

# Upgrading Infosys and Tech Mahindra / Satyam to Buy

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## Infy, Tech Mahindra/Satyam up to Buy, ~25% pot. upside

We lift POs across our IT services coverage for 18-28% potential stock upside in our Buy rated large caps. Key drivers: a) Earnings upgrades of up to 7% in FY14/15, led by improved revenue confidence b) consequent re-rating of our stocks by 7-8% and c) roll-forward of earnings by six months. We upgrade Infosys and Tech Mahindra (on pro-forma combined financials including Satyam) to Buy on early signs of success in addressing company-specific challenges. In our view, Infy could surprise in Sept or Dec. quarter, TCS will likely report strong but largely discounted results and Wipro could disappoint on quarter/guidance.

### Demand environment looks up

Anecdotal evidence indicates that deal closures are picking up and softness in the banking vertical is bottoming. This is likely due to increased confidence on business outlook post the recent easing measures by central banks, in our view. Not only are we seeing continued focus on optimization of the tech landscape, but we are also hearing of a sustained pick-up in transformational deals. These deals aim to – a) use technology to transform business models (eg, online retailing) and processes (digital marketing, mobility banking, analytics) and b) transform the client's tech landscape by leveraging cloud, social media etc. Steady realization.

### Upgrading Infosys to Buy; Potential 25% stock upside

Post 20% YTD underperformance vs Sensex, we upgrade INFY to Buy with a PO of Rs3,200 on – a) 6-7% earnings upgrades in FY14/15 b) re-rating the stock from a target of 14x 1yr forward PE to 16x, narrowing the discount vs. TCS to 10%. INFY seems to be course-correcting its response in the commoditized application & IT infrastructure maintenance (IMS) business, where it was losing share, by exploring alternate delivery models. Also, with greater empowerment to the field and transformation in sales, we anticipate improved customer responsiveness and mining. Most importantly, with the organization restructuring well under way, management seems to be more settled and in execution mode, as reflected in initiatives taken to address IMS/apps maintenance and the Lodestone acquisition.

### Tech Mahindra, Satyam up to Buy; >25% potential upside

We reset our estimates and raise Tech M to Buy, with a PO of Rs1,150, given our forecast healthy 15% EPS CAGR over FY12-15 for the combined entity (final merger approval expected by year end). Increasing traction in managed services deals in Europe and Emerging Markets, an area of strength for TechM, increases our confidence in rev outlook. Satyam's rev traction is led by client mining and increased deal participation rates. Moreover, improving scale, productivity and mix lend margin support. At 10x FY14e combined financials, stock is attractively valued and increasing revenue visibility, scale and liquidity should help re rate to 12x 1-yr forward. Satyam's PO of Rs135 is based on announced swap ratio of 8.5 shares for 1 share of Tech M. We are 5% ahead on FY14 consensus EPS.

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Table 1: Rating & PO Summary

	Rating		PO	Old PO	EPS Chng (%)	
	New	Old	(INR)	(INR)	FY13	FY14
INFY	Buy	Neutral	3200	2450	1.5%	6.3%
TechM*	Buy	Neutral	1150	na	na	na
		Under				
Satyam	Buy	perform	135	na	na	na
TCS	Buy	Buy	1575	1425	-0.8%	2.2%
HCLT	Buy	Buy	675	585	0.9%	4.6%
Wipro	Neutral	Neutral	420	370	1.0%	0.2%

Source: BofA Merrill Lynch Global Research

\*based on proforma combined financial including Satyam

## Infosys and Tech Mahindra up to Buy

We lift POs across our IT services coverage for 13-25% potential stock upside on the back of:

a) Earnings upgrade of up to 7% in FY14/15, led by improved revenue visibility as decision making and deal closures seem to be on an uptrend and the worst in the banking vertical seems to be behind us.

b) Consequently, we have re-rated our target PEs by 7-8%.

c) We have rolled-forward earnings by six months. Our one-year price objectives are now based on earnings for the 12-months ending Sep '14, vs. Mar '14 earlier.

Further, we upgrade Infosys and Tech Mahindra (on proforma combined basis including Satyam) to Buy on early signs of success in addressing company-specific challenges.

Table 2: Rating & PO Summary

	Rating		PO (INR)	Change (%)	Upside (%)	EPS (INR)			EPS Chng (%)		EPS gr		EBITDA gr FY12-15	PE FY13	Tgt PE FY14
	New	Old				FY13	FY14	FY15	FY13	FY14	FY13	FY14			
TCS	Buy	Buy	1575	11%	17%	70.3	81.7	92.6	-0.8%	2.2%	16.2%	13.4%	17.5%	19.1	19.3
Infy	Buy	Neutral	3200	31%	25%	166.3	188.4	211.4	1.5%	6.3%	13.3%	12.2%	12.8%	15.4	17.0
Wipro	Neutral	Neutral	420	14%	9%	26.1	28.5	31.7	1.0%	0.2%	9.3%	11.1%	11.4%	14.7	14.7
HCLT	Buy	Buy	675	15%	19%	43.6	51.0	57.5	0.9%	4.6%	17.0%	12.8%	12.7%	13.0	13.2
TechM (incl Satyam)	Buy	Neutral	1150	70%	27%	77.8	90.1	100.9	na	na	17.2%	15.8%	19.6%	11.7	12.8
Satyam*	Buy	U/perform	135	69%	30%	na	na	na	na	na	na	na	na	na	na

Source: BofA Merrill Lynch Global Research. \*Given the imminent merger with TechM, we look at EPS of combined entity rather than standalone Satyam or standalone TechMahindra

## Demand environment looks up

### Anecdotal evidence suggests pick-up in deal closures

Anecdotal evidence indicates that deal closures are showing signs of pick-up and softness in the banking vertical appears to be bottoming. We believe this is due to increased confidence on business outlook post the recent easing measures taken by the central banks, as below.

While the cycle may take time to pick up and discretionary IT spend may take at least a couple of quarters to pick up, we hear of not only a continued focus to optimize the tech landscape, but also a sustained pick-up in transformational deals to address the structural challenges customers face. These deals aim to – a) use technology to transform business models (e.g. online retailing) and processes (digital marketing, mobility banking, analytics) and b) transform the client's tech landscape by leveraging cloud, social media etc.

### Decision cycles could improve post QE3, US elections

During CY12, the biggest constraint on revenue growth for vendors, in our view, has not been the lack of IT budgets but the push-out of decisions by clients. This has been on account of (1) economic uncertainty hampering business confidence and (2) a cautious view going into the US Presidential election season.

Post a series of easing measures announced by the ECB and US Fed last week, we would expect an improvement in decision cycles for vendors. The completion of the US presidential elections in November should also likely help speed up decision cycles, given likely clarity in policy direction.

**Table 3: FOMC projected change in real GDP  
(%, central tendency range)**

	CY13	CY14
Jun-12	2.2 to 2.8	3.0 to 3.5
Sep-12	2.5 to 3.0	3.0 to 3.8

Source: BofAML Global Research, Fed Reserve Board

The Fed raised the upper end of its forecast for US GDP growth to 3.0% (CY13) and 3.8% (CY14) vs. 2.8% / 3.5% earlier. It also expects the US unemployment rate to drop below 8% by end-2013.

Our US economist, Ethan Harris, forecasts a [more modest growth](#) of 2.1% (for CY13) and 1.4% (CY14).

While recovery may be protracted, the confidence lent by dovish signals from central banks is likely to soothe nerves and improve decision making, as above.

### See limited risk of sharp Rupee appreciation

Post easing measures announced by US Fed last week, Rupee has appreciated 3% from ~55.4 to 54.0. We factor in Rupee appreciation in our model to an average INR-USD rate of 54.2 for FY13 going to Rs53.0 (2% appreciation) for FY14 and further to Rs51 (3.8% appreciation) for FY15.

Our economist, however, does not expect a sharp appreciation in the Rupee given his view that:

- RBI needs to recoup US\$50bn sold since 2008
- Typically, RBI has weakened INR to support growth in downturns

### Infosys - raise to Buy with PO of Rs3,200

As in our detailed note on INFY published simultaneously today ([Upgrade to Buy](#)), we raise INFY to Buy with a PO of Rs3,200 (vs Rs2,450 earlier) on a) 6-7% revenue led earnings upgrade in FY14/15 and b) rerating of the stock from a target PE of 14x 1yr forward to 16x, narrowing the PE discount vs TCS to 10%.

Our interactions with senior management including the CEO and channel checks give us comfort that management is taking action to remedy gaps in the services portfolio, selling effort and execution, and this is starting to yield results. Moreover, Infy is likely to be a key beneficiary of any pick-up in discretionary IT spend as business confidence picks up, post measures taken by the Fed/ECB. We expect in-line 2Q results and commentary on improving business traction to be a trigger.

INFY seems to be course-correcting its response in the commoditized application & IT infrastructure maintenance business, where it was losing share, by exploring alternate delivery models. Also, with greater empowerment to the field and transformation in sales, we anticipate improved customer responsiveness and mining. Most importantly, with the organization restructuring well under way, management seems to be more settled and in execution mode, as reflected in initiatives to address the IT infra market and the Lodestone acquisition.

### Tech Mahindra / Satyam - Up to Buy with PO of Rs1,150 / Rs135

As in our [upgrade note](#) today, we reset our estimates and raise Tech Mahindra (on proforma combined financials including Satyam) to Buy given our forecast of healthy 15% EPS CAGR over FY12-15 for the combined entity. Increasing traction in managed services deals in Europe and emerging markets, an area of strength for TechM, increases our confidence in revenue outlook. Meanwhile, client mining and increased deal participation rates in the past two years are driving Satyam's revenues. Moreover, improving scale, productivity and mix

should lend margin support too.

At 10x FY14E combined financials, the Tech M stock is attractively valued and with increasing revenue visibility, scale and liquidity post merger, can re-rate to 12x 1-yr fwd, by our estimates. Satyam's fair value works out to Rs135 by applying announced swap ratio (2:17) on our PO of Rs 1,150 for Tech M. Our EPS estimate for the combined entity is about 5% ahead on FY14 consensus.

## TCS - retain Buy, raise PO to Rs1,575

We retain our Buy on TCS and raise PO to Rs1,575 (18x 1yr roll forward PE), derived from a 5yr PEG of 1.1x. The stock is currently trading at 19x FY13E.

