



Tech Mahindra

| | | | | | | | | | | | | |
|--------------------------------|------------------|--------------------|-------------------|----------------|--------------|----------------|------------|-------------|------------|-------------|--------------|---------------|
| BSE SENSEX 16,883 | S&P CNX 5,069 | CMP: INR616 | TP: INR662 | Neutral | | | | | | | | |
| Bloomberg Equity Shares (m) | TECHMIN 126.0 | YEAR | NET SALES | PAT# | EPS* | EPS | P/E | P/BV | ROE | ROCE | EV/ | EV/ |
| 52-Week Range (INR) | 798/524 | END | (INR M) | (INR M) | (INR) | GR. (%) | (X) | (X) | (%) | (%) | SALES | EBITDA |
| 1,6,12 Rel. Perf. (%) | 5/1/2 | 3/10A | 46,254 | 6,601 | 50.5 | -34.9 | 12.2 | 2.6 | 34.6 | 33.9 | 2.6 | 7.6 |
| M.Cap. (INR b) | 77.6 | 3/11A | 48,413 | 7,093 | 54.3 | 7.4 | 11.3 | 2.3 | 30.2 | 23.5 | 2.3 | 8.9 |
| M.Cap. (USD b) | 1.5 | 3/12E | 55,020 | 8,364 | 63.3 | 16.7 | 9.7 | 1.7 | 25.0 | 22.2 | 1.7 | 8.6 |
| | | 3/13E | 58,719 | 7,951 | 60.2 | -4.9 | 10.2 | 1.4 | 18.9 | 18.0 | 1.4 | 8.0 |

* EPS incl. profits from Satyam and adjusted for restructuring charge, # reported PAT incl. Satyam

- In 2QFY12, Tech Mahindra (TECHM) reported 2% QoQ growth in US dollar revenue to USD296m (against our estimate of USD295m). Rupee revenue grew 3.1% to INR13.3b (against our estimate of INR13.4b) driven by lower USD/INR realizations compared with our estimates (INR45 against our estimate of INR45.4).
- Revenue from top client BT fell 4.9% on project completions (contribution to revenue declined from 40% to 37%). Non-BT revenue grew 6.9% QoQ.
- TechM won five deals in 2QFY12 and sees a stronger deal funnel compared with that six months earlier.
- We believe TECHM's endeavor to retain business from BT (its top client) will alter its margin profile. We expect EBITDA margin to decline from 20.4% in FY11 to 16.7% in FY13. We downgrade our earnings estimates by 2.7% in FY12 and by 16.5% in FY13.
- Maintain **Neutral** with a target price of INR662, which discounts our FY13 EPS by 11x, implying a 7% upside.

Tech Mahindra Quarterly Performance (Indian GAAP)

(INR Million)

| Y/E MARCH | FY11 | | | | FY12 | | | | FY11 | FY12E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | |
| Revenues | 11,337 | 12,350 | 12,111 | 12,615 | 12,925 | 13,333 | 14,494 | 14,268 | 48,413 | 55,020 |
| Q-o-Q Change (%) | -4.2 | 8.9 | -1.9 | 4.2 | 2.5 | 3.2 | 8.7 | -1.6 | 4.7 | 13.6 |
| Direct Cost | 7,458 | 7,850 | 7,882 | 7,987 | 8,540 | 9,069 | 9,560 | 9,441 | 31,177 | 36,610 |
| Other Operating Exps | 1,752 | 1,820 | 1,731 | 2,038 | 1,967 | 2,222 | 2,348 | 2,283 | 7,341 | 8,820 |
| Operating Profit | 2,127 | 2,680 | 2,498 | 2,590 | 2,418 | 2,042 | 2,585 | 2,544 | 9,895 | 9,590 |
| Margins (%) | 18.8 | 21.7 | 20.6 | 20.5 | 18.7 | 15.3 | 17.8 | 17.8 | 20.4 | 17.4 |
| Other Income | 253 | 83 | 521 | 317 | 460 | 972 | 51 | 51 | 1,174 | 1,534 |
| Interest | 264 | 270 | 252 | 213 | 223 | 721 | 284 | 284 | 999 | 1,513 |
| Depreciation | 354 | 347 | 347 | 387 | 334 | 507 | 391 | 378 | 1,435 | 1,610 |
| PBT bef. Extra-ordinary | 1,762 | 2,146 | 2,420 | 2,307 | 2,321 | 1,786 | 1,961 | 1,933 | 8,635 | 8,001 |
| Provision for Tax | 312 | 418 | 359 | 226 | 509 | 393 | 451 | 445 | 1,315 | 1,798 |
| Rate (%) | 17.7 | 19.5 | 14.8 | 9.8 | 21.9 | 22.0 | 23.0 | 23.0 | 15.2 | 22.5 |
| Minority Interest | -6 | 7 | 6 | 16 | 7 | 5 | 5 | 5 | 23 | 22 |
| Net Income bef. Extra-ordinary | 1,456 | 1,721 | 2,055 | 2,065 | 1,805 | 1,388 | 1,505 | 1,483 | 7,297 | 6,181 |
| Q-o-Q Change (%) | -35.8 | 18.2 | 19.4 | 0.5 | -12.6 | -23.1 | 8.4 | -1.4 | 2.9 | -15.3 |
| Extra-ordinary items | 0 | 0 | 515 | -1,144 | 0 | 0 | 0 | 0 | -629 | 0 |
| Net Income aft. Extra-ordinary | 1,456 | 1,735 | 2,570 | 921 | 1,805 | 1,388 | 1,505 | 1,483 | 6,668 | 6,181 |
| Q-o-Q Change (%) | -35.8 | 19.2 | 48.1 | -64.2 | 96.0 | -23.1 | 8.4 | -1.4 | -4.8 | -7.3 |
| Effect of restructuring fees | 411 | 403 | 426 | 451 | 390 | 390 | 385 | 385 | 1,691 | 1,279 |
| Adj. Net Inc. (excl prior period items) | 1,045 | 1,332 | 1,629 | 470 | 1,415 | 998 | 1,120 | 1,098 | 4,977 | 4,902 |
| Q-o-Q Change (%) | -44.0 | 27.6 | 22.3 | -71.2 | 201.0 | -29.5 | 12.2 | -1.9 | -6.7 | -1.5 |
| Diluted EPS (Rs) | 11.1 | 13.2 | 19.7 | 15.8 | 21.2 | 18.2 | 11.4 | 11.2 | 59.8 | 48.6 |
| US\$ Revenues | 251 | 265 | 269 | 279 | 290 | 296 | 296 | 297 | 1,063 | 1,179 |
| Q-o-Q Change (%) | -2.9 | 5.4 | 1.6 | 3.6 | 4.1 | 2.2 | -0.1 | 0.5 | 8.9 | 10.9 |

