

Strong deal closures improve FY13 visibility

Retain Buy on attractive valuation, new PO Rs15

Firstsource saw impressive deal closures during Q3 that increase visibility into FY13 revenue growth. Additionally, we expect company's EBIT margins to increase nearly 230bps in FY13 on benefits from improved efficiency in execution and operating leverage from revenue growth. We lower adj. FY13/14 EPS by 7% baking in higher transition costs related to deal wins and increased interest outgo. Retain Buy with new Rs15 PO (target 6.5x FY13 adj. EPS) on attractive valuation. Improved op margin, successful refinancing could be next stock triggers.

Q3 operating profit ahead of expectation

Revs grew ~1%qoq, 5% ahead of our est with seasonal softness in collections more than offset by ramps in recent deal wins. EBIT was 6% ahead of est led by rev beat but declined 15%qoq on increased transition costs. A1-x loss of Rs71m related to FCCB buy-back led to 68%qoq decline in reported PAT.

Impressive pipeline conversion, led by telecom

Company announced 3 deal closures in the telecom segment, worth US\$160m & should help post 10% rev growth in FY13 (constant currency terms). We also factor ~150bps op margin improvement from its ongoing restructuring efforts. Collections (10% of rev) remain chief drag on op performance with decline seen in collectible volumes. Forecast FY13 EBIT to grow 94%yoy from low-base of FY12.

Cash shortfall of ~US\$65-70m appears manageable

Towards ~US\$237m of FCCB redemption in Dec 2012, company has a cash chest of ~US\$130m and is likely to generate another US\$35-40m from normalizing of receivables and free cash from operations. Financing the shortfall of ~US\$65-70m appears manageable with Net Debt / EBITDA estimated at ~4x.

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	1,253	1,449	680	1,176	1,187
EPS	2.41	2.78	1.31	2.26	2.28
EPS Change (YoY)	68.5%	15.4%	-53.1%	72.9%	1.0%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	2.68	4.71	(1.50)	2.59	4.83

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	3.59x	3.11x	6.63x	3.83x	3.80x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	5.49x	5.32x	8.24x	5.36x	4.48x
Free Cash Flow Yield*	30.90%	54.40%	-17.34%	29.89%	55.81%

* For full definitions of *iQmethod*SM measures, see page 9.

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Stock Data

Price	Rs8.65
Price Objective	Rs15.00
Date Established	1-Feb-2012
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs5.55-Rs22.00
Mrkt Val / Shares Out (mn)	US\$75 / 430.6
Market Value (mn)	Rs3,725
Average Daily Volume	2,931,688
BofAML Ticker / Exchange	FSSOF / BSE
Bloomberg / Reuters	FSOL IN / FISO.BO
ROE (2012E)	4.3%
Net Dbt to Eqty (Mar-2011A)	82.1%
Est. 5-Yr EPS / DPS Growth	12.0% / 0%
Free Float	31.8%

Key Changes

(Rs)	Previous	Current
Price Obj.	16.50	15.00
2012E EPS	1.54	1.31
2013E EPS	2.50	2.26
2014E EPS	2.36	2.28
2012E EBITDA (m)	1,960.9	1,870.8
2013E EBITDA (m)	2,855.8	2,877.2
2014E EBITDA (m)	3,414.3	3,439.9

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Refer to important disclosures on page 10 to 12. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8. Link to Definitions on page 8.11132491

iQprofileSM Firstsource

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	19,708	20,553	22,244	24,245	26,674
Gross Profit	2,805	2,896	1,871	2,877	3,440
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	1,933	2,005	942	1,824	2,273
Net Interest & Other Income	(330)	(252)	(153)	(287)	(711)
Associates	NA	NA	NA	NA	NA
Pretax Income	1,603	1,753	788	1,538	1,562
Tax (expense) / Benefit	(238)	(349)	(173)	(362)	(375)
Net Income (Adjusted)	1,253	1,449	680	1,176	1,187
Average Fully Diluted Shares Outstanding	520	521	521	521	521

Key Cash Flow Statement Data

Net Income	1,361	1,385	612	1,176	1,187
Depreciation & Amortization	873	891	929	1,053	1,167
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(518)	181	(1,287)	(557)	295
Cash Flow from Operations	1,716	2,457	254	1,671	2,649
Capital Expenditure	(565)	(431)	(900)	(558)	(570)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	(908)	(168)	629	695	0
Cash Flow from Investing	(1,472)	(598)	(271)	137	(570)
Shares Issue / (Repurchase)	24	19	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	7	169	5,914	(10,884)	(2,129)
Free Cash Flow	1,151	2,026	(646)	1,114	2,079
Net Debt	12,361	11,687	12,462	11,641	10,273
Change in Net Debt	(19)	(1,611)	59	(1,631)	(1,368)