Channel checks and management meetings indicate that TCS continues to see strong deal traction, as highlighted in our last note ([Management meet take-aways](#)). TCS' large deal closures remain steady helped by its broad market presence across service lines and geographies. Strong client relationships, rapidly growing brand power and agility in the market are helping it gain market share.

While we do see margin levers from the INR, operational levers like utilization and improving profitability in emerging markets like Latam and in platforms, we also believe TCS is keen to maintain broadly stable margins (as we have modeled in), and reinvest gains in building new medium-term revenue drivers, specially products & platforms.

## HCL Tech - retain Buy, raise PO to Rs675

We retain our Buy on HCL Tech and raise PO to Rs675, at a target PE of 13x 1-yr forward PE, at a 5-yr PEG of 0.8. The stock is currently at 13x FY13E. Our thesis on HCLT remains unchanged i.e. that of high revenue visibility with possible upside risk to margins.

We believe HCLT's impressive deal wins in Dec. and Mar quarter are ramping on track, with growth led by both its dominance in IT Infrastructure Management Services and increasing market share in the discretionary enterprise solutions business.

While margins beat our expectations last quarter helped by a115bp contribution from productivity improvements, we continue to assume that the bulk of these gains will be reinvested in the business in the form of wage hikes and building IP.

Key risk to our rating is higher than expected transition costs or any cost over runs in outsourcing deals hitting margins.

## Wipro - retain Neutral, raise PO to Rs420

We raise our PO on Wipro to Rs420, at a target 5yr PEG of 1.1x implying a 1yr rolling forward PE of 14x. Stock currently at 14.5X FY13 PE.

While Wipro's client mining efforts have been paying off, hunting efforts are likely to take at least 3-4 quarters more to deliver, in our view, given the company has seen a fair amount of reorganization and churn in senior and mid levels over the last couple of years and increased competition.

That said, we have heard of a few large deal wins in healthcare and oil and gas. We also hear that they are chasing some large deals in the banking space. While large deal closures may provide a short-term trigger for the stock, we remain

cautious on a sustained pick-up.

They continue to see challenges in the telecom equipment, investment banking and retail verticals.

We expect muted revenue growth both this quarter and next quarter, based on the weak hiring trends in recent quarters.

## 2Q preview - Commentary likely to be positive Infy could surprise; Wipro could disappoint

- We expect the large Indian IT stocks to report largely in-line results with cautiously optimistic commentary on pick-up in deal closures.
  - If Infosys seems some of the delayed ramp ups in previous quarters come through, it could surprise on volumes, either this quarter or next.
  - TCS will likely report strong but in line volumes
  - Wipro could disappoint on volumes/guidance in our view
- For TCS and Infosys, we expect margins to be steady sequentially, given the currency and pricing are broadly steady.
- Wipro will have the impact of two months of the annual wage hike announced last quarter and HCL Tech, Satyam and Tech M will also have their wage hike this quarter.
- Tech M's revenue growth is driven by the inorganic addition of Hutch Global Services. We expect margins to be hit not only by the wage hike but also the lower profitability of HGS at perhaps 10-15% operating margins and by transition costs of recent deal wins.

Table 4: 2Q preview summary

	Rev USD			%	EBIT		EPS		
	USDm	%QoQ	%YoY		QoQ chg (bps)	YoY chg (bps)	INR	%QoQ	%YoY
TCS	2837	4.0%	12.3%	27.3%	-16	23	17.5	4.3%	40.3%
Infy	1820	3.8%	4.0%	27.9%	-6	-22	41.1	2.6%	23.2%
Wipro IT	1542	1.8%	4.7%	20.5%	-48	53	6.2	-4.1%	16.2%
HCLT	1125	4.2%	12.3%	17.0%	-206	309	11.0	-7.9%	60.7%
Tech M	291	3.5%	-1.7%	16.4%	-231	484	22.8	-7.9%	24.7%
Satyam	354	3.6%	7.3%	16.5%	-255	370	2.3	-24.1%	12.2%

Source: BofA Merrill Lynch Global Research

## Valuation Summary

Table 5: Summary Valuation

	Tata Consultancy	Wipro	Infosys	HCL	Satyam	Tech M	Techm + Satyam
BofAML Code	TACSF	WIPRF	INFYF	XHCLF	XSYAF	TMHAF	
Bloomberg Code	TCS IN	WPRO IN	INFO IN	HCLT IN	SCS IN	TECHM IN	
BofAML Rating	C-1-7	C-2-7	C-1-7	C-1-7	C-1-9	C-1-7	
Currency	INR	INR	INR	INR	INR	INR	
Year End	Mar	Mar	Mar	Jun	Mar	Mar	
Market price	1,413	392	2,632	583	105	911	911
Market Cap in mn \$	50,827	17,714	27,776	7,430	2,273	2,136	
Revenue growth YoY %							
FY11	24%	14%	21%	28%	-6%	7%	0%
FY12	31%	20%	23%	31%	24%	7%	16%
FY13E	27%	17%	20%	22%	22%	21%	21%
FY14E	16%	11%	15%	14%	14%	12%	13%
FY15E	12%	11%	12%	12%	12%	8%	10%
EBITDA growth (YoY %)							
FY11	29.0%	11.0%	14.1%	7.1%	-1.8%	-27.3%	-19.8%
FY12	28.7%	12.5%	19.6%	45.3%	128.2%	-10.5%	39.3%
FY13E	27.5%	16.6%	15.2%	20.8%	47.1%	37.8%	43.2%
FY14E	14.5%	7.9%	12.7%	10.5%	10.6%	6.7%	9.1%
FY15E	11.2%	9.8%	10.6%	9.0%	10.9%	27.7%	17.4%
EBITDA growth % FY12-14e	20.8%	12.2%	14.0%	15.5%	27.5%	21.2%	25.0%
EPS Rs							
FY11	44.5	21.5	119.4	23.0	4.2	41.2	
FY12	54.4	22.7	145.5	34.76	8.8	25.5	66.4
FY13E	70.3	26.1	166.3	43.61	9.8	35.7	79.7
FY14E	81.6	28.5	188.4	51.02	11.2	44.0	92.7
FY15E	92.6	31.7	211.4	57.55	12.4	67.9	103.1
EPS growth (YoY%)							
FY11	26.8%	14.1%	8.3%	29.9%	68.9%	2.1%	
FY12	22.0%	5.4%	21.9%	51.1%	109.6%	-38.2%	
FY13E	29.3%	15.1%	14.3%	25.4%	11.4%	40.0%	20.0%
FY14E	16.2%	9.3%	13.3%	17.0%	14.5%	23.2%	16.3%
FY15E	13.4%	11.1%	12.2%	12.8%	10.6%	54.3%	11.2%
2yr EPS gr% (FY12-14E)	22.6%	12.2%	13.8%	21.1%	12.9%	31.3%	18.2%
PE (FY12 EPS)(x)	26.0	17.3	18.1	16.8	12.0	35.7	13.7
PE (FY13e EPS)(x)	20.1	15.0	15.8	13.4	10.7	25.5	11.4
PE (FY14e EPS)(x)	17.3	13.7	14.0	11.4	9.4	20.7	9.8
PE (FY15e EPS)(x)	15.3	12.3	12.5	10.1	8.5	13.4	8.8
PEG - FY13 PE to FY12-15 EPSg	1.04	1.27	1.19	0.73	0.88	0.66	0.72
EV/EBITDA (FY12)x	18.6	12.2	12.2	10.1	9.3	17.4	
EV/EBITDA (FY13E)x	14.6	10.4	10.6	8.3	6.3	12.6	
EV/EBITDA (FY14E)x	12.8	9.7	9.4	7.6	5.7	11.8	
EV/EBITDA (FY15E)x	11.5	8.8	8.5	6.9	5.2	9.3	
EBIT % FY11	28.1%	18.6%	29.5%	13.4%	5.4%	13.3%	9.3%
EBIT % FY12	27.6%	17.2%	29.0%	15.9%	13.5%	10.5%	12.2%
EBIT % FY13E	27.8%	17.3%	28.0%	15.8%	16.7%	12.7%	14.9%
EBIT % FY14E	27.4%	16.7%	27.4%	15.3%	16.2%	11.9%	14.3%
EBIT % FY15E	27.1%	16.5%	27.1%	15.0%	16.1%	14.6%	15.4%
ROE (FY13e) (x)	37	21	26	27	32	11	
ROE (FY14e) (x)	34	20	24	26	27	12	
ROE (FY15e) (x)	31	19	22	24	24	17	

Source: BofA Merrill Lynch Global Research

## Financials TCS

Table 6: TCS P&L Statement

Rs Mil	FY10	FY11	FY12	FY13E	FY14E	FY15E
Total revenues	300,289	373,245	488,938	623,216	720,938	807,674
Total cost of revenues	157,242	199,373	258,774	328,326	381,453	429,863
Gross Profit	143,047	173,872	230,164	294,890	339,485	377,811
GPM%	47.6%	46.6%	47.1%	47.3%	47.1%	46.8%
Operating Expenses						
Selling, general and administrative (excl. depn)	55,396	61,888	85,988	111,091	129,062	143,815
Research and development	851	-	-	-	-	-
Total operating expenses	56,247	61,888	85,988	111,091	129,062	143,815
EBITDA	86,800	111,984	144,176	183,799	210,423	233,996
EBITDA %	28.9%	30.0%	29.5%	29.5%	29.2%	29.0%
Less: Depreciation	7,209	7,214	9,035	10,595	12,973	15,426
Operating Income, EBIT	79,591	104,770	135,141	173,204	197,450	218,570
EBIT %	26.5%	28.1%	27.6%	27.8%	27.4%	27.1%
Other Income (expense)						
Interest and dividends, net	1,668	4,391	7,756	8,758	11,584	18,143
Foreign exchange gain (loss), net	(1,807)	(467)	(4,264)	(938)	-	-
Other, net	2,394	1,400	549	489	566	634
Other income (expense), net	2,255	5,324	4,041	8,309	12,149	18,777
Income before income taxes, PBT	81,846	110,094	139,181	181,513	209,600	237,347
Income tax expense (benefit)	12,088	21,739	31,688	42,334	48,208	54,590
Income after taxes before minority interests	69,757	88,355	107,493	139,179	161,392	182,757
Minority interests	(1,019)	(1,191)	(1,111)	(1,623)	(1,590)	(1,559)
Equity in net earnings of affiliates	(10)	-	-	-	-	-
Net income	68,728	87,164	106,382	137,557	159,801	181,199
Recurring Net Profit	68,728	87,164	106,382	137,557	159,801	181,199
NPM%	22.9%	23.4%	21.8%	22.1%	22.2%	22.4%