E: MOSL Estimates

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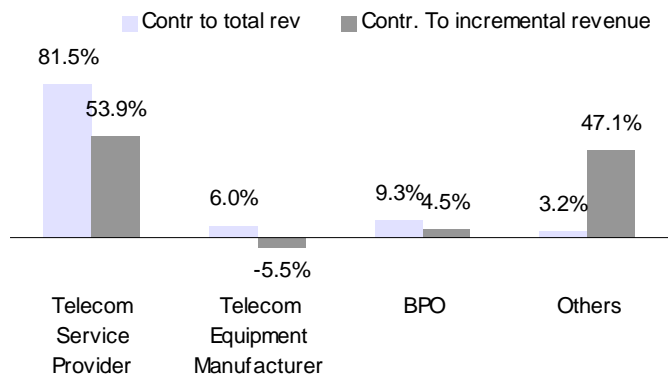
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TECHM 2QFY12 results in line, driven by forex gains; Margins disappoint

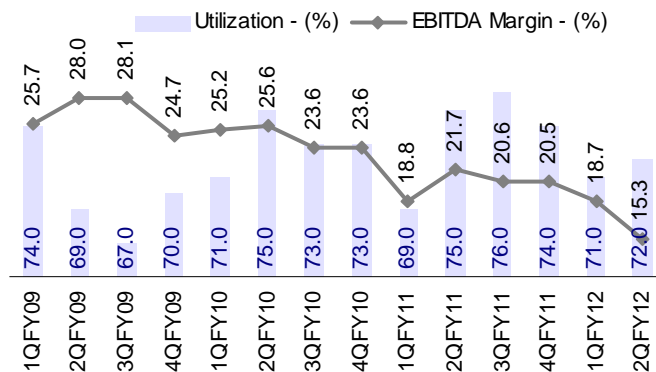
Tech Mahindra (TECHM) reported PAT in line with our estimates, despite disappointing margins (15.3% against our estimate of 17.3%), due to forex gains of INR893m. The decline in margins was driven by salary increases (12% offshore; 2% onsite) and revenue declines in BT. Interest expenses increased from INR220m to INR720m in 2QFY12 as it included INR500m of MTM losses on foreign currency loans.

Revenue growth in rupee terms was marginally below our estimate due to lower USD/INR realizations (INR45 against our estimate of INR45.4). The quality of 2% QoQ growth in US dollar revenue was disappointing as 47% of the incremental revenue was driven by non-telco projects, executed in collaboration with Mahindra Satyam.

