.5 | 2.5 | 3.0 |
| | Prev | 3,300 | 3,541 | 4,109 | 25.7 | 27.6 | 32.0 | | | | 2.5 | 2.5 | 3.0 |
| MindTree | New | 1,583 | 1,545 | 1,717 | 39.8 | 38.8 | 43.2 | -11.5% | -17.2% | na | 3.0 | 4.0 | 5.0 |
| | Prev | 1,711 | 1,786 | na | 45.0 | 46.9 | na | | | | 3.0 | 4.0 | na |

Source: CIRA estimates; *FY10/11E stand for CY09/10E (Dec ending).

**Figure 8. Changes in Ratings, Multiples, Target Prices**

| Company | Target Prices | | Target P/E Multiples | | Risk Ratings | | Comments |
|---|---|---|---|---|---|---|---|
| Name | New | Old | New | Old | New | Old | |
| Infosys | 2,290 | 2,060 | 21x | 20x | L | L | We are slightly increasing our absolute sector valuations but taking a view that valuations will likely converge more given the demand uptick. The increase is therefore more in target multiples for tier II names. For TechM, we have changed our valuation methodology – we value TechM (standalone) at 7x EV/EBITDA and TechM's share of Satyam EV based on current market price. |
| TCS | 630 | 525 | 19x | 18x | L | L | |
| Wipro | 620 | 450 | 19x | 17x | L | L | |
| HCL Tech | 345 | 215 | 15x | 14x | M | M | |
| Tech Mahindra | 825 | 640 | NA | 10x | M | H | |
| Patni Computers | 440 | 240 | 12x | 9x | M | H | |
| MindTree | 485 | 415 | 12x | 9x | M | H | |

Source: Citi Investment Research and Analysis estimates

## How do we compare with consensus on FY11 estimates?

- Meaningfully ahead for Wipro, Patni and HCL Tech: For Wipro, our FY11 estimate is ~7% higher than consensus and believe there is room for positive surprise due to good deal wins and cost management. For Patni, part of the consensus is yet to factor in the margin reset of the previous quarter. For HCL Tech, consensus upgrades post 4Q are not yet reflected, although are partly captured in the stock price movement, in our view.

- Lower than street on MindTree: MindTree margins fell sharply in 1Q and we are factoring in a meaningful improvement. Despite that, our EPS estimates are lower than consensus by ~17%.

- In line for TCS, Infosys and TechM: We are largely in line with consensus on TCS, Infosys and TechM.

- Our estimates factor in Rs47/46/45 for rest of FY10/11/12E. Currency remains a key risk for sector performance.

**Figure 9. CIRA vs. Consensus**

| | Citi estimates | | | Consensus estimates | | | Difference | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY10E | FY11E | FY12E | FY10E | FY11E | FY12E | FY10E | FY11E | FY12E |
| **TCS** | 29.8 | 33.2 | 36.3 | 29.6 | 32.6 | 36.6 | 1% | 2% | -1% |
| **Infosys** | 101.5 | 109.0 | 127.6 | 101.4 | 109.8 | 130.2 | 0% | -1% | -2% |
| **Wipro** | 27.6 | 32.3 | 35.1 | 27.4 | 30.3 | 34.0 | 1% | 7% | 3% |
| **HCL Tech** | 16.7 | 23.1 | 26.9 | 15.2 | 18.7 | na | 10% | 24% | na |
| **Tech Mah** | 48.3 | 58.1 | 62.4 | 50.5 | 59.7 | 78.5 | -4% | -3% | -21% |
| **Patni** | 33.0 | 36.6 | 40.3 | 31.9 | 33.5 | 35.3 | 3% | 9% | 14% |
| **MindTree** | 39.8 | 38.8 | 43.2 | 39.0 | 46.6 | 57.3 | 2% | -17% | -25% |

Source: Citi Investment Research and Analysis estimates and IBES

# Valuations: Back to pre-slowdown levels

**Valuations back to pre-slowdown levels**

The summary of our thoughts on valuations are:

- Valuations are no longer cheap: Most stocks are back to pre-slowdown multiples and Infosys is at a ~25% premium to the market now.
- Valuations within the sector are converging and are likely to converge further given the demand uplift. Infosys has been underperforming while tier-two and -three players have done very well. While we expect the convergence to continue, we believe tier-two and -three stocks have already done a fair bit, which could limit upside. Wipro and TCS are at ~15-20% discounts to Infosys, and we see the discount narrowing.
- Infosys now trades at a ~60% premium to Accenture, which is higher than historical levels.

## Back to pre-slowdown levels

Infosys' 1-year forward P/E is ~20x, at Apr-08 levels. The premium to market has expanded from ~5% then to ~25% now. However, one can argue that Apr-08 was the start of the earnings downgrade cycle, while current levels are the early stages of an upturn – suggesting scope for some more multiple expansion.

*For the above analysis, we have used dynamic P/E charts based on IBES estimates at that point of time.*

**Figure 10. Infosys — Dynamic 1-year Forward P/E Chart**


Source: IBES and CIRA

**Both Infosys and TCS now trade at pre-slowdown multiples…**

**Figure 11. TCS — Dynamic 1-year Forward P/E Chart**


Source: IBES, CIRA

## Tier-I stocks trade at premium to the market

Tier-one stocks now trade at a significant premium to the Indian market despite the earnings upgrade. Infosys, Wipro and TCS trade at ~25%, ~15% and ~10% premiums to the market. The premiums of Indian tech stocks have risen due to factor in hopes of global recovery, weak INR and concerns about domestic sectors amid worries about monsoons in India. Infosys now trades at close to its 3-year average premium to the market.

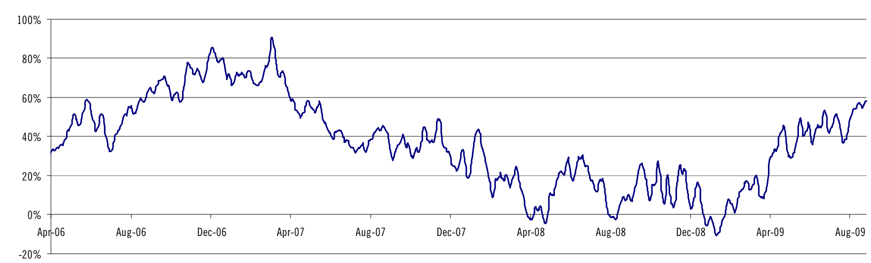
**Figure 12. Infosys' Premium to Market**


Source: Citi Investment Research and Analysis

### How do tier-one IT stocks compare with Accenture

All Indian IT stocks have outperformed Accenture sharply (~65-90%YTD) and trade at significant premiums to Accenture. Infosys trades at a ~60% premium to Accenture compared to a discount of ~10% early this year.

**Figure 13. Infosys' premium to Accenture**




Source: Citi Investment Research and Analysis

## Stock price behavior very similar to previous slowdown

Quarterly US GDP growth rate bottomed in Sep 2001 (at –1.4%). Growth rates have bounced back sharply over the next four quarters. As the outlook improved over the next few quarters, stocks reacted positively.

**Price behavior this time very similar to previous slowdown…**

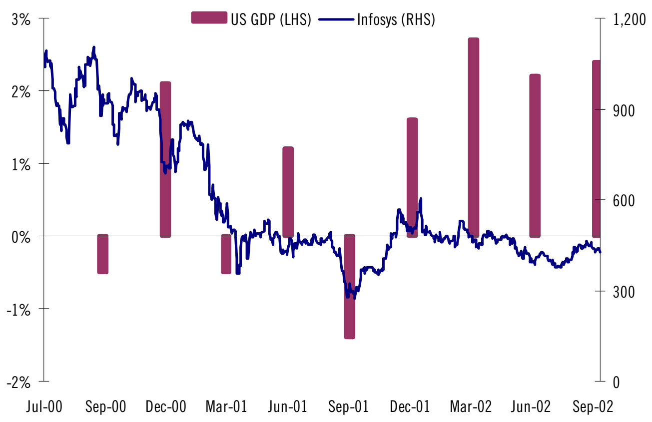
Infosys bottomed out on 3 Oct 2001; interestingly, Infosys' lowest sequential revenue growth of +0.2% (US$ terms) was in the following quarter (Dec 2001). The stock bottoming out also coincided with the slowest US GDP growth.

The stock price behavior has been very similar this time as well. As the outlook for the macro has been improving, Indian IT stocks have moved up sharply over the past 6 months.

**Interestingly, stocks started correcting when US GDP started showing growth last time…**

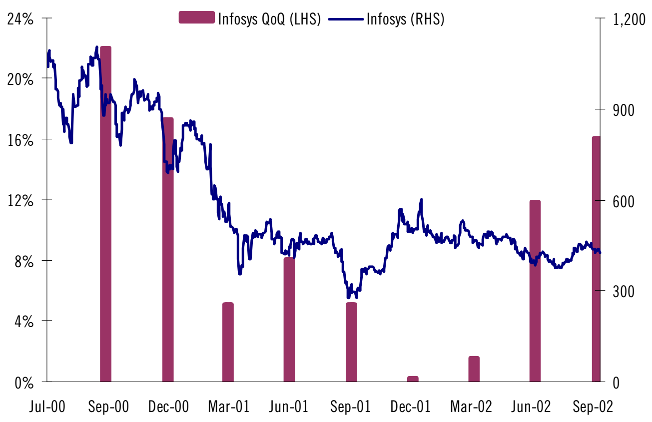
*However, interestingly, Infosys started correcting (despite performance improvement) when positive readings on US GDP began. It seems that the Street had built in most positives before they actually happened. Will it be similar this time?*

**Figure 14. Infosys Stock Price Performance vs. US GDP Growth**




Source: Citi Investment Research and Analysis

**Figure 15. Infosys Stock Price Performance vs. QoQ Growth**



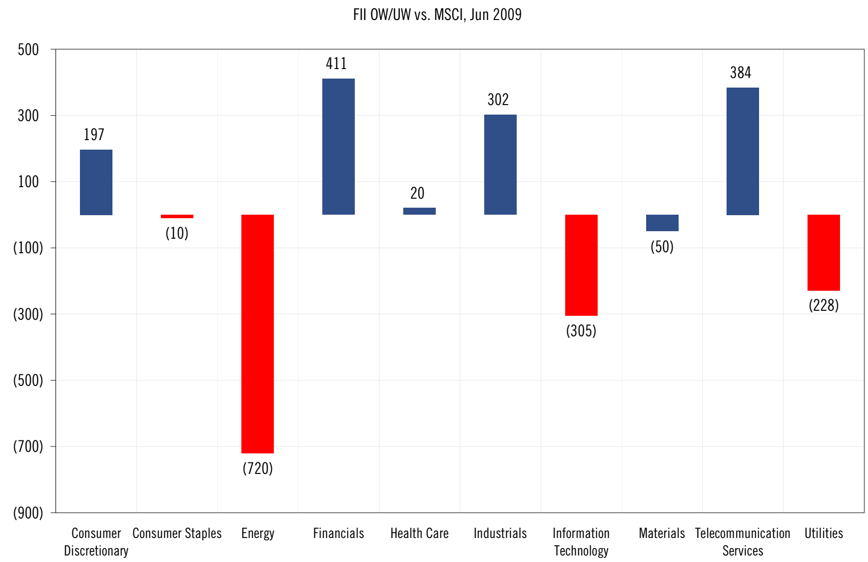

Source: Citi Investment Research and Analysis

## What about ownership levels?

At end-Jun 2009, both domestic as well as foreign institutions were still underweight IT, although the degree of underweight has been declining over the past few quarters. With the strong outperformance quarter to date, we believe that the underweight position would have reduced further.