Key Balance Sheet Data

Property, Plant & Equipment	1,838	2,285	2,256	1,761	1,164
Other Non-Current Assets	20,781	20,454	24,049	24,049	24,050
Trade Receivables	2,611	2,389	3,207	3,367	3,705
Cash & Equivalents	1,218	3,246	9,146	71	21
Other Current Assets	3,690	4,051	4,722	4,429	4,872
Total Assets	30,137	32,426	43,380	33,677	33,811
Long-Term Debt	13,579	14,933	21,608	11,712	10,294
Other Non-Current Liabilities	0	58	58	58	58
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	2,265	3,207	4,086	3,914	4,277
Total Liabilities	15,843	18,198	25,752	15,684	14,630
Total Equity	14,294	14,228	17,628	17,994	19,181
Total Equity & Liabilities	30,137	32,426	43,380	33,677	33,810

iQmethodSM - Bus Performance*

Return On Capital Employed	5.9%	5.6%	2.1%	4.0%	5.8%
Return On Equity	8.9%	10.2%	4.3%	6.6%	6.4%
Operating Margin	9.8%	9.8%	4.2%	7.5%	8.5%
EBITDA Margin	14.2%	14.1%	8.4%	11.9%	12.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.4x	1.7x	0.4x	1.4x	2.2x
Asset Replacement Ratio	0.6x	0.5x	1.0x	0.5x	0.5x
Tax Rate (Reported)	14.8%	19.9%	22.0%	23.6%	24.0%
Net Debt-to-Equity Ratio	86.5%	82.1%	70.7%	64.7%	53.6%
Interest Cover	8.4x	9.6x	21.0x	10.3x	3.2x

Key Metrics

* For full definitions of iQmethodSM measures, see page 9.

Company Description

Firstsource, an ICICI group company, is a leading India-centric Business Process Outsourcing vendor. Set up in Dec-01, it has complemented organic growth with inorganic initiatives. It offers transaction processing, collections management & customer acquisition/customer care services in Banking & Financial Services (abt 26% rev), Media & Telecom (abt 37% rev) & Healthcare (abt 36% rev) verticals. US is 57% rev and UK forms 30% of revs

Investment Thesis

Our Buy is based on bottomed-out valuations more than reflecting company's weak performance in 1HFY12 and a likely return to top-line growth in 2HFY12. Liquidity concerns for the company have also diminished substantially following the re-financing of FCCB in Aug 2011. We believe valuation of the company is attractive given the non-cyclical nature of revenues in BPO business and plenty of growth potential in company's verticals of operation: telecom, healthcare and banking/financial services.

Stock Data

Price to Book Value 0.2x

Retain Buy on attractive valuation

Post Q3, we bake in increased transition costs towards deal closures seen during the quarter. Additionally, we now estimate cash shortfall towards FCCB redemption at ~USD70m vs. ~USD50m earlier. This is largely due to depreciation in INR vs. US\$ over the past 3 months. Company's FCCB obligation is due in US\$ terms whereas majority of its cash is maintained in Rupee denomination.

Thereby, we lower adjusted FY13/14 EPS by 7%. Our adjusted EPS imputes interest on FCCB, given we treat FCCB as debt. Correspondingly, we lower our PO to Rs15 vs. Rs16.5 earlier. This is on a target PE of 6.5x, in-line with company's lowest 1yr fwd multiple.

Table 1: Adj. EPS estimates, imputing interest on FCCB

	FY10	FY11	FY12E	FY13E	FY14E
PAT adding back FCCB option prem/MTM	1,459	1,557	824	1,284	1,187
Interest at 6.75% on FCCB amt (Rs m)	699	654	588	344	-
Effective tax rate	13.0%	18.6%	19.1%	22.0%	24.0%
Adj PAT (Rs m)	850	1,024	348	1,016	1,187
Share count, m	430	431	431	431	431
Adj. EPS (Rs)	1.98	2.38	0.81	2.36	2.76
EPS gr (%)	274%	20%	-66%	192%	17%

Source: BofA Merrill Lynch Global Research

Q3 highlights

Revs grew 8.3%qoq in reported terms and 1%qoq on constant currency basis. This was 5% ahead of our estimate as seasonal softness in collections was more than offset by ramps in recent deal wins.