Large incremental revenue from 'others' driven by projects in collaboration with Satyam



BT revenues declined 4.9% QoQ (6% CC) on closure of certain projects

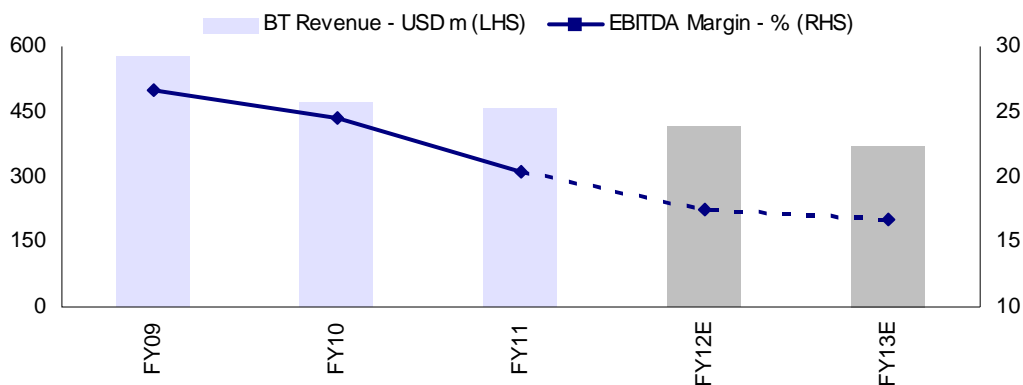


Source: Company/MOSL

Endeavour to retain BT business to hit margin profile

TECHM had indicated in the last quarter that BT would put its contracts through a re-tendering process. TECHM manage to retain BT business where re-tendering was completed, but this would be at lower TCO (total cost of ownership) for the customer, driving lower realizations. This would be visible in revenue declines from BT, which the management expects over the next two quarters. TECHM expects BT to complete the retendering process by 3QFY12 for the rest of the business.

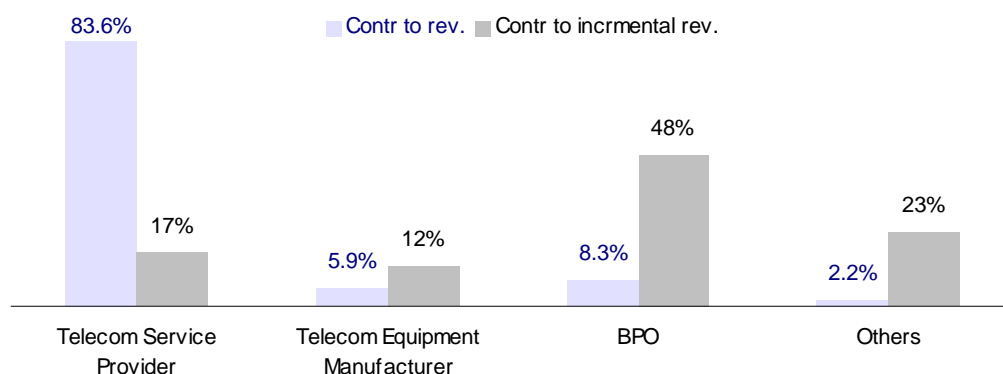
Margin profile to be hit after restructuring of BT contracts



Source: Company/MOSL

TECHM has seen a higher contribution to revenue from the BPO business - a relatively lower margin business compared with IT services (48% of incremental revenue over the past four quarters, while contribution to total revenue is 8%). We expect EBITDA margins to decline from 20.4% in FY11 to 17.4% in FY12 and 16.7% in FY13.

Trend over the past four quarters - 48% incremental revenue from BPO



Source: Company/MOSL

Revising estimates: Factoring in weaker rupee, revenue declines from BT, impact on margins

Our EPS estimates declined by 2.7% in FY12 and 16.5% in FY13 as we factor in (i) a decline in realizations in the BT account as TECHM bags these contracts at a lower TCO for BT; (ii) consequently this reduces our EBITDA margin estimates by 80bp in FY12 and 152bp in FY13 despite assuming a weaker rupee by 4.4% in FY12 and 2.2% in FY13. Our US dollar revenue assumptions also declined by 1.9% in FY12 and 6.6% in FY13. Maintain Neutral with a target price of INR662, which discounts our FY13E EPS by 11x, implying 7% upside.

Change in Estimates

| | Revised | | Earlier | | Change (%) | |
|-----------------|---------|-------|---------|-------|------------|--------|
| | FY12E | FY13E | FY12E | FY13E | FY12E | FY13E |
| INR/USD | 47.0 | 46.0 | 45.0 | 45.0 | 4.4 | 2.2 |
| USD Revenue - m | 1,179 | 1,277 | 1,202 | 1,367 | -1.9 | -6.6 |
| EBIT Margin | 14.5% | 14.2% | 15.3% | 15.7% | -80bp | -152bp |
| EPS - INR | 63.3 | 60.2 | 65.1 | 72.1 | -2.7 | -16.5 |