Source: BofA Merrill Lynch Global Research

Table 7: Key Ratios

Key Ratios	FY10	FY11	FY12	FY13E	FY14E	FY15E
Revenue growth (USD terms)	5%	29%	24%	13%	18%	16%
Revenue growth	8%	24%	31%	27%	16%	12%
EBITDA growth	21%	29%	29%	27%	14%	11%
EBIT growth	21%	32%	29%	28%	14%	11%
Net Profit growth (recurring)	33%	27%	22%	29%	16%	13%
Gross Margin	48%	47%	47%	47%	47%	47%
EBITDA Margin	28.9%	30.0%	29.5%	29.5%	29.2%	29.0%
EBIT Margin	26.5%	28.1%	27.6%	27.8%	27.4%	27.1%
Net Margin (recurring)	22.9%	23.4%	21.8%	22.1%	22.2%	22.4%
EPS (Rs.)	35.12	44.53	54.35	70.28	81.65	92.58
DPS (Rs)	20.00	14.00	25.00	21.08	24.49	27.77
Payout Ratio (%)	57.0%	31.4%	46.0%	30.0%	30.0%	30.0%
RONW	38%	38%	37%	37%	34%	31%
ROCE	41%	43%	43%	44%	40%	36%

Source: BofA Merrill Lynch Global Research



18 September 2012

**Table 8: TCS Balance Sheet**

Rs Mil	FY10	FY11	FY12	FY13E	FY14E	FY15E
<b>Current Assets</b>						
Cash and Cash equivalents	10,249	15,539	59,879	98,841	162,152	244,606
Accounts Receivable	58,098	82,007	114,992	143,340	165,816	185,765
Unbilled Revenues	12,011	13,489	22,478	28,651	33,143	37,131
Other Current Assets	21,089	14,485	11,888	15,153	17,529	19,637
<b>Total</b>	<b>138,149</b>	<b>164,855</b>	<b>222,393</b>	<b>285,984</b>	<b>378,639</b>	<b>487,139</b>
Investments	37,822	18,390	14,781	14,781	14,781	14,781
Equity in Affiliates	17	-	-	-	-	-
Property & Equipment net	41,706	51,996	64,548	78,109	89,137	98,711
Intangible Assets & Goodwill	32,415	33,791	34,929	34,929	34,929	34,929
Other Non-Current Assets	26,103	58,850	75,340	96,031	111,089	124,454
<b>Total Assets</b>	<b>276,213</b>	<b>327,882</b>	<b>411,990</b>	<b>509,833</b>	<b>628,574</b>	<b>760,013</b>
<b>Current Liabilities</b>						
Accrued Expenses & Other Current Liabilities	46,899	59,335	46,753	62,322	72,094	80,767
Unearned & Deferred Revenues	7,311	-	8,230	-	-	-
Short term Borrowings	2,307	328	9,499	9,499	9,499	9,499
<b>Total Current Liabilities</b>	<b>56,516</b>	<b>59,663</b>	<b>69,175</b>	<b>71,821</b>	<b>81,593</b>	<b>90,266</b>
Long Term Debt	111	56	1,154	1,154	1,154	1,154
Minority Interests	4,768	3,147	5,276	6,899	8,489	10,048
Other Non-current Liabilities	5,413	10,973	11,152	14,214	16,443	18,422
<b>Total Liabilities</b>	<b>10,293</b>	<b>14,176</b>	<b>17,582</b>	<b>22,267</b>	<b>26,086</b>	<b>29,623</b>
<b>Total Shareholder's Equity</b>	<b>209,404</b>	<b>254,044</b>	<b>325,233</b>	<b>415,746</b>	<b>520,895</b>	<b>640,124</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>276,213</b>	<b>327,883</b>	<b>411,990</b>	<b>509,833</b>	<b>628,574</b>	<b>760,013</b>

Source: BofA Merrill Lynch Global Research

**Table 9: TCS Cash Flow Statement**

Rs Mil	FY10	FY11	FY12	FY13E	FY14E	FY15E
<b>Cash From Operations</b>						
Recurring net profit	68,728	87,164	106,382	137,557	159,801	181,199
Add: Depreciation	7,248	7,214	9,035	10,595	12,973	15,426
Add: Deferred taxes	(4,996)	-	-	-	-	-
(Increase)/Decrease in working capital	4,431	(15,459)	(29,864)	(35,141)	(19,572)	(17,372)
(Increase)/Decrease in non-current assets	132	(15,331)	(16,490)	(20,691)	(15,058)	(13,365)
Increase/(Decrease) in non-current liabilities	(1,960)	5,560	6,377	3,063	2,229	1,978
<b>Net cash from operations</b>	<b>74,918</b>	<b>69,148</b>	<b>75,441</b>	<b>95,383</b>	<b>140,373</b>	<b>167,865</b>
<b>Cash From Investments</b>						
Capex	(10,225)	(17,015)	(19,786)	(24,156)	(24,000)	(25,000)
(Increase)/Decrease in affiliate investments	-	-	-	-	-	-
(Increase)/Decrease in intangible assets/goodwill	-	-	(120)	-	-	-
Sale of investments and bank deposits	(45,320)	(2,878)	(9,592)	-	-	-
Acquisitions	279	(210)	-	-	-	-
Others	-	1,440	-	-	-	-
<b>Net cash from investments</b>	<b>(55,266)</b>	<b>(18,663)</b>	<b>(29,498)</b>	<b>(24,156)</b>	<b>(24,000)</b>	<b>(25,000)</b>
<b>Free Cash Flow</b>	<b>64,694</b>	<b>52,133</b>	<b>55,535</b>	<b>71,226</b>	<b>116,373</b>	<b>142,865</b>
<b>Cash From Financing</b>						
Capital Inflows	-	-	-	(0)	0	-
Increase/(Decrease) In Minority Interest	54	-	(2,491)	1,623	1,590	1,559
Dividends paid	(19,594)	(45,832)	(38,670)	(41,267)	(47,940)	(54,360)
Tax on dividends	-	-	-	(5,777)	(6,712)	(7,610)
<b>Net Cash From Financing</b>	<b>(23,500)</b>	<b>(45,681)</b>	<b>(41,528)</b>	<b>(45,422)</b>	<b>(53,062)</b>	<b>(60,411)</b>
Effect of foreign exchange on cash flows	(529)	487	(116)	-	-	-
Opening cash and treasury	14,625	10,249	15,538	87,817	113,621	176,932
Change in cash and cash equivalents	(3,847)	4,803	4,415	25,805	63,311	82,454
<b>Closing cash and treasury</b>	<b>10,249</b>	<b>15,539</b>	<b>19,837</b>	<b>113,621</b>	<b>176,932</b>	<b>259,387</b>

Source: BofA Merrill Lynch Global Research



## Infosys

**Table 10: Infosys P&L statement**

INR mil	2010	2011	2012	2013E	2014E	2015E
Operating revenues	227,420	275,010	337,340	403,263	462,916	516,428
Software development expenses (ex depreciation)	120,780	150,620	188,790	234,155	271,053	303,714
Gross Profit	106,640	124,390	148,550	169,108	191,863	212,714
GPM%	46.9%	45.2%	44.0%	41.9%	41.4%	41.2%
SGA	28,120	34,830	41,470	45,733	52,772	58,873
EBITDA	78,520	89,560	107,080	123,376	139,090	153,841
EBITDA %	34.5%	32.6%	31.7%	30.6%	30.0%	29.8%
Depreciation	9,420	8,541	9,290	10,419	12,137	13,722
EBIT	69,100	81,019	97,790	112,957	126,954	140,119
EBIT%	30.4%	29.5%	29.0%	28.0%	27.4%	27.1%
Other income	9,900	12,110	19,040	19,631	22,760	28,115
Provision for investments	0	0	0	0	0	0
Income after other income and provsns	88,420	101,670	126,120	143,006	161,851	181,957
Interest	0	0	0	0	0	0
PBT	79,000	93,129	116,830	132,588	149,714	168,234
Tax	16,810	24,900	33,670	37,556	41,920	47,106
Recurring PAT	62,190	68,229	83,160	95,032	107,794	121,129
Extraordinary income	800	0	0	0	0	0
Reported PAT	62,990	68,229	83,160	95,032	107,794	121,129

Source: BofA Merrill Lynch Global Research

**Table 11: Key Ratios**

	2010	2011	2012	2013E	2014E	2015E
Revenue Growth (USD)	3%	26%	16%	6%	17%	16%
Revenue Growth (INR)	5%	21%	23%	20%	15%	12%
Gross Profit Growth	7%	17%	19%	14%	13%	11%
EBITDA Growth	9%	14%	20%	15%	13%	11%
EBIT Growth	8%	17%	21%	16%	12%	10%
Net Profit Growth	4%	10%	22%	14%	13%	12%
Gross Margin	46.9%	45.2%	44.0%	41.9%	41.4%	41.2%
EBITDA Margin	34.5%	32.6%	31.7%	30.6%	30.0%	29.8%
EBIT Margin	30.4%	29.5%	29.0%	28.0%	27.4%	27.1%
Net Margin (recurring)	27.3%	24.8%	24.7%	23.6%	23.3%	23.5%
EPS (Rs) - Diluted (recurring)	108.89	119.41	145.54	166.31	188.39	211.39
DPS (Rs)	25.14	54.99	47.00	40.00	45.00	45.00
Pay out ratio(%)	23.06	46.04	24.06	24.05	23.89	21.29
ADR EPS- Diluted (recurring, avg forex rate)	2.30	2.62	3.02	3.07	3.55	4.14
Dividend/ADR (avg forex rate)	0.53	1.21	0.98	0.74	0.85	0.88
RONW	28.7%	26.6%	27.4%	25.6%	23.9%	22.4%
ROCE	27.6%	26.1%	26.9%	25.4%	23.8%	22.2%
CEPS (Rs)- Diluted	125.4	134.4	161.8	184.5	209.6	235.3
CEPS /ADR- Diluted	2.65	2.95	3.36	3.41	3.95	4.61
Book-value (Rs)	422	478	586	715	862	1031

Source: BofA Merrill Lynch Global Research

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**Table 12: Infosys Balance Sheet**

