

## India Ahead of the Pack

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#### J.P. Morgan Daily Valuations

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#### India

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J.P. Morgan India Private Limited

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## Pantaloon Retail (India) Ltd

### New fund raising plans announced - ALERT

### Neutral

PART.BO, PF IN

Price: Rs184.85

13 April 2009

- Pantaloon announced its plans to raise capital amounting to Rs3.7bn. The funds would be raised via: 1) issue of fresh equity amounting to Rs2.76bn, and 2) issue of 5mn warrants amounting to Rs915mn to promoters and their associates.
- We believe these funds will be primarily used to fund its rising capex needs. Currently, the company has 10.7mn sq ft of operational retail space (Pantaloon Retail and Home Retail combined) and we expect it to add another 5mn sq ft of space by FY11. Assuming an average capex/sq ft of Rs1,500, we estimate this will result in a minimum capex requirement of Rs7.5bn.
- This fund raising exercise would entail an equity dilution of 9.5% by fresh equity issuance and another 3% by potential warrant conversion. Our preliminary estimates suggest that the impact on EPS would be negligible if the execution plans remain on track.
- The company's board also approved the sale/transfer of the retail and fashion division of the company to its wholly owned subsidiaries. Management indicated that it could potentially divest stake in the subsidiaries to investors at a later stage when market conditions improve.
- The company's name is also proposed to be changed to "Future Markets and Consumer Group Limited".
- We maintain our Neutral rating on the stock.

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#### Broadlines/Department Stores

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## Tech Mahindra Ltd.

Buys Satyam for US\$575mn, Limited details make it difficult to ascertain potential impact, Recommend focusing on top tier players - ALERT

## Overweight

TEML.BO, TECHM.IN

Price: Rs359.45

13 April 2009

- **Tech Mahindra (TM) buys Satyam – strategic positive for both:** TM emerged as the highest bidder for Satyam at Rs58/share (total outlay of ~US\$575mn). We believe that the deal is strategically positive for both TM and Satyam. For TM, it adds significantly to its size and relative positioning in the Indian IT sector - FY10E revenues of US\$950mn against Satyam's expected revenues of ~US\$1 - 1.3bn. Hence it makes TM the fifth largest offshore player (after TCS, Infosys, Wipro and Cognizant). Further, it diversifies TM's one vertical focus on telecom and reduces customer concentration. For Satyam, it provides an IT company parent that should provide comfort to customers, in our view.
- **Deal details:** TM would issue 303mn new shares to take up a 31% stake in Satyam. This would involve cash outlay of US\$350mn (Rs17.6bn). In addition, TM would make an open offer for an additional 20% of post issue equity leading to another potential investment of US\$ 225mn (Rs 11.3bn). TM had cash of US\$110mn (Rs5.5bn) at end of Dec-08 quarter. Hence TM would have to take debt to fund this transaction. Details of the same are not yet known.
- **Financial implication uncertain:** Given the lack of financial data on Satyam (P&L, cash flow, balance sheet) and uncertainty on extent of potential legal liabilities, financial implications for TM are difficult to analyze. Our broad calculations indicate that the deal will be mildly EPS accretive for TM in case of no legal liabilities from Satyam.
- **Integration another challenge:** Given Satyam's huge number of employees (43,000+ employees), integration would be a challenge in the near-term, in our view. We look for more details on TM on the integration roadmap.
- **Investment view:** TM stock is trading at FY10E P/E of 6x on standalone numbers (excluding Satyam) and is not expensive compared to its peer group, in our view. However extent of legal liabilities from Satyam and integration challenges make it difficult to ascertain the potential impact of the Satyam deal and hence we would advise investors to wait for more clarity before taking a firm view on the stock. We continue to believe that the top tier Indian IT players (Infosys, TCS and Wipro) remain the better way to play the Indian IT sector.

