

# Tech Mahindra (TEML.BO)

Conference

## Takeaways from India Investor Conference, June 24-26

- **Takeaways from Mumbai** — Tech Mahindra presented at our India Investor Conference on June 25. Below are key takeaways from management.
- **BT Business** — On BT business, the uncertainty continues. Tech Mahindra's focus is on maintaining market share. Project Andes should start in Q1FY10.
- **Non-BT business** — Management is more optimistic here as it is seeing some good signs. Clients are awarding new projects – these are small as of now, but even small projects were not happening previously.
- **Future outlook** — (1) Plans to span the different horizontals (Applications, Security, Network Services, VAS, IMS and BPO) of the telecom vertical. (2) Focus is on account mining. Apart from BT, the focus on other accounts is to maintain or grow market share.
- **Initiatives at Satyam** — The priorities for management are: (1) Customer retention – Management is meeting everyone to assure them of the long term viability of the business. (2) Cost rationalization – Initiatives like virtual pool creation, rationalizing costs on infrastructure, etc. A lot of customers have responded well.
- **Open offer issue** — Management does not plan to hike the open offer price. If there is zero response then the TechM stake will go up to ~43%. The proposed QIP is to primarily pay off debt on the books (~Rs22b).

<b>Sell/High Risk</b>	<b>3H</b>
Price (25 Jun 09)	Rs744.50
Target price	Rs640.00
Expected share price return	-14.0%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>-14.0%</b>
Market Cap	Rs90,730M
	US\$1,876M

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



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

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## Tech Mahindra

### Company description

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

### Investment strategy

We rate TechM Sell/High Risk (3H) based on a fundamental 12-month view. With high exposure to the telecom domain, TechM is likely to be affected by deteriorating fundamental trends in the telecom vertical. We expect revenue and EPS CAGRs of ~6% and ~3% respectively over FY08-11E (muted compared to 59% and 87% respectively that it delivered over FY05-08A). The stock remains cheap on valuations but so is the sector given the sharp de-rating over the last year due to concerns about demand visibility.

### Valuation

With revenue and earnings slowing, we believe TechM should trade closer to mid-cap multiples. Our target price of Rs640 is based on 10x the average FY10-11E EPS, which is towards the lower end of its historic band of 3x-35x since its listing in Aug'06. We expect TechM's P/E to remain in line with the mid-caps primarily due to high client concentration risk. We believe P/E remains the most appropriate valuation measure given Indian IT companies' profitable track record and earnings visibility.

### Risks

We rate TechM High Risk, in line with our quantitative risk-rating system. The key upside risks that could cause shares to exceed our target price are: 1) Any significant depreciation of the rupee against the USD/EUR/GBP; 2) A sharp upturn in IT spending among TSPs; 3) Sharp ramp-ups in BTGS deal; 4) Hiring rebounding in next few quarters; 5) Large deal announcement; and 6) Inorganic activity due to a stake sale or change in ownership.

# Appendix A-1

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Covered since July 9 2007

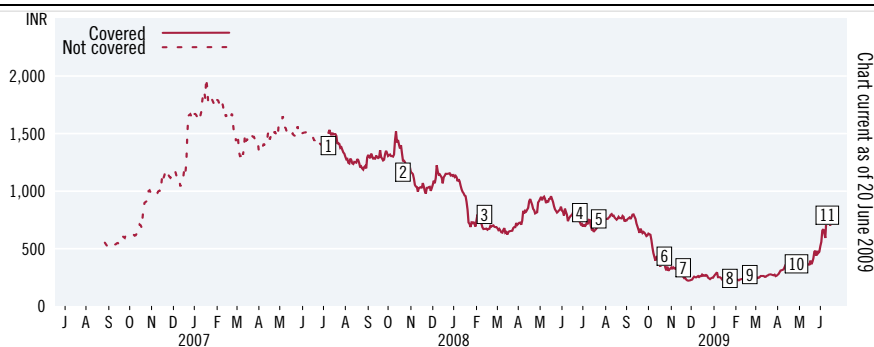


Chart current as of 20 June 2009

	Date	Rating	Target Price	Closing Price
1	9-Jul-07	*1H	*1,920.00	1,504.75
2	21-Oct-07	*3H	*1,330.00	1,329.45
3	13-Feb-08	3H	*730.00	672.10
4	26-Jun-08	3H	*815.00	730.10

	Date	Rating	Target Price	Closing Price
5	23-Jul-08	3H	*820.00	753.35
6	23-Oct-08	*2H	*500.00	376.10
7	19-Nov-08	2H	*310.00	257.05
8	23-Jan-09	2H	*245.00	210.15

	Date	Rating	Target Price	Closing Price
9	20-Feb-09	*3H	245.00	269.65
10	28-Apr-09	3H	*300.00	318.20
11	10-Jun-09	3H	*640.00	784.85

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2009

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