<b>Assets (INRm)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2014E</b>
Cash and equivalents	121,110	166,660	205,910	260,223	324,515	403,021
Available for sale financial assets	25,560	210	320	320	320	320
Investment in CDs	11,900	1,230	3,450	3,450	3,450	3,450
Trade receivables	34,940	46,530	58,820	70,571	82,296	91,809
Unbilled revenue	8,410	12,430	18,730	22,390	25,702	28,673
Derivative financial instruments	950	660	-	-	-	-
Prepayments and other current assets	6,410	9,170	15,230	18,206	20,899	23,315
<b>Total current assets</b>	<b>209,280</b>	<b>236,890</b>	<b>302,460</b>	<b>375,160</b>	<b>457,183</b>	<b>550,589</b>
Property, plant and equipment	44,390	48,440	54,090	61,671	69,535	78,813
Goodwill	8,290	8,250	9,930	9,930	9,930	9,930
Intangible assets	560	480	1,730	1,730	1,730	1,730
Deferred income tax assets	3,460	3,780	3,160	3,778	4,336	4,838
Income tax assets	6,670	9,930	10,370	12,397	14,230	15,875
Other Assets	3,470	4,860	1,740	2,080	2,388	2,664
<b>Total non-current assets</b>	<b>66,840</b>	<b>75,740</b>	<b>81,020</b>	<b>91,586</b>	<b>102,149</b>	<b>113,849</b>
<b>Total Assets</b>	<b>276,120</b>	<b>312,630</b>	<b>383,480</b>	<b>466,746</b>	<b>559,332</b>	<b>664,438</b>
<b>Liabilities and equity</b>						
Trade payables	100	440	230	230	230	230
Derivative financial instruments	-	-	420	420	420	420
Current income tax liabilities	7,240	8,170	10,540	12,600	14,464	16,136
Client deposits	80	220	150	150	150	150
Unearned revenue	5,310	5,180	5,450	6,515	7,479	8,343
Employee benefit obligations	1,310	1,400	4,980	5,953	6,834	7,624
Provisions	820	880	1,330	1,509	1,704	1,915
Other current liabilities	17,070	20,120	24,560	29,360	33,703	37,598
<b>Total current liabilities</b>	<b>31,930</b>	<b>36,410</b>	<b>47,660</b>	<b>56,737</b>	<b>64,983</b>	<b>72,416</b>
Deferred income tax liabilities	1,140	-	120	143	165	184
Non-current liabilities	1,710	600	1,090	1,090	1,090	1,090
Employee benefit obligations	610	2,590	-	-	-	-
<b>Total liabilities</b>	<b>35,390</b>	<b>39,600</b>	<b>48,870</b>	<b>57,970</b>	<b>66,238</b>	<b>73,690</b>
<b>Equity</b>						
Share capital	2,860	2,860	2,860	2,860	2,860	2,860
Share premium	30,470	30,820	30,890	30,890	30,890	30,890
Retained earnings	206,680	238,260	298,160	372,325	456,644	554,298
Other components of equity	720	1,090	2,700	2,700	2,700	2,700
<b>Total equity</b>	<b>240,730</b>	<b>273,030</b>	<b>334,610</b>	<b>408,775</b>	<b>493,094</b>	<b>590,748</b>
<b>Total liabilities and equity</b>	<b>276,120</b>	<b>312,630</b>	<b>383,480</b>	<b>466,746</b>	<b>559,332</b>	<b>664,438</b>

Source: BofA Merrill Lynch Global Research

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**Table 13: Infosys Cash Flow Statement**

	2010	2011	2012	2013E	2014E	2015E
<b>OPERATING ACTIVITIES</b>						
Net profit	62190	68230	83160	95032	107794	121129
Adjustments to reconcile net income to net cash provided by operating activities						
Depreciation and amortization	9420	8620	9370	10419	12137	13722
Share-based compensation	10					
Income tax expense	16810	24900	33670	37556	41920	47106
Income on investments	-1690	-1010	-110			
Other non cash item	0		70			
Changes in working capital, net of acquisition						
Trade accounts receivable	1930	-11580	-11810	-11751	-11725	-9513
Prepayment and other assets	-2330	-2360	-590	-5960	-5393	-4838
Unbilled revenues	-920	-4010	-6290	-3660	-3312	-2971
Trade payables	-170	340	-240	0	0	0
Client deposits	30	130	-70	0	0	0
Unearned revenue	1990	-140	260	1065	964	865
Other liabilities and provisions	-830	4510	5870	8035	7304	6588
Cash generated from operations	86440	87630	113290	130735	149687	172086
Income taxes paid	-17540	-28560	-31170	-37556	-41920	-47106
Net cash provided by operating activities	68900	59070	82120	93179	107767	124981
<b>INVESTING ACTIVITIES</b>						
Payment for acquisition of business, net of cash acquired	-1730	-20	-2890			
Expenditure on property, plant and equipment	-6740	-13010	-14420	-18000	-20000	-23000
Proceeds on sale of property, plant and equipment	20	10				
Loans to employees	70	-310	-240			
Non-current deposits with corporations	-280	-1000	-1120			
Income on investments	1060	210	270	0	0	0
Proceeds from sale of available-for-sale financial assets	530					
Investment in available-for-sale financial assets	-99010	-19320	-59700			
Redemption of available-for-sale financial assets	73830	44300	59590	0	0	0
Investments in certificate of deposits	-11800	-8400	-3600			
Redemption in certificate of deposits	0	19850	1500	0	0	0
Investment in govt bonds						
Net cash used in investing activities	-44050	22310	-20610	-18000	-20000	-23000
Free Cash Flow	62160	46060	67700	75179	87767	101981
%growth	18%	-26%	47%	11%	17%	16%
<b>FINANCING ACTIVITIES</b>						
Proceeds on issuance of shares on exercise of employee stock options	890	240	60	0	0	0
Payment of dividends	-15690	-36650	-23270	-20867	-23475	-23475
Net cash used in financing activities	-14800	-36410	-23210	-20867	-23475	-23475
Effect of exchange rate changes on cash	630	580	950			
Net increase in cash and cash equivalents during the period	10050	44970	38300	54313	64293	78506
Cash and cash equivalents at the beginning of the period	109930	121110	166660	205910	260223	324515
Opening balance of cash and equivalents arising on consolidation on controlled trusts	500					
Cash and cash equivalents at the end of the period	121110	166660	205910	260223	324515	403021

Source: BofA Merrill Lynch Global Research

## Wipro

Table 14: Wipro P&L statement

Year ended March (Rs m)	2010	2011	2012	2013E	2014E	2015E
Net Sales	271,957	310,542	371,971	435,416	484,805	537,574
Total expenses	212,615	244,662	297,829	348,944	391,511	435,110
EBITDA	59,342	65,880	74,142	86,471	93,294	102,464
Depreciation	7,831	8,211	10,130	11,132	12,165	13,543
EBIT	51,511	57,669	64,012	75,339	81,130	88,921
Other income	4601	6651	8895	10451	12240	15241
Interest and Finance	1232	1933	3491	2948	1769	1769
PBT	54,880	62,387	69,416	82,842	91,601	102,393
Tax	9,294	9,896	13,762	17,861	20,610	23,550
PAT-Ordinary Oprns	45,586	52,491	55,654	64,981	70,991	78,843
Minority Interest	-185	-345	-256	-394	-430	-478
Equity in earnings / (losses) of affiliates	530	648	333	-420	-455	-493
Reported PAT	45,931	52,976	55,731	64,167	70,105	77,872
Recurring consolidated profit	45,931	52,794	55,731	64,167	70,105	77,872

Source: BofA Merrill Lynch Global Research

Table 15: Wipro Key Ratios

	2010	2011	2012	2013E	2014E	2015E
Rev growth (Wipro IT - USD terms)	1.5%	18.9%	13.4%	5.3%	12.5%	14.4%
Revenue growth	5.9%	14.2%	19.8%	17.1%	11.3%	10.9%
Gross profit growth	11.7%	14.0%	11.4%	23.4%	13.3%	9.4%
EBITDA growth	18.1%	11.0%	12.5%	16.6%	7.9%	9.8%
EBIT growth	19.0%	12.0%	11.0%	17.7%	7.7%	9.6%
Net Profit growth (recurring)	18.5%	14.9%	5.6%	15.1%	9.3%	11.1%
Gross Margin	31.5%	31.5%	29.2%	30.8%	31.4%	30.9%
EBITDA Margin	21.8%	21.2%	19.9%	19.9%	19.2%	19.1%
EBIT Margin	18.9%	18.6%	17.2%	17.3%	16.7%	16.5%
Net Margin (recurring)	16.9%	17.0%	15.0%	14.7%	14.5%	14.5%
EPS (Rs)	18.88	21.54	22.69	26.13	28.54	31.71
DPS (Rs)	3.6	6.4	7.0	7.5	8.0	8.0

Source: BofA Merrill Lynch Global Research

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**Table 16: Wipro Balance Sheet**