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Table 1: Calculation of Tech Mahindra's investment in Satyam - for the winning bid

	Fresh equity infusion of 31%, via preferential offer	Open offer for 20% of post-issue equity	Total Investment
Satyam shares o/s (million)	673.9	976.7	976.7
Shares acquired	302.8	195.3	498.1
% acquired	31.00	20.00	51.00
Avg cost of acquisition (Rs)	58.00	58.00	58.00
Amt invested (Rs M)	17,560	11,329	28,890
Amt invested (US\$ M)	351.2	226.6	577.8

Source: Company reports and J.P. Morgan estimates. Exchange rate assumed is Rs 50/\$.

Table 2: Deal could be EPS accretive based on broad assumptions

Rs MM	Tech Mahindra FY10E	Satyam FY10E*	Combined entity FY10E
Revenue	43,973	50,000	93,973
EBIT	8,082	5,000	13,082
EBIT margin	18.4%	10.0%	13.9%
PBT	8,747	5,000	11,724
PAT before minority interest	7,697	4,250	10,200
Minority interest			2,083
PAT			8,118
PAT margin	17.5%	8.5%	8.6%
Shares o/s	121.7	976.7	121.7
EPS	63.2	4.4	66.7
EPS accretion			5%

Source: J.P. Morgan estimates.

\*Assumptions: (1) Satyam has revenues of US\$1Bn with EBIT margin of 10% in FY10. (2) Tax rate for Satyam's business is 15%. (3) TM raises debt of \$575m at interest rate of 7%.

## India Telecom

Another record month for GSM subscriber net adds, Vodafone beats Bharti; Recommend selling in current rally - ALERT

- **Record GSM net adds in March:** GSM net adds were at 10.85MM in Mar-09 vs. 9.18MM in Feb-09 (excluding RCOM), up 18% M/M; we have assumed that RCOM's GSM subscribers were the same as Feb-09 (Mar-09 numbers have not been disclosed yet). The subscriber number jumped largely due to the seasonal strength in BSNL numbers.
- **Bharti net adds increased slightly from 2.73 MM in Feb-09 to 2.81 MM; however, net add market share was lower at 26% compared to 30% in Feb-09.** While Bharti continues to sustain its absolute net-adds, the relative market share will continue to fall in our view.
- **Vodafone net adds exceeds that of Bharti for the first time in five years:** Vodafone added 2.85 MM subscribers (2.58MM in Feb-09) compared to 2.81 MM for Bharti. **Idea net-adds remained largely stable M/M at 1.5MM (including Spice).**
- **BSNL net adds show seasonal strength:** The company added 2.5MM in Mar-09 vs. 1.5MM/1.3MM in Feb-09/Jan-09. BSNL has shown strong net adds in the March quarter (and specifically the March month) over the last several years. We expect the net adds to taper off in the coming months.
- **J.P. Morgan investment view:** Subscriber net-adds continue to surprise on the upside indicating the mobile under-penetration in India and the fast expanding reach of operators that is getting new subscribers. However, we believe that a number of incremental subscribers are coming from rural areas with lower ARPUs and hence revenue addition to the sector is far lower than subscriber addition. With stocks having bounced sharply along with the stock market, we remain cautious on the sector and recommend that investors book profits at current levels.

### GSM subscriber growth in Mar-09

Total subs ('000)	Mar-09	Feb-09	M/M change	Mar-08	Y/Y change
Bharti	93,923	91,115	3.1%	61,985	51.5%
VOD-Essar	68,769	65,921	4.3%	44,126	55.8%
BSNL	46,684	44,181	5.7%	36,210	28.9%
Idea [a]	43,023	41,519	3.6%	28,212	52.5%
Aircel	18,478	17,477	5.7%	10,610	74.2%
RCOM – GSM [b]	11,145	11,145	0.0%	7,016	58.8%
MTNL	4,177	4,085	2.3%	3,242	28.8%
<b>Total</b>	<b>288,363</b>	<b>277,515</b>	<b>3.9%</b>	<b>192,696</b>	<b>49.6%</b>
<b>Net adds</b>	<b>10,848</b>	<b>9,586</b>	<b>13.2%</b>	<b>7,680</b>	<b>41.3%</b>

Source: COAI. [a] Including Spice circles. [b] RCOM's Mar-09 GSM net adds are not available yet (assumed same as in Feb-09).

