

Morgan Stanley India Company
Private Limited+

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Stock Rating
Underweight

Industry View
Cautious

Tech Mahindra Limited

Satyam Consolidation

Unlikely before 2010; Rising Uncertainty on BT; UW

Quick Comment: Satyam and TechM are likely to remain separate entities for the next two years, according to TechM management, and TechM would probably consolidate Satyam financials once restated numbers are available by end-2009. In the core business, execution of large deals with BT lags expectations, and management indicated that outlook for BT revenues could remain challenging in Q1FY10. Any potential benefits to TechM due to Satyam could be at least 12-18 months away, in our view. Maintain UW.

What's new: Revenues of Rs10.5bn (-7%qoq, +3%yoy) were below our and Street estimates. EBIT were Rs2.55bn (-11.7%qoq, 28%yoy) with margins at 24.3% (-125bps qoq, +479bps yoy). Net profit of Rs2.3bn (3.5%qoq, 5.3%yoy) was also below our estimates.

Conference call highlights: Top client contribution declined to 52% of revenues. Uncertainty in Barcelona deal led to revenues declining from £22m in Q309 to £19m in Q4FY09 (£87m in total revenues over last five quarters). Mgmt indicated that ramp-ups in Barcelona deal would be lower than its earlier expectations, and overall 17% qoq decline in Q4 BT revenues was less than management expected. BPO revenues declined due to one-time project endings. While management stated that it was expecting an 18-20% or greater qoq decline in BT revenues, it had not indicated so earlier.

Satyam Update: 1) TechM has raised debt of Rs20bn at average coupon rate of 11%; 2) Hiring from campus (5,000 campus offers) postponed for a short period (two quarters). 3) Satyam had 30-35% client attrition. Over all, we believe that Tech Mah remains a relatively unknown brand with IT clients (compared with larger peers). Moreover, turning around the Satyam business and scaling it up remain a twofold challenge for TechM/Satyam, in our view.

Key Ratios and Statistics

Reuters: **TEML.BO** Bloomberg: **TECHM IN**
India Software

Price target	Rs240.00
Upside to price target (%)	(27)
Shr price, close (Apr 27, 2009)	Rs328.35
52-Week Range	Rs990.00-203.70
Sh out, dil, curr (mn)	131
Mkt cap, curr (mn)	Rs42,923
EV, curr (mn)	Rs41,725
Avg daily trading value (mn)	Rs51

Fiscal Year ending	03/08	03/09e	03/10e	03/11e
ModelWare EPS (Rs)	58.90	74.11	59.53	53.45
Consensus EPS (Rs)§	57.27	72.77	65.41	63.92
Revenue, net (Rs mn)	37,661	45,439	42,664	44,116
EBITDA (Rs mn)	8,257	12,419	9,813	9,757
ModelWare net inc (Rs mn)	7,700	9,711	7,919	7,218
P/E	12.0	3.6	5.5	6.1
P/BV	7.4	1.6	1.5	1.3
RNOA (%)	86.9	88.4	60.8	53.2
ROE (%)	83.8	77.2	36.9	25.4
EV/EBITDA	11.0	2.1	2.8	2.2
Div yld (%)	0.8	2.3	2.1	2.4
Leverage (EOP) (%)	(10.4)	(42.7)	(55.0)	(61.3)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
e = Morgan Stanley Research estimates

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Exhibit 1

Tech Mahindra: Mar09 Income Statement (Rs m, %)

