



BP WEALTH

# *IT Services Q2 FY13 Earnings Preview*



## Infosys<sup>®</sup>



**TATA**

**TATA** CONSULTANCY SERVICES



**WIPRO**  
Applying Thought

**tm** Tech  
**Mahindra**  
IT Services and Telecom Solutions

## **HCL**

 **Mahindra Satyam**

**POLARIS**  
live your dream

  
**infinite**



**PERSISTENT**

# Q2 FY13 IT Services Earnings Preview



IT Services | Earnings Preview

10<sup>th</sup> October 2012

**Budget uncertainty, muted discretionary spending and rupee appreciation to restrict top line growth while salary hikes to impact margins**

## Weaker dollar to restrict top line in rupee terms while dollar revenue to grow moderately

We expect the Sep quarter (traditionally one of the best) performance to be a moderate one, specifically on the volumes growth and dollar revenue growth front, however muted discretionary spending, weak demand environment and slowdown in deal flow remains top concerns for Tier-1 IT companies. We expect volumes growth for Top four IT companies to be in the range of 2-4% in Q2 FY13. Currency movement stood volatile with rupee appreciating sharply at the end of quarter however for the full quarter average stood at Rs 53.5 (appreciation of 1.0% q-o-q). Moreover, cross currency impact will be not be so significant in the quarter (only ~ 30-50 bps impact on dollar revenues growth) as USD depreciated 3.1% against Australian dollar (AUD) while appreciated 2.7% against Euro. On the pricing front we expect it to be under pressure and have taken 0.5-1% q-o-q dip in pricing. Taking all these factors into account we expect dollar revenue growth to be in the range of 2-4% for the quarter. We expect Infosys to post 3.6% q-o-q growth in US\$ terms, and 6.3% in FY13E slightly ahead of its guidance (5% growth for FY13E) while Wipro to report 1.4% q-o-q revenues growth which is higher than its US\$ guidance (-1.0%/0.7% q-o-q growth). However, sharp rupee appreciation of 1.0% against the dollar will impact top line, which we expect to come in the range of 1-3% q-o-q.

## Rupee appreciation and salary hikes to impact margins for IT exporters

We expect all IT companies under our coverage to report flat to negative contraction in margins due to rupee appreciation against US\$, wage hikes and high visa cost. We expect Infosys margins to expand 28 bps to 29.4% primarily due to fresher's addition, no salary hikes and increase in utilization rates. TCS is expected to report 17 bps dip in margins as gains from productivity will be offset by rise in salary, fresher's addition and rupee appreciation. We expect HCL Tech, Wipro and Mahindra Satyam margins to contract 174 bps, 143 bps and 112 bps primarily due to wage hikes and rupee appreciation. Tech Mahindra's margins is expected to contract 264 bps primarily due to acquisition of lower margin Hutch BPO business, one time impact from cost of acquisitions and salary hikes.

## Infosys likely to increase its US\$ guidance however can lower rupee guidance for FY13E

We expect Infosys to increase its US\$ revenue guidance for FY13E (earlier 5% y-o-y) by 1% to 6% y-o-y growth on account of recent acquisition and improvement in business environment for H2FY13. We believe, Infosys performance can revive in H2 FY13 on account of delayed ramp ups and could surprise the street on volumes front most probably in the next quarter.

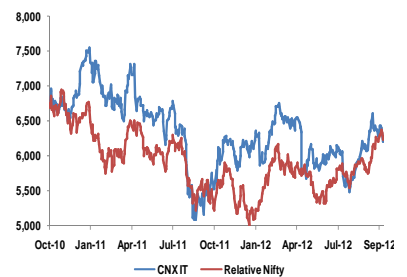
## Valuation & Outlook

Global uncertainties, ongoing sovereign debt crisis in Europe and slowdown in BFSI vertical has limited further client mining opportunities within the existing top clients for Tier-1 IT companies thus limiting growth opportunities. Going forward we expect Tier-1 IT companies growth to slow down primarily due to high base effect and maturing outsourcers. Rupee appreciation remains a major concern, which can impact margins significantly. Within the large caps we expect TCS and HCL to lead the growth rate (mid teens) however currency volatility and expensive valuations limits significant upside. Select Mid caps IT companies have been able to grow faster than large IT companies primarily because of two factors 1) reduction of average deal size in the industry (TCV deals in range of US\$25-99 mn has increased significantly) and 2) Focus on a specialized domain or areas of competence. Thus we are more bullish on selected Mid cap-small cap IT space. We have assumed US\$/INR rate Rs 53.4 and Rs 52 for FY13E and FY14E. We give BUY rating on Mahindra Satyam, Polaris, Persistent and Infinite Computers whereas give a HOLD rating for TCS, Infosys, HCL Tech, Wipro and Tech