EBIT margin at 3.5% was in-line with our estimate but declined 97bps qoq on higher deal related transition costs and partially offset by favorable forex (40bps).

Increased interest expense and a 1-x loss of Rs71mn related to FCCB buy-back led to 68%qoq decline in reported PAT. On recurring basis, PAT declined 34%qoq, 6% below our estimate.

Table 2: 3Q P&L Summary

Rs mil	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY	BofAMLe	Variation
Operating Revenue	5771	5330	8.3%	5146	12%	5499	4.9%
Personnel costs	3995	3513	14%	3232	24%	3684	8%
Operating costs	1345	1356	-1%	1203	12%	1386	-3%
EBITDA	430	462	-7%	711	-39%	429	0%
Depreciation	230	225	2%	232	-1%	240	-4%
EBIT	201	237	-15%	479	-58%	189	6%
Net interest expense	7	21	-69%	55	-88%	-15	-145%
Exchange (gain) on Foreign Currency loan	0	-26	n/m	-1	-71%	0	n/m
Amortised cost of fair value of FCCB	35	36	-2%	32	n/m	37	-5%
Extraordinary expense	0	0	n/m	64	n/m	0	n/m
Gain on FCCB Buyback	-71	4	n/m	0	n/m	-90	n/m
Other income	6	51	n/m	112	n/m	5	n/m
PBT	94	261	-64%	441	-79%	81	15%
Tax	23	47	-50%	84	-72%	24	-1%
Minority	2	0	n/m	8	-76%	0	n/m
Reported PAT	68	215	-68%	350	-80%	58	18%
Recurring PAT (ex FCCB MTM)	140	211	-34%	413	-66%	148	-6%

Source: BofA Merrill Lynch Global Research

Table 3: 3Q P&L Summary contd..

Margins	Q3FY12	Q2FY12	QoQ (bps)	Q3FY11	YoY (bps)	BofAMLe	Variation (bps)
EBITDA	7.5%	8.7%	-121	13.8%	-635	7.8%	-34
EBIT	3.5%	4.4%	-97	9.3%	-583	3.4%	4
Reported PAT	1.2%	4.0%	-284	6.8%	-561	1.1%	13
Recurring PAT	2.4%	4.0%	-153	8.0%	-561	2.7%	-27

Source: BofA Merrill Lynch Global Research

Impressive pipeline conversion, led by telecom

Company announced 3 deal closures in the telecom segment, worth US\$160m & should help post 10% rev growth in FY13 (constant currency terms).

Table 4: Summary of deal wins

Vertical	TCV	Tenure	Full-qr of rev contribution
Telecom & Media	US\$65m	3yrs	Q4FY12
Telecom & Media	US\$85m	3yrs	Q1FY13
Telecom & Media	US\$12m	2yrs	Q4FY12

Source: BofA Merrill Lynch Global Research

We also factor ~150bps op margin improvement from its ongoing restructuring efforts. Collections (10% of rev) remain chief drag on op performance with decline seen in collectible volumes. Forecast FY13 EBIT to grow 94%yoy from low-base of FY12.

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Financials

Table 5: Profit and Loss statement (Rs 'mn)