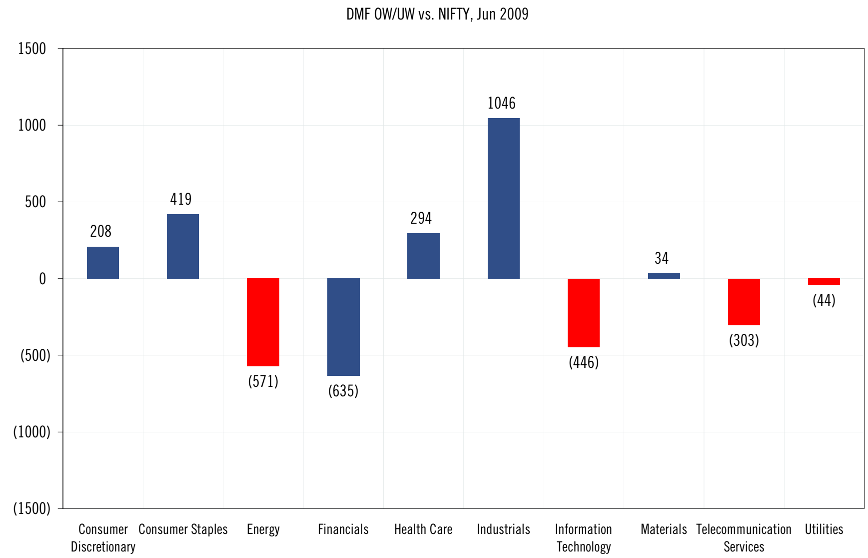
**Big underweight on IT by both FII and DMFs (end-June data)**

**Figure 16. Foreign Institutional Investor Portfolio OW/UW**




Source: NSE

**Figure 17. Domestic Mutual Fund Portfolio OW/UW**




Source: NSE

## What does DCF analysis suggest?

**Reverse DCF implies ~9% EBIT CAGR over next 10 years for Infosys**

Our reverse DCF analysis implies ~12% revenue (US$-terms) and ~9% EBIT growth CAGRs for Infosys over the next 10 years (WACC of 11%, terminal growth of 4%), which is unlikely to be easy. To meet FY19E implied revenue, Infosys will need ~300,000 employees (assuming 3% productivity improvements YoY). For Wipro, the EBIT growth required is highest at a ~13% CAGR, while for TCS it is lowest at an ~8% CAGR.

Figure 18. DCF Assumptions

| | Infosys | TCS | Wipro |
|---|---|---|---|
| **Key forecasts** | | | |
| 10 year EBIT growth (%) | 9.0% | 8.3% | 13.5% |
| Terminal growth rate | 4.0% | 4.0% | 4.0% |
| **Discounting Assumptions** | | | |
| Cost of capital | 11.0% | 11.0% | 12.3% |
| Target Debt/Equity | 0.0% | 0.0% | 0.0% |
| Cost of Equity | 11.0% | 11.0% | 12.3% |
| Risk free rate | 7.0% | 7.0% | 7.0% |
| Equity risk premium | 6.0% | 6.0% | 6.0% |
| Beta - Bloomberg | 0.667 | 0.669 | 0.882 |
| **Discounted Cash Flow** | | | |
| DCF value | 2,093 | 533 | 536 |

Source: CIRA Estimates

## Currency vs. sector performance

Currency plays a big role given that a percentage change in INR impacts EBITDA margins for companies by 40-50bps.

Figure 19. Currency vs. Sector Performance


Source: Powered by dataCentral

## Change in risk ratings

We have lowered our risk ratings for Patni, TechM and MindTree from High to Medium to factor in the improved business environment for the sector. With the US/global economies showing signs of recovery, risks have come down significantly, in our view.

## Downgrade Infosys to Hold

**We remain believers in long-term growth story but see limited upside to consensus**

We remain big believers of Infosys' growth story and its ability to manage costs. However, premium valuations (a ~25% premium to the market) limit absolute upside, in our view. Also, we see limited consensus upgrades given that (a) our revenue growth estimate for Infosys is highest in the sector, (b) Infosys margins have improved meaningfully and leaves little room for further improvement and

(c) tax rates, management indicated, will be ~20-22% in FY10 and could go up to ~24-25% in FY11. We downgrade to Hold/Low Risk with a target price of Rs2,290 (based on 21x FY11E EPS).

### Upgrade Wipro to Buy

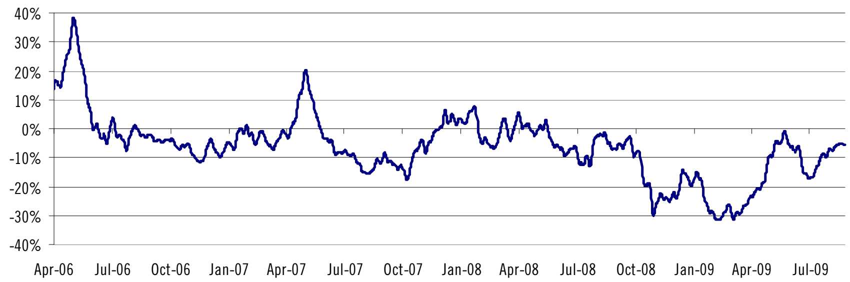
We believe Wipro is likely to surprise positively going forward due to: (1) Good visibility on revenues given its strong order wins in the recent past; (2) Strong cost control demonstrated over the past few quarters; and (3) Early move in SEZ's, which will result in only a marginal increase in tax rate going forward. We are ~7% above consensus on FY10/11 EPS and believe that the street will need to revise its earnings upward over the coming quarters. We upgrade to Buy/Low Risk with a target price of Rs620 (based on 19x FY11E EPS).

## Key premium/discount charts

**Figure 20. TCS Premium/discount to Infosys (dynamic forward PE chart)**


Source: Citi Investment Research and Analysis

**Figure 21. Wipro Premium/discount to Infosys (dynamic forward PE chart)**




Source: Citi Investment Research and Analysis

**Figure 22. Indian IT — Valuation Comparison Table**

| Company Name | Year End | RIC Code | CIR Rating | MCap (US $m) | CMP (Rs) | TP (Rs) | P/E (x) FY10E | P/E (x) FY11E | EV/EBITDA (x) FY10E | EV/EBITDA (x) FY11E | EV/Sales(x) FY10E | EV/Sales(x) FY11E | Div. Yield (%) FY10E | Div. Yield (%) FY11E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Indian IT Services** | | | | | | | | | | | | | | |
| Infosys | Mar | INFY.BO | 2L | 24,665 | 2,096 | 2,290 | 20.7 | 19.2 | 15.6 | 14.3 | 5.0 | 4.6 | 1.4% | 1.6% |
| TCS | Mar | TCS.BO | 1L | 21,240 | 529 | 630 | 17.7 | 15.9 | 13.4 | 12.5 | 3.6 | 3.3 | 1.7% | 1.7% |
| Wipro | Mar | WIPR.BO | 1L | 16,390 | 545 | 620 | 19.7 | 16.8 | 15.0 | 13.0 | 3.0 | 2.7 | 1.3% | 1.5% |
| HCL Technologies | Jun | HCLT.BO | 2M | 4,225 | 307 | 345 | 18.4 | 13.3 | 8.5 | 8.0 | 1.8 | 1.6 | 1.3% | 2.0% |
| Tech Mahindra | Mar | TEML.BO | 3M | 2,230 | 891 | 825 | 18.4 | 15.3 | 10.1 | 9.7 | 2.2 | 2.1 | 0.0% | 0.4% |
| Patni* | Dec | PTNI.BO | 3M | 1,186 | 451 | 440 | 13.7 | 12.3 | 7.1 | 7.2 | 1.4 | 1.4 | 0.6% | 0.6% |
| MindTree | Mar | MINT.BO | 3M | 417 | 520 | 485 | 13.1 | 13.4 | 9.5 | 8.3 | 1.7 | 1.6 | 0.6% | 0.8% |

Source: CIRA estimates; Priced as on 25-Aug-2009; * FY09/10E stand for CY08/09E.

# Company Focus

# HCL Technologies (HCLT.BO)

## Hold: Valuation Gap with Larger Peers No Longer Significant

Target price change ☑
Estimate change ☑

| **Hold/Medium Risk** | **2M** |
|---|---|
| Price (25 Aug 09) | Rs307.00 |
| Target price | Rs345.00 |
| *from Rs215.00* | |
| Expected share price return | 12.4% |
| Expected dividend yield | 1.3% |
| **Expected total return** | **13.7%** |
| Market Cap | Rs205,769M |
| | US$4,240M |

**Price Performance (RIC: HCLT.BO, BB: HCLT IN)**


- **Maintain Hold** — Despite a ~12% increase to FY10/11E EBITDA, we maintain our Hold/Medium Risk rating on HCLT following its strong outperformance over the past 3 months (against the BSE IT Index). We value HCLT at 15x FY11E (June year ending) EPS, giving us a target of Rs345 (was Rs215).

- **Positives** — (a) Strong diversified service line exposure in ADM, infrastructure and Enterprise solutions (ES); (b) Infrastructure services continue to drive growth – grew 25% qoq in 4Q FY09; (c) Axon acquisition would place HCLT favorably whenever the ES space recovers.

- **Negatives** — (a) Engineering Services continues to be a drag on the overall growth rate; (b) HCLT's ES revenues are likely to be impacted in the short term given that SAP's license sales have been declining sharply over the past few quarters; (c) QoQ volatility continues despite large recurring revenue from big deals.

- **4Q result highlights** — (a) 4Q revenues surprised with growth of ~7.6% sequentially on the back of a surprise 4% realization improvement in IT services (both onsite and offshore) and 25% sequential growth in infrastructure services; (b) Margins expanded ~80bps sequentially, led by IT Services, where margins expanded ~180bps qoq. Please see our results note at: https://www.citigroupgeo.com/pdf/SAP30274.pdf

- **Key risks to our call** — Upside risks are: (a) faster than expected ramp-up in revenues can lead to further re-rating; (b) margin expansion as scale benefits in service lines like IMS come into play. Downside risks: (a) concerns about economic recovery; (b) QoQ volatility – which has remained a risk in HCLT's financials in the past.

**Statistical Abstract**

| Year to 30 Jun | Net Profit (RsM) | Diluted EPS (Rs) | EPS growth (%) | P/E (x) | P/B (x) | ROE (%) | Yield (%) |
|---|---|---|---|---|---|---|---|
| 2008A | 10,323 | 15.16 | -17.7 | 20.3 | 3.9 | 20.2 | 2.9 |
| 2009A | 11,788 | 17.48 | 15.3 | 17.6 | 3.6 | 21.6 | 2.3 |
| 2010E | 11,276 | 16.72 | -4.4 | 18.4 | 3.1 | 18.4 | 1.3 |
| 2011E | 15,581 | 23.10 | 38.2 | 13.3 | 2.6 | 21.6 | 2.0 |
| 2012E | 18,112 | 26.85 | 16.2 | 11.4 | 2.2 | 21.0 | 2.0 |

Source: Powered by dataCentral

| Fiscal year end 30-Jun | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|
| **Valuation Ratios** | | | | | |
| P/E adjusted (x) | 20.3 | 17.6 | 18.4 | 13.3 | 11.4 |
| EV/EBITDA adjusted (x) | 11.1 | 8.5 | 8.0 | 7.1 | 5.9 |
| P/BV (x) | 3.9 | 3.6 | 3.1 | 2.6 | 2.2 |
| Dividend yield (%) | 2.9 | 2.3 | 1.3 | 2.0 | 2.0 |
| **Per Share Data (Rs)** | | | | | |
| EPS adjusted | 15.16 | 17.48 | 16.72 | 23.10 | 26.85 |
| EPS reported | 15.16 | 17.48 | 16.72 | 23.10 | 26.85 |
| BVPS | 78.55 | 85.11 | 98.43 | 117.35 | 140.04 |
| DPS | 9.00 | 7.00 | 4.00 | 6.00 | 6.00 |
| **Profit & Loss (RsM)** | | | | | |
| Net sales | 76,394 | 106,084 | 120,815 | 131,360 | 145,602 |
| Operating expenses | -63,410 | -88,106 | -100,530 | -109,173 | -120,404 |
| **EBIT** | **12,984** | **17,978** | **20,284** | **22,187** | **25,198** |
| Net interest expense | -1,370 | -3,674 | -5,885 | -2,504 | -568 |
| Non-operating/exceptionals | -19 | 27 | -16 | -16 | -16 |
| **Pre-tax profit** | **11,595** | **14,331** | **14,384** | **19,667** | **24,615** |
| Tax | -1,272 | -2,543 | -3,108 | -4,086 | -6,503 |
| Extraord./Min.Int./Pref.div. | 0 | 0 | 0 | 0 | 0 |
| **Reported net income** | **10,323** | **11,788** | **11,276** | **15,581** | **18,112** |
| Adjusted earnings | 10,323 | 11,788 | 11,276 | 15,581 | 18,112 |
| Adjusted EBITDA | 16,017 | 22,471 | 25,439 | 27,123 | 30,612 |
| **Growth Rates (%)** | | | | | |
| Sales | 26.6 | 38.9 | 13.9 | 8.7 | 10.8 |
| EBIT adjusted | 31.6 | 38.5 | 12.8 | 9.4 | 13.6 |
| EBITDA adjusted | 29.2 | 40.3 | 13.2 | 6.6 | 12.9 |
| EPS adjusted | -17.7 | 15.3 | -4.4 | 38.2 | 16.2 |
| **Cash Flow (RsM)** | | | | | |
| **Operating cash flow** | **16,953** | **20,356** | **20,539** | **21,134** | **22,071** |
| Depreciation/amortization | 3,033 | 4,493 | 5,154 | 4,936 | 5,414 |
| Net working capital | 2,227 | 401 | 605 | 1,090 | 954 |
| **Investing cash flow** | **-5,435** | **-44,917** | **-6,416** | **-7,216** | **-8,016** |
| Capital expenditure | -5,855 | -7,038 | -6,416 | -7,216 | -8,016 |
| Acquisitions/disposals | -1,524 | -35,740 | 0 | 0 | 0 |
| **Financing cash flow** | **-10,676** | **18,166** | **-6,564** | **-3,395** | **-1,538** |
| Borrowings | 0 | 29,771 | 0 | 0 | 0 |
| Dividends paid | -6,797 | -5,470 | -3,135 | -4,703 | -4,703 |
| **Change in cash** | **842** | **-6,395** | **7,559** | **10,523** | **12,516** |
| **Balance Sheet (RsM)** | | | | | |
| **Total assets** | **80,338** | **126,942** | **138,197** | **154,959** | **174,554** |
| Cash & cash equivalent | 24,619 | 18,995 | 27,434 | 38,916 | 52,472 |
| Accounts receivable | 18,940 | 27,083 | 28,638 | 31,637 | 35,074 |
| Net fixed assets | 13,317 | 15,862 | 17,124 | 19,404 | 22,006 |
| **Total liabilities** | **28,104** | **70,080** | **72,240** | **76,329** | **80,720** |
| Accounts payable | 22,145 | 32,675 | 34,835 | 38,924 | 43,315 |
| Total Debt | 0 | 29,771 | 29,771 | 29,771 | 29,771 |
| **Shareholders' funds** | **52,234** | **56,859** | **65,954** | **78,627** | **93,831** |
| **Profitability/Solvency Ratios (%)** | | | | | |
| EBITDA margin adjusted | 21.0 | 21.2 | 21.1 | 20.6 | 21.0 |
| ROE adjusted | 20.2 | 21.6 | 18.4 | 21.6 | 21.0 |
| ROIC adjusted | 42.8 | 32.6 | 25.8 | 26.8 | 27.1 |
| Net debt to equity | -47.1 | 19.0 | 3.5 | -11.6 | -24.2 |
| Total debt to capital | 0.0 | 34.4 | 31.1 | 27.5 | 24.1 |