Source: Company/MOSL

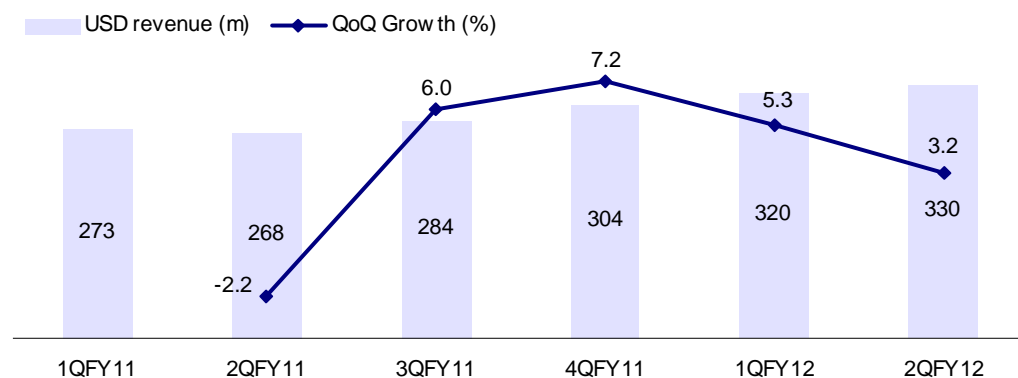
Takeaways from the Mahindra Satyam 2QFY12 earnings

SCS US dollar revenue growth in line with estimate; Offshore shift offsets higher volume growth

Mahindra Satyam's (SCS) US dollar revenue of USD330m (up 3.2% QoQ) was largely in line with our estimate of USD331m (up 3.5% QoQ). Constant currency revenue growth was 4% QoQ. The in line revenue growth was despite higher volume growth of 4.5% QoQ and stable billing rates; due to 4% QoQ mix shift in favor of offshore in 2QFY12, 1.5% of which was attributed to greater offshoring and 2.5% to India-centric projects kicking in.

Rupee revenue grew 10% QoQ to INR15.8b (against our estimate of 5% QoQ growth to INR15b). The large difference between rupee revenue and US dollar revenue growth was due to a 6.7% QoQ differential in the realized rate, which was INR47.8. The realized rate was higher than its peers' as SCS booked ~25% of the unbilled revenue towards the end of 2QFY12 at rates closer to INR50.

Revenue traction continued during the quarter



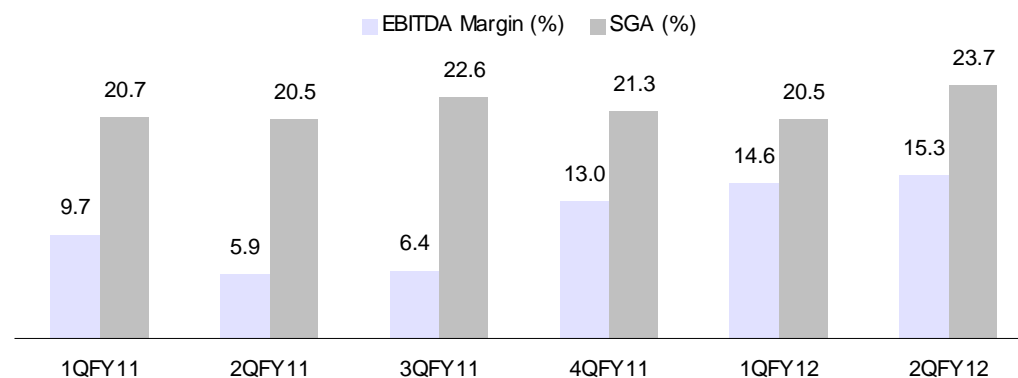
Source: Company/MOSL

70bp margin expansion (in line) despite higher currency depreciation disappointed

SCS' EBITDA margin expanded 70bp QoQ to 15.3%. While it was in line with our estimate of 15.5%, we would have expected greater margin expansion due to higher depreciation of the rupee (6.7% against our assumption of a mere 1.3% depreciation). Margin disappointment was driven by an increase in opex to INR1,210m, up from INR520m in 1QFY12 due to: (1) costs incurred on hardware and software licenses bought (we would assume these to be largely pass-throughs or have minimal margins); (2) higher provisioning for bad debts and (3) increased costs of H1B visas. The management guidance is for 250-300bp headwind on margins from wage hikes, effective in 3QFY12.

PAT was INR2.4b, higher than our estimate of INR2b. Apart from better-than-estimated rupee revenue, the outperformance in PAT was led by higher other income, of INR967m, driven by forex gains of INR337m. We had estimated other income of INR540m.

EBITDA margins expand despite a surge in SGA due to the rupee's depreciation and an offshore shift