	FY09	FY10	FY11	FY12E	FY13E	FY14E
Services Revenue	17,525.3	19,539.1	20,110.2	22,202.0	24,245.0	26,673.9
Other operating revenue (eg Grant)	(31.5)	168.8	442.6	42.0	-	-
Operating Revenue	17493.8	19707.9	20552.8	22244.0	24245.0	26673.9
YoY	34.7%	12.7%	4.3%	8.2%	9.0%	10.0%
Operating expense	4971.6	4872.9	4927.1	5430.8	6134.0	6481.8
Personnel expenses	10211.1	12029.7	12729.9	14942.5	15233.9	16752.3
Total expenditure	15182.7	16902.6	17657.0	20373.3	21367.8	23234.1
EBITDA	2311.1	2805.3	2895.8	1870.8	2877.2	3439.9
D&A	935.9	872.6	890.8	929.1	1052.8	1167.1
EBIT	1375.2	1932.7	2005.0	941.6	1824.4	2272.7
YoY	-5.1%	40.5%	3.7%	-53.0%	93.8%	24.6%
Net interest expense	117.6	229.3	208.2	44.9	177.9	711.1
Exchange (gain) on Foreign currency loans	18.6	111.2	-7.2	-26.0	0.0	0.0
Forex variation on FCCB	778.2	0.0	0.0	0.0	0.0	0.0
Amortised cost of FCCB	114.3	115.3	129.0	143.9	108.7	0.0
Gain on FCCB buy-back	635.0	73.9	0.0	-67.6	0.0	0.0
Extra-ordinary expense	138.2	84.0	63.8	0.0	0.0	0.0
Other Income	-336.8	136.2	141.9	77.1	0.0	0.0
PBT	506.5	1602.9	1753.1	788.3	1537.9	1561.6
Taxes	199.1	237.6	349.4	173.1	362.2	374.8
PAT before minority interest	307.4	1365.3	1403.7	615.2	1175.6	1186.8
Minority Interest	1.1	4.5	18.6	2.8	0.0	0.0
PAT	306.3	1360.8	1385.1	612.4	1175.6	1186.8
Recurring PAT	-0.1	1252.9	1448.9	680.0	1175.6	1186.8
Recurring PAT (excl'd FCCB MTM as well)	778.1	1252.9	1448.9	680.0	1175.6	1186.8

Source: BofA Merrill Lynch Global Research

Table 6: Key ratios

Ratios	FY09	FY10	FY11	FY12E	FY13E	FY14E
Margins						
EBITDA	13.2%	14.2%	14.1%	8.4%	11.9%	12.9%
EBIT	7.9%	9.8%	9.8%	4.2%	7.5%	8.5%
PAT	4.4%	6.4%	7.0%	3.1%	4.8%	4.4%
Tax rate	19.5%	13.0%	18.6%	19.1%	22.0%	24.0%
Per Share Data						
Recurring Diluted EPS (INR) - ex FCCB	1.4	2.41	2.78	1.31	2.26	2.28
Recurring CEPS (INR)	3.2	4.1	4.5	3.1	4.3	4.5
Dividend Payout %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Book-value (INR)	25.4	27.4	27.3	33.8	34.5	36.8
Growth Ratios						
Revenue	34.7%	12.7%	4.3%	8.2%	9.0%	10.0%
EBITDA	0.1%	21.4%	3.2%	-35.4%	53.8%	19.6%
EBIT	-5.1%	40.5%	3.7%	-53.0%	93.8%	24.6%
PAT	-48.4%	61.0%	15.6%	-53.1%	72.9%	1.0%
Diluted EPS (INR)	-56.0%	68.5%	15.4%	-53.1%	72.9%	1.0%
Return Ratios						
RONW (recurring ex FCCB MTM basis)	7.3%	8.9%	10.2%	4.3%	6.6%	6.4%
ROCE	6.0%	6.8%	6.7%	3.3%	5.2%	6.8%

Source: BofA Merrill Lynch Global Research

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Table 7: Balance Sheet, 31st Mar - Rs 'mn

Balance Sheet, 31st Mar - Rs 'mn	FY09	FY10	FY11	FY12E	FY13E	FY14E
SOURCES OF FUNDS						
Shareholders' funds						
Share capital (equity share cap+ preference share cap)	4,281.9	4,292.1	4,306.4	4,306.4	4,306.4	4,306.4
Share application	-	3.5	-	-	-	-
Reserve and surplus	9,512.4	9,948.2	9,920.8	13,317.9	13,683.5	14,870.3
Total Shareholders' funds	13,794	14,244	14,227	17,624	17,990	19,177
Minority interest	54.7	49.8	1.1	3.9	3.9	3.9
Loan funds						
Secured loans	1,855.6	2,786.9	3,346.6	9,211.6	11,711.6	10,294.1
Unsecured loans	12,090.0	10,791.6	11,586.1	12,396.1	0.1	0.1
Deferred tax liability, net	-	-	58.0	58.0	58.0	58.0
Total	27,795	27,872	29,219	39,294	29,764	29,533
APPLICATION OF FUNDS						
Goodwill on consolidation	22,875.6	20,725.9	20,454.0	24,048.7	24,048.7	24,048.7
Fixed assets						
Gross block	6,348.2	6,432.5	7,594.5	8,494.5	9,052.1	9,622.1
Less: Accumulated depreciation	4,157.5	4,674.6	5,420.5	6,349.6	7,402.4	8,569.6
Net block	2,191	1,758	2,174	2,145	1,650	1,053
Add: Capital work in progress	70.2	80.1	111.4	111.4	111.4	111.4
Total Fixed Assets	2,261	1,838	2,285	2,256	1,761	1,164
Deferred tax asset	140.5	55.0	-	-	-	-
Investments	18.2	1,005.3	1,329.3	700.0	5.0	5.0
Current assets, loans and advances						
Sundry debtors	2,379.5	2,610.6	2,388.7	3,207.0	3,367.4	3,704.7
Unbilled revenues	605.0	673.0	1,036.7	1,336.7	1,470.4	1,617.4
Cash and bank balances	966.9	1,217.5	3,246.2	9,146.1	70.8	21.1
Loans and advances	1,187.1	2,011.4	1,685.4	2,685.4	2,953.9	3,249.3
Total Current Assets	5,139	6,513	8,357	16,375	7,862	8,593
Less: Current liabilities and provisions						
Current liabilities	2,167.8	1,620.1	2,742.4	3,450.0	3,250.0	3,600.0
Provisions	471.4	644.8	464.4	636.4	663.8	677.4
Total Current liabilities and provisions	2,639	2,265	3,207	4,086	3,914	4,277
Net current assets	2,499	4,248	5,150	12,289	3,949	4,315
Total	27,795	27,872	29,219	39,294	29,763	29,534