### Telecom

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### GSM net adds in Mar-09

Subscribers in 000s

Net Adds ('000)	Feb-09	Jan-09	M/M
Bharti	2,808	2,732	2.8%
VOD-Essar	2,848	2,581	10.3%
BSNL	2,503	1,508	66.0%
Idea [a]	1,504	1,502	0.1%
Aircel	1,001	716	39.9%
RCOM [b]			-
	0	391	100.0%
MTNL	92	81	13.7%
<b>Total</b>	<b>10,848</b>	<b>9,586</b>	<b>13.2%</b>

Source: COAI, Company data. [a] Including Spice circles. [b] Mar-09 GSM numbers not yet disclosed by RCOM; assumed to be same as in Feb-09.

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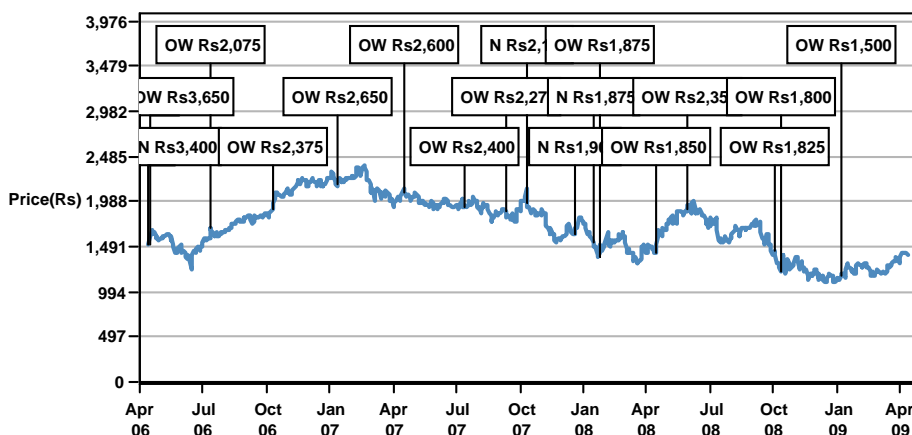
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Infosys Technologies (INFY.BO) Price Chart



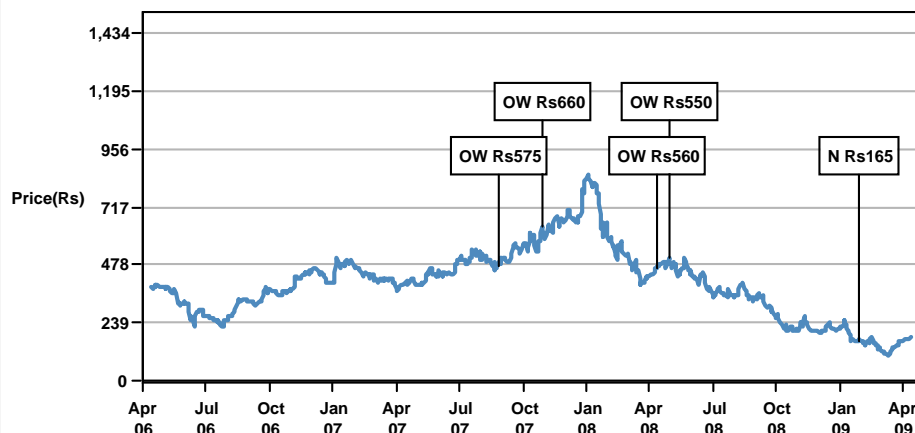
Date	Rating	Share Price (Rs)	Price Target (Rs)
14-Apr-06	N	1510.40	3400.00
17-Apr-06	OW	1510.40	3650.00
13-Jul-06	OW	1693.22	2075.00
11-Oct-06	OW	1906.00	2375.00
12-Jan-07	OW	2183.00	2650.00
16-Apr-07	OW	2087.60	2600.00
12-Jul-07	OW	1929.70	2400.00
10-Sep-07	OW	1871.50	2275.00
12-Oct-07	N	1976.00	2150.00
18-Dec-07	N	1621.95	1900.00
14-Jan-08	N	1530.20	1875.00
23-Jan-08	OW	1377.55	1875.00
15-Apr-08	OW	1422.45	1850.00
29-May-08	OW	1912.65	2350.00
02-Oct-08	OW	1453.90	1825.00
11-Oct-08	OW	1226.70	1800.00
06-Jan-09	OW	1174.45	1500.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.