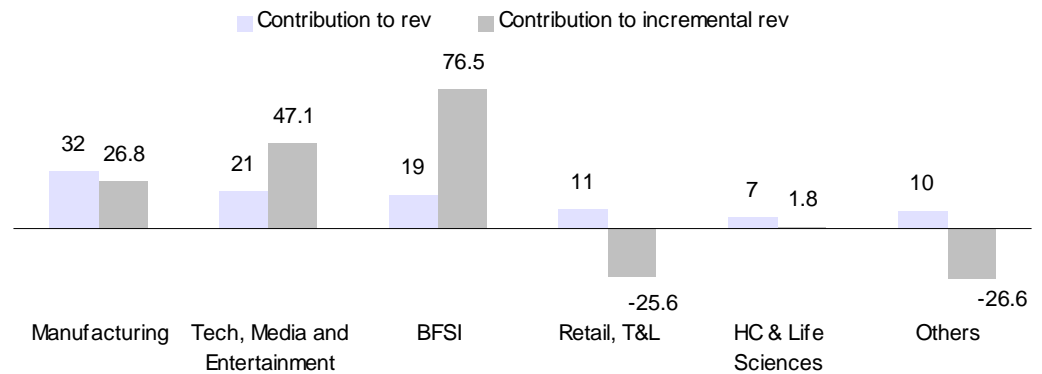


Source: Company/MOSL

BFSI, TME drives growth among verticals; US the key growth geography

Among verticals, performance in BFSI and TME were key highlights. BFSI grew 14.2% QoQ and contributed as much as 76.5% of the incremental revenue (19% of total revenue) in 2QFY12. Besides BFSI, TME, which contributed 47% to incremental revenue (21% of total revenue) grew 7.5% QoQ.

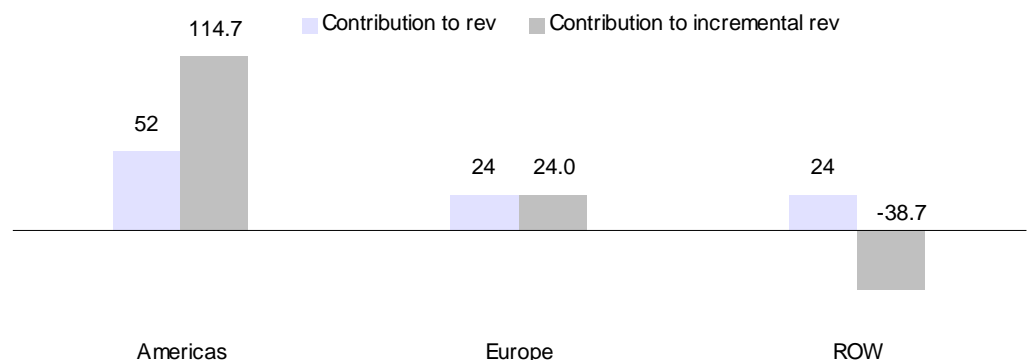
Growth in BFSI was the key positive in 2QFY12



Source: Company/MOSL

Among geographies, incremental growth was driven by the Americas, which contributed 115% (52% of total revenue) to incremental revenue and grew 7.3% QoQ. Europe grew at the company average and ROW was soft, declining 4.8% QoQ. This was despite growth in India. However, we expect ROW to grow, going forward, due to large TCV deal wins (TPI featured SCS in the top-five IT services providers in APAC by TCV in 1HCY11).

Growth in 2QFY12 driven by the Americas



Source: Company/MOSL

Expect pressure on bottom-line going forward from wage hikes, forex losses

While 2QFY12 EPS of INR2 makes the stock appear attractive (implying ~9x multiple on an annualized EPS number), we see the EPS number slide in future, mainly due to: (1) margin headwinds from wage hikes and (2) reduced other income due to OCI losses on the balance sheet. SCS has INR271m losses in OCI, a large part of which should come in the P&L over the next two quarters. This compares with forex gains of INR337m in 2QFY12 and INR226m in 1QFY12.

While wage hikes in 3QFY12 will have a 250-300bp impact on margins, SCS expects to cushion some of it through pyramid management. Employees with 0-3 years' experience now constitute 27% of the workforce (against 18.3% four quarters ago). While there remains significant room to take this metric higher, SCS is watchful of incremental fresher hiring and the proportion of lateral hires is likely to be higher over the next couple of quarters.

Continued revenue traction bodes well for SCS, TECHM

We expect US dollar revenue growth of 19.3% in FY12 and 11.3% in FY13. Besides, despite our assumption of 60bp YoY improvement in EBITDA margin in FY13, our EPS estimate of INR7.2 for FY13 is less than INR7.4 in FY12 due to: (1) higher tax rate assumption in FY13 (23% v/s 18% in FY12) and (2) lower other income of INR2.6b against INR3.1b in FY12.

Continued revenue traction and margin expansion over the past four quarters substantiate stability in SCS' operations. For now, our estimates on SCS after the results do not have a material bearing on TECHM's stock.

Other result highlights

- There was a 4% mix shift QoQ in 2QFY12 in favor of offshore. 2QFY12 revenue from offshore was 48%
- Contribution from fixed price contracts was up 2pp QoQ at 48%
- Overall headcount increased by 654 to 32,092. Attrition declined to 15.6% (against 17% in 1QFY12)
- SCS added 36 new logos in 2QFY12 including three Fortune 500 customers. The total number of active clients increased by eight to 228
- The company's hedge book stands at USD221, most of which matures in two quarters' time. SCS recorded INR271m of OCI losses on its balance sheet.