Year to March 31st	Mar-08	Dec-08	Mar-09	QoQ	YoY	Comments
Revenue	10,218	11,322	10,513	-7.1%	2.9%	Vol(+2% qoq), Px(-2.5% qoq), Fx/others(-6.5% qoq)
Cost of Services	6,560	6,572	6,114	-7.0%	-6.8%	
Gross Profit	3,658	4,750	4,399	-7.4%	20.3%	
<i>Gross Margins (%)</i>	<i>35.8%</i>	<i>42.0%</i>	<i>41.8%</i>	<i>-11 bps</i>	<i>604 bps</i>	
SG&A	1,434	1,570	1,557	-0.8%	8.6%	
EBIDTA	2,224	3,180	2,842	-10.6%	27.8%	Includes one time write back of Rs250m (2.4% of revenues) <i>Excl write back of Rs250m, margins of 24.7%(-343bps qoq,+289bps yoy)</i>
<i>EBIDTA Margins (%)</i>	<i>21.8%</i>	<i>28.1%</i>	<i>27.0%</i>	<i>-105 bps</i>	<i>527 bps</i>	
Depreciation	229	286	286	0.0%	24.9%	
Operating Profit	1,995	2,894	2,556	-11.7%	28.1%	
<i>Operating Margins (%)</i>	<i>19.5%</i>	<i>25.6%</i>	<i>24.3%</i>	<i>-125 bps</i>	<i>479 bps</i>	<i>Includes Int & div income of Rs50m, Rental income of Rs10m, Service tax refund of Rs20m, Provision write back of Rs60m, others Rs 18m, Fx loss of Rs70m</i>
Other Income	364	(397)	78	-119.6%	-78.6%	
Interest	5	-	23	NM	360.0%	
PBT	2,354	2,497	2,611	4.6%	10.9%	
Tax	165	269	306	13.8%	85.5%	
<i>Tax rate (%)</i>	<i>7.0%</i>	<i>10.8%</i>	<i>11.7%</i>	<i>95 bps</i>	<i>471 bps</i>	
PAT	2,189	2,228	2,305	3.5%	5.3%	
Minority Interest	(1)	1	(1)	-180.0%	-20.0%	
Profit after minority int	2,188	2,229	2,304	3.4%	5.3%	
Extraord	(4,401)	-	-	NM	NM	Excluding onetime write back of Rs250m in employee costs PAT declined by -8% qoq
PAT after XO items	(2,213)	2,229	2,304	3.4%	NM	
EPS, Basic (Rs)	18.0	18.3	19.0	3.4%	5.1%	
EPS, Diluted (Rs)	16.7	17.2	17.9	4.4%	7.0%	

Source: Company data, Morgan Stanley Research

Key Result Positives: 1) Top 10 clients excluding the top client grew faster than overall revenue did and now account for 32% of revenues (+800bps yoy); 2) Strong growth in US (+5.2% qoq, +23.1% yoy); 3) We believe AT&T grew 15% yoy in FY09 but was flattish for the last two quarters; it currently works with Tech M in six major areas including recently started BPO project with 120 people.

Key Result Negatives: 1) Management indicated that core BT revenues have not yet bottomed and could decline further from here (~£58m); 2) Revenues from BTGS Barcelona deal (£500m) declined ~23% qoq, as a few projects with BTGS have been suspended, and current quarterly run rate is £18-20m; 3)

Revenues from Andes deal delayed further and are now expected to be reflected from next quarter onwards as against Q4FY09 earlier.

Other Highlights: 1) Hedge position of £270m at US\$1.88/£ and US\$700m at Rs43.63/US\$; 2) Continental Europe accounts for ~10% of total revenues, while BT and other UK businesses together account for ~60% of total revenues; 3) Tech Talenta started with ~500 FTEs but is currently running at ~350 FTEs due to vendor consolidation by clients; 4) Employee costs include one-time provision writebacks of Rs250m in 4Q09; 5) Cash and cash equivalents of Rs10bn (US\$200m) as on 31 March 2009.