Company	Reco	CMP Rs	Target Price (Rs)
Infosys	Hold	2,536	2,718
TCS	Hold	1,295	1,441
Wipro Ltd	Hold	367	400
HCL Tech	Hold	561	615
Tech Mahindra	Hold	952	1,043
Mahindra Satyam	Buy	110	128
Polaris Fin Tec	Buy	134	157
Infinite Computers	Buy	147	172
Persistent Sys	Buy	430	507

Stock Return%	1 m	3 m	6 m	1 Yr
Infosys	2%	4%	-10%	1%
TCS	-7%	3%	11%	23%
Wipro Ltd	-4%	-5%	-16%	10%
HCL Tech	-2%	15%	13%	38%
Tech Mahindra	12%	33%	34%	69%
Mahindra Satyam	11%	35%	38%	62%
Polaris Fin Tec	9%	10%	-16%	4%
Infinite Computers	27%	27%	79%	57%
Persistent Sys	9%	13%	29%	43%

Relative Price Chart



Research Analyst  
Amit Chandra

amitchandra@bpwealth.com  
022-61596411

## Peer Comparative Analysis

YE March	Market Cap	Sales (Rs bn)		Growth %	EBITDA (Rs bn)		Net Profit (Rs bn)		Growth %	EBITDA Margin %		EPS (Rs)		P/E		P/BV		EV/EBITDA		RoE %
	Rs bn	FY13E	FY14E		FY13E	FY14E	FY13E	FY14E		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
Infosys	1,448.7	397.1	437.3	10.1%	123.3	134.8	95.4	103.6	8.5%	31.1%	30.8%	167.0	181.2	15.2	14.0	3.7	3.1	10.5	9.0	25.0%
TCS	2,534.3	612.6	695.1	13.5%	174.9	197.4	133.8	148.4	10.9%	28.6%	28.4%	68.3	75.8	18.9	17.1	6.5	5.3	14.0	12.1	35.3%
Wipro	901.6	436.3	477.9	9.5%	84.0	91.5	61.4	66.2	7.7%	19.3%	19.1%	25.0	26.9	14.7	13.6	2.7	2.4	10.4	9.4	19.4%
HCL Tech	388.0	251.1	279.1	11.1%	46.9	51.2	29.9	33.2	11.1%	18.7%	18.4%	42.6	47.3	13.2	11.8	3.1	2.6	7.7	6.6	24.9%
TechM	121.0	68.4	74.5	8.9%	14.0	14.3	13.6	14.7	8.7%	20.4%	19.2%	102.6	111.5	9.3	8.5	2.4	1.9	9.1	8.1	28.7%
Mah Satyam	128.8	76.0	87.4	14.9%	14.5	16.7	12.5	14.4	15.2%	19.1%	19.1%	10.7	12.3	10.3	8.9	2.3	1.6	5.1	3.3	26.4%
Polaris	13.4	25.1	29.7	18.4%	3.5	4.5	2.6	3.1	19.7%	14.0%	15.1%	26.1	31.3	5.1	4.3	0.9	0.8	3.3	2.5	18.9%
Infinite	6.3	14.0	16.7	19.3%	2.3	2.7	1.5	1.8	18.7%	16.3%	16.0%	34.4	40.8	4.3	3.6	1.0	0.9	2.0	1.3	25.1%
Persistent	17.2	12.5	14.1	13.0%	2.8	3.3	1.7	2.0	22.9%	22.3%	23.5%	41.3	50.7	10.4	8.5	1.7	1.4	4.9	3.5	17.3%