(INRm)	2010	2011	2012	2013E	2014E	2015E
<b>Assets</b>						
Goodwill	53802	54818	67937	67937	67937	67937
Intangible assets	4011	3551	4229	4229	4229	4229
Property, plant & equipment	53458	55094	58988	63553	71388	77846
Investment in equity accounted investees	2345	2993	3232	3232	3232	3232
Deferred tax assets	1686	1467	2597	3040	3385	3753
Other non-current assets	9112	18222	22068	25832	28762	31893
<b>Total non-current assets</b>	<b>124414</b>	<b>139129</b>	<b>162513</b>	<b>171285</b>	<b>182395</b>	<b>192352</b>
Inventories	7926	9707	10662	12481	13896	15409
Trade receivables	50928	61627	80328	90712	98308	109008
Other current assets	24594	19744	25743	30134	33552	37204
Unbilled revenues	16708	24149	30025	35146	39133	43392
Available for sale investments	30420	49282	41961	41961	41961	41961
Current tax assets	10060	4955	5635	6596	7344	8144
Cash and cash equivalents	64878	61141	77666	105583	142712	185610
<b>Total current assets</b>	<b>205514</b>	<b>232314</b>	<b>273488</b>	<b>324080</b>	<b>378374</b>	<b>442196</b>
<b>Total Assets</b>	<b>329928</b>	<b>371443</b>	<b>436001</b>	<b>495365</b>	<b>560770</b>	<b>634548</b>
<b>Equity</b>						
Share capital	2936	4908	4917	4917	4917	4917
Share premium	29188	30124	30457	30457	30457	30457
Retained earnings	165789	203250	241912	289327	341564	401568
Share based payment reserve	3140	1360	1976	1976	1976	1976
Other components of equity	-4399	580	6594	0	0	0
Shares held by controlled trust	-542	-542	-542	-542	-542	-542
<b>Equity attributable to equity holders of company</b>	<b>196112</b>	<b>239680</b>	<b>285314</b>	<b>326135</b>	<b>378372</b>	<b>438376</b>
Minority interest	437	691	849	1243	1673	2151
<b>Total equity</b>	<b>196549</b>	<b>240371</b>	<b>286163</b>	<b>327378</b>	<b>380045</b>	<b>440528</b>
<b>Liabilities</b>						
Long term loans and borrowings	18107	19759	22510	22510	22510	22510
Deferred tax liabilities	380	301	353	413	460	510
Employee benefit obligations	2967	0	0	0	0	0
Derivative liabilities	3786	2586	307	359	400	444
Other non-current liabilities and provisions	769	7808	8983	10515	11708	12982
<b>Total non-current liabilities</b>	<b>26009</b>	<b>30454</b>	<b>32153</b>	<b>33798</b>	<b>35078</b>	<b>36446</b>
Loans and borrowings	44404	33043	36448	36448	36448	36448
Trade payables and accrued expenses	40570	44052	47258	58157	65252	72518
Unearned revenues	7462	6595	9569	11201	12472	13829
Current tax liabilities	7915	7340	7232	8466	9426	10452
Derivative liabilities	471	1358	6354	7438	8281	9183
Other current liabilities and provisions	6548	5906	9703	11358	12646	14023
<b>Total current liabilities</b>	<b>107370</b>	<b>100618</b>	<b>117685</b>	<b>134189</b>	<b>145646</b>	<b>157574</b>
<b>Total liabilities</b>	<b>133379</b>	<b>131072</b>	<b>149838</b>	<b>167987</b>	<b>180724</b>	<b>194020</b>
<b>Total equity and liabilities</b>	<b>329928</b>	<b>371443</b>	<b>436001</b>	<b>495365</b>	<b>560770</b>	<b>634548</b>

Source: BofA Merrill Lynch Global Research

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**Table 17: Wipro Cash Flow Statement**

(INRm)	FY10	FY11	FY12	FY13E	FY14E	FY15E
<b>Cash flow from operating activities</b>						
Net profit	45931	53,321	55,987	64,167	70,105	77,872
Adjustments						
Gain on plant, property and equipment	-43	-131	-104			
Depreciation and amortization	7831	8,211	10,129	11,132	12,165	13,543
Unrealized exchange loss	-1462	1036	1938			
Impact of cash flow hedges	6017	4389	1095			
Gain on sale of investment securities	-308	-192	-110	0	0	0
Stock based compensation	1302	1092	949			
Income tax expense	9294	9,714	13,763	17,861	20,610	23,550
Share of profits of equity accounted investees	-530	-648	-333	420	455	493
Minority interest	185	0	0	394	430	478
Dividend and interest expenses	-2820	-5,684	-7,651	-7,503	-10,471	-13,472
Others						
Changes in operating assets and liabilities						
Trade and other receivables	-2150	-10699	-17470	-10384	-7596	-10700
Unbilled revenues	-2600	-7441	-5876	-5121	-3987	-4259
Inventories	-218	-1781	-862	-1819	-1416	-1513
Other assets	-2203	-5451	-3501	-9559	-7441	-7951
Accounts payable	-66	5840	4289	10899	7094	7267
Unearned revenue	-1272	-867	2898	1632	1271	1358
Other liabilities	2024	-979	1040	5617	4373	4672
Tax	-7914	-9,293	-16,105	-17,861	-20,610	-23,550
<b>Net cash from operations</b>	<b>50998</b>	<b>40437</b>	<b>40076</b>	<b>59877</b>	<b>64982</b>	<b>67786</b>
<b>Cash flows from investing activities:</b>						
Expenditure on PPE and intangible assets	-12979	-12,211	-12,977	-15,697	-20,000	-20,000
Proceeds from sale of property, plant and equipment	397	521	774			
Purchase of available for sale investments	-340891	-474476	-338599			
Proceeds from sale of available for sale investments	325770	456894	346826	0	0	0
Investment in inter-corporate deposits	-10750	-14290	-14550			
Refund of inter-corporate deposits	4950	20100	10380			
Payment for business acquisitions, net of cash acquired	-4051	-140	-7920			
Interest received	2297	3,960	5,799	10,451	12,240	15,241
Dividend received	1442	2403	2211			
Others				-420	-455	-493
<b>Net cash provided by/(used) in investing activities</b>	<b>-33815</b>	<b>-17239</b>	<b>-8056</b>	<b>-5667</b>	<b>-8215</b>	<b>-5252</b>
<b>FCF</b>	<b>38019</b>	<b>28226</b>	<b>27099</b>	<b>44180</b>	<b>44982</b>	<b>47786</b>
<b>Cash flows from financing activities:</b>						
Proceeds from issuance of equity shares	7	25	22	-6594	0	0
Share application money pending allotment	3	0	0	0	0	0
Proceeds from issuance of equity shares by a subsidiary	77	0	0	0	0	0
Repayment of borrowings / loans	-55664	-82718	-70127			
Proceeds from borrowings / loans	62993	72596	70839	0	0	0
Interest paid on borrowings	-1194	-696	-902	-2,948	-1,769	-1,769
Payment of cash dividend	-6823	-15,585	-17,229	-16,752	-17,868	-17,868
<b>Net cash provided by/(used in) financing activities</b>	<b>-601</b>	<b>-26378</b>	<b>-17397</b>	<b>-26293</b>	<b>-19637</b>	<b>-19637</b>
Net increase in cash and cash equivalents during the period	16582	-3180	14623	27917	37130	42898
Effect of exchange rate changes on cash	-1258	523	1680	0	0	0
Cash and cash equivalents at the beginning of the period	48232	63556	60899	77202	105119	142248
Cash and cash equivalents at the end of the period	63556	60899	77202	105119	142248	185146
Bank overdraft	1322	242	464	464	464	464
<b>Net cash and cash equivalent at end of period</b>	<b>64878</b>	<b>61141</b>	<b>77666</b>	<b>105583</b>	<b>142712</b>	<b>185610</b>

Source: BofA Merrill Lynch Global Research

## HCLT

**Table 18: P&L Statement**

(INR millions, converted at avg \$/Rs rate from \$ terms P&L)	2010	2011	2012	2013E	2014E	2015E
Revenues	125,602	160,451	210,009	257,106	293,880	327,814
Direct costs	81,957	109,211	140,520	172,586	199,015	223,352
Gross Profits	43,644	51,241	69,489	84,520	94,866	104,462
SG&A	17,954	23,724	29,506	36,230	41,495	46,278
EBITDA (excl stock comp charges)	25,691	27,517	39,982	48,290	53,371	58,183
EBITDA (GAAP)	24,864	26,539	39,127	47,322	52,426	57,265
Depreciation	3,892	4,295	5,175	6,200	6,943	7,733
Amortisation	1,105	683	470	452	415	388
EBIT reported	20,694	22,538	34,337	41,639	46,014	50,063
EBIT (excl amortization & stock comp charges)	21,799	23,222	34,808	42,090	46,428	50,451
Adjust : Non-cash stock option expense	924	978	855	968	945	918
Adjust : Amortization expense	1,105	683	470	452	415	388
EBIT (GAAP)	19,770	21,561	33,482	40,671	45,069	49,145
Other Income, net	-525	258	718	1,166	2,234	3,581
Provision for tax	2,406	4,870	8,139	9,886	10,976	12,338
Minority int/Eq inv	14	0	-5	0	0	0
Net income (before forex gains)	17,777	17,926	26,911	32,918	37,272	41,306
Forex gains	-4,728	-806	-1,841	-1,613	-525	0
Net income (after forex gains)	13,050	17,121	25,070	31,306	36,747	41,306
Net income (excl post tax amortization & stock comp)	13,983	17,653	25,425	31,649	37,066	41,604
Adjust : Post tax non-cash stock option expense	873	901	712	656	882	857
Adjust : Post-tax amortization expense	933	532	355	343	319	298
Net income (GAAP)	11,805	16,365	24,358	30,650	35,865	40,449
Avg \$/Rs conversion rate	46.6	45.3	50.6	53.8	52.5	51.0

Source: BofA Merrill Lynch Global Research

**Table 19: Key Ratios**

(Using INR nos)	2010	2011	2012	2013E	2014E	2015E
Rev growth (USD)	24.1%	31.1%	17.1%	15.2%	17.0%	14.8%
Rev growth	18.6%	27.7%	30.9%	22.4%	14.3%	11.5%
Gross profit growth	8.0%	17.4%	35.6%	21.6%	12.2%	10.1%
EBITDA growth (gaap)	11.7%	7.2%	47.4%	20.9%	10.8%	9.2%
EBIT growth (gaap)*	11.1%	9.1%	55.3%	21.5%	10.8%	9.0%
Net income growth (gaap)*	-1.8%	38.6%	48.8%	25.8%	17.0%	12.8%
Gross Margin	34.7%	31.9%	33.1%	32.9%	32.3%	31.9%
EBITDA Margin (gaap)	19.7%	16.5%	18.6%	18.4%	17.8%	17.5%
EBIT Margin (gaap)*	15.7%	13.4%	15.9%	15.8%	15.3%	15.0%
Net Margin (gaap)*	9.4%	10.2%	11.6%	11.9%	12.2%	12.3%
EPS (dil, gaap)*	17.12	23.50	34.76	43.61	51.02	57.55
EPS (dil, non gaap)	20.4	25.3	36.3	45.0	52.7	59.2
DPS	4.58	7.45	11.37	11.24	11.24	11.24
Payout Ratio (%)	24%	30%	32%	25%	21%	19%
ROE	18.6%	21.2%	25.6%	26.5%	26.2%	24.5%
ROA	18.1%	16.8%	21.5%	22.6%	23.0%	28.6%
CEPS	24.7	30.8	43.2	53.4	62.2	69.8
BV	102.1	121.1	150.9	178.3	211.4	258.9