| Quarterly Performance - Mahindra Satyam | | | | | | | | | (INR Million) | |
|---|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|---------------|
| Y/E March | FY11 | | | | FY12 | | | | FY11 | FY12E |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | |
| Revenues | 12,480 | 12,424 | 12,793 | 13,753 | 14,339 | 15,777 | 16,746 | 16,978 | 51,450 | 63,841 |
| Personnel Expenses | 8,677 | 9,136 | 9,089 | 9,041 | 9,301 | 9,620 | 11,220 | 11,206 | 35,943 | 41,347 |
| Other operating expenses | 2,589 | 2,553 | 2,885 | 2,929 | 2,938 | 3,740 | 3,265 | 3,268 | 10,956 | 13,212 |
| Operating Profit | 1,214 | 735 | 819 | 1,783 | 2,100 | 2,417 | 2,261 | 2,504 | 4,551 | 9,282 |
| Margin (%) | 9.7 | 5.9 | 6.4 | 13.0 | 14.6 | 15.3 | 13.5 | 14.8 | 8.8 | 14.5 |
| Depreciation | 594 | 429 | 381 | 443 | 380 | 396 | 419 | 441 | 1,847 | 1,636 |
| EBIT | 620 | 306 | 438 | 1,340 | 1,720 | 2,021 | 1,842 | 2,063 | 2,704 | 7,645 |
| Margin (%) | 5.0 | 2.5 | 3.4 | 9.7 | 12.0 | 12.8 | 11.0 | 12.2 | 5.3 | 12.0 |
| Other Income | 732 | 313 | 873 | 1,024 | 1,009 | 967 | 562 | 584 | 2,942 | 3,122 |
| Financial expenses | 25 | 25 | 23 | 24 | 45 | 20 | 20 | 20 | 97 | 107 |
| PBT before Exceptional Items | 1,327 | 594 | 1,288 | 2,340 | 2,683 | 2,968 | 2,383 | 2,627 | 5,549 | 10,661 |
| Exceptional Items | 79 | 84 | (533) | 5,715 | - | - | - | - | 6,411 | - |
| Tax | 264 | 270 | 159 | (115) | 426 | 578 | 429 | 473 | 578 | 1,906 |
| Rate (%) | 21.2 | 52.9 | 8.7 | 3.4 | 15.9 | 19.5 | 18.0 | 18.0 | (67.1) | 17.9 |
| PAT | 984 | 240 | 1,662 | (3,260) | 2,257 | 2,390 | 1,954 | 2,154 | (1,440) | 8,755 |
| Minority Interest | 9 | 7 | -7 | -10 | -5.5 | -7.1 | -7.1 | -7.1 | -32.7 | -26.8 |
| EOI | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Income after EOI | 975 | 233 | 1,655 | (3,270) | 2,252 | 2,382 | 1,947 | 2,147 | (1,473) | 8,728 |
| PAT margin | 7.8 | 1.9 | 12.9 | (23.8) | 15.7 | 15.1 | 11.6 | 12.6 | (2.9) | 13.7 |
| USD revenue | 273 | 268 | 284 | 304 | 320 | 330 | 342 | 354 | 1,129 | 1,346 |
| QoQ Growth (%) | | -2.2 | 6.0 | 7.2 | 5.3 | 3.2 | 3.5 | 3.5 | 7.5 | 19.2 |
| EPS Diluted (Rs) | 0.83 | 0.20 | 0.50 | (2.78) | 1.91 | 2.02 | 1.65 | 1.82 | (1.25) | 7.40 |

Tech Mahindra: an investment profile

Company description

- Tech Mahindra (TECHM) is part of the USD12.5b Mahindra group. TECHM is one of India's largest software exporters and serves telecom service providers, equipment manufacturers, software vendors and systems integrators. It has offices in over 13 countries. It employs over 43,000 people and its key clients include British Telecom and AT&T.

Key investment arguments

- Mahindra Satyam's (SATYAMCOMP) acquisition will help TECHM to diversify its client base and industry focus.
- Large deals like those of Bharti and a gradual revival in the telecom vertical will help volume growth. Emerging market telco rollouts and domestic BPO deals are expected to be key growth contributors.

Key investment risks

- TECHM is dependent on a single vertical, telecom, and has a high client concentration (BT contributes 37% of revenues).
- With BT running a new tender for a large chunk of work, the endeavor to retain BT business will hit TECHM's margin profile.
- Growth is skewed towards lower margin services like new telco rollouts and domestic BPOs.

Recent developments

- TECHM is engaged with a tier-one telco in the US to provide performance testing and test management services across its consumer applications.
- TECHM won a multi-year managed services engagement with a telecom operator in the Middle East.

Valuation and view

- Valuations at 9.7x FY12E and 10.2x FY13E earnings.
- Maintain Neutral with a target price of INR660, based on 11x FY13E.

Sector view

- Over the past few months, increasingly weak macro economic data from the US and Europe, imply deceleration in growth for Indian IT services. While CY12 budgets are yet to be hinted, we expect growth moderation across the sector, resulting from a possible 3-4% cut in budgets, as in 2003 (against 6-8% in CY08).
- We reckon frontline Indian IT companies would be better placed to sail through the near term adversities. Niche IT/ITeS services companies with strong business models are likely to be better placed to face near-term uncertainties.