**Infosys Q2 FY13 Preview**

YE March (Rs mn)	Q2 FY13E	Q1 FY13	Q-o-Q change %	Q2 FY12	Y-o-Y change %
<b>Net Sales</b>	<b>97,993</b>	<b>96,160</b>	<b>1.9%</b>	<b>80,990</b>	<b>21.0%</b>
EBITDA	30,296	29,460	2.8%	25,160	20.4%
<b>Operating Profit</b>	<b>27,699</b>	<b>26,930</b>	<b>2.9%</b>	<b>22,810</b>	<b>21.4%</b>
Profit Before Tax	32,555	31,690	2.7%	26,680	22.0%
<b>PAT</b>	<b>23,439</b>	<b>22,890</b>	<b>2.4%</b>	<b>19,060</b>	<b>23.0%</b>
<b>Reported Diluted EPS (Rs.)</b>	<b>41.0</b>	<b>40.1</b>	<b>2.4%</b>	<b>33.4</b>	<b>23.0%</b>
No of Shared Diluted (mn)	571	571		571	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>
<b>EBIDTA Margin %</b>	<b>30.9%</b>	<b>30.6%</b>	<b>28</b>	<b>31.1%</b>	<b>-15</b>
Operating margin %	28.3%	28.0%	26	28.2%	10
<b>NPM %</b>	<b>23.9%</b>	<b>23.8%</b>	<b>12</b>	<b>23.5%</b>	<b>39</b>
<b>Net Sales US\$</b>	<b>1,815</b>	<b>1,752</b>	<b>3.6%</b>	<b>1,746</b>	<b>3.9%</b>

Source: Company, BP Equities research

**Expectations/Comments**

We expect IT services volumes to grow 3.4% sequentially

Consolidated IT services revenues to grow 3.6% Q-o-Q and 3.9% Y-o-Y to US\$ 1.81 bn

Net employees to increase by ~5000

Margins expansion to be limited due to higher visa cost and rupee appreciation.

Pricing to remain more or less stable with a negative bias

We expect the management to increase FY13E dollar guidance by 1% and be in the range of 6-7% for FY13E. Growth to resume from H2 FY13E.

Key Financials					
YE March (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
<b>Net Sales</b>	<b>227,420</b>	<b>275,010</b>	<b>337,340</b>	<b>397,124</b>	<b>437,342</b>
Growth%	4.8%	20.9%	22.7%	17.7%	10.1%
<b>Operating Profit</b>	<b>69,560</b>	<b>81,140</b>	<b>97,790</b>	<b>112,839</b>	<b>123,652</b>
Growth%	8.1%	16.6%	20.5%	15.4%	9.6%
<b>Net Profit</b>	<b>62,660</b>	<b>68,350</b>	<b>83,160</b>	<b>95,419</b>	<b>103,556</b>
Growth%	4.6%	9.1%	21.7%	14.7%	8.5%
<b>Diluted EPS</b>	<b>109.7</b>	<b>119.6</b>	<b>145.5</b>	<b>167.0</b>	<b>181.2</b>
Growth%	5.1%	9.0%	21.7%	14.7%	8.5%
Key Ratios					
EBITDA (%)	34.6%	32.6%	31.8%	31.1%	30.8%
<b>OPM(%)</b>	<b>30.6%</b>	<b>29.5%</b>	<b>29.0%</b>	<b>28.4%</b>	<b>28.3%</b>
NPM (%)	27.3%	24.9%	24.7%	24.0%	23.7%
<b>RoE (%)</b>	<b>28.5%</b>	<b>24.7%</b>	<b>26.0%</b>	<b>25.0%</b>	<b>23.1%</b>
RoCE (%)	28.3%	24.4%	25.8%	24.9%	23.0%
<b>BV/Per Share Rs.</b>	<b>422</b>	<b>478</b>	<b>586</b>	<b>694</b>	<b>813</b>
Valuation Ratios					
<b>P/E (x)</b>			<b>17.4x</b>	<b>15.2x</b>	<b>14.0x</b>
P/BV (x)			4.3x	3.7x	3.1x
<b>EV/EBIDTA (x)</b>			<b>11.6x</b>	<b>10.5x</b>	<b>9.0x</b>
EV/Sales			3.7x	3.0x	2.5x
<b>Market Cap./ Sales (x)</b>			<b>4.3x</b>	<b>3.6x</b>	<b>3.3x</b>
Dividend Yield (%)			1.9%	2.0%	2.1%