Source: BofA Merrill Lynch Global Research



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**Table 20: P&L Statement USD**

(\$ millions, US GAAP)	2010	2011	2012	2013E	2014E	2015E
Revenues	2,705	3,545	4,152	4,783	5,598	6,428
Direct costs	1,765	2,413	2,778	3,211	3,791	4,379
Gross Profits	940	1,132	1,374	1,572	1,807	2,048
SG&A	387	524	583	674	790	907
EBITDA	553	608	790	898	1,017	1,141
EBITDA (GAAP)	533	586	774	880	999	1,123
Depreciation	84	95	102	115	132	152
Amortization	24	15	9	8	8	8
EBIT reported	446	498	679	775	876	982
EBIT (excl amortization & stock comp charges)	469	513	688	783	884	989
Adjust : Non-cash stock option expense	20	22	17	18	18	18
Adjust : Amortization expense	24	15	9	8	8	8
EBIT (GAAP)	426	476	662	757	858	964
Other Income, net	-11	6	14	22	43	70
Provision for tax	52	108	161	184	209	242
Minority int/Eq inv	0	0	0	0	0	0
Net income (before forex gains)	383	396	532	612	710	810
Forex gains	-102	-18	-36	-30	-10	0
Net income (after forex gains)	281	378	496	582	700	810
Net income (excl post tax amortization & stock comp)	301	390	503	589	706	816
Adjust : Post tax non-cash stock option expense	19	20	14	12	17	17
Adjust : Post-tax amortization expense	20	12	7	6	6	6
Net income (GAAP)	254	362	482	570	683	793

Source: BofA Merrill Lynch Global Research

**Table 21: Balance Sheet**

(\$ millions)	2010	2011	2012	2013E	2014E	2015E
<b>Liabilities &amp; Stockholders' Equity</b>						
Total Current Liabilities	675	755	888	1,023	1,197	1,375
Long term debt	574	475	346	215	52	19
Other Liabilities	159	154	240	276	323	371
Total Liabilities	1,407	1,385	1,473	1,515	1,573	1,765
Minority Interest	0	0	0	0	0	0
Total Stockholders Equity	1,515	1,887	1,929	2,364	2,914	3,569
Total Liabilities and Stockholders Equity	2,922	3,272	3,402	3,879	4,486	5,334
<b>Assets</b>						
Cash & Cash Eq	101	116	120	164	247	683
Account receivables, net	657	762	961	1,107	1,295	1,487
Treasury Investments	425	385	338	400	500	500
Other current assets	191	281	273	315	369	423
Total current assets	1,373	1,544	1,691	1,986	2,411	3,094
Property & equipment net	398	496	445	580	698	796
Intangible assets net	929	937	888	880	872	864
Investment in equity investee	5	5	7	7	7	7
Other assets	218	290	370	427	499	573
Total Assets	2,923	3,272	3,402	3,879	4,486	5,334

Source: BofA Merrill Lynch Global Research

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**Table 22: Cash Flow Statement**

(\$ millions)	2010	2011	2012	2013E	2014E	2015E
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net income	281	378	495	582	700	810
Depreciation and Amortization	108	110	112	124	140	159
Loss / (Profit) on Sale of Investment Securities	-1	-1	0	0	0	0
Others	-35	-6	17	0	0	0
Accounts Receivable	-97	-81	-285	-146	-188	-192
Other Assets	27	-86	-71	-42	-54	-55
Current Liabilities	101	66	241	135	174	177
Changes in assets and liabilities, net	31	-101	-115	-53	-68	-69
Net cash provided by operating activities	383	380	509	654	772	900
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of Property and Equipment (net)	-132	-172	-179	-250	-250	-250
(Purchase) / Sale of Investments	-169	11	-51	-63	-100	0
Others	46	-12	0	-20	-26	-26
Net cash used in investing activities	-255	-173	-230	-332	-376	-276
Free Cash Flow From Operating Activities	252	208	330	404	522	650
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Proceeds from Issuance of Employees Stock Options	22	20	8	0	0	0
Dividend	-68	-115	-158	-147	-150	-155
Others	-79	-109	-71	-130	-163	-33
Net cash provided by (used in) financing activities	-124	-204	-220	-277	-314	-187
Effect of Exchange Rate on Cash and Cash Equivalents	9	13	-55	0	0	0
Net Increase/ (decrease) in Cash and Cash Equivalents	13	15	4	44	83	436
<b>CASH</b>						
Opening Cash	88	101	116	120	164	247
Closing Cash	101	116	120	164	247	683
Treasury Investments	425	385	338	400	500	500
Closing Cash and Investments	526	501	458	564	747	1,183

Source: BofA Merrill Lynch Global Research

## Proforma Combined P&L for Tech M, Satyam

Tech Mahindra announced integration with Satyam in March this year and expects to complete the process by H1CY13. With the share swap ratio having been decided, our recommendation is based on combined financials of the 2 companies.

Table 23: Tech M and Satyam P&L

	INRm	Combined				Tech Mahindra				Satyam			
		FY12	FY13E	FY14E	FY15E	FY12	FY13E	FY14E	FY15E	FY12	FY13E	FY14E	FY15E
Revenue (USDm)		2467	2652	3055	3463	1156	1216	1386	1525	1311	1437	1669	1938
%growth (yoy)		8%	7%	15%	13%	3%	5%	14%	10%	14%	10%	16%	16%
Revenue		116848	141706	160154	176608	52892	63844	71713	77790	63956	77863	88440	98817
%growth (yoy)		16%	21%	13%	10%	7%	21%	12%	8%	24%	22%	14%	12%
Personnel costs		68253	83138	95560	106839	28770	34023	38371	42302	39483	49115	57189	64537
%growth (yoy)		14%	22%	15%	12%	19%	18%	13%	10%	10%	24%	16%	13%
% of rev		58.4%	58.7%	59.7%	60.5%	54.4%	53.3%	53.5%	54.4%	61.7%	63.1%	64.7%	65.3%
Other op costs		31166	33603	37368	39926	16933	19917	22775	24115	14233	13687	14593	15811
%growth (yoy)		10%	8%	11%	7%	-1%	18%	14%	6%	27%	-4%	7%	8%
% of rev		26.7%	23.7%	23.3%	22.6%	32.0%	31.2%	31.8%	31.0%	22.3%	17.6%	16.5%	16.0%
EBITDA		17429	24965	27226	29843	7189	9904	10568	11373	10240	15061	16658	18470
%growth (yoy)		39%	43%	9%	10%	-10%	38%	7%	8%	128%	47%	11%	11%
% of rev		14.9%	17.6%	17.0%	16.9%	13.6%	15.5%	14.7%	14.6%	16.0%	19.3%	18.8%	18.7%
D&A		3190	3866	4323	4714	1613	1822	2001	2119	1577	2044	2322	2595
%growth (yoy)		1%	21%	12%	9%	12%	13%	10%	6%	-8%	30%	14%	12%
% of rev		2.7%	2.7%	2.7%	2.7%	3.1%	2.9%	2.8%	2.7%	2.5%	2.6%	2.6%	2.6%
EBIT		14239	21098	22903	25129	5576	8082	8566	9254	8663	13016	14336	15875
%growth (yoy)		52%	48%	9%	10%	-15%	45%	6%	8%	213%	50%	10%	11%
% of rev		12.2%	14.9%	14.3%	14.2%	10.5%	12.7%	11.9%	11.9%	13.5%	16.7%	16.2%	16.1%
Other income		4027	1546	3140	3441	-44	-1254	-426	-192	4071	2800	3567	3633
%growth (yoy)		36%	-62%	103%	10%	-125%	2736%	-66%	-55%	46%	-31%	27%	2%
% of rev		3.4%	1.1%	2.0%	1.9%	-0.1%	-2.0%	-0.6%	-0.2%	6.4%	3.6%	4.0%	3.7%
Exceptional expenses		-1773	0	0	0	-679	0	0	0	-1094	0	0	0
%growth (yoy)													
% of rev		-1.5%	0.0%	0.0%	0.0%	-1.3%	0.0%	0.0%	0.0%	-1.7%	0.0%	0.0%	0.0%
PBT		20038	22645	26043	28570	6210	6828	8140	9063	13828	15816	17903	19507
%growth (yoy)		239%	13%	15%	10%	-8%	10%	19%	11%	-1704%	14%	13%	9%
% of rev		17.1%	16.0%	16.3%	16.2%	11.7%	10.7%	11.4%	11.7%	21.6%	20.3%	20.2%	19.7%
Tax		2288	6315	6945	6961	1436	2093	2276	2084	852	4222	4670	4877
Minority interest		-48	70	40	40	36	0	0	0	-84	70	40	40
PAT		17798	16260	19058	21569	4738	4735	5865	6978	13061	11524	13193	14591
Adj: 1x costs		-3393	0	0	0	-679	0	0	0	-2714	0	0	0
Recurring PAT		14406	16260	19058	21569	4059	4735	5865	6978	10347	11524	13193	14591
%growth (yoy)		39%	12.9%	17.2%	13.2%	-25%	17%	24%	19%	110%	11%	14%	11%
% of rev		12.3%	11.5%	11.9%	12.2%	7.7%	7.4%	8.2%	9.0%	16.2%	14.8%	14.9%	14.8%
Rec EPS (ex treasury shares)		66.4	77.8	90.1	100.9								
%growth (yoy)			17.1%	15.9%	11.9%								

Source: BofA Merrill Lynch Global Research

## Tech Mahindra (Stand alone)

**Note:** We adjust standalone Tech M revenues so that the contract restructuring fees paid by BT are reflected by us in FY10, while company is recognizing this over 5 years i.e. FY10-14 as part of revenues. Hence, our standalone Tech M revenue projections do not factor in any restructuring fees from BT and would be lower, to that extent, than the revenue reported by Tech M. Consequently, even EBIT and PAT numbers would be ~25% lower than that reported by the company.