April 27, 2009
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Exhibit 2

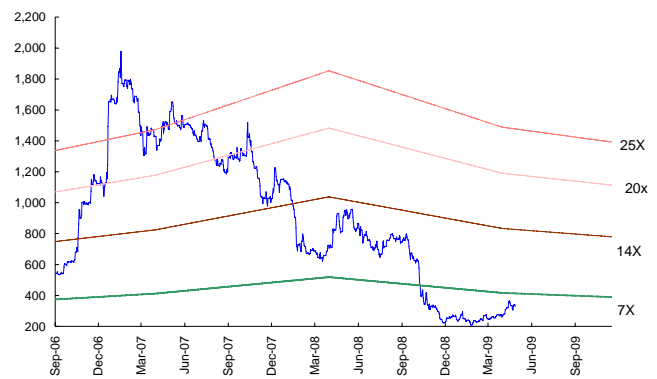
Tech Mahindra: Mar09 Operating Metrics

Year Ending 31 March	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Geography (%)								
North America	19	19	20	20	22	23	26	30
Europe	74	75	70	75	72	69	65	62
Others	7	6	10	5	6	8	9	8
Client Conc (%)								
Top client's	64	65	61	65	63	60	57	52
Top 5 clients'	85	86	82	83	84	82	79	78
Top 10 clients'	90	89	88	89	90	89	87	84
New Clients								
Total Clients	87	96	105	107	110	110	110	108
Net Clients Added	4	9	9	2	3	0	0	-2
>\$1 Million Customers	31	32	41	44	44	45	46	44
>\$5 Mn clients	9	12	12	13	12	14	14	13
>\$10 Mn clients	6	6	6	6	7	8	8	8
>\$20 Mn clients	3	3	3	3	4	4	4	4
>\$25 Mn clients	3	3	3	3	3	4	4	4
>\$50 Mn clients	2	2	2	2	2	2	2	2
Utilization Rates (%)								
Including Trainees	67	63	69	73	74	69	67	70
Staff								
Technical People	18,092	18,883	18,448	18,430	19,386	20,273	20,779	20,060
Sales & support people	1,035	1,026	1,003	1,009	1,101	1,128	1,123	1,143
BPO Professionals	2,019	3,191	3,704	3,445	3,882	3,734	3,527	3,769
Total Employees	21,146	23,100	23,155	22,884	24,369	25,135	25,429	24,972
Net addition	1,397	1,954	55	(271)	1,485	766	294	(457)
Delivery (%)								
Offshore	57	55	56	58	60	60	60	61
Onsite	43	45	44	42	40	40	40	39

Source: Company data, Morgan Stanley Research

Exhibit 3

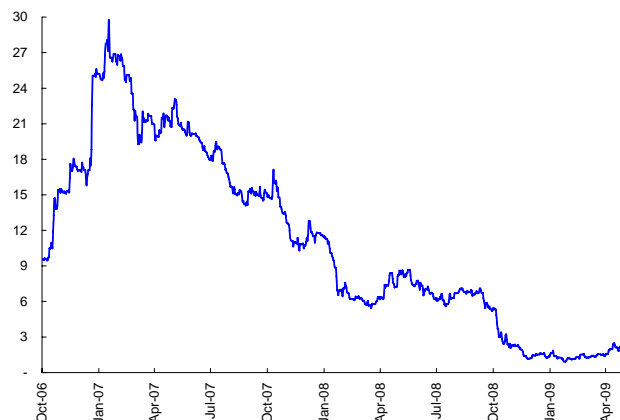
Tech Mahindra: 1-year Forward P/E Band



Source: Bloomberg, Company data, Morgan Stanley Research

Exhibit 4

Tech Mahindra: EV/EBITDA

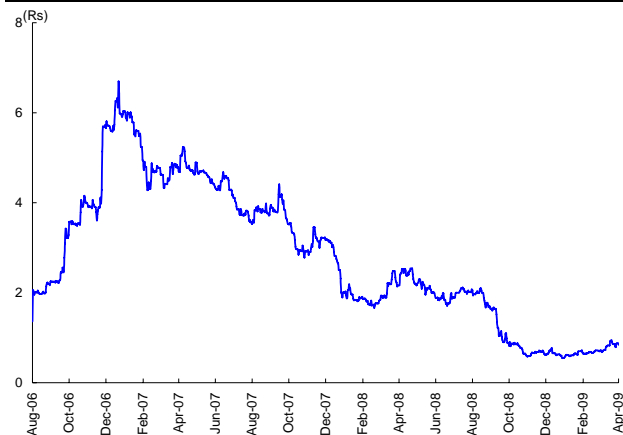


Source: Bloomberg, Company data, Morgan Stanley Research

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Exhibit 5

Tech Mahindra: Price to Sales



Source: Bloomberg, Company data, Morgan Stanley Research

Exhibit 6

Tech Mahindra: Comparative Price Performance (%)