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# HCL Technologies

## Company description

HCL Technologies (HCLT) is the fifth-largest Indian IT services company. Founded in 1991, HCLT focused on technology and R&D outsourcing before diversifying into enterprise applications. In the infrastructure business, it has been gradually shifting focus from domestic sales to global services. In BPO, it is one of the largest offshore service providers and boasts strong ties with British Telecom. The company leverages off its extensive offshore infrastructure and its global network to deliver solutions across verticals including Banking, Insurance, Retail, Consumer, Aerospace, Automotive, Semiconductors, Telecom and Life Sciences. HCLT has more than 350 clients across verticals and a workforce of more than 50,000.

## Investment strategy

We rate HCLT shares Hold/Medium Risk (2M). HCLT has been at the forefront of pursuing large deals, announcing ~US$1.5bn of large deals in FY09 (~US$1bn in FY08). Significant presence across IT services, BPO services and IMS has helped HCLT qualify for multi-year outsourcing deals. IMS, R&D and BPO service offerings should enable it to post strong revenue growth. The recent Axon acquisition helps HCLT in filling up the gap in Enterprise Services, where HCLT was lagging peers. However, it faces near-term challenges as Axon's business is cyclical and margins could be hit significantly in the near-term. We forecast ~11% revenue and ~15% EPS CAGRs over FY09-12E.

## Valuation

Our target price is Rs345 based on 15x FY11E EPS. This is around the mid-point of the 6-23x band that the stock has traded in over the past 3 years. We believe a higher multiple is not justified given macro headwinds and potential integration issues arising out of Axon, and a lower multiple is not warranted as business has bottomed out. We believe PE remains the most appropriate valuation measure given HCLT's profitable track record.

## Risks

We rate HCLT Medium Risk despite our quantitative risk-rating system suggesting High Risk as the company has significant scale, enjoys a good brand name and continues to generate significant FCF. Key downside risks include: 1) any significant appreciation of the rupee against the USD/EUR/GBP; 2) a sharp slowdown in the US/Global economy; 3) acquisition-related risks; and 4) the strategy of pursuing large deals could have negative margin implications. Key upside risks include: 1) any significant depreciation of the rupee against the USD/EUR/GBP; 2) bounce-back in the US/Global economy; and 3) a favorable H1-B visa quota regime. These risks could cause the stock to deviate from our target price.

# Company Focus

**Rating change ☑**
**Target price change ☑**
**Estimate change ☑**

| | |
|---|---|
| **Hold/Low Risk** | **2L** |
| *from Buy/Low Risk* | |
| Price (25 Aug 09) | Rs2,096.10 |
| Target price | Rs2,290.00 |
| *from Rs2,060.00* | |
| Expected share price return | 9.3% |
| Expected dividend yield | 1.4% |
| **Expected total return** | **10.7%** |
| Market Cap | Rs1,201,189M |
| | US$24,754M |

**Price Performance (RIC: INFY.BO, BB: INFO IN)**


# Infosys Technologies (INFY.BO)

## Downgrade to Hold: Great Company; High Valuations Limit Upside

- **Downgrade to Hold** — While we remain big believers in Infosys' growth story and its ability to manage costs, premium valuations (a ~25% premium to the market) limit absolute upside, in our view. We downgrade the stock to Hold/Low Risk from Buy with a target price of Rs2,290 (based on 21x FY11E EPS), up from Rs2,060.

- **Positives** — (a) Our channel checks suggest that revenues from largest client are stabilizing, although it is no longer a big issue with its contribution now only at ~4.5% of revenues; (b) Infosys will be one of the bigger beneficiaries on growth reverting in BFSI and vendor consolidation – where there is a shift toward larger vendors.

- **Negatives** — (a) Valuation at a ~25% premium to the market; (b) margins at a 7-year high, which limit any further upside, in our view; (c) tax rates to spike up in FY10/11 – resulting in lower EPS growth, although this will likely result in relatively better growth in FY12E.

- **1Q highlights** — (a) Volumes did better than expected with a decline of ~1%, despite another sharp decline in the top client; (b) margins continued to surprise positively with an improvement of ~60bps; (c) the higher end of the guidance was left unchanged – removing the assumption of a second-half recovery, which was built into the guidance. Please see our result note at: https://www.citigroupgeo.com/pdf/SAP28954.pdf

- **Key risks to our call** — Upside risks are: (a) faster than expected ramp-up in revenues leading to further re-rating; (b) INR depreciation, which would benefit Infosys the most; (c) concerns on domestic sectors can result in further expansion in Infosys' premium to the market. Downside risks are: (a) concerns about economic recovery; (b) INR appreciation – Citi economists expect the INR to appreciate going forward.

**Statistical Abstract**

| Year to 31 Mar | Net Profit (RsM) | Diluted EPS (Rs) | EPS growth (%) | P/E (x) | P/B (x) | ROE (%) | Yield (%) |
|---|---|---|---|---|---|---|---|
| 2008A | 46,590 | 81.26 | 19.9 | 25.8 | 8.7 | 37.2 | 1.6 |
| 2009A | 59,880 | 104.42 | 28.5 | 20.1 | 6.6 | 37.4 | 1.1 |
| 2010E | 58,197 | 101.45 | -2.8 | 20.7 | 5.4 | 28.6 | 1.4 |
| 2011E | 62,534 | 109.01 | 7.5 | 19.2 | 4.5 | 25.4 | 1.6 |
| 2012E | 73,186 | 127.58 | 17.0 | 16.4 | 3.8 | 24.9 | 1.8 |

Source: Powered by dataCentral

| Fiscal year end 31-Mar | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|
| **Valuation Ratios** | | | | | |
| P/E adjusted (x) | 25.8 | 20.1 | 20.7 | 19.2 | 16.4 |
| EV/EBITDA adjusted (x) | 21.7 | 15.5 | 15.2 | 13.4 | 11.2 |
| P/BV (x) | 8.7 | 6.6 | 5.4 | 4.5 | 3.8 |
| Dividend yield (%) | 1.6 | 1.1 | 1.4 | 1.6 | 1.8 |
| **Per Share Data (Rs)** | | | | | |
| EPS adjusted | 81.26 | 104.42 | 101.45 | 109.01 | 127.58 |
| EPS reported | 81.26 | 104.42 | 101.45 | 109.01 | 127.58 |
| BVPS | 241.11 | 318.71 | 391.15 | 467.29 | 557.03 |
| DPS | 33.25 | 23.50 | 30.00 | 33.00 | 38.00 |
| **Profit & Loss (RsM)** | | | | | |
| Net sales | 166,920 | 216,930 | 219,730 | 242,398 | 279,257 |
| Operating expenses | -120,520 | -152,590 | -157,879 | -174,137 | -200,037 |
| **EBIT** | **46,400** | **64,340** | **61,851** | **68,261** | **79,220** |
| Net interest expense | 7,040 | 4,730 | 10,942 | 12,964 | 15,967 |
| Non-operating/exceptionals | 0 | 0 | 0 | 0 | 0 |
| **Pre-tax profit** | **53,440** | **69,070** | **72,794** | **81,224** | **95,187** |
| Tax | -6,850 | -9,190 | -14,596 | -18,691 | -22,001 |
| Extraord./Min.Int./Pref.div. | 0 | 0 | 0 | 0 | 0 |
| **Reported net income** | **46,590** | **59,880** | **58,197** | **62,534** | **73,186** |
| Adjusted earnings | 46,590 | 59,880 | 58,197 | 62,534 | 73,186 |
| Adjusted EBITDA | 52,380 | 71,950 | 70,770 | 77,435 | 89,061 |
| **Growth Rates (%)** | | | | | |
| Sales | 20.1 | 30.0 | 1.3 | 10.3 | 15.2 |
| EBIT adjusted | 19.7 | 38.7 | -3.9 | 10.4 | 16.1 |
| EBITDA adjusted | 19.3 | 37.4 | -1.6 | 9.4 | 15.0 |
| EPS adjusted | 19.9 | 28.5 | -2.8 | 7.5 | 17.0 |
| **Cash Flow (RsM)** | | | | | |
| **Operating cash flow** | **41,490** | **50,670** | **60,979** | **60,163** | **62,880** |
| Depreciation/amortization | 5,980 | 7,610 | 8,918 | 9,174 | 9,841 |
| Net working capital | -3,770 | -12,020 | 4,896 | 1,419 | -4,179 |
| **Investing cash flow** | **-16,040** | **-13,380** | **-7,810** | **-13,885** | **-15,276** |
| Capital expenditure | -16,040 | -13,380 | -7,810 | -13,885 | -15,276 |
| Acquisitions/disposals | 0 | 0 | 0 | 0 | 0 |
| **Financing cash flow** | **-21,230** | **-15,290** | **-16,628** | **-18,907** | **-21,772** |
| Borrowings | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | -19,018 | -13,456 | -17,188 | -18,907 | -21,772 |
| **Change in cash** | **4,220** | **22,000** | **36,541** | **27,371** | **25,833** |
| **Balance Sheet (RsM)** | | | | | |
| **Total assets** | **179,860** | **221,260** | **261,370** | **312,321** | **372,162** |
| Cash & cash equivalent | 69,500 | 96,950 | 132,913 | 173,247 | 215,047 |
| Accounts receivable | 32,970 | 36,720 | 35,157 | 38,784 | 47,474 |
| Net fixed assets | 47,770 | 53,540 | 52,431 | 57,142 | 62,577 |
| **Total liabilities** | **41,910** | **38,720** | **37,261** | **44,585** | **53,013** |
| Accounts payable | 19,120 | 20,040 | 21,369 | 25,786 | 31,126 |
| Total Debt | 0 | 0 | 0 | 0 | 0 |
| **Shareholders' funds** | **137,950** | **182,540** | **224,109** | **267,735** | **319,149** |
| **Profitability/Solvency Ratios (%)** | | | | | |
| EBITDA margin adjusted | 31.4 | 33.2 | 32.2 | 31.9 | 31.9 |
| ROE adjusted | 37.2 | 37.4 | 28.6 | 25.4 | 24.9 |
| ROIC adjusted | 66.3 | 73.1 | 58.1 | 62.0 | 66.2 |
| Net debt to equity | -50.4 | -53.1 | -59.3 | -64.7 | -67.4 |
| Total debt to capital | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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# Infosys Technologies

## Company description

Infosys is the second-largest Indian IT services company with more than 100,000 professionals, and is a leader in the offshore services space. Infosys provides business consulting, application development & maintenance and engineering services to ~570 active clients across verticals such as Banking, Financial Services, Insurance, Retail, Manufacturing and Utilities in the Americas, Europe and Asia Pacific. Infosys also sells a core banking application, Finacle, which is used by leading banks in India, the Middle East, Africa and Europe. Its subsidiary, Infosys BPO, which employs more than 16,000 people, is a provider of BPO services.