Comparative valuations

| | | Tech Mahindra | HCLT# | Mphasis* |
|---------------|-------|---------------|-------|----------|
| P/E (x) | FY12E | 9.7 | 14.2 | 8.0 |
| | FY13E | 10.2 | 12.3 | 9.6 |
| P/BV (x) | FY12E | 1.7 | 2.8 | 1.7 |
| | FY13E | 1.4 | 2.4 | 1.4 |
| EV/Sales (x) | FY12E | 1.7 | 1.4 | 0.9 |
| | FY13E | 1.4 | 1.2 | 0.8 |
| EV/EBITDA (x) | FY12E | 8.6 | 8.0 | 4.8 |
| | FY13E | 8.0 | 7.1 | 4.9 |

* YE Oct; # YE Jun

Shareholding Pattern (%)

| | Sep-11 | Jun-11 | Sep-10 |
|---------------|--------|--------|--------|
| Promoter | 71.0 | 71.1 | 72.8 |
| Domestic Inst | 15.3 | 15.0 | 15.1 |
| Foreign | 4.8 | 4.3 | 2.1 |
| Others | 8.9 | 9.6 | 10.0 |

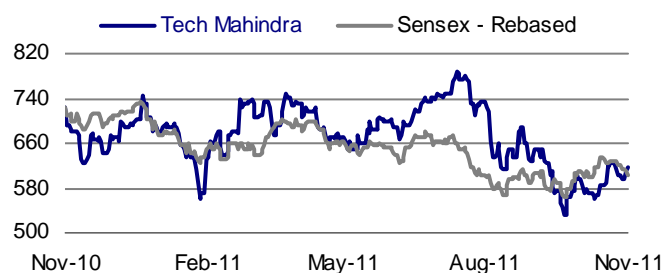
EPS: MOSL forecast v/s consensus (INR)

| | MOSL Forecast | Consensus Forecast | Variation (%) |
|------|------------------|-----------------------|------------------|
| FY12 | 65.8 | 63.4 | 3.7 |
| FY13 | 62.5 | 69.3 | -9.8 |

Target price and recommendation

| Current Price (INR) | Target Price (INR) | Upside (%) | Reco. |
|------------------------|-----------------------|---------------|---------|
| 616 | 660 | 7.1 | Neutral |

Stock performance (1 year)



Financials and Valuation

| Income Statement | | (INR Million) | | | |
|-------------------------------|---------------|---------------|---------------|---------------|--|
| Y/E March | 2010 | 2011 | 2012E | 2013E | |
| Sales | 46,254 | 48,413 | 55,020 | 58,719 | |
| Change (%) | 3.6 | 4.7 | 13.6 | 6.7 | |
| Total Expenses | 34,929 | 38,518 | 45,430 | 48,910 | |
| EBITDA | 11,325 | 9,895 | 9,590 | 9,809 | |
| % of Net Sales | 24.5 | 20.4 | 17.4 | 16.7 | |
| Depreciation | 1,338 | 1,435 | 1,610 | 1,482 | |
| Interest | 2,184 | 999 | 1,513 | 1,137 | |
| Other Income | 754 | 1,174 | 1,534 | 426 | |
| PBT | 8,557 | 8,635 | 8,001 | 7,615 | |
| Tax | 1,440 | 1,315 | 1,798 | 1,751 | |
| Rate (%) | 16.8 | 15.2 | 22.5 | 23.0 | |
| PAT | 7,118 | 7,320 | 6,203 | 5,863 | |
| Minority Interest & EO items | 113 | 652 | 22 | 20 | |
| Share of associate's profits | 1,260 | 2,120 | 3,734 | 3,647 | |
| PAT before EO | 8,265 | 8,788 | 9,915 | 9,491 | |
| Change (%) | -18.5 | 6.3 | 12.8 | -4.3 | |
| Effect of restructuring fees | -1,663 | -1,695 | -1,551 | -1,540 | |
| PAT after RF before EO | 6,601 | 7,093 | 8,364 | 7,951 | |
| Change (%) | -34.9 | 7.4 | 17.9 | -4.9 | |
| Extraordinary Items (EO) | 85 | 629 | 0 | 0 | |
| PAT after EO | 6,686 | 7,722 | 8,364 | 7,951 | |
| Change (%) | -39.6 | 15.5 | 8.3 | -4.9 | |