Comp Peers/Index	1d	1w	1m	3m	6m	1yr	Ytd
HCL TECH	0.6	-6.8	21.6	13.4	-4.7	-51.1	10.7
INFOSYS	-0.9	3.0	6.8	14.7	14.7	-13.8	28.7
TCS	3.1	7.2	4.7	20.6	21.2	-32.3	25.9
WIPRO	4.4	19.1	28.8	44.2	48.4	-30.1	39.7
SATYAM	2.4	1.0	12.9	2.0	-83.2	-89.2	-71.8
TECH MAHINDRA	-3.3	-1.5	19.3	52.3	5.1	-59.6	32.8
I-FLEX	-3.7	2.6	13.3	52.8	82.7	-35.1	88.9
MPHASIS	-3.7	-2.0	8.4	44.7	33.5	-5.0	39.4
POLARIS	-2.6	-6.8	32.2	48.5	60.4	-37.0	47.7
PATNI	-2.7	-2.9	23.6	32.8	12.4	-39.2	17.7
HEXAWARE	-0.6	-2.7	20.8	59.6	68.4	-56.1	51.7
MINDTREE	0.0	0.7	22.3	19.4	3.1	-43.9	7.0
E-CLERX	-0.9	-1.4	45.5	84.2	120.5	-37.8	88.2
EDUCOMP	0.9	9.1	17.3	50.2	39.9	-37.5	7.5
HCL INFO	-0.4	-1.1	24.4	22.4	15.0	-50.7	1.5
INFOEDGE	0.7	-2.6	24.4	27.3	28.8	-41.2	30.6
KPIT CUMMINS	3.0	1.0	54.5	89.2	54.5	-62.5	48.8
MASTEK	-2.4	-1.1	25.9	5.2	-30.5	-55.6	-9.3
NIIT LTD	0.5	3.1	33.3	27.5	9.1	-71.8	6.2
NUCLEUS SOFT	5.0	-0.8	32.4	36.7	25.0	-73.9	42.5
SASKEN	-2.0	-6.0	18.2	60.4	3.5	-59.5	18.1
SUBEX	0.0	-3.5	22.4	11.8	-4.0	-85.6	-9.1
TANLA	-9.2	4.5	83.2	18.9	-40.0	-81.5	-31.5
BSE SENSEX	0.4	3.6	13.2	26.3	33.6	-33.6	17.9
MSCI INDIA IT IND	0.2	4.6	8.6	17.4	2.2	-31.7	18.2
NASDAQ COMP	2.5	1.3	9.6	12.6	12.5	-30.1	7.4

Source: Bloomberg, Morgan Stanley Research; Based on prices closed on 27th April 2009 for India-listed stocks and 24th April 2009 for Nasdaq Comp.

Exhibit 7

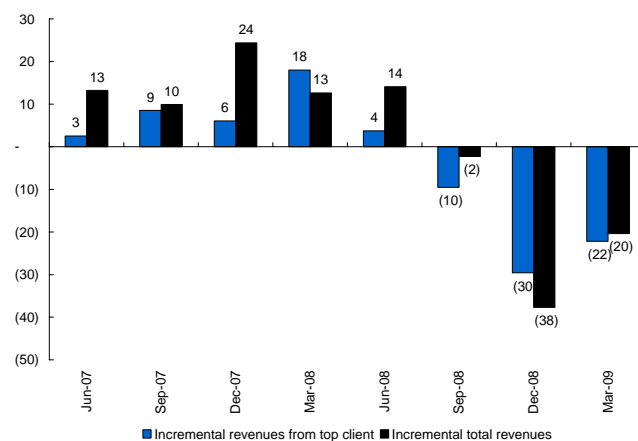
Tech Mahindra: Decline in BPO revenues led by one-time projects ending during the quarter