Table 24: P&L

Rs in mn	FY10	FY11	FY12	FY13E	FY14E	FY15E
Revenues	46,003	49,398	52,892	63,844	71,713	77,790
Personnel costs	20,584	24,256	28,770	34,023	38,371	42,302
% Sales	44.7%	49.1%	54.4%	53.3%	53.5%	54.4%
Operating and sub-contracting exps	11,280	13,627	13,385	14,995	17,265	18,281
% Sales	24.5%	27.6%	25.3%	23.5%	24.1%	23.5%
Travelling exps	3,093	3,486	3,548	4,921	5,510	5,834
% sales	6.7%	7.1%	6.7%	7.7%	7.7%	7.5%
Upfront cost (assumption based)	1,316	0	0	0	0	0
Total Expenditure	36,272	41,369	45,703	53,940	61,146	66,417
EBITDA	9,731	8,028	7,189	9,904	10,568	11,373
Depreciation	1,339	1,436	1,613	1,822	2,001	2,119
EBIT	8,392	6,593	5,576	8,082	8,566	9,254
% sales	18.2%	13.3%	10.5%	12.7%	11.9%	11.9%
Interest exp	2,157	999	1,412	984	991	991
Other & forex income	754	1,176	1,368	-270	565	800
Exceptional gain	-85	0	-679	0	0	0
PBT	6,905	6,770	4,853	6,828	8,140	9,063
Taxation	1,440	1,316	1,436	2,093	2,276	2,084
Minority interest	-28	-21	-36	0	0	0
Net profits (adj, ex Satyam)	5,437	5,433	3,380	4,735	5,865	6,978
Net profits (recurring, adj, ex Satyam)	5,522	5,433	4,059	4,735	5,865	6,978

Source: BofA Merrill Lynch Global Research

Table 25: Balance sheet

Rs in mn	FY10	FY11	FY12	FY13E	FY14E	FY15E
Share Capital	1,223	1,260	1,275	1,275	1,275	1,275
Reserves & Surplus	27,639	32,254	39,233	43,238	48,222	54,021
Total Shareholders Funds	28,864	33,514	40,509	44,514	49,498	55,296
Debt	7,500	6,000	6,000	5,000	5,000	5,000
Total Liabilities	50,352	51,737	52,685	56,652	61,636	67,434
Gross Block	11,312	12,783	15,094	17,794	20,494	23,194
Net Block	6,043	6,170	6,868	7,746	8,445	9,026
Capital Work in Progress	1,188	1,105	1,629	1,629	1,629	1,629
Investments (Liquid Mutual funds)	450	381	1,605	1,605	1,605	1,605
Sundry Debtors	10,420	12,468	13,172	15,899	17,859	19,372
Cash and Bank	2,187	2,666	2,418	3,891	7,033	11,081
Loans and Advances	8,745	8,315	4,845	5,484	6,201	6,979
Total Current Assets	21,366	23,455	20,437	25,278	31,097	37,437
Total Current Liabilities & Provn	8,665	8,711	13,122	14,875	16,409	17,531
Net Current Assets	12,701	14,744	7,315	10,403	14,688	19,906
Deferred Tax Assets	276	638	998	998	998	998
Total Assets	50,353	51,737	52,686	56,652	61,636	67,434

Source: BofA Merrill Lynch Global Research

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**Table 26: Cash flow**

Rs in mn	FY10	FY11	FY12	FY13E	FY14E	FY15E
Net Profit Before taxation	8,472	8,774	7,537	6,828	8,140	9,063
Depreciation	1,339	1,435	1,613	1,822	2,001	2,119
Operating profit before working capital changes	9,363	9,467	9,362	8,650	10,142	11,182
<b>Adjustments for:</b>						
Trade and Other receivables	-2,734	-3,009	-1,271	-3,366	-2,677	-2,291
Trade and Other Payables	32	-111	1,497	1,754	1,534	1,122
Others	0	0	0	-3	0	0
Cash generated from Operations	16,343	6,724	9,588	7,035	8,999	10,013
Direct Taxes	-1,840	-2,087	-2,471	-2,093	-2,276	-2,084
Net Cash from Operating activities	14,503	4,637	7,117	4,942	6,723	7,928
<b>Purchase of Fixed Assets</b>						
Purchase of Fixed Assets	-4,108	-1,534	-2,958	-2,700	-2,700	-2,700
Treasury investments	3,868	90	-1,193	0	0	0
Others	-29,685	110	-52	0	0	0
Cash used in investing activities	-29,925	-1,334	-4,203	-2,700	-2,700	-2,700
<b>Dividend (including dividend tax paid)</b>						
Dividend (including dividend tax paid)	0	-508	-591	-730	-881	-1,180
Loans raised	13,700	-1,560	-1,790	-39	0	0
Net cash used in financing activities	12,216	-2,867	-3,174	-769	-881	-1,180
Net increase in cash	-3,206	436	-260	1,473	3,142	4,048
Cash at the beginning of the year	5,358	2,213	2,649	2,418	3,891	7,033
Cash at the end of the year	2,213	2,649	2,389	3,891	7,033	11,081

Source: BofA Merrill Lynch Global Research

**Table 27: Key ratios**

	FY10	FY11	FY12	FY13E	FY14E	FY15E
<b>Growth %</b>						
Revenue	3%	7%	7%	21%	12%	15%
EBITDA	-4%	-17%	-10%	38%	7%	8%
EBIT	-7%	-21%	-15%	45%	6%	8%
Net Profit	-27%	0%	-38%	40%	24%	19%
<b>Profitability %</b>						
EBITDA	21.2%	16.3%	13.6%	15.5%	14.7%	14.6%
EBIT	18.2%	13.3%	10.5%	12.7%	11.9%	11.9%
Net Profit	32.9%	11.0%	6.4%	7.4%	8.2%	9.0%
<b>Return %</b>						
RONW	23%	17%	9%	11%	12%	13%
ROCE	24%	13%	13%	14%	15%	16%
<b>Per Share Data (Rs.)</b>						
EPS -basic	45.2	43.3	31.9	37.1	45.8	54.2
EPS -diluted	42.4	41.2	30.6	35.7	44.0	52.1
CEPS	135	55	39	51	61	71
BVPS	236	267	318	349	386	429
DPS	3.5	4.0	4.0	5.0	6.0	8.0

Source: BofA Merrill Lynch Global Research

## Satyam (stand alone)

Table 28: P&L

(Rs.mn), Year end March	FY10	FY11	FY12	FY13E	FY14E	FY15 E
Revenues INR m	54810	51450	63956	77863	88440	98817
Costs						
Employee cost (ex sub contractor)	39811	35758	39483	49115	57189	64537
Profit after employee cost	14999	15691	24473	28747	31251	34280
Operating and Administration expenses	10430	11204	14233	13687	14593	15811
Total costs	50241	46962	53716	62802	71782	80348
EBITDA	4569	4488	10240	15061	16658	18470
Depreciation	2144	1721	1577	2044	2322	2595
EBIT	2425	2767	8663	13016	14336	15875
Other income	1056	2879	4189	2925	3691	3749
Interest and financing charges	329	97	118	125	125	116
PBT before exceptionals	3152	5549	12734	15816	17903	19507
Exceptionals expenses	4169	6411	1620	0	0	0
PBT	-1017	-862	13828	15816	17903	19507
Tax expenses	222	579	852	4222	4670	4877
PAT	-1239	-1441	12976	11595	13233	14631
Minority interest	7	33	-84	70	40	40
PAT post minority interest	-1246	-1473	13061	11524	13193	14591
Recurring PAT	2923	4937	10347	11524	13193	14591

Source: BofA Merrill Lynch Global Research

Table 29: Key Ratios

	FY10	FY11	FY12	FY13E	FY14E	FY15 E
<b>Growth</b>						
Revenue- USD	-40%	0%	14%	10%	16%	16%
Revenue- INR	-38%	-6%	24%	22%	14%	12%
EBITDA	51%	-2%	128%	47%	11%	11%
EBIT	-1086%	14%	213%	50%	10%	11%
PAT- recurring	-258%	69%	110%	11%	14%	11%
<b>Margins %</b>						
Gross margin	27%	30%	38%	37%	35%	35%
EBITDA	8%	9%	16%	19%	19%	19%
EBIT	4%	5%	14%	17%	16%	16%
PAT	5%	10%	16%	15%	15%	15%
<b>Per Share Data</b>						
Diluted EPS (Rs.)	2	4	9	10	11	12
CEPS (Rs.)	4	6	10	12	13	15
<b>Return Ratios</b>						
ROANW	9%	16%	44%	32%	24%	24%
ROACE	14%	14%	20%	19%	17%	15%

Source: BofA Merrill Lynch Global Research

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**Table 30: Balance sheet**

(Rs.mn), Year end March	FY10	FY11	FY12	FY13E	FY14E	FY15E
<b>Liabilities</b>						
Capital	2352	2353	2354	2354	2354	2354
Reserves and surplus	43947	14895	27519	39044	52237	66827
<b>Networth</b>	<b>46300</b>	<b>17249</b>	<b>29873</b>	<b>41397</b>	<b>54591</b>	<b>69181</b>
Minority interest	201	234	150	220	260	300
Loan funds	422	220	233	233	233	233
Deferred tax liability	39	68	15	15	15	15
Amounts pending investigation suspense account	12304	12304	12304	12304	12304	12304
Long term provisions		6499	2940	2940	2940	2940
Others		6	28	28	28	28
<b>Total</b>	<b>59266</b>	<b>36580</b>	<b>45543</b>	<b>57137</b>	<b>70370</b>	<b>85001</b>
<b>Assets</b>						
Gross Block	25635	27731	30585	32385	34385	36685
Accumulated depreciation	19501	21272	22849	24893	27216	29810
Net Block	6134	6459	7736	7492	7169	6875
Capital WIP	3731	2349	2006	2006	2006	2006
<b>Net Fixed assets</b>	<b>9865</b>	<b>8808</b>	<b>9742</b>	<b>9498</b>	<b>9175</b>	<b>8881</b>
Investments	6268	0	350	350	350	350
Other assets	0	475	416	506	575	643
Deferred tax assets		81	1696	1696	1696	1696
Long term loans and advances		1804	1756	1756	1756	1756
<b>Total non current assets</b>	<b>16198</b>	<b>11168</b>	<b>13960</b>	<b>13806</b>	<b>13553</b>	<b>13325</b>
<b>Current assets</b>	<b>0</b>					<b>0</b>
Inventories	0	592	146	146	146	146
Debtors	9230	11260	14018	17279	19626	21929
Cash and bank balances	21768	27452	28519	38063	50412	64535
Other current assets	4956	8768	6076	7893	8965	10017
Loans and advances	3739	1863	6920	2920	3317	3706
<b>Total</b>	<b>39693</b>	<b>49935</b>	<b>55679</b>	<b>66301</b>	<b>82466</b>	<b>100333</b>
<b>Current liabilities</b>						
Liabilities	8712	15289	13957	11679	13266	14823
Provisions	15404	9234	10139	11290	12382	13834
<b>Total Current liabilities &amp; Provisions</b>	<b>24116</b>	<b>24523</b>	<b>24096</b>	<b>22970</b>	<b>25648</b>	<b>28657</b>
<b>Net current assets</b>	<b>15577</b>	<b>25412</b>	<b>31583</b>	<b>43332</b>	<b>56818</b>	<b>71676</b>
P&L account (Debit Balances)	27491	0	0	0	0	0
<b>Total</b>	<b>59266</b>	<b>36580</b>	<b>45543</b>	<b>57138</b>	<b>70371</b>	<b>85001</b>