## Investment strategy

We rate Infosys shares Hold/Low Risk (2L) for valuation reasons. We are positive on the company's fundamentals. Offshore IT outsourcing has become a mainstream option, and we think that scale and scalability, along with an ability to move up the value chain, are key criteria for successful offshore vendors. In this respect, Infosys appears well positioned and continues to gain ground given its strong branding and industry-leading sales force. We expect Infosys to deliver a revenue CAGR of ~10% ($ terms) and an earnings CAGR of ~7% for FY09-12E. Unlike other high-growth firms in other industries, Infosys continues to generate solid FCF and its RoE of ~30% remains well above its cost of capital.

## Valuation

Our Rs2,290 target price is based on 21x FY11E EPS. This is around the mid-point of the last 3-year trading band of 11-30x 12-month forward earnings and factors in some deceleration in growth. Our estimates continue to assume a certain P/E premium to the market; this is justified, in our view, given the strong FCF and ROIC for Infosys vs. the overall market. We believe P/E remains the most appropriate valuation measure given Infosys' profitability record and higher earnings visibility.

## Risks

Although our quantitative risk-rating system suggests Medium Risk, we rate Infosys shares Low Risk given its superior branding, management quality and cost optimization abilities. Key downside risks are: 1) any significant appreciation of the rupee against the USD/EUR/GBP; 2) pressure on billing rates (as Infosys still continues to enjoy a 10-15% premium in its billing rates); 3) a prolonged slowdown in the US economy; and 4) limited H1B visas. Key upside risks are: 1) any significant depreciation of the rupee against the USD/EUR/GBP; and 2) a pickup in the US/Global economy. Any of these risk factors could impede the shares from reaching our target price.

# Company Focus

# MindTree (MINT.BO)

## Sell: Consistent Delivery the Key to Rerating

Rating change ☑
Target price change ☑
Estimate change ☑

| Sell/Medium Risk | 3M |
|---|---|
| *from Sell/High Risk* | |
| Price (25 Aug 09) | Rs519.70 |
| Target price | Rs485.00 |
| *from Rs415.00* | |
| Expected share price return | -6.7% |
| Expected dividend yield | 0.6% |
| **Expected total return** | **-6.1%** |
| Market Cap | Rs20,331M |
| | US$419M |

**Price Performance (RIC: MINT.BO, BB: MTCL IN)**


- **Remain Sellers** — While we have raised our EPS estimates in line with our new sector thesis, we maintain our Sell on Mindtree. Mindtree should recover from the disappointing 1Q results, in our view; however, valuations of ~13x FY11E limit further upside, on our analysis. With a poor record on guidance, Mindtree needs a few consistent quarters to be rerated, in our view. Our target price is raised from Rs415 to Rs485.
- **Positives** — (a) Mindtree is a promising tier-two company, with good deal wins in the recent past; (b) a strong management team with significant experience in the space; (c) longer-term focus – visible from its investment in sales/account management, even in the downturn.
- **Negatives** — (a) Small size and high exposure to application development (47% of revenues) implies higher risk of customer ramp-downs; (b) execution challenges as highlighted by the cost overruns in 1Q – which impacted quarterly performance; (c) a few quarterly disappointments, which will likely make investors wait for a few consistent quarters before re-rating the stock.
- **1Q highlights** — (a) Disappointing quarter with a revenue decline of ~8% qoq; (b) volumes and pricing declined sequentially; results were further impacted by overruns in a couple of fixed-price projects; (c) FY10 guidance was revised lower materially, only one quarter after it was issued. Please see our 1Q note at: https://www.citigroupgeo.com/pdf/SAP29199.pdf
- **Key risks to our call** — Key risks to our call are: (a) strong recovery in growth going forward – we expect 2Q to be a decent quarter given that the fixed-price project overruns are behind us but 3Q likely to be muted given seasonality; (b) INR depreciation – which is positive for the sector and Mindtree; and (c) sharp moves in the IT mid cap space could have a positive impact on valuations of Mindtree as well.

**Statistical Abstract**

| Year to 31 Mar | Net Profit (RsM) | Diluted EPS (Rs) | EPS growth (%) | P/E (x) | P/B (x) | ROE (%) | Yield (%) |
|---|---|---|---|---|---|---|---|
| 2008A | 1,033 | 26.52 | -1.8 | 19.6 | 3.7 | 21.3 | 0.4 |
| 2009A | 523 | 13.49 | -49.1 | 38.5 | 3.4 | 9.4 | 0.2 |
| 2010E | 1,583 | 39.81 | 195.1 | 13.1 | 3.4 | 26.9 | 0.6 |
| 2011E | 1,545 | 38.84 | -2.4 | 13.4 | 2.8 | 23.3 | 0.8 |
| 2012E | 1,717 | 43.17 | 11.1 | 12.0 | 2.3 | 21.3 | 1.0 |

Source: Powered by dataCentral

| Fiscal year end 31-Mar | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|
| **Valuation Ratios** | | | | | |
| P/E adjusted (x) | 19.6 | 38.5 | 13.1 | 13.4 | 12.0 |
| EV/EBITDA adjusted (x) | 14.7 | 5.9 | 9.0 | 7.8 | 6.8 |
| P/BV (x) | 3.7 | 3.4 | 3.4 | 2.8 | 2.3 |
| Dividend yield (%) | 0.4 | 0.2 | 0.6 | 0.8 | 1.0 |
| **Per Share Data (Rs)** | | | | | |
| EPS adjusted | 26.52 | 13.49 | 39.81 | 38.84 | 43.17 |
| EPS reported | 26.52 | 13.49 | 39.81 | 38.84 | 43.17 |
| BVPS | 140.59 | 153.71 | 151.92 | 186.79 | 224.89 |
| DPS | 2.00 | 1.00 | 3.00 | 4.00 | 5.00 |
| **Profit & Loss (RsM)** | | | | | |
| Net sales | 7,398 | 12,375 | 12,475 | 13,488 | 15,299 |
| Operating expenses | -6,500 | -9,635 | -10,903 | -11,631 | -13,247 |
| **EBIT** | **898** | **2,740** | **1,572** | **1,856** | **2,052** |
| Net interest expense | 220 | -2,136 | 282 | -36 | 18 |
| Non-operating/exceptionals | 0 | 0 | 0 | 0 | 0 |
| **Pre-tax profit** | **1,118** | **604** | **1,854** | **1,821** | **2,070** |
| Tax | -85 | -67 | -271 | -276 | -353 |
| Extraord./Min.Int./Pref.div. | 0 | -14 | 0 | 0 | 0 |
| **Reported net income** | **1,033** | **523** | **1,583** | **1,545** | **1,717** |
| Adjusted earnings | 1,033 | 523 | 1,583 | 1,545 | 1,717 |
| Adjusted EBITDA | 1,254 | 3,310 | 2,239 | 2,547 | 2,822 |
| **Growth Rates (%)** | | | | | |
| Sales | 25.3 | 67.3 | 0.8 | 8.1 | 13.4 |
| EBIT adjusted | 6.8 | 205.1 | -42.6 | 18.1 | 10.5 |
| EBITDA adjusted | 15.5 | 163.9 | -32.3 | 13.7 | 10.8 |
| EPS adjusted | -1.8 | -49.1 | 195.1 | -2.4 | 11.1 |
| **Cash Flow (RsM)** | | | | | |
| **Operating cash flow** | **717** | **3,380** | **1,509** | **2,146** | **2,266** |
| Depreciation/amortization | 356 | 570 | 667 | 690 | 770 |
| Net working capital | -408 | 251 | -459 | -125 | -203 |
| **Investing cash flow** | **-1,530** | **-3,906** | **244** | **-973** | **-1,194** |
| Capital expenditure | -2,496 | -2,152 | -748 | -938 | -1,211 |
| Acquisitions/disposals | 0 | 0 | 0 | 0 | 0 |
| **Financing cash flow** | **599** | **461** | **-2,156** | **-181** | **-226** |
| Borrowings | 655 | 475 | -676 | 0 | 0 |
| Dividends paid | -87 | -44 | -136 | -181 | -226 |
| **Change in cash** | **-215** | **-65** | **-403** | **992** | **846** |
| **Balance Sheet (RsM)** | | | | | |
| **Total assets** | **7,643** | **10,316** | **9,057** | **10,761** | **12,645** |
| Cash & cash equivalent | 553 | 488 | 85 | 1,077 | 1,923 |
| Accounts receivable | 1,756 | 2,792 | 2,666 | 2,956 | 3,353 |
| Net fixed assets | 2,625 | 2,962 | 3,043 | 3,290 | 3,731 |
| **Total liabilities** | **2,311** | **4,476** | **3,114** | **3,453** | **3,847** |
| Accounts payable | 0 | 0 | 0 | 0 | 0 |
| Total Debt | 919 | 1,394 | 718 | 718 | 718 |
| **Shareholders' funds** | **5,331** | **5,840** | **5,944** | **7,307** | **8,798** |
| **Profitability/Solvency Ratios (%)** | | | | | |
| EBITDA margin adjusted | 16.9 | 26.7 | 17.9 | 18.9 | 18.4 |
| ROE adjusted | 21.3 | 9.4 | 26.9 | 23.3 | 21.3 |
| ROIC adjusted | 27.7 | 54.8 | 22.4 | 25.2 | 25.1 |
| Net debt to equity | 6.9 | 15.5 | 10.7 | -4.9 | -13.7 |
| Total debt to capital | 14.7 | 19.3 | 10.8 | 8.9 | 7.5 |

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# MindTree

## Company description

MindTree is a mid-tier Indian IT services company providing offshore-based services to global organizations in BFSI, Manufacturing, Transportation and Hi-Tech industries. It offers a range of services including IT and R&D services. In IT services, its offerings include application development, maintenance, package implementation, testing and infrastructure management. The company has consciously stayed away from BPO services. In R&D services, it offers product design, re-engineering, optimization and support.

## Investment strategy

We rate MindTree shares Sell/Medium Risk (3M). The business environment for IT services has been challenging given the global slowdown; however, things are starting to look up. Mindtree has a higher proportion of application development work (~47% of revenues) – so risks are higher, in our view. In IT Services, the tier-one players have done better than the industry, and we expect that to continue. Tier-two players could face pressure from vendor consolidation. We expect revenue and EPS CAGRs of ~8% and ~50% over FY09-12E. A high-quality management team lends credibility to future plans, but challenges remain for MindTree.

## Valuation

Our target price of Rs485 is derived from 12x FY11E EPS, towards the lower end of the trading band of 4-36x one-year forward earnings since listing because challenges remain for the group. We believe a P/E-based valuation is appropriate to value MindTree given the company's earnings record and the widespread use of this methodology to value IT services companies.

## Risks

Although our quantitative risk-rating system suggests High Risk, we rate MindTree shares Medium Risk given its strong branding and management credibility. Upside risks to our target price are: 1) faster than expected recovery in the global economy; 2) better-than-expected pricing; 3) further INR depreciation; and 4) extension of STPI tax benefits.

# Company Focus

# Patni Computer Systems (PTNI.BO)

## Sell: Huge Margin Reset; Difficult to See Further Upside

Rating change ☑
Target price change ☑
Estimate change ☑

| Sell/Medium Risk | 3M |
|---|---|
| *from Sell/High Risk* | |
| Price (25 Aug 09) | Rs450.80 |
| Target price | Rs440.00 |
| *from Rs240.00* | |
| Expected share price return | -2.4% |
| Expected dividend yield | 0.6% |
| **Expected total return** | **-1.8%** |
| Market Cap | Rs57,751M |
| | US$1,190M |

**Price Performance (RIC: PTNI.BO, BB: PATNI IN)**


- **Huge margin reset but remain Sellers —** We have raised Patni's EPS by 26-33% to reflect the huge margin expansion reported in 2Q (which management believes is largely sustainable). However, the stock price movement post that largely factors in the upside, in our view. The stock trades at ~12x CY10E EPS, not really cheap given Patni's operating record. We raise our target price from Rs240 to Rs440.

- **Positives** — (1) Management changes aimed at driving growth; (2) Patni has demonstrated a significant margin improvement over the past few quarters – much of the margin improvements looks sustainable; (3) high cash on books and strong cash generation result in the strong having strong defensive characteristics.

- **Negatives** — (1) Patni's record on growth has been pretty muted; the company has underperformed peers sharply over the last few years; (2) Patni management plans to undertake inorganic initiatives with the cash on books; Patni's record in M&A is quite mixed and could pose a risk to the stock price.

- **1Q highlights** — (a) Huge margin surprise, resulting in upgrades across the Street; (b) decent 3Q guidance implying 0-2% revenue growth QoQ. Please find our result note at: https://www.citigroupgeo.com/pdf/SAP29529.pdf

- **Key risks to our call** — Key risks to our call are: (a) Patni's new management driving growth that is better than expectations; (b) INR depreciation – which is positive for the sector and Patni as well; (c) value accretive acquisition, which could result in a rerating of the stock; and (d) an increasing payout or buyback can be a positive driver.