Segmental Performance	Mar-09	% qoq	% yoy
Revenues (Rs m)			
TSP	8,928	-9.0%	-2.1%
TEM	720	15.4%	65.8%
BPO	537	-20.5%	11.8%
Others	328	52.0%	80.1%
Total	10,513	-7.1%	2.9%
Gross Profits (Rs m)			
TSP	3,806	-9.2%	13.6%
TEM	258	60.9%	209.7%
BPO	238	-27.8%	36.8%
Others	97	41.1%	92.3%
Total	4,399	-7.4%	20.2%
Gross Margins(%)			
TSP	42.6	-11 bps	589 bps
TEM	35.9	1014 bps	1668 bps
BPO	44.3	-452 bps	809 bps
Others	29.6	-228 bps	187 bps
Total	41.8	-11 bps	604 bps

Source: Company data, Morgan Stanley Research

Exhibit 8

Decline in total revenues led by top client (US\$ m)



Source: Company data, Morgan Stanley Research

Exhibit 9

Software Valuations: P/E and PEG Ratio

Company	Ticker	Curr	Price (Local)	M Cap (\$mil)	EPS (Respective Currency)			P/E (x)			EPS Growth			EPS CAGR	PEG
					FY08	FY09e	FY10e	FY08	FY09e	FY10e	FY08	FY09e	FY10e	08-10	
US Listed															
Accenture*	ACN	USD	29	17,814	2.8	2.6	2.7	10.4	11.1	10.9	32.2%	-6.5%	2.6%	NM	NM
Amdocs*	DOX	USD	21	4,288	1.7	1.9	1.9	12.8	11.2	10.8	NM	13.6%	3.7%	8.6%	1.3
Cognizant Solutions*	CTSH	USD	23	6,726	1.2	1.5	1.5	20.0	15.7	14.9	48.4%	27.6%	5.0%	15.8%	1.0
Computer Sciences *	CSC	USD	37	5,639	3.8	4.0	4.1	9.7	9.3	9.0	11.6%	4.6%	2.7%	3.6%	2.6
Infosys - ADR	INFY	USD	29	16,457	2.0	2.2	2.0	14.2	13.3	14.2	32.7%	6.0%	NM	NM	NM
Patni - ADR	PTI	USD	7	464	1.7	1.3	1.0	4.3	5.7	7.6	15.0%	-24.2%	-25.0%	-24.6%	NM
Wipro - ADR	WIT	USD	9	13,645	0.6	0.5	0.5	16.6	18.1	18.2	25.1%	-8.5%	NM	-4.4%	NM
European Listed															
Cap Gemini	CAP	EUR	27	5,214	2.4	2.9	2.4	11.4	9.5	11.3	54.2%	20.2%	-16.3%	0.3%	31.2
Logica PLC	LOG	GBp	76	1,775	10.4	10.5	8.3	7.3	7.2	9.1	24.4%	0.2%	-20.9%	-11.0%	NM
India Listed															
HCL Tech	HCLT	INR	127	1,754	19.9	16.2	13.6	6.4	7.9	9.4	25.5%	NM	-16.1%	-17.3%	NM
Hexaware	HEXW	INR	32	93	7.7	4.1	3.4	4.2	7.8	9.6	-15.9%	-46.5%	-18.2%	-33.8%	NM
Infosys - Local	INFO	INR	1,433	16,535	81.3	104.4	98.1	17.6	13.7	14.6	23.8%	28.5%	-6.0%	9.9%	1.4
MindTree*	MTCL	INR	252	198	26.7	21.5	39.5	9.4	11.8	6.4	-3.4%	-19.8%	84.0%	21.5%	0.5
Mphasis @	MPHL	INR	217	913	12.2	14.1	31.8	17.8	15.4	6.8	41.5%	98.4%	31.8%	61.7%	0.2
Patni - Local	PATNI	INR	153	418	33.3	27.1	23.1	4.6	5.6	6.6	29.5%	-18.6%	-14.6%	-16.6%	NM
TCS	TCS	INR	603	11,906	51.3	53.5	53.2	11.8	11.3	11.3	21.5%	4.2%	-0.5%	1.9%	6.1
Tech Mahindra	TECHM	INR	328	865	58.9	74.1	59.5	5.6	4.4	5.5	18.8%	25.8%	-19.7%	0.5%	8.4
Wipro - Local	WPRO	INR	325	9,587	22.5	26.6	24.7	14.4	12.2	13.2	10.3%	18.3%	-7.3%	4.7%	2.6
BPO															
Genpact	G	USD	9	1,931	0.46	0.72	0.73	19.5	12.5	12.3	6.4%	55.9%	1.8%	26.0%	0.5
WNS	WNS	USD	9	362	0.87	1.11	1.13	9.8	7.7	7.5	11.4%	27.2%	2.0%	13.9%	0.6
Convergys*	CVG	NA	10	1,213	1.23	1.36	0.96	8.0	7.2	10.2	5.1%	10.6%	-29.3%	-11.6%	NM
Teletech*	TTEC	NA	13	845	0.73	1.21	0.91	18.1	10.9	14.5	0.0%	65.8%	-24.9%	11.6%	0.9
EXL*	EXLS	USD	9	261	0.93	0.39	0.31	9.7	23.2	29.0	132.5%	-58.1%	NM	-42.1%	NM
ADP*	ADP	USD	35	17,681	2.18	2.39	2.48	16.1	14.7	14.1	8.5%	9.5%	4.1%	6.7%	2.2
ACS*	ACS	USD	47	4,270	3.53	3.68	4.22	13.3	12.8	11.1	33.2%	4.2%	14.8%	9.4%	1.8