Source: BofA Merrill Lynch Global Research



18 September 2012

**Table 31: Cash flow**

(Rs.mn) Year end March	FY10	FY11	FY12	FY13E	FY14E	FY15E
<b>Cash flow from operating activities</b>						
Profit (loss) before tax	-1017	-862	13828	15816	17903	19507
Depreciation/amortisation	2144	1721	1577	2044	2322	2595
ESOP exps	-181	-78	-143	0	0	0
Interest and financing charges	329	97	118	0	0	0
Interest/ dividend income	-534	-1290	-1861	0	0	0
Profit on sale of investment	-223	-387	-407	0	0	0
Liabilities/ provn no longer required written back	0	-403	-993	0	0	0
Advances written off	287	1	0	0	0	0
Loss on FA sold/ written off	-8	-5	48	0	0	0
Provn for capital WIP	0	53	-193	0	0	0
Provn for doubtful debts	354	146	515	0	0	0
Provn for doubtful advances	31	86	0	0	0	0
Provn for unexplained diff	20	0	0	0	0	0
Provn for warranties	-31	-1	-13	0	0	0
Provn for contingencies	0	0	170	0	0	0
Provn for losses in subsidiaries	0	294	103	0	0	0
Exceptional Item	2276	6210	-1094	0	0	0
Effect of exchange diff on translation of foreign currency cash and cash equivalents	261	-91	-463	0	0	0
<b>Operating profit before working capital</b>	<b>3708</b>	<b>5491</b>	<b>11192</b>	<b>17861</b>	<b>20225</b>	<b>22102</b>
<b>Changes in working capital</b>						
Inventories	10	-592	446	0	0	0
Sundry debtors	5912	-2015	-2927	-3261	-2347	-2303
Other assets	-1633	1152	-466	-1907	-1141	-1119
Loans and advance	492	312	-390	4000	-397	-389
Settlement amount transferred to escrow account	-3274	0	256	0	0	0
Current liabilities and provn	-4100	1500	113	-1126	2678	3009
Cash generation from operations	1108	-228	2044	15566	19018	21300
Taxes paid (net)	-945	-450	-957	-4222	-4670	-4877
Other adj	0	0	0	0	0	0
<b>Net cash from operating activities</b>	<b>163</b>	<b>-678</b>	<b>1087</b>	<b>11344</b>	<b>14349</b>	<b>16423</b>
<b>Cash flow from investing activities</b>						
Purchase of Fixed Assets	-1584	-2546	-2769	-1800	-2000	-2300
Proceeds from sale of Fixed Assets	633	67	50	0	0	0
Purchase of current investments- MF	-18498	-3000	-5910	0	0	0
Proceeds from sales of current investments-	12453	5307	10103	0	0	0
Purchase of interests in subsidiaries	-581	-596	-258	0	0	0
Investments in FDs with Banks	-15251	-74	64	0	0	0
Interest/ Div received	124	1120	1454	0	0	0
Others	500	140	193	0	0	0
<b>Net cash (Used in) Investing activities</b>	<b>-22204</b>	<b>418</b>	<b>2927</b>	<b>-1800</b>	<b>-2000</b>	<b>-2300</b>
<b>Cash flow from financing activities</b>						
Proceeds from issue of share capital	29084	1	1	0	0	0
Repayment from secured loans taken	-7667	-108	-22	0	0	0
Interest paid on loans	-382	-97	-118	0	0	0
Div Paid	0	0	0	0	0	0
<b>Net cash from financing activities</b>	<b>21036</b>	<b>-204</b>	<b>-139</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net (Decrease)/ Increase in cash &amp; cash equivalents</b>	<b>-1005</b>	<b>-464</b>	<b>3875</b>	<b>9544</b>	<b>12349</b>	<b>14123</b>
Cash and Cash equivalents at the beginning of the year	4644	18129	17756	28519	38063	50412
Effect of exchange diff on translation of foreigncurrency Cash and Cash Equiv	-261	91	463	0	0	0
<b>Cash and cash equivalents at the end of the year</b>	<b>3378</b>	<b>17756</b>	<b>28519</b>	<b>38063</b>	<b>50412</b>	<b>64535</b>

Source: BofA Merrill Lynch Global Research

## Investment thesis

### Infosys

Our Buy is based on likely recovery in revenue trajectory leading to its revenue growth gap vs peers narrowing and consequent stock re-rating. We are encouraged by management taking action to remedy gaps in its services portfolio, selling effort and execution and believe this is starting to yield results. Moreover, Infy is likely to be a key beneficiary of any pick up in discretionary IT spend as business confidence picks up. Medium term, its consulting and IP-led services approach promising.

### Mahindra Satyam Ltd

Our Buy rating on Mahindra Satyam is driven by improving revenue growth trajectory given increasing deal participation post restatement of accounts & sharpened focus on client mining. We also expect increased scale and productivity to lend margin support. Finally, post completion of merger, combined entity of Mahindra Satyam and Tech Mahindra should see re-rating on diversification of revenues, increased scale and stock liquidity.

### Tech Mahindra

Our Buy rating on Tech Mahindra is driven by strong traction in managed services deals in non-BT accounts. Its associate Mahindra Satyam, is also seeing improving revenue growth trajectory given increasing deal participation post restatement of accounts & sharpened focus on client mining. We also expect increased scale and productivity to lend margin support. Finally, post completion of merger, TechM should see re-rating on diversification of revenues, increased scale and stock liquidity.

## Price objective basis & risk

### HCL (XHCLF)

Our Price Objective of Rs675 is based on a 5-year PEG of 0.8x at 30% discount to Tier 1 peers, given the lower margins and historically, lower visibility. This implies a target FY14 PE of 13x. Apart from macro risks impacting IT spend, increasing competition, risk of Rupee appreciation and regulatory risks related to visa availability, key risks to our estimates stem from macro led delays in enterprise solutions spend, higher than expected investments by HCLT in business, higher than expected transition costs in recent large deal wins and Rupee appreciation.

### Infosys (INFYF)

Our price objective of Rs3,200 (ADR: US\$58) is based on a five-year PEG of 1.1x in line with global peers like Accenture and lower than its five-year median PEG of 1.4x given a more mature growth outlook. This implies a FY14 target PE multiple of 17x towards the lower end of its range of 14x to 25x.

The downside risks to our price objective stem from appreciation of the rupee, macro-shock led slowdown in discretionary IT services spend, slower-than-expected management execution and increasing competition. On the upside, risks stem from faster-than-expected recovery in discretionary IT spend.

### Mahindra Satyam Ltd (XSYAF)

Satyams Price Objective of Rs135 is derived from our Price Objective of Rs1,150 for Tech Mahindra and the announced swap ratio (2:17). Merger is awaiting court approval expected by year end. Apart from macro risks impacting IT spend,

increasing competition and risk of Rupee appreciation, key risks include slower than expected traction in deal wins, delays in discretionary IT spend such as on enterprise solutions to which Satyam is more exposed and consequently delayed productivity benefits.

### **Tata Consultancy (TACSF)**

Our Price Objective of Rs1,575 is derived from a 5yr PEG of 1.1x, in line with its peers. This implies a target FY14e PE of 19x, in line with its current FY13PE. Apart from macro risks impacting IT spend, increasing competition, risk of Rupee appreciation and regulatory risks related to visa availability, any shock to the banking sector, would impact TCS more than peers.

### **Tech Mahindra (TMHAF)**

Our PO of Rs1,150 (combined financials) is based on 5-yr PEG of 0.8x - a 30% discount to tier-1 vendors. Such a discount is fair, in our view, given the relatively small size of the firm and high revenue concentration to the telecom vertical.

PEG of 0.8x implies target FY14E PE of 12.8x

Our standalone Tech M earnings are adjusted (our numbers are lower than those reported) for BT contract restructuring fees reported (on the revenue line) by the company over FY10-14.

Downside risks: Sharper-than-expected decline in top client British Telecom, negative outcome in legal cases against Mahindra Satyam.

### **Wipro (WIPRF)**

Our PO of Rs420 is based on a target 5yr PEG of 1.1x implying a FY14 target PE of 15x. Stock currently at 15X FY13 PE. Upside risk from faster than expected large deal closures. Key downside risks include macro risks impacting IT spend, increasing competition, risk of Rupee appreciation and regulatory risks related to visa availability. Wipro is also more exposed to the telecom and technology vertical.

## **Link to Definitions**

### **Technology**

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

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	HCL	XHCLF	HCLT IN	Mitali Ghosh
	Hexaware Tech	XFTCF	HEXW IN	Kunal Tayal
	Infosys	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
	Mahindra Satyam Ltd	XSYAF	SCS IN	Mitali Ghosh
	Persistent Systems	XPSYF	PSYS IN	Kunal Tayal
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Tech Mahindra	TMHAF	TECHM IN	Mitali Ghosh
	WNS (Holdings) L	WNS	WNS US	Kunal Tayal
<b>NEUTRAL</b>				
	ExlService Holdi	EXLS	EXLS US	Mitali Ghosh
	Wipro	WIPRF	WPRO IN	Mitali Ghosh
	Wipro	WIT	WIT US	Mitali Ghosh
<b>UNDERPERFORM</b>				
	Genpact Ltd	G	G US	Mitali Ghosh
	Mphasis Ltd	MPSSF	MPHL IN	Kunal Tayal

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	111	51.15%	Buy	81	76.42%
Neutral	64	29.49%	Neutral	44	83.02%
Sell	42	19.35%	Sell	25	60.98%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1913	50.14%	Buy	1294	73.40%
Neutral	994	26.06%	Neutral	628	70.09%
Sell	908	23.80%	Sell	513	60.71%

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

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