**Statistical Abstract**

| Year to 31 Dec | Net Profit (RsM) | Diluted EPS (Rs) | EPS growth (%) | P/E (x) | P/B (x) | ROE (%) | Yield (%) |
|---|---|---|---|---|---|---|---|
| 2007A | 4,658 | 33.11 | 73.8 | 13.6 | 2.3 | 18.9 | 0.7 |
| 2008A | 4,433 | 34.49 | 4.2 | 13.1 | 2.1 | 16.2 | 0.7 |
| 2009E | 4,241 | 32.95 | -4.5 | 13.7 | 1.8 | 14.2 | 0.6 |
| 2010E | 4,715 | 36.64 | 11.2 | 12.3 | 1.6 | 13.8 | 0.6 |
| 2011E | 5,187 | 40.30 | 10.0 | 11.2 | 1.4 | 13.4 | 0.7 |

Source: Powered by dataCentral

| Fiscal year end 31-Dec | 2007 | 2008 | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| **Valuation Ratios** | | | | | |
| P/E adjusted (x) | 13.6 | 13.1 | 13.7 | 12.3 | 11.2 |
| EV/EBITDA adjusted (x) | 9.2 | 8.3 | 6.8 | 6.2 | 5.2 |
| P/BV (x) | 2.3 | 2.1 | 1.8 | 1.6 | 1.4 |
| Dividend yield (%) | 0.7 | 0.7 | 0.6 | 0.6 | 0.7 |
| **Per Share Data (Rs)** | | | | | |
| EPS adjusted | 33.11 | 34.49 | 32.95 | 36.64 | 40.30 |
| EPS reported | 33.11 | 34.49 | 32.95 | 36.64 | 40.30 |
| BVPS | 193.15 | 215.98 | 250.59 | 284.47 | 321.45 |
| DPS | 3.00 | 3.00 | 2.50 | 2.50 | 3.00 |
| **Profit & Loss (RsM)** | | | | | |
| Net sales | 26,950 | 31,825 | 31,077 | 31,766 | 34,006 |
| Operating expenses | -23,049 | -27,665 | -26,171 | -26,922 | -28,788 |
| **EBIT** | **3,900** | **4,160** | **4,906** | **4,844** | **5,218** |
| Net interest expense | 0 | 0 | 0 | 0 | 0 |
| Non-operating/exceptionals | 1,704 | 484 | 326 | 977 | 1,394 |
| **Pre-tax profit** | **5,604** | **4,645** | **5,232** | **5,822** | **6,612** |
| Tax | -946 | -211 | -990 | -1,106 | -1,425 |
| Extraord./Min.Int./Pref.div. | 0 | 0 | 0 | 0 | 0 |
| **Reported net income** | **4,658** | **4,433** | **4,241** | **4,715** | **5,187** |
| Adjusted earnings | 4,658 | 4,433 | 4,241 | 4,715 | 5,187 |
| Adjusted EBITDA | 4,865 | 5,261 | 6,054 | 5,967 | 6,369 |
| **Growth Rates (%)** | | | | | |
| Sales | 3.1 | 18.1 | -2.4 | 2.2 | 7.1 |
| EBIT adjusted | -4.0 | 6.7 | 17.9 | -1.3 | 7.7 |
| EBITDA adjusted | -0.7 | 8.1 | 15.1 | -1.4 | 6.7 |
| EPS adjusted | 73.8 | 4.2 | -4.5 | 11.2 | 10.0 |
| **Cash Flow (RsM)** | | | | | |
| **Operating cash flow** | **3,105** | **6,783** | **3,790** | **4,641** | **4,832** |
| Depreciation/amortization | 964 | 1,100 | 1,148 | 1,122 | 1,151 |
| Net working capital | -1,754 | 2,578 | -560 | -34 | -112 |
| **Investing cash flow** | **-2,594** | **-1,517** | **-72** | **-360** | **-424** |
| Capital expenditure | -2,157 | -1,692 | -879 | -1,447 | -1,672 |
| Acquisitions/disposals | -1,715 | -602 | 143 | 0 | 0 |
| **Financing cash flow** | **-260** | **-3,537** | **120** | **-375** | **-450** |
| Borrowings | -4 | -4 | -3 | 0 | 0 |
| Dividends paid | -488 | -451 | -375 | -375 | -450 |
| **Change in cash** | **251** | **1,730** | **3,838** | **3,906** | **3,958** |
| **Balance Sheet (RsM)** | | | | | |
| **Total assets** | **33,180** | **36,572** | **40,033** | **44,803** | **50,028** |
| Cash & cash equivalent | 13,021 | 14,751 | 18,589 | 22,495 | 26,452 |
| Accounts receivable | 0 | 0 | 0 | 0 | 0 |
| Net fixed assets | 6,740 | 7,332 | 7,063 | 7,387 | 7,908 |
| **Total liabilities** | **6,343** | **8,834** | **7,931** | **8,361** | **8,848** |
| Accounts payable | 0 | 0 | 0 | 0 | 0 |
| Total Debt | 13 | 9 | 6 | 6 | 6 |
| **Shareholders' funds** | **26,837** | **27,737** | **32,102** | **36,442** | **41,180** |
| **Profitability/Solvency Ratios (%)** | | | | | |
| EBITDA margin adjusted | 18.1 | 16.5 | 19.5 | 18.8 | 18.7 |
| ROE adjusted | 18.9 | 16.2 | 14.2 | 13.8 | 13.4 |
| ROIC adjusted | 22.7 | 25.8 | 26.0 | 24.2 | 23.7 |
| Net debt to equity | -48.5 | -53.1 | -57.9 | -61.7 | -64.2 |
| Total debt to capital | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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# Patni Computer Systems

## Company description

Patni is a mid-tier Indian IT solutions provider and a pioneer of offshore IT services delivery. Founded in 1978, it operated both software and hardware businesses until 1999, when the hardware business was de-merged. It continues to operate as a global consulting and IT services provider. Patni employs ~14,000 professionals, who service ~300 global corporations. It has a sizeable presence in insurance, financial services, manufacturing and telecoms verticals. GE is Patni's largest customer, contributing ~12% of revenues.

## Investment strategy

Our Sell/Medium Risk (3M) rating is based on a challenging outlook for tier-two IT companies and Patni's poor performance over many quarters. Its valuations are in line with other mid-tier companies; however, growth remains a challenge. With poor growth prospects, the stock in our view has little room for upside. We expect flattish revenues over CY08-11E, slower than those of peers.

## Valuation

Our target price of Rs440 is based on 12x CY10E EPS. This is slightly higher than the mid-point of the 3-17x band that the stock has traded in over the last 3 years. We believe that this is justified given that revenue visibility is improving (across the sector) and Patni has made some good effort in cost cutting. We believe P/E is the most appropriate valuation measure to value the stock given Patni's track record in profitability.

## Risks

Although our quantitative risk-rating system suggests High Risk, we rate Patni shares Medium Risk, in line with other mid-cap stocks. Key upside risks that could cause the shares to exceed our target price include: 1) uptick in growth rates; 2) any significant depreciation of the rupee against the USD/EUR/GBP; 3) sharp recovery in the US economy; and 4) any value generating acquisition.

# Company Focus

**Target price change ☑**
**Estimate change ☑**

| **Buy/Low Risk** | **1L** |
|---|---|
| Price (25 Aug 09) | Rs528.50 |
| Target price | Rs630.00 |
| *from Rs525.00* | |
| Expected share price return | 19.2% |
| Expected dividend yield | 1.7% |
| **Expected total return** | **20.9%** |
| Market Cap | Rs1,034,391M |
| | US$21,317M |

**Price Performance (RIC: TCS.BO, BB: TCS IN)**


# Tata Consultancy Services (TCS.BO)

## Buy: BFSI to Lead Growth; Remains Our Top Pick

- **Remains our top pick** — 1Q was a strong quarter resulting in many analyst upgrades for the stock. We continue to believe that TCS will gain significantly from the improving business environment in the US BFSI space – valuations look reasonable at ~16x FY11E (a ~20% discount to Infosys). We have raised our target price to Rs630 from Rs525.

- **Positives** — (1) Leadership in emerging markets, which should grow better than developed markets; (2) TCS should benefit most from a revival in BFSI – TCS gets ~44% of its revenues from the BFSI space; (3) a large part of the margin improvement over the last few quarters appears sustainable; the onsite portion of revenues will go up only in case of volume ramps, which would be positive for the business/stock.

- **Negatives** — (1) Valuations are not really cheap, although trades at a ~20% discount to Infosys; (2) TCS has improved margins very meaningfully (~250bps) over the past 4-5 quarters – improving growth prospects could be accompanied by increasing investments, which could result in lower EPS growth (not necessarily a longer-term negative, though).

- **1Q highlights** — (a) Huge positive surprises – on volumes and revenues; (b) margins continued to do well with an improvement of ~110bps; (c) management is targeting flat organic revenues YoY for FY10, which implies some sequential growth in coming quarters. Please see our result note at: https://www.citigroupgeo.com/pdf/SAP29155.pdf

- **Key risks to our call** — Key risks to our call are: (a) concerns on global recovery could result in de-rating of the entire sector; (b) INR appreciation – Citi economists expect the INR to appreciate going forward; (c) TCS has outperformed the other two tier-one stocks sharply in the recent past, implying risk if the expected performance does not materialize.

**Statistical Abstract**

| Year to 31 Mar | Net Profit (RsM) | Diluted EPS (Rs) | EPS growth (%) | P/E (x) | P/B (x) | ROE (%) | Yield (%) |
|---|---|---|---|---|---|---|---|
| 2008A | 50,191 | 25.64 | 21.5 | 20.6 | 8.4 | 47.3 | 1.3 |
| 2009A | 51,721 | 26.42 | 3.0 | 20.0 | 6.6 | 37.0 | 1.3 |
| 2010E | 58,335 | 29.80 | 12.8 | 17.7 | 5.3 | 33.2 | 1.7 |
| 2011E | 64,975 | 33.19 | 11.4 | 15.9 | 4.3 | 29.7 | 1.7 |
| 2012E | 70,961 | 36.25 | 9.2 | 14.6 | 3.5 | 26.3 | 1.7 |

Source: Powered by dataCentral

| Fiscal year end 31-Mar | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|
| **Valuation Ratios** | | | | | |
| P/E adjusted (x) | 20.6 | 20.0 | 17.7 | 15.9 | 14.6 |
| EV/EBITDA adjusted (x) | 16.9 | 14.1 | 13.0 | 11.8 | 10.3 |
| P/BV (x) | 8.4 | 6.6 | 5.3 | 4.3 | 3.5 |
| Dividend yield (%) | 1.3 | 1.3 | 1.7 | 1.7 | 1.7 |
| **Per Share Data (Rs)** | | | | | |
| EPS adjusted | 25.64 | 26.42 | 29.80 | 33.19 | 36.25 |
| EPS reported | 25.64 | 26.42 | 29.80 | 33.19 | 36.25 |
| BVPS | 62.83 | 79.97 | 99.76 | 123.95 | 151.20 |
| DPS | 7.00 | 7.00 | 9.00 | 9.00 | 9.00 |
| **Profit & Loss (RsM)** | | | | | |
| Net sales | 228,614 | 278,129 | 285,229 | 308,072 | 338,988 |
| Operating expenses | -174,963 | -212,114 | -215,136 | -233,575 | -257,256 |
| **EBIT** | **53,651** | **66,015** | **70,094** | **74,497** | **81,732** |
| Net interest expense | 4,450 | -4,673 | 730 | 5,061 | 9,053 |
| Non-operating/exceptionals | 8 | -6 | -2 | 0 | 0 |
| **Pre-tax profit** | **58,109** | **61,336** | **70,821** | **79,557** | **90,785** |
| Tax | -7,494 | -9,011 | -11,960 | -14,183 | -19,424 |
| Extraord./Min.Int./Pref.div. | -424 | -604 | -526 | -400 | -400 |
| **Reported net income** | **50,191** | **51,721** | **58,335** | **64,975** | **70,961** |
| Adjusted earnings | 50,191 | 51,721 | 58,335 | 64,975 | 70,961 |
| Adjusted EBITDA | 59,397 | 71,781 | 77,006 | 82,198 | 90,206 |
| **Growth Rates (%)** | | | | | |
| Sales | 22.7 | 21.7 | 2.6 | 8.0 | 10.0 |
| EBIT adjusted | 15.5 | 23.0 | 6.2 | 6.3 | 9.7 |
| EBITDA adjusted | 17.3 | 20.9 | 7.3 | 6.7 | 9.7 |
| EPS adjusted | 21.5 | 3.0 | 12.8 | 11.4 | 9.2 |
| **Cash Flow (RsM)** | | | | | |
| **Operating cash flow** | **32,680** | **71,458** | **52,585** | **61,166** | **65,372** |
| Depreciation/amortization | 5,746 | 5,766 | 6,912 | 7,702 | 8,475 |
| Net working capital | -19,231 | 8,694 | -12,458 | -6,850 | -5,410 |
| **Investing cash flow** | **-18,598** | **-12,673** | **-10,865** | **-15,440** | **-8,441** |
| Capital expenditure | -18,598 | -7,495 | -8,504 | -13,280 | -13,274 |
| Acquisitions/disposals | 0 | 11,907 | 3,071 | 5,561 | 9,053 |
| **Financing cash flow** | **-11,158** | **-18,995** | **-19,391** | **-17,618** | **-17,618** |
| Borrowings | 4,550 | -1,788 | 206 | 0 | 0 |
| Dividends paid | -13,703 | -13,703 | -17,618 | -17,618 | -17,618 |
| **Change in cash** | **2,923** | **39,791** | **22,329** | **28,109** | **39,313** |
| **Balance Sheet (RsM)** | | | | | |
| **Total assets** | **175,853** | **226,858** | **258,287** | **309,984** | **369,201** |
| Cash & cash equivalent | 12,234 | 13,440 | 38,335 | 73,263 | 116,397 |
| Accounts receivable | 53,781 | 60,463 | 62,750 | 70,857 | 77,967 |
| Net fixed assets | 35,765 | 37,494 | 39,086 | 44,664 | 49,463 |
| **Total liabilities** | **50,724** | **67,215** | **59,906** | **64,246** | **70,120** |
| Accounts payable | 0 | 0 | 0 | 0 | 0 |
| Total Debt | 4,550 | 7,913 | 2,968 | 2,968 | 2,968 |
| **Shareholders' funds** | **125,129** | **159,643** | **198,381** | **245,738** | **299,081** |
| **Profitability/Solvency Ratios (%)** | | | | | |
| EBITDA margin adjusted | 26.0 | 25.8 | 27.0 | 26.7 | 26.6 |
| ROE adjusted | 47.3 | 37.0 | 33.2 | 29.7 | 26.3 |
| ROIC adjusted | 59.3 | 49.1 | 40.4 | 39.0 | 37.5 |
| Net debt to equity | -6.1 | -3.5 | -17.8 | -28.6 | -37.9 |
| Total debt to capital | 3.5 | 4.7 | 1.5 | 1.2 | 1.0 |