Prices as on 27th April, 2009 for India listed stocks and 24th April 2009 for US listed stocks ; Sources: Company data, FactSet, Morgan Stanley Research
E = Morgan Stanley Research estimates, except for those marked with an asterisk (*), which are consensus estimates as provided by FactSet

NM = Not Meaningful

@ Mphasis EPS include EDS India from F2007; Mphasis FY09e represent actual EPS for the period of 7 months from April08-October08; FY10e represent our estimates for the period of Nov08-Oct09

* Companies with * mark represent estimates by FactSet

WNS EPS represent company-adjusted numbers; Genpact EPS represent MS adjusted numbers (GAAP EPS adjusted for formation-related expense and FBT costs).

Estimates for Indian ADRs are taken from FactSet.

Infosys and Wipro FY09 EPS represent actual numbers

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Company Description

Tech Mahindra provides offshore-based information technology services to clients across the value chain of the telecom industry. The company offers a range of IT services such as application development, product engineering & life cycle management, testing, and solution integration. Tech Mahindra is jointly promoted by Indian auto major Mahindra & Mahindra and British Telecom; the latter is Tech Mahindra's largest customer. Tech Mahindra was publicly listed in August 2006.

India Software

Industry View: Cautious

MSCI Country: India

MSCI Asia/Pac All Country Ex Jp Weight: 7.0%



Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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Global Stock Ratings Distribution

(as of March 31, 2009)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	686	31%	211	37%	31%
Equal-weight/Hold	993	44%	249	43%	25%
Not-Rated/Hold	33	1%	8	1%	24%
Underweight/Sell	521	23%	107	19%	21%
Total	2,233		575		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Other Important Disclosures

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April 27, 2009
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Industry Coverage:India Software

Company (Ticker)	Rating (as of)	Price (04/24/2009)
Vipin Khare		
Genpact Limited (G.N)	E (08/26/2008)	US\$9.17
HCL Technologies (HCLT.BO)	U (09/29/2008)	Rs127.4
Hexaware Technologies Limited (HEXT.BO)	U (03/11/2009)	Rs32.1
Infosys Technologies (INFY.BO)	E (07/14/2008)	Rs1,432.6
Mindtree Ltd. (MINT.BO)	NA (06/29/2008)	Rs252.2
Mphasis Limited (MBFL.BO)	E (11/09/2007)	Rs216.85
Patni Computer Systems (PTNI.BO)	E (05/01/2008)	Rs152.75
Tata Consultancy Services (TCS.BO)	U (03/11/2009)	Rs603.45
Tech Mahindra Limited (TEML.BO)	U (03/11/2009)	Rs328.35
WNS Global Services (WNS.N)	E (03/11/2009)	US\$8.67
Wipro Ltd. (WIPR.BO)	U (01/27/2009)	Rs324.75

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