Source: BofA Merrill Lynch Global Research

01 February 2012

Table 8: Cash Flow Statement - Rs 'mn

Cash Flow	FY09	FY10	FY11	FY12E	FY13E	FY14E
Cash Flow from Operating Activities						
Net Income	307	1,361	1,385	612	1,176	1,187
Depreciation and amortisation	961	873	891	929	1,053	1,167
Gain on sale of property and equipment		(5)	11			
Deferred Income Taxes	(70)	109	120	-	-	-
Investments	(13)	(18)	(176)			
Changes in Operating assets and liabilities, net of effect of acquisition						
Accounts Receivables	(442)	(429)	232	(818)	(160)	(337)
Other current assets	(190)	(192)	(417)	(1,000)	(269)	(295)
Deposits						
Interest	271	370	394	45	178	711
Accounts Payable						
Unbilled Revenues				(300)	(134)	(147)
Other Current Liabilities	412	(31)	183	880	(173)	364
Provision for current tax, FBT and MAT credit entitlement	269	129	230			
Provision for doubtful debts	64	24	6			
Foreign exchange loss	321	(129)				
Exchange loss on foreign currency loans	797	111	130	(26)	-	-
Gain on FCCB buy-back	(635)	(74)	-	(68)	-	-
Income tax paid	(281)	(371)	(514)			
Others	(32)	(12)	(17)			
Total operating cash flow	1,739	1,716	2,457	254	1,671	2,649
Cash Flow from Investing Activities						
Acquisition, net of Cash acquired	(67)					
Capex	(918)	(565)	(431)	(900)	(558)	(570)
Proceeds from sale of property and equipment		45	28			
Sale of investments, net	216	(969)	(227)	629	695	-
Others	91	16	32	-	-	-
Net Cash from Investing Activities	(880)	(1,472)	(598)	(271)	137	(570)
Free Cash Flow	821	1,151	2,026	(646)	1,114	2,079
		6%	10%	-3%	5%	8%
Cash Flow from Financing Activities						
Ordinary shares issued and subscribed	23	24	19	-	-	-
Minority				3	-	-
Principal payments under capital leases						
Proceeds from notes payable, net of financing costs	(811)	232	416	5,959	(10,706)	(1,418)
Repayment of debt						
Interest	(129)	(248)	(266)	(45)	(178)	(711)
Divident Paid	-	-	-	-	-	-
Net Cash from Financing Activities	(917)	7	169	5,916	(10,884)	(2,129)
Net change in cash and cash equivalents	(58)	251	2,027	5,900	(9,075)	(50)
Cash and eq at the beginning of the year	1,025	967	1,218	3,246	9,146	71
Cash and eq at the end of the year	967	1,217	3,245	9,146	71	21

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

Firstsource (FSSOF)

Our PO of Rs15 is based on 6.5x adj FY13 EPS (adjusting for imputed interest on FCCB, given we treat FCCB as debt). The multiple is in line with the lowest 1yr fwd multiple in the company's trading history. Downside risks: Sharp macro deterioration and a delay in the recovery of telecom vertical.

Link to Definitions

Technology

Click [here](#) for definitions of commonly used terms.