Source: Company, BP Equities research



**TCS Q2 FY13 Preview**

YE March (Rs mn)	Q2 FY13E	Q1 FY13	Q-o-Q change %	Q2 FY12	Y-o-Y change %
<b>Net Sales</b>	<b>152,443</b>	<b>148,687</b>	<b>2.5%</b>	<b>116,335</b>	<b>31.0%</b>
EBITDA	44,158	43,328	1.9%	33,828	30.5%
<b>Operating Profit</b>	<b>41,727</b>	<b>40,897</b>	<b>2.0%</b>	<b>31,542</b>	<b>32.3%</b>
Profit Before Tax	43,799	42,651	2.7%	32,540	34.6%
<b>PAT</b>	<b>33,605</b>	<b>32,806</b>	<b>2.4%</b>	<b>24,390</b>	<b>37.8%</b>
<b>Reported Diluted EPS (Rs.)</b>	<b>17.2</b>	<b>16.8</b>	<b>2.4%</b>	<b>12.5</b>	<b>37.8%</b>
No of Shared Diluted (mn)	1,957	1,957		1,957	
<b>Margin Analysis %</b>			<i>Change in bps</i>		<i>Change in bps</i>
<b>EBIDTA Margin %</b>	<b>29.0%</b>	<b>29.1%</b>	<b>-17</b>	<b>29.1%</b>	<b>-11</b>
Operating margin %	27.4%	27.5%	-13	27.1%	26
<b>NPM %</b>	<b>22.0%</b>	<b>22.1%</b>	<b>-2</b>	<b>21.0%</b>	<b>108</b>
<b>Total Revenues (US\$ mn)</b>	<b>2,839</b>	<b>2,728</b>	<b>4.0%</b>	<b>2,525</b>	<b>12.4%</b>

Source: Company, BP Equities research

**Expectations/Comments**

We expect volumes to grow 4.1% sequentially

Consolidated IT services revenues to grow 4.0% Q-o-Q and 12.4% Y-o-Y to US\$ 2.84 bn

Net employees to increase by ~8K

Pricing to remain more or less stable

Margins to contract 17 bps sequentially on account of rupee appreciation and salary hikes, higher visa cost offset by productivity gains

Net profit growth to be restricted on account of margin contraction and absence of further productivity levers

**Key Financials**

YE March (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
<b>Net Sales</b>	<b>300,289</b>	<b>373,245</b>	<b>488,938</b>	<b>612,559</b>	<b>695,092</b>
Growth%	8.0%	24.3%	32.6%	25.3%	13.5%
<b>EBITDA</b>	<b>86,800</b>	<b>111,981</b>	<b>144,177</b>	<b>174,909</b>	<b>197,430</b>
Growth%	20.9%	29.0%	28.8%	21.3%	12.9%
<b>Net Profit</b>	<b>68,728</b>	<b>87,283</b>	<b>106,382</b>	<b>133,763</b>	<b>148,395</b>
Growth%	32.9%	27.0%	21.9%	25.7%	10.9%
<b>Diluted EPS</b>	<b>35.1</b>	<b>44.6</b>	<b>54.4</b>	<b>68.3</b>	<b>75.8</b>
Growth%	32.9%	27.0%	21.9%	25.7%	10.9%

**Key Ratios**

<b>EBITDA Margin %</b>	<b>28.9%</b>	<b>30.0%</b>	<b>29.5%</b>	<b>28.6%</b>	<b>28.4%</b>
Operating Margins %	26.5%	28.1%	27.6%	27.0%	26.8%
<b>NPM (%)</b>	<b>22.9%</b>	<b>23.4%</b>	<b>21.8%</b>	<b>21.8%</b>	<b>21.3%</b>
RoE (%)	35.7%	34.4%	34.8%	35.3%	31.9%
<b>RoCE (%)</b>	<b>34.2%</b>	<b>33.4%</b>	<b>33.4%</b>	<b>34.0%</b>	<b>30.9%</b>
BV/Per Share Rs.	107.0	129.0	159.3	199.7	243.5

**Valuation Ratios**

<b>P/E (x)</b>	<b>23.8x</b>	<b>18.9x</b>	<b>17.1x</b>
P/BV (x)	8.1x	6.5x	5.3x
<b>EV/EBIDTA (x)</b>	<b>17.2x</b>	<b>14.0x</b>	<b>12.1x</b>
EV/Sales	5.1x	4.0x	3.4x
<b>Market Cap./ Sales (x)</b>	<b>5.2x</b>	<b>4.1x</b>	<b>3.6x</b>
Dividend Yield (%)	1.9%	2.2%	2.5%