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J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Pantaloen Retail (India) Ltd (PART.BO) Price Chart



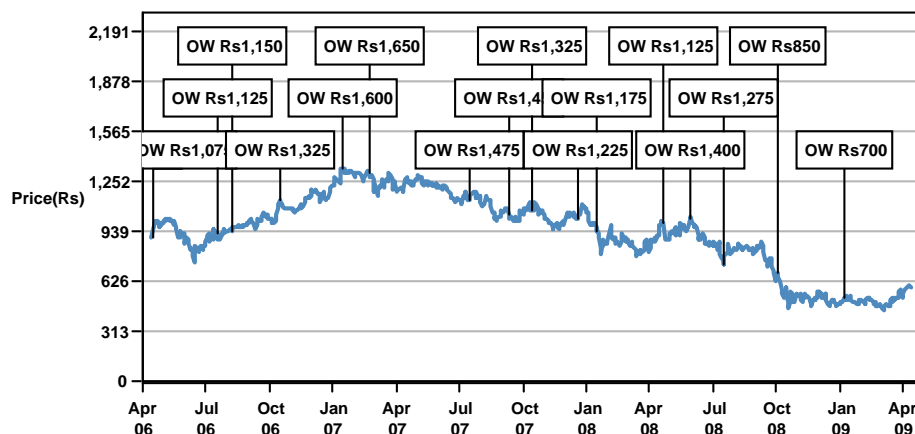
Date	Rating	Share Price (Rs)	Price Target (Rs)
27-Aug-07	OW	469.80	575.00
28-Oct-07	OW	639.90	660.00
10-Apr-08	OW	463.20	560.00
28-Apr-08	OW	506.00	550.00
27-Jan-09	N	160.95	165.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.

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Tata Consultancy Services (TCS.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
17-Apr-06	OW	898.42	1075.00
19-Jul-06	OW	920.88	1125.00
08-Aug-06	OW	936.00	1150.00
16-Oct-06	OW	1130.45	1325.00
15-Jan-07	OW	1327.90	1600.00
21-Feb-07	OW	1297.20	1650.00
16-Jul-07	OW	1127.90	1475.00
10-Sep-07	OW	1046.95	1450.00
15-Oct-07	OW	1073.65	1325.00
20-Dec-07	OW	1021.35	1225.00
16-Jan-08	OW	938.25	1175.00
21-Apr-08	OW	992.55	1125.00
29-May-08	OW	1009.70	1400.00
17-Jul-08	OW	727.35	1275.00
02-Oct-08	OW	671.00	850.00
06-Jan-09	OW	515.00	700.00