| Balance Sheet | | (INR Million) | | | |
|---------------------------------|---------------|---------------|---------------|---------------|--|
| Y/E March | 2010 | 2011 | 2012E | 2013E | |
| Share Capital | 1,223 | 1,260 | 1,272 | 1,272 | |
| Share Premium | 2,374 | 2,374 | 2,374 | 2,374 | |
| Reserves | 25,268 | 29,881 | 37,441 | 46,932 | |
| Net Worth | 28,865 | 33,514 | 41,086 | 50,577 | |
| Minority Interest | 139 | 159 | 172 | 172 | |
| Loans | 13,672 | 12,227 | 14,217 | 14,217 | |
| Deferred Revenue | 0 | 5,837 | 4,305 | 3,305 | |
| Capital Employed | 42,676 | 51,737 | 59,780 | 68,271 | |
| Gross Block | 11,312 | 12,783 | 14,905 | 16,745 | |
| Less : Depreciation | 5,269 | 6,613 | 8,223 | 9,706 | |
| Net Block | 6,043 | 6,170 | 6,682 | 7,039 | |
| CWMP | 3,208 | 1,105 | 1,105 | 1,105 | |
| Investments | 30,145 | 29,080 | 31,065 | 31,065 | |
| Deferred Tax Assets | 276 | 638 | 712 | 712 | |
| Curr. Assets | 19,346 | 23,455 | 29,426 | 37,976 | |
| Debtors | 10,420 | 12,468 | 16,602 | 17,355 | |
| Cash & Bank Balance | 2,187 | 2,666 | 3,907 | 11,302 | |
| Loans & Advances | 6,725 | 8,315 | 8,914 | 9,318 | |
| Other Current Assets | 14 | 6 | 2 | 2 | |
| Current Liab. & Prov | 16,342 | 8,711 | 9,210 | 9,628 | |
| Creditors | 13,572 | 5,631 | 10,387 | 9,068 | |
| Provisions | 2,770 | 3,080 | 3,080 | 3,080 | |
| Net Current Assets | 3,004 | 14,744 | 20,216 | 28,349 | |
| Application of Funds | 42,676 | 51,737 | 59,780 | 68,271 | |

E: MOSL Estimates

| Ratios | | 2010 | 2011 | 2012E | 2013E |
|---------------------------------|--|-------------|-------------|-------------|-------------|
| Y/E March | | | | | |
| Basic (INR) | | | | | |
| EPS | | 54.0 | 56.3 | 65.8 | 62.5 |
| Diluted EPS | | 50.5 | 54.3 | 63.3 | 60.2 |
| Cash EPS | | 60.7 | 65.2 | 75.5 | 71.4 |
| Book Value | | 236.0 | 266.0 | 323.0 | 397.6 |
| DPS | | 3.5 | 5.6 | 6.2 | 6.0 |
| Payout % | | 6.9 | 10.3 | 9.9 | 9.9 |
| Valuation (x) | | | | | |
| P/E | | | 11.3 | 9.7 | 10.2 |
| Cash P/E | | | 9.4 | 8.2 | 8.6 |
| EV/EBITDA | | | 8.9 | 9.1 | 8.1 |
| EV/Sales | | | 1.8 | 1.6 | 1.4 |
| Price/Book Value | | | 2.3 | 1.9 | 1.5 |
| Dividend Yield (%) | | | 0.9 | 1.0 | 1.0 |
| Profitability Ratios (%) | | | | | |
| RoE | | 34.6 | 30.2 | 26.6 | 20.7 |
| RoCE | | 33.9 | 22.1 | 20.5 | 16.6 |
| Turnover Ratios | | | | | |
| Debtors (Days) | | 77 | 86 | 96 | 106 |
| Fixed Asset Turnover (x) | | 4.5 | 4.0 | 4.0 | 3.7 |
| Leverage Ratio | | | | | |
| Debt/Equity Ratio(x) | | 0.5 | 0.4 | 0.3 | 0.3 |

| Cash Flow Statement | | (INR Million) | | | |
|-----------------------------------|----------------|---------------|---------------|---------------|--|
| Y/E March | 2010 | 2011 | 2012E | 2013E | |
| CF from Operations | 9,549 | 15,718 | 5,082 | 11,474 | |
| Change in Working Capital | 2,283 | -11,261 | 620 | -2,240 | |
| Net Operating CF | 11,832 | 4,457 | 5,702 | 9,234 | |
| Net Purchase of FA | -4,069 | 541 | -2,122 | -1,840 | |
| Net Purchase of Invest. | -25,799 | 1,065 | -1,985 | 0 | |
| Net Cash from Invest. | -29,868 | 1,606 | -4,107 | -1,840 | |
| Inc./(Dec) in Equity & other rels | 1,670 | -3,316 | -1,415 | 888 | |
| Proceeds from LTB/STB | 13,672 | -1,445 | 1,990 | 0 | |
| Dividend Payments | -501 | -823 | -928 | -888 | |
| Cash Flow from Fin. | 14,841 | -5,584 | -353 | 0 | |
| Free Cash Flow | 7,763 | 4,998 | 3,580 | 7,394 | |
| Net Cash Flow | -3,195 | 479 | 1,241 | 7,394 | |
| Opening Cash Balance | 5,382 | 2,187 | 2,666 | 3,907 | |
| Add: Net Cash | -3,195 | 479 | 1,241 | 7,394 | |
| Closing Cash Balance | 2,187 | 2,666 | 3,907 | 11,302 | |

Earnings estimate includes contribution from Mahindra Satyam

N O T E S

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