Source: Company, BP Equities research



Wipro Q2 FY13 Preview

YE March (Rs mn)	Q2 FY13E	Q1 FY13	Q-o-Q change %	Q2 FY12	Y-o-Y change %
<b>Net Sales</b>	<b>108,052</b>	<b>106,530</b>	<b>1.4%</b>	<b>90,945</b>	<b>18.8%</b>
EBITDA	20,185	21,426	(5.8%)	17,398	16.0%
<b>Operating Profit</b>	<b>17,490</b>	<b>18,722</b>	<b>(6.6%)</b>	<b>14,878</b>	<b>17.6%</b>
Profit Before Tax	18,886	19,945	(5.3%)	15,840	19.2%
<b>PAT</b>	<b>14,920</b>	<b>15,802</b>	<b>(5.6%)</b>	<b>13,009</b>	<b>14.7%</b>
<b>Reported Diluted EPS (Rs.)</b>	<b>6.1</b>	<b>6.4</b>	<b>(5.6%)</b>	<b>5.3</b>	<b>14.5%</b>
No of Shared Diluted (mn)	2,456	2,456		2,452	
<b>Margin Analysis %</b>			<i>Change in bps</i>		<i>Change in bps</i>
<b>EBIDTA Margin %</b>	<b>18.7%</b>	<b>20.1%</b>	<b>-143</b>	<b>19.1%</b>	<b>-45</b>
Operating margin %	16.2%	17.6%	-139	16.4%	-17
<b>NPM %</b>	<b>13.8%</b>	<b>14.8%</b>	<b>-102</b>	<b>14.3%</b>	<b>-50</b>
<b>Total Revenues (US\$ mn)</b>	<b>1,536</b>	<b>1,515</b>	<b>1.4%</b>	<b>1,473</b>	<b>4.3%</b>

Source: Company, BP Equities research

**Expectations/Comments**

We expect volumes growth to be subdued in the range of 2-3%

Consolidated IT services revenues to grow 1.4% Q-o-Q and 4.3% Y-o-Y to US\$ 1.54 bn

Net employees IT services to increase by ~2K

Forex losses to be realized on top line resulting in lower rupee realization

Pricing to remain more or less stable with negative bias

Margins to contract 143 bps sequentially to 18.7 in the quarter due to 2 months wage hikes given in July 12

Key Financials					
YE March (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
<b>Net Sales</b>	<b>271,957</b>	<b>310,542</b>	<b>371,971</b>	<b>436,300</b>	<b>477,887</b>
Growth%	5.8%	14.2%	19.8%	17.3%	9.5%
<b>Operating Profit</b>	<b>51,844</b>	<b>57,670</b>	<b>64,012</b>	<b>73,224</b>	<b>79,344</b>
Growth%	15.3%	11.2%	11.0%	14.4%	8.4%
<b>Net Profit</b>	<b>45,932</b>	<b>52,977</b>	<b>55,731</b>	<b>61,440</b>	<b>66,167</b>
Growth%	17.8%	15.3%	5.2%	10.2%	7.7%
<b>Diluted EPS</b>	<b>18.8</b>	<b>21.2</b>	<b>22.7</b>	<b>25.0</b>	<b>26.9</b>
Growth%	17.1%	13.0%	7.1%	10.2%	7.7%
Key Ratios					
<b>EBITDA Margin %</b>	<b>21.9%</b>	<b>21.2%</b>	<b>19.9%</b>	<b>19.3%</b>	<b>19.1%</b>
Operating Margins %	19.1%	18.6%	17.2%	16.8%	16.6%
<b>NPM (%)</b>	<b>16.9%</b>	<b>17.1%</b>	<b>15.0%</b>	<b>14.1%</b>	<b>13.8%</b>
RoE (%)	26.8%	23.5%	20.6%	19.4%	18.2%
<b>RoCE (%)</b>	<b>20.3%</b>	<b>19.2%</b>	<b>17.8%</b>	<b>17.8%</b>	<b>16.9%</b>
BV/Per Share Rs.	80	96	116	134	154
Valuation Ratios					
<b>P/E (x)</b>			<b>16.2x</b>	<b>14.7x</b>	<b>13.6x</b>
P/BV (x)			3.2x	2.7x	2.4x
<b>EV/EBIDTA (x)</b>			<b>11.9x</b>	<b>10.4x</b>	<b>9.4x</b>
EV/Sales(x)			2.4x	2.0x	1.8x
<b>Market Cap./ Sales (x)</b>			<b>2.4x</b>	<b>2.1x</b>	<b>1.9x</b>
Dividend Yield (%)			1.6%	1.6%	1.8%

Source: Company, BP Equities research

We expect Wipro to give stronger revenue guidance of 2-3% revenue growth q-o-q for Q3 FY13E, however we expect it to underperform the Tier-1 IT pack in terms of top line growth