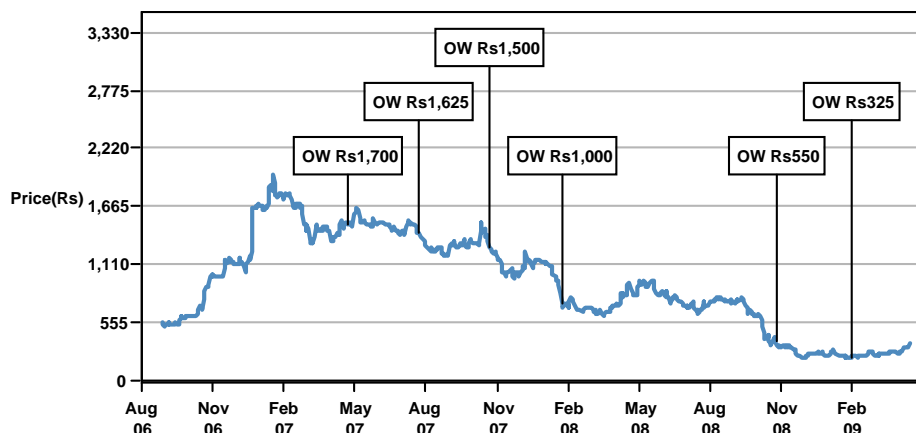
Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.

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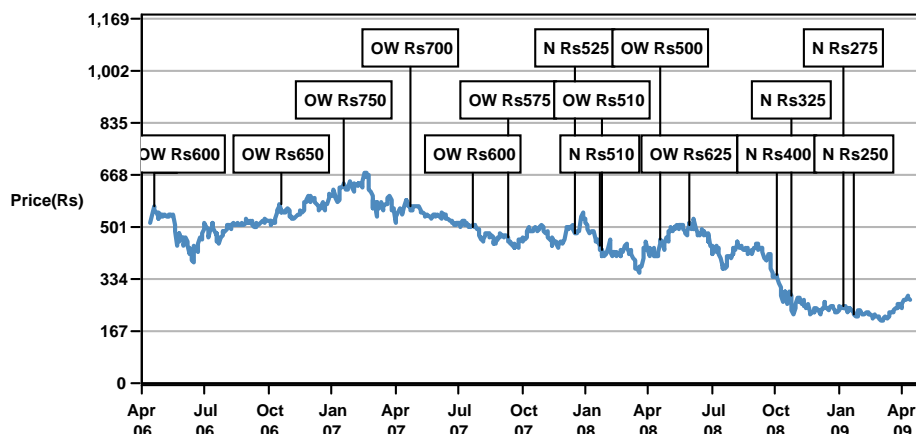
Tech Mahindra Ltd. (TEML.BO) Price Chart



Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Apr 24, 2007. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.  
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Date	Rating	Share Price (Rs)	Price Target (Rs)
24-Apr-07	OW	1499.15	1700.00
24-Jul-07	OW	1417.10	1625.00
22-Oct-07	OW	1264.70	1500.00
23-Jan-08	OW	727.05	1000.00
24-Oct-08	OW	376.10	550.00
28-Jan-09	OW	215.90	325.00

Wipro Ltd. (WIPR.BO) Price Chart



Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.  
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J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Date	Rating	Share Price (Rs)	Price Target (Rs)
19-Apr-06	OW	570.15	600.00
18-Oct-06	OW	574.70	650.00
17-Jan-07	OW	636.85	750.00
23-Apr-07	OW	567.00	700.00
22-Jul-07	OW	505.05	600.00
10-Sep-07	OW	466.95	575.00
17-Dec-07	N	484.60	525.00
21-Jan-08	N	439.80	510.00
23-Jan-08	OW	428.85	510.00
18-Apr-08	OW	459.20	500.00
29-May-08	OW	506.15	625.00
02-Oct-08	N	349.10	400.00
23-Oct-08	N	279.25	325.00
06-Jan-09	N	245.65	275.00
22-Jan-09	N	219.75	250.00

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IB clients*	54%	54%	42%
JPM SI Equity Research Coverage	35%	51%	14%
IB clients*	75%	73%	57%

\*Percentage of investment banking clients in each rating category.

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