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# Tata Consultancy Services

## Company description

TCS is the largest and among the oldest IT companies in India. It is part of the diversified Tata Group, one of the largest corporate groups in Asia, with more than 140,000 employees, including subsidiaries. It provides a comprehensive range of IT services to industries such as banking & financial services, insurance, manufacturing, telecom, retail and transportation. It has more than 900 active clients. The company started with data processing work in 1968, and was the first to provide offshore services in 1974. Over the past three decades, it has come a long way with deep technical and project management expertise in handling complex client projects and strong offshore processes.

## Investment strategy

We rate TCS Buy/Low Risk (1L). Management is taking significant measures to sustain margins in FY10: (1) Offshoring is a big initiative – 1Q saw a ~270bp shift; (2) Lateral hiring is frozen and involuntary attrition is an option; (3) Campus hires will start joining in the latter part of 2Q, as a result utilization is likely to continue at present levels; and (4) cross-currency movements should help. The valuation discount is clearly attractive. Some stability in business could drive significant outperformance.

## Valuation

Our target price of Rs630 is based on 19x FY11E EPS. Given that businesses are bottoming and we estimate TCS' earnings to grow at an ~11% CAGR over FY09-12E, we believe the stock should trade slightly higher than the mid-point of its historical three-year trading range of 8-27x 12-month forward earnings. We believe P/E remains the most appropriate valuation measure given TCS' past profitability and future earnings visibility.

## Risks

We rate TCS Low Risk despite our quantitative risk-rating system suggesting High Risk. The company has significant scale, enjoys a good brand name and continues to generate significant FCF. Key downside risks that could cause the shares to be lower than our target price are: (1) any significant appreciation of the rupee against the USD/EUR/GBP; (2) a prolonged recession in the US; and (3) any margin dilutive acquisition.

# Company Focus

# Tech Mahindra (TEML.BO)

## Sell: Core Business Challenging; Clarity on Satyam Awaited

Rating change ☑
Target price change ☑
Estimate change ☑

| Sell/Medium Risk | 3M |
|---|---|
| *from Sell/High Risk* | |
| Price (25 Aug 09) | Rs890.95 |
| Target price | Rs825.00 |
| *from Rs640.00* | |
| Expected share price return | -7.4% |
| Expected dividend yield | 0.0% |
| **Expected total return** | **-7.4%** |
| Market Cap | Rs108,617M |
| | US$2,238M |

**Price Performance (RIC: TEML.BO, BB: TECHM IN)**


- **Raising target price but remain Sellers** — With Satyam's financials still unavailable, we change our valuation methodology and value Tech Mahindra on EV/EBITDA. For Satyam, we take the current market price. Our new target price is Rs825 (was Rs640), implying ~7% downside from present levels.

- **Why Satyam seems overvalued** — Even assuming US$1.5bn revenue in FY11E and 20% EBITDA margin (high given the issues), the current stock price implies ~7.5x EV/EBITDA. We find this expensive given that HCL Tech trades at similar valuations. HCL Tech is bigger, more profitable and more diversified and does not have any legacy issues. We find it difficult to justify Satyam's premium over HCL Tech.

- **TechM's core business still faces challenges** — Tech Mahindra reported a disappointing quarter and did not provide any meaningful visibility on revenues from BT, its top customer accounting for half of its revenues. We believe challenges at BT are likely to continue going forward.

- **1Q highlights** — (a) Largely in-line quarter – revenues increased ~8% sequentially mainly due to cross-currency benefits; (b) Margins declined ~180bps sequentially; (c) challenges in BT continue. Please see our result note at: https://www.citigroupgeo.com/pdf/SAP29281.pdf

- **Key risks to our call** — Key risks to our call are: (a) Satyam's financials emerge much better than anticipated; difficult to assume given that expectations are already running high; (b) favorable cross-currency movements could be positive for Tech Mahindra's financials; (c) near-term pending TechM QIP could provide support to the stock price.

**Statistical Abstract**

| Year to 31 Mar | Net Profit (RsM) | Diluted EPS (Rs) | EPS growth (%) | P/E (x) | P/B (x) | ROE (%) | Yield (%) |
|---|---|---|---|---|---|---|---|
| 2008A | 3,300 | 25.19 | 156.6 | 35.4 | 8.6 | 30.3 | 0.6 |
| 2009A | 10,146 | 78.14 | 210.2 | 11.4 | 5.6 | 63.4 | 0.4 |
| 2010E | 6,282 | 48.33 | -38.1 | 18.4 | 4.2 | 27.8 | 0.0 |
| 2011E | 7,549 | 58.07 | 20.2 | 15.3 | 3.3 | 25.9 | 0.4 |
| 2012E | 8,109 | 62.39 | 7.4 | 14.3 | 2.7 | 22.4 | 0.7 |

Source: Powered by dataCentral

| Fiscal year end 31-Mar | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|
| **Valuation Ratios** | | | | | |
| P/E adjusted (x) | 35.4 | 11.4 | 18.4 | 15.3 | 14.3 |
| EV/EBITDA adjusted (x) | 14.4 | 9.3 | 9.9 | 9.1 | 7.8 |
| P/BV (x) | 8.6 | 5.6 | 4.2 | 3.3 | 2.7 |
| Dividend yield (%) | 0.6 | 0.4 | 0.0 | 0.4 | 0.7 |
| **Per Share Data (Rs)** | | | | | |
| EPS adjusted | 25.19 | 78.14 | 48.33 | 58.07 | 62.39 |
| EPS reported | 25.19 | 78.14 | 48.33 | 58.07 | 62.39 |
| BVPS | 103.78 | 159.84 | 210.05 | 266.89 | 325.89 |
| DPS | 5.50 | 4.00 | 0.00 | 4.00 | 6.00 |
| **Profit & Loss (RsM)** | | | | | |
| Net sales | 37,661 | 44,647 | 44,827 | 46,892 | 51,533 |
| Operating expenses | -30,199 | -33,592 | -35,013 | -36,688 | -40,395 |
| **EBIT** | **7,462** | **11,055** | **9,815** | **10,203** | **11,138** |
| Net interest expense | 982 | -403 | -2,524 | -1,510 | -913 |
| Non-operating/exceptionals | 0 | 0 | 0 | 0 | 0 |
| **Pre-tax profit** | **8,444** | **10,652** | **7,291** | **8,694** | **10,225** |
| Tax | -748 | -1,179 | -925 | -1,145 | -2,116 |
| Extraord./Min.Int./Pref.div. | -4,396 | 673 | -85 | 0 | 0 |
| **Reported net income** | **3,300** | **10,146** | **6,282** | **7,549** | **8,109** |
| Adjusted earnings | 3,300 | 10,146 | 6,282 | 7,549 | 8,109 |
| Adjusted EBITDA | 7,462 | 11,055 | 9,815 | 10,203 | 11,138 |
| **Growth Rates (%)** | | | | | |
| Sales | 28.6 | 18.5 | 0.4 | 4.6 | 9.9 |
| EBIT adjusted | 8.9 | 48.2 | -11.2 | 4.0 | 9.2 |
| EBITDA adjusted | 8.9 | 48.2 | -11.2 | 4.0 | 9.2 |
| EPS adjusted | 156.6 | 210.2 | -38.1 | 20.2 | 7.4 |
| **Cash Flow (RsM)** | | | | | |
| **Operating cash flow** | **281** | **12,606** | **-24,944** | **6,859** | **7,458** |
| Depreciation/amortization | 0 | 0 | 0 | 0 | 0 |
| Net working capital | -1,990 | 2,218 | -31,126 | -241 | -541 |
| **Investing cash flow** | **-1,327** | **-1,999** | **-2,315** | **-1,126** | **-2,030** |
| Capital expenditure | -2,371 | -1,621 | -2,415 | -1,575 | -2,140 |
| Acquisitions/disposals | 0 | 0 | 0 | 0 | 0 |
| **Financing cash flow** | **212** | **-3,585** | **23,802** | **-12,591** | **-5,887** |
| Borrowings | 130 | -300 | 23,802 | -12,000 | -5,000 |
| Dividends paid | -818 | -592 | 0 | -591 | -887 |
| **Change in cash** | **-834** | **7,022** | **-3,457** | **-6,858** | **-459** |
| **Balance Sheet (RsM)** | | | | | |
| **Total assets** | **22,251** | **28,432** | **58,593** | **53,963** | **57,114** |
| Cash & cash equivalent | 1,609 | 9,728 | 7,477 | 1,838 | 2,719 |
| Accounts receivable | 10,965 | 9,022 | 11,053 | 11,562 | 12,707 |
| Net fixed assets | 5,996 | 6,520 | 7,729 | 8,085 | 8,885 |
| **Total liabilities** | **9,568** | **8,888** | **32,767** | **21,180** | **17,109** |
| Accounts payable | 0 | 0 | 0 | 0 | 0 |
| Total Debt | 300 | 0 | 23,802 | 11,802 | 6,802 |
| **Shareholders' funds** | **12,683** | **19,544** | **25,826** | **32,783** | **40,006** |
| **Profitability/Solvency Ratios (%)** | | | | | |
| EBITDA margin adjusted | 19.8 | 24.8 | 21.9 | 21.8 | 21.6 |
| ROE adjusted | 30.3 | 63.4 | 27.8 | 25.9 | 22.4 |
| ROIC adjusted | 69.9 | 93.2 | 77.4 | 67.4 | 62.6 |
| Net debt to equity | -10.3 | -49.8 | 63.2 | 30.4 | 10.2 |
| Total debt to capital | 2.3 | 0.0 | 48.0 | 26.5 | 14.5 |

For further data queries on Citi's full coverage universe please contact CIR Data Services Asia Pacific at CIRDataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

# Tech Mahindra

## Company description

One of India's top 10 IT Services providers focusing on the telecom space, Tech Mahindra (TechM) services Telecom Service Providers (TSPs), Telecom Equipment Manufacturers (OEMs), Software Vendors (ISVs) and Systems Integrators (SIs). It was formed in 1986 as a JV between M&M and British Telecom (BT). Key clients include BT, AT&T, Alcatel, Alltel, Convergys, Motorola, O2 and Vodafone. TechM is headquartered at Pune with development centres across India and a few centers in the UK. TechM is the only Indian player among the top 10 BSS vendors worldwide, as ranked by Gartner Dataquest.