**HCL Tech Q1 FY13 Preview**

YE June (Rs mn)	Q1 FY13E	Q4 FY12	Q-o-Q change %	Q1 FY12	Y-o-Y change %	Expectations/Comments
<b>Net Sales</b>	<b>60,680</b>	<b>59,191</b>	<b>2.5%</b>	<b>46,513</b>	<b>30.5%</b>	We expect volumes to lead with 4.5% sequential growth
EBITDA	12,282	13,009	(5.6%)	7,949	54.5%	Consolidated IT services revenues to grow 4.1% Q-o-Q and 12.1% Y-o-Y to US\$ 1.12 bn
<b>Operating Profit</b>	<b>10,710</b>	<b>11,485</b>	<b>(6.7%)</b>	<b>6,640</b>	<b>61.3%</b>	
Profit Before Tax	10,606	11,062	(4.1%)	6,699	58.3%	Net employees to increase by ~1800
<b>PAT</b>	<b>7,904</b>	<b>8,541</b>	<b>(7.5%)</b>	<b>4,968</b>	<b>59.1%</b>	
<b>Reported Diluted EPS (Rs.)</b>	<b>11.3</b>	<b>12.2</b>	<b>(7.5%)</b>	<b>7.2</b>	<b>57.6%</b>	Lower forex loses on account of hedges at higher rates
No of Shared Diluted (mn)	701	701		695		
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>	Pricing to remain under pressure as benefits are being passed on to clients
<b>EBIDTA Margin %</b>	<b>20.2%</b>	<b>22.0%</b>	<b>-174</b>	<b>17.1%</b>	<b>315</b>	
Operating margin %	17.7%	19.4%	-175	14.3%	338	Margins to contract 174 bps sequentially on account of full impact of wage hikes in the quarter
<b>NPM %</b>	<b>13.0%</b>	<b>14.4%</b>	<b>-140</b>	<b>10.7%</b>	<b>235</b>	
<b>Net Sales US\$</b>	<b>1,124</b>	<b>1,080</b>	<b>4.1%</b>	<b>1,002</b>	<b>12.1%</b>	

Source: Company, BP Equities research

Key Financials					
YE June (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
<b>Net Sales</b>	<b>125,882</b>	<b>160,342</b>	<b>210,312</b>	<b>251,139</b>	<b>279,087</b>
Growth%	18.9%	27.4%	31.2%	19.4%	11.1%
<b>EBITDA</b>	<b>25,784</b>	<b>27,488</b>	<b>40,251</b>	<b>46,940</b>	<b>51,239</b>
Growth%	11.8%	6.6%	46.4%	16.6%	9.2%
<b>Net Profit</b>	<b>13,055</b>	<b>17,102</b>	<b>25,260</b>	<b>29,862</b>	<b>33,186</b>
Growth%	2.2%	31.0%	47.7%	18.2%	11.1%
<b>Diluted EPS</b>	<b>18.9</b>	<b>24.4</b>	<b>36.0</b>	<b>42.6</b>	<b>47.3</b>
Growth%	-0.1%	28.9%	47.6%	18.2%	11.1%
Key Ratios					
<b>EBITDA Margin %</b>	<b>20.5%</b>	<b>17.1%</b>	<b>19.1%</b>	<b>18.7%</b>	<b>18.4%</b>
Operating Margins %	16.5%	14.0%	16.5%	16.1%	15.8%
<b>NPM (%)</b>	<b>10.4%</b>	<b>10.7%</b>	<b>12.0%</b>	<b>11.9%</b>	<b>11.9%</b>
RoE (%)	20.0%	21.3%	25.8%	24.9%	22.9%
<b>RoCE (%)</b>	<b>12.9%</b>	<b>15.3%</b>	<b>20.1%</b>	<b>20.5%</b>	<b>19.6%</b>
BV/Per Share Rs.	102	122	150	183	220
Valuation Ratios					
<b>P/E (x)</b>			<b>15.6x</b>	<b>13.2x</b>	<b>11.8x</b>
P/BV (x)			3.8x	3.1x	2.6x
<b>EV/EBIDTA (x)</b>			<b>9.3x</b>	<b>7.7x</b>	<b>6.6x</b>
EV/Sales (x)			1.8x	1.4x	1.2x
<b>Market Cap./ Sales (x)</b>			<b>1.8x</b>	<b>1.5x</b>	<b>1.4x</b>
Dividend Yield (%)			1.5%	1.7%	1.9%

Source: Company, BP Equities research

IMS business to grow 5.4% q-o-q while we expect BPO business to continue its performance and should register some margins improvement