Analyst Certification

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01 February 2012

India - Software & IT Services Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	D.B.Corp Ltd	XDDCF	DBCL IN	Pratish Krishnan
	Dish TV India Ltd	XCETF	DITV IN	Pratish Krishnan
	ExlService Holdi	EXLS	EXLS US	Mitali Ghosh
	Firstsource	FSSOF	FSOL IN	Kunal Tayal
	Genpact Ltd	G	G US	Mitali Ghosh
	Hathway Cable & Datacom Ltd	XHKYF	HATH IN	Pratish Krishnan
	HCL	XHCLF	HCLT IN	Mitali Ghosh
	Hexaware Tech	XFTCF	HEXW IN	Pratish Krishnan
	Jagran Prakashan Ltd	JGRPF	JAGP IN	Pratish Krishnan
	Mphasis Ltd	MPSSF	MPHL IN	Pratish Krishnan
	Rollta India	RLTAF	RLTA IN	Pratish Krishnan
	Rollta India-GDR	XLROF	RTI LI	Pratish Krishnan
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Wipro	WIPRF	WPRO IN	Mitali Ghosh
	Wipro	WIT	WIT US	Mitali Ghosh
	Zee Entertainment	XZETF	Z IN	Pratish Krishnan
NEUTRAL				
	Infosys Tech	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
	Infotech Enterprises Ltd	IFKFF	INFTC IN	Pratish Krishnan
	Sun TV Network Ltd	SUTVF	SUNTV IN	Pratish Krishnan
	Tech Mahindra	TMHAF	TECHM IN	Pratish Krishnan
UNDERPERFORM				
	Mahindra Satyam Ltd	XSYAF	SCS IN	Pratish Krishnan
	Mahindra Satyam Ltd	SAYCY	SAYCY US	Pratish Krishnan
	Mastek	MSKDF	MAST IN	Pratish Krishnan
	Persistent Systems	XPSYF	PSYS IN	Kunal Tayal
	WNS (Holdings) L	WNS	WNS US	Kunal Tayal
RVW				
	Educomp Solu	EUSOF	EDSL IN	Pratish Krishnan

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings

Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit

Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	$\text{Market Cap.} = \text{Current Share Price} * \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales}$	
EV / EBITDA	$\text{Other LT Liabilities} + \text{Enterprise Value}$	$\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$

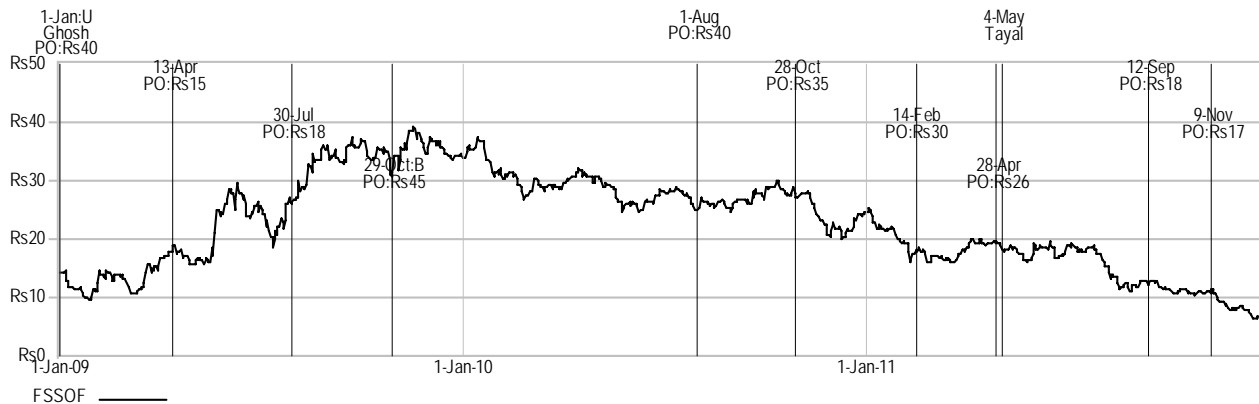
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FSSOF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of [December 31, 2011] or such later date as indicated.

Investment Rating Distribution: Technology Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	122	56.48%	Buy	87	77.68%
Neutral	50	23.15%	Neutral	35	76.09%
Sell	44	20.37%	Sell	20	48.78%

Investment Rating Distribution: Global Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2029	52.00%	Buy	1337	72.11%
Neutral	1009	25.86%	Neutral	657	71.34%
Sell	864	22.14%	Sell	487	60.20%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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