## Investment strategy

We rate TechM Sell/Medium Risk (3M) based on a fundamental 12-month view. With high exposure to the telecom domain, TechM is likely to be affected by deteriorating fundamental trends in the telecom vertical. We expect revenue and EPS CAGRs of ~5% and ~-5% respectively over FY09-12E (muted compared to 59% and 87% respectively that it delivered over FY05-08). Satyam acquisition will help in diversifying vertical exposure and add size; however, we still await Satyam's financials. After the recent run-up, TechM is not really cheap on valuations, considering its muted growth prospects, based on our analysis.

## Valuation

Tech Mahindra's organic business still carries higher domain (telecom) and client concentration (BT) risk. Given the risks and challenges at BT, Tech Mahindra will continue to struggle in the near term, in our view. The standalone business is valued at 7x FY11E core EV/EBITDA, which is at a 10-15% discount to more diversified players like HCL Tech. For Satyam, we use TechM's share of Satyam's Enterprise value based on the current market price of Satyam, given Satyam's financials are still awaited. Our target price of Rs825 is based on 7x FY11E core EV/EBITDA and considering TechM's share of Satyam's current EV. We believe that this valuation measure is most appropriate as there are only limited disclosures for Satyam.

## Risks

Although our quantitative risk-rating system suggests High Risk, we rate TechM Medium Risk, in line with other mid-cap stocks. Key upside risks that could cause the stock to exceed our target price are: 1) any significant depreciation of the rupee against the USD/EUR/GBP; 2) a sharp upturn in IT spending among TSPs; 3) sharp ramp-ups in BTGS deal; 4) hiring rebounding in next few quarters; 5) a large deal announcement; and 6) inorganic activity due to a stake sale or change in ownership.

# Company Focus

# Wipro (WIPR.BO)

## Upgrade to Buy: Good Order Wins; Strong Margin Defense

Rating change ☑
Target price change ☑
Estimate change ☑

| | |
|---|---|
| **Buy/Low Risk** | **1L** |
| *from Hold/Low Risk* | |
| Price (25 Aug 09) | Rs544.50 |
| Target price | Rs620.00 |
| *from Rs450.00* | |
| Expected share price return | 13.9% |
| Expected dividend yield | 1.3% |
| **Expected total return** | **15.2%** |
| Market Cap | Rs816,906M |
| | US$16,774M |

**Price Performance (RIC: WIPR.BO, BB: WPRO IN)**


- **Upgrade to Buy** — We upgrade Wipro to Buy/Low Risk from Hold as (1) strong order wins provide visibility to support our ~13% revenue CAGR over FY10-12E; (2) Wipro's margins are improving, highlighting that efforts taken are starting to pay off; (3) Wipro's high proportion of revenues from SEZ's should imply a lower tax rate that translates into better EPS trajectory.
- **Positives** — (1) Significant order wins increase visibility of growth; (2) India business doing well – Wipro has a strong presence in India/Middle East; (3) margin improvement initiatives playing out nicely – IT Services margins improved ~170 bps yoy in 1Q FY10; (4) strong presence across service lines finally playing out in the form of significant multi-service deals.
- **Negatives** — (1) Valuations are not really cheap – trades at 15% discount to Infosys, though; (2) Wipro has not added headcount in the recent past – additional hiring could put pressure on margins in the near term.
- **1Q highlights** — (a) 1Q was below peers – both in terms of volumes (~1.5% decline qoq) and pricing (~2.5% decline qoq on offshore pricing); (b) margins continued to do well with EBIT margin improving ~110 bps; (c) 2Q guidance implies flattish to 2% sequential growth. Please see our results note at: https://www.citigroupgeo.com/pdf/SAP29252.pdf
- **Key risks to our call** — Key risks to our call are: (a) concerns on global recovery could result in de-rating of the entire sector; (b) INR appreciation – Citi economists expect INR to appreciate going forward, although Wipro is relatively better placed on this count.

**Statistical Abstract**

| Year to 31 Mar | Net Profit (RsM) | Diluted EPS (Rs) | EPS growth (%) | P/E (x) | P/B (x) | ROE (%) | Yield (%) |
|---|---|---|---|---|---|---|---|
| 2008A | 32,239 | 22.14 | 9.7 | 24.6 | 6.1 | 27.9 | 1.1 |
| 2009A | 34,415 | 23.63 | 6.7 | 23.0 | 5.3 | 24.6 | 0.7 |
| 2010E | 40,266 | 27.60 | 16.8 | 19.7 | 4.3 | 24.2 | 1.3 |
| 2011E | 47,152 | 32.32 | 17.1 | 16.8 | 3.6 | 23.6 | 1.5 |
| 2012E | 51,196 | 35.09 | 8.6 | 15.5 | 3.1 | 21.6 | 1.7 |

Source: Powered by dataCentral

| Fiscal year end 31-Mar | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|
| **Valuation Ratios** | | | | | |
| P/E adjusted (x) | 24.6 | 23.0 | 19.7 | 16.8 | 15.5 |
| EV/EBITDA adjusted (x) | 19.3 | 15.8 | 14.6 | 12.1 | 10.4 |
| P/BV (x) | 6.1 | 5.3 | 4.3 | 3.6 | 3.1 |
| Dividend yield (%) | 1.1 | 0.7 | 1.3 | 1.5 | 1.7 |
| **Per Share Data (Rs)** | | | | | |
| EPS adjusted | 22.14 | 23.63 | 27.60 | 32.32 | 35.09 |
| EPS reported | 22.14 | 23.63 | 27.60 | 32.32 | 35.09 |
| BVPS | 89.20 | 103.29 | 125.24 | 149.62 | 175.78 |
| DPS | 6.00 | 4.00 | 7.00 | 8.00 | 9.00 |
| **Profit & Loss (RsM)** | | | | | |
| Net sales | 197,427 | 254,564 | 260,649 | 288,045 | 325,415 |
| Operating expenses | -163,715 | -213,174 | -216,976 | -236,454 | -267,145 |
| **EBIT** | **33,712** | **41,390** | **43,673** | **51,591** | **58,270** |
| Net interest expense | 2,167 | -1,816 | 3,139 | 4,264 | 5,450 |
| Non-operating/exceptionals | 257 | 362 | 414 | 362 | 362 |
| **Pre-tax profit** | **36,136** | **39,936** | **47,225** | **56,217** | **64,083** |
| Tax | -3,873 | -5,422 | -6,858 | -8,995 | -12,817 |
| Extraord./Min.Int./Pref.div. | -24 | -99 | -102 | -70 | -70 |
| **Reported net income** | **32,239** | **34,415** | **40,266** | **47,152** | **51,196** |
| Adjusted earnings | 32,239 | 34,415 | 40,266 | 47,152 | 51,196 |
| Adjusted EBITDA | 39,672 | 49,741 | 52,708 | 60,769 | 68,121 |
| **Growth Rates (%)** | | | | | |
| Sales | 32.1 | 28.9 | 2.4 | 10.5 | 13.0 |
| EBIT adjusted | 12.9 | 22.8 | 5.5 | 18.1 | 12.9 |
| EBITDA adjusted | 16.5 | 25.4 | 6.0 | 15.3 | 12.1 |
| EPS adjusted | 9.7 | 6.7 | 16.8 | 17.1 | 8.6 |
| **Cash Flow (RsM)** | | | | | |
| **Operating cash flow** | **44,767** | **57,290** | **47,065** | **50,636** | **54,700** |
| Depreciation/amortization | 5,960 | 8,351 | 9,036 | 9,178 | 9,850 |
| Net working capital | 8,789 | 11,182 | -2,688 | -1,901 | -966 |
| **Investing cash flow** | **-53,670** | **-42,462** | **-6,405** | **-9,538** | **-11,451** |
| Capital expenditure | -19,241 | -18,391 | -9,299 | -13,401 | -16,901 |
| Acquisitions/disposals | -36,067 | -15,670 | 2,705 | 0 | 0 |
| **Financing cash flow** | **10,944** | **-3,510** | **-11,242** | **-11,649** | **-13,105** |
| Borrowings | 13,663 | 5,073 | -552 | 0 | 0 |
| Dividends paid | -9,872 | -6,815 | -11,950 | -13,657 | -15,364 |
| **Change in cash** | **2,042** | **11,318** | **29,418** | **29,449** | **30,144** |
| **Balance Sheet (RsM)** | | | | | |
| **Total assets** | **223,299** | **290,548** | **309,829** | **353,140** | **401,882** |
| Cash & cash equivalent | 54,078 | 65,297 | 94,613 | 123,992 | 154,067 |
| Accounts receivable | 38,908 | 46,217 | 42,846 | 47,350 | 53,493 |
| Net fixed assets | 39,822 | 49,862 | 50,125 | 54,348 | 61,399 |
| **Total liabilities** | **93,818** | **140,131** | **127,198** | **135,006** | **145,656** |
| Accounts payable | 13,082 | 18,017 | 19,549 | 21,603 | 24,406 |
| Total Debt | 44,055 | 56,806 | 47,896 | 47,896 | 47,896 |
| **Shareholders' funds** | **129,481** | **150,417** | **182,631** | **218,134** | **256,225** |
| **Profitability/Solvency Ratios (%)** | | | | | |
| EBITDA margin adjusted | 20.1 | 19.5 | 20.2 | 21.1 | 20.9 |
| ROE adjusted | 27.9 | 24.6 | 24.2 | 23.6 | 21.6 |
| ROIC adjusted | 34.4 | 26.8 | 25.7 | 30.0 | 30.5 |
| Net debt to equity | -7.7 | -5.6 | -25.6 | -34.9 | -41.4 |
| Total debt to capital | 25.4 | 27.4 | 20.8 | 18.0 | 15.7 |

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Powered by: dataCentral

# Wipro

## Company description

Wipro is a leading Indian company with business interests in IT and BPO services exports, domestic hardware, consumer lighting and consumer care. It has one of the widest ranges of services, including systems integration, IT-enabled services, package implementation, software application development & maintenance and R&D services. Wipro is the first P-CMM Level 5 and SEI-CMM Level 5 certified IT services company in the world. It has ~830 clients spanning the BFSI, Manufacturing, Retail, Utilities and Telecom verticals. Its IT services exports team has more than 60,000 employees and BPO operation has ~23,000 employees.

## Investment strategy

We rate Wipro shares Buy/Low Risk (1L). Being one of the top three Indian IT services firms, Wipro looks well positioned to benefit from growing demand for offshore IT services. Apart from economies of scale in offshore delivery, one of Wipro's key strengths is its full-service model. This includes a strong position in the infrastructure/R&D services business, which offers significant long-term growth potential. It has strong exposure to the BPO segment, which should offer above-average growth in the long term. Wipro's management has actively pursued acquisitions to strengthen its service portfolio. We expect ~9% revenue and ~14% EPS CAGR over FY09-12E.

## Valuation

Our Rs620 target price is based on 19x FY11E EPS. Our target multiple is derived from a P/E-band analysis of Wipro's historical trading pattern and peer group valuations. Wipro has traded at 8-31x over the past 3 years. Given that revenue visibility is improving with business environment stabilizing, we believe Wipro should trade close to the mid-point of the band. We think Wipro will continue to trade at a discount to Infosys and needs to demonstrate consistent execution for the discount to narrow. We believe P/E is the most appropriate valuation measure given Wipro's profitability and earnings visibility.

## Risks

We rate Wipro Low Risk despite our quantitative risk-rating system suggesting High Risk as the company has significant scale, enjoys a good brand name and continues to generate significant FCF. Key downside risks that could cause shares to fall below our target price include: 1) an extended slowdown in the US economy; and 2) any significant appreciation of the rupee against the USD/EUR/GBP.