**Mahindra Satyam Q2 FY13 Preview**

YE March (Rs mn)	Q2 FY13E	Q1 FY13	Q-o-Q change %	Q2 FY12	Y-o-Y change %
Net Sales	19,041	18,799	1.3%	15,777	20.7%
EBITDA	3,770	4,075	(7.5%)	2,417	56.0%
Operating Profit	3,313	3,581	(7.5%)	2,021	63.9%
Profit Before Tax	3,920	4,889	(19.8%)	2,968	32.1%
Reported PAT	3,128	3,523	(11.2%)	2,382	31.3%
Adjusted PAT	3,128	3,523	(11.2%)	2,382	31.3%
Reported Diluted EPS (Rs.)	2.7	3.0	(11.2%)	2.0	31.3%
Adjusted Diluted EPS (Rs.)	2.7	3.0	(11.2%)	2.0	31.3%
No of Shared Diluted (mn)	1,176	1,176		1,176	
Margin Analysis %			Change in bps	Change in bps	
EBIDTA Margin %	19.8%	21.7%	-188	15.3%	448
Operating margin %	17.4%	19.1%	-165	12.8%	459
NPM %	16.4%	18.7%	-231	15.1%	133
Adjusted NPM %	16.4%	18.7%	-231	15.1%	133
Net Sales US\$	353	342	3.1%	330	6.8%

Source: Company, BP Equities research

**Expectations/Comments**

Consolidated IT services revenues to grow 3.1% Q-o-Q and 60.8% Y-o-Y to US\$ 353mn

Net employees to increase by ~1000

Lower forex loses on account of hedges booked at higher rates

Pricing to remain more or less stable

Margins to contract 188 bps mainly due to rupee wage hikes and rupee appreciation

Lower PAT on account of lower other income (lower forex gains in the quarter as compared to Rs 665.1 mn in the last quarter)

**Tech Mahindra Q2 FY13 Preview**

YE March (Rs mn)	Q2 FY13E	Q1 FY13	Q-o-Q change %	Q2 FY12	Y-o-Y change %
Net Sales	16,261	15,434	5.4%	13,333	22.0%
EBITDA	3,067	3,302	(7.1%)	2,043	50.2%
Operating Profit	2,630	2,881	(8.7%)	1,536	71.3%
Profit Before Tax	2,218	2,467	(10.1%)	1,786	24.2%
Reported PAT	3,030	3,385	(10.5%)	2,404	26.0%
PAT excluding Satyam	1,694	1,883	(10.0%)	1,388	22.0%
Reported Diluted EPS (Rs.)	22.8	25.5	(10.5%)	18.2	25.3%
Diluted EPS excluding Satyam	12.8	14.2	(10.0%)	10.5	21.4%
No of Shared Diluted (mn)	132	132		132	
Margin Analysis %			Change in bps	Change in bps	
EBIDTA Margin %	18.9%	21.4%	-253	15.3%	354
Operating margin %	16.2%	18.7%	-249	11.5%	466
NPM %	18.6%	21.9%	-330	18.0%	60
NPM excluding Satyam%	10.4%	12.2%	-178	10.4%	1
Net Sales US\$	301	281	7.0%	296	1.7%

Source: Company, BP Equities research

**Expectations/Comments**

Consolidated IT services revenues to increase 7.0% Q-o-Q to US\$ 301 mn primarily due to rise in non BT business and \$14mn contribution from Hutch BPO acquisition

BT business expected to remain stable at ~36% and growth will be fueled by non BT accounts and acquisitions

Positive commentary expected on Non BT business front and deal flow

Pricing to remain more or less stable

Margins to contract 235 bps sequentially due to addition of 11K Hutch BPO employees and lower margins of mid teens from Hutch BPO