# Appendix A-1

## Analyst Certification

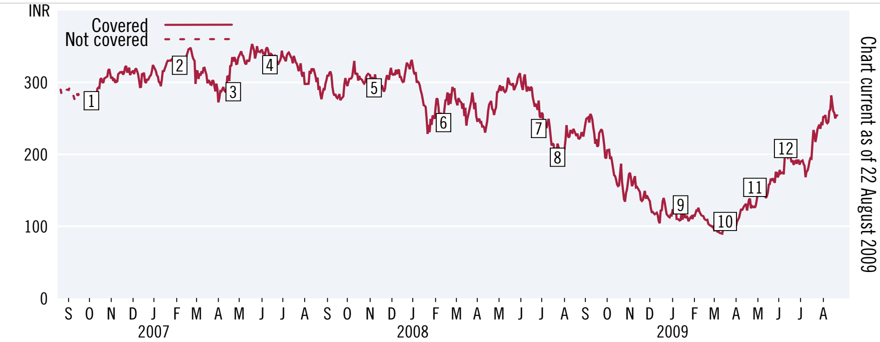
**Each research analyst(s) principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.**

## IMPORTANT DISCLOSURES

### HCL Technologies (HCLT.BO)

**Ratings and Target Price History**
**Fundamental Research**

Analyst: Surendra Goyal, CFA
Covered since October 5 2006




| | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1 | 4-Oct-06 | *1M | *340.00 | 276.70 |
| 2 | 6-Feb-07 | 1M | *385.00 | 328.33 |
| 3 | 23-Apr-07 | 1M | *405.00 | 329.05 |
| 4 | 13-Jun-07 | 1M | *400.00 | 336.95 |
| 5 | 7-Nov-07 | 1M | *365.00 | 295.35 |
| 6 | 13-Feb-08 | 1M | *340.00 | 251.45 |
| 7 | 26-Jun-08 | 1M | *350.00 | 274.80 |
| 8 | 23-Jul-08 | 1M | *245.00 | 214.95 |
| 9 | 13-Jan-09 | *2H | *120.00 | 108.60 |
| 10 | 17-Mar-09 | 2H | *111.00 | 101.15 |
| 11 | 28-Apr-09 | *2M | *140.00 | 125.85 |
| 12 | 10-Jun-09 | 2M | *215.00 | 204.40 |

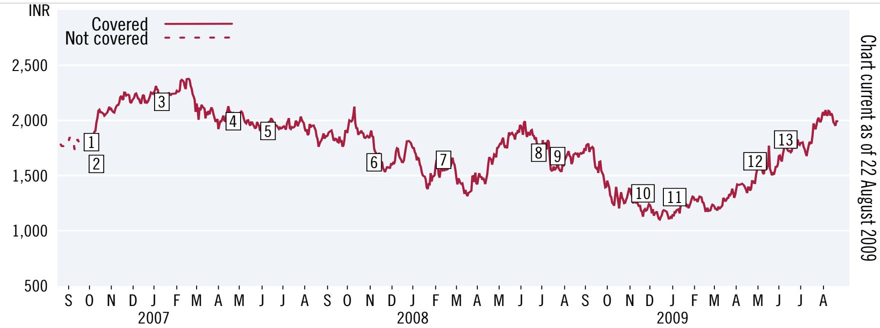
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

### Infosys Technologies (INFY.BO)

**Ratings and Target Price History**
**Fundamental Research**

Analyst: Surendra Goyal, CFA
Covered since October 5 2006




| | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1 | 4-Oct-06 | 1L | *2,165.00 | 1,803.20 |
| 2 | 11-Oct-06 | 1L | *2,340.00 | 1,981.35 |
| 3 | 11-Jan-07 | 1L | *2,660.00 | 2,183.00 |
| 4 | 23-Apr-07 | 1L | *2,580.00 | 2,067.55 |
| 5 | 10-Jun-07 | 1L | *2,440.00 | 1,951.05 |
| 6 | 7-Nov-07 | 1L | *2,190.00 | 1,743.85 |
| 7 | 13-Feb-08 | *1M | *2,060.00 | 1,549.15 |
| 8 | 26-Jun-08 | 1M | *2,175.00 | 1,781.85 |
| 9 | 23-Jul-08 | 1M | *1,910.00 | 1,603.70 |
| 10 | 20-Nov-08 | 1M | *1,420.00 | 1,127.25 |
| 11 | 4-Jan-09 | 1M | *1,350.00 | 1,130.95 |
| 12 | 28-Apr-09 | *1L | *1,650.00 | 1,431.55 |
| 13 | 10-Jun-09 | 1L | *2,060.00 | 1,803.25 |

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## MindTree (MINT.BO)

### Ratings and Target Price History
### Fundamental Research

Analyst: Surendra Goyal, CFA


| # | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1 | 12-Oct-07 | *3H | *487.00 | 492.20 |
| 2 | 13-Feb-08 | 3H | *380.00 | 333.95 |
| 3 | 17-Apr-08 | 3H | *465.00 | 488.40 |
| 4 | 26-Jun-08 | 3H | *485.00 | 436.05 |
| 5 | 17-Jul-08 | 3H | *390.00 | 366.05 |
| 6 | 21-Oct-08 | *1H | *367.00 | 283.85 |
| 7 | 20-Jan-09 | *3H | *190.00 | 216.55 |
| 8 | 28-Apr-09 | 3H | *240.00 | 306.90 |
| 9 | 10-Jun-09 | 3H | *415.00 | 462.45 |

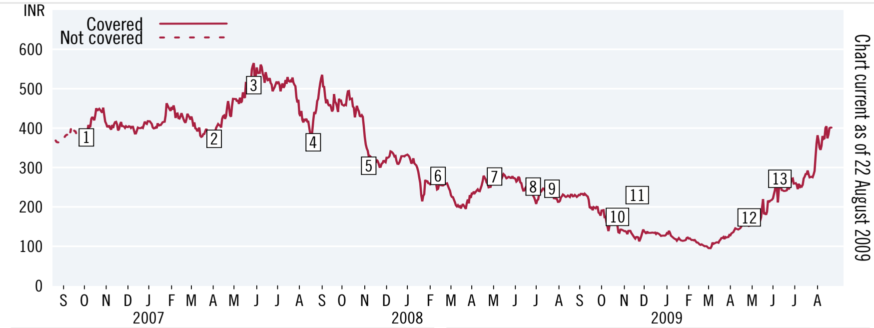
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Patni Computer Systems (PTNI.BO)

### Ratings and Target Price History
### Fundamental Research

Analyst: Surendra Goyal, CFA
Covered since October 5 2006




| # | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1 | 4-Oct-06 | *3M | *405.00 | 381.95 |
| 2 | 3-Apr-07 | *1M | *463.00 | 377.70 |
| 3 | 29-May-07 | *3M | *565.00 | 565.10 |
| 4 | 21-Aug-07 | *1M | *525.00 | 418.95 |
| 5 | 7-Nov-07 | *1H | *475.00 | 328.40 |
| 6 | 13-Feb-08 | 1H | *390.00 | 245.70 |
| 7 | 2-May-08 | 1H | *365.00 | 270.90 |
| 8 | 26-Jun-08 | 1H | *340.00 | 228.05 |
| 9 | 23-Jul-08 | *3H | *260.00 | 235.80 |
| 10 | 23-Oct-08 | 3H | *140.00 | 152.25 |
| 11 | 20-Nov-08 | 3H | *125.00 | 123.60 |
| 12 | 28-Apr-09 | 3H | *150.00 | 150.40 |
| 13 | 10-Jun-09 | 3H | *240.00 | 259.90 |

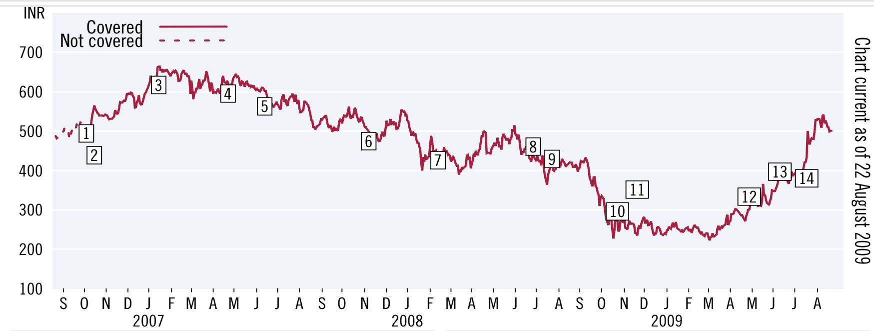
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Tata Consultancy Services (TCS.BO)

### Ratings and Target Price History
### Fundamental Research

Analyst: Surendra Goyal, CFA
Covered since October 5 2006




| # | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1 | 4-Oct-06 | 1L | *592.50 | 494.05 |
| 2 | 16-Oct-06 | 1L | *650.00 | 565.23 |
| 3 | 15-Jan-07 | 1L | *780.00 | 663.95 |
| 4 | 23-Apr-07 | 1L | *775.00 | 623.05 |
| 5 | 13-Jun-07 | 1L | *730.00 | 601.40 |
| 6 | 7-Nov-07 | 1L | *645.00 | 499.13 |
| 7 | 13-Feb-08 | *1M | *582.50 | 434.48 |
| 8 | 26-Jun-08 | 1M | *587.50 | 438.43 |
| 9 | 23-Jul-08 | *2M | *462.50 | 429.25 |
| 10 | 23-Oct-08 | 2M | *312.50 | 273.73 |
| 11 | 20-Nov-08 | *2H | *280.00 | 234.75 |
| 12 | 28-Apr-09 | *3M | *307.50 | 299.30 |
| 13 | 10-Jun-09 | *1L | *465.00 | 390.88 |
| 14 | 17-Jul-09 | 1L | *525.00 | 433.60 |

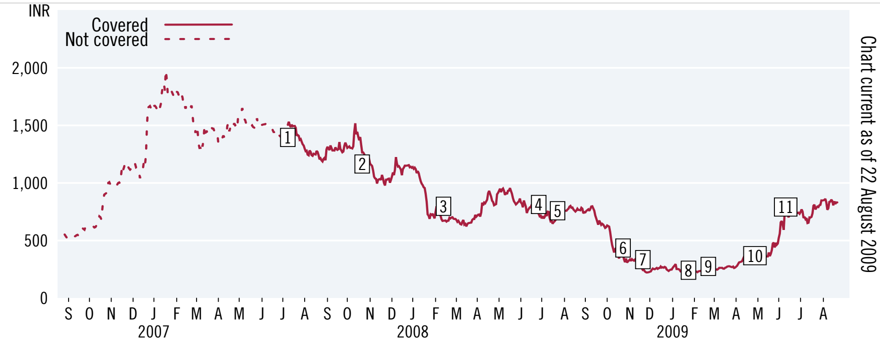
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Tech Mahindra (TEML.BO)

**Ratings and Target Price History**
**Fundamental Research**

Analyst: Surendra Goyal, CFA
Covered since July 9 2007




| | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1 | 9-Jul-07 | *1H | *1,920.00 | 1,504.75 |
| 2 | 21-Oct-07 | *3H | *1,330.00 | 1,329.45 |
| 3 | 13-Feb-08 | 3H | *730.00 | 672.10 |
| 4 | 26-Jun-08 | 3H | *815.00 | 730.10 |
| 5 | 23-Jul-08 | 3H | *820.00 | 753.35 |
| 6 | 23-Oct-08 | *2H | *500.00 | 376.10 |
| 7 | 20-Nov-08 | 2H | *310.00 | 243.50 |
| 8 | 23-Jan-09 | 2H | *245.00 | 210.15 |
| 9 | 20-Feb-09 | *3H | 245.00 | 269.65 |
| 10 | 28-Apr-09 | 3H | *300.00 | 318.20 |
| 11 | 10-Jun-09 | 3H | *640.00 | 784.85 |

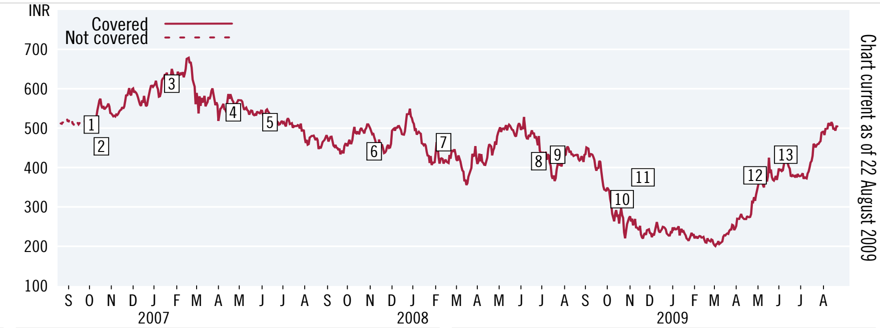
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Wipro (WIPR.BO)

**Ratings and Target Price History**
**Fundamental Research**

Analyst: Surendra Goyal, CFA
Covered since October 5 2006




| | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1 | 4-Oct-06 | 1L | *615.00 | 509.10 |
| 2 | 18-Oct-06 | 1L | *650.00 | 557.25 |
| 3 | 25-Jan-07 | 1L | *730.00 | 650.40 |
| 4 | 23-Apr-07 | 1L | *685.00 | 567.00 |
| 5 | 13-Jun-07 | 1L | *650.00 | 530.70 |
| 6 | 7-Nov-07 | 1L | *565.00 | 477.35 |
| 7 | 13-Feb-08 | *1M | *535.00 | 409.95 |
| 8 | 26-Jun-08 | 1M | *550.00 | 479.95 |
| 9 | 23-Jul-08 | *2M | *440.00 | 407.75 |
| 10 | 22-Oct-08 | 2M | *325.00 | 279.25 |
| 11 | 20-Nov-08 | *2H | *265.00 | 219.60 |
| 12 | 28-Apr-09 | *2M | *360.00 | 315.40 |
| 13 | 10-Jun-09 | *2L | *450.00 | 432.70 |

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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|---|---|---|---|
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