PAT to be under pressure due to one time transaction fees paid for acquisitions

**Polaris Q2 FY13 Preview**

YE June (Rs mn)	Q2 FY13E	Q1 FY13	Q-o-Q change %	Q2 FY12	Y-o-Y change %
<b>Net Sales</b>	<b>6,234</b>	<b>5,693</b>	<b>9.5%</b>	<b>5,097</b>	<b>22.3%</b>
EBITDA	902	693	30.0%	622	45.1%
<b>Operating Profit</b>	<b>772</b>	<b>564</b>	<b>36.8%</b>	<b>510</b>	<b>51.4%</b>
Profit Before Tax	746	773	(3.5%)	727	2.7%
<b>PAT</b>	<b>575</b>	<b>612</b>	<b>(5.9%)</b>	<b>539</b>	<b>6.7%</b>
<b>Reported Diluted EPS (Rs.)</b>	<b>5.8</b>	<b>6.1</b>	<b>(5.9%)</b>	<b>5.4</b>	<b>6.8%</b>
No of Shared Diluted (mn)	100	100		100	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>
<b>EBIDTA Margin %</b>	<b>14.5%</b>	<b>12.2%</b>	<b>228</b>	<b>12.2%</b>	<b>227</b>
Operating margin %	12.4%	9.9%	247	10.0%	238
<b>NPM %</b>	<b>9.2%</b>	<b>10.7%</b>	<b>-151</b>	<b>10.6%</b>	<b>-135</b>
<b>Net Sales US\$</b>	<b>116</b>	<b>108</b>	<b>7.9%</b>	<b>111</b>	<b>4.3%</b>

Source: Company, BP Equities research

Consolidated IT services revenues to grow 7.9% Q-o-Q to US\$ 116 mn primarily due 18.5% rise in intellect revenues to US\$ 29 mn

We have projected a top line of US\$ 482 mn up 12.6% y-o-y in FY13E accordance with the management guidance

Strong order book of US\$ 400 mn in intellect to drive growth going forward

Net employees additions to be ~500 out of which 75 employees will in the products business

Margins to expand 228 bps sequentially on account of rise in intellect revenues which has higher margins

PAT declined as last quarter contains one time gain of Rs 90 mn from sale of asset

**Infinite Computers Q2 FY13 Preview**

YE March (Rs mn)	Q2 FY13E	Q1 FY13	Q-o-Q change %	Q2 FY12	Y-o-Y change %
<b>Net Sales</b>	<b>3,026</b>	<b>2,669</b>	<b>13.4%</b>	<b>2,623</b>	<b>15.3%</b>
EBITDA	522	409	27.5%	447	16.7%
<b>Operating Profit</b>	<b>431</b>	<b>320</b>	<b>34.8%</b>	<b>373</b>	<b>15.5%</b>
Profit Before Tax	404	278	45.7%	400	1.1%
<b>PAT</b>	<b>303</b>	<b>207</b>	<b>46.6%</b>	<b>300</b>	<b>1.2%</b>
<b>Reported Diluted EPS (Rs.)</b>	<b>7.0</b>	<b>4.8</b>	<b>46.6%</b>	<b>6.8</b>	<b>3.1%</b>
No of Shared Diluted (mn)	43	43		44	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>
<b>EBIDTA Margin %</b>	<b>17.3%</b>	<b>16.8%</b>	<b>55</b>	<b>16.9%</b>	<b>46</b>
Operating margin %	14.6%	13.6%	101	14.0%	63
<b>NPM %</b>	<b>10.8%</b>	<b>11.1%</b>	<b>-29</b>	<b>12.0%</b>	<b>-115</b>
<b>Net Sales US\$</b>	<b>64</b>	<b>59</b>	<b>9.5%</b>	<b>56</b>	<b>14.7%</b>

Source: Company, BP Equities research

Consolidated IT services revenues to grow 9.5% Q-o-Q to US\$ 57 mn primarily due to new contract wins and rise in revenue from existing client

We have projected a top line of US\$ 264.2 mn up 19.7% y-o-y in FY13E accordance with the management guidance

Net employees additions not to be significant and will be mainly driven from non linear sources of revenues

Margins to expand 55 bps sequentially mainly as impact of salary hikes has been absorbed in the last quarter and margin gains will come from operational efficiencies





*Persistent Q2 FY13 Preview*

YE March (Rs mn)	Q2 FY13E	Q1 FY13	Q-o-Q change %	Q2 FY12	Y-o-Y change %
<b>Net Sales</b>	<b>3,124</b>	<b>3,007</b>	<b>3.9%</b>	<b>2,382</b>	<b>31.2%</b>
EBITDA	668	685	(2.5%)	446	49.8%
<b>Operating Profit</b>	<b>486</b>	<b>501</b>	<b>(3.0%)</b>	<b>307</b>	<b>58.4%</b>
Profit Before Tax	564	575	(2.0%)	451	24.9%
<b>PAT</b>	<b>403</b>	<b>416</b>	<b>(3.1%)</b>	<b>324</b>	<b>24.4%</b>
<b>Reported Diluted EPS (Rs.)</b>	<b>10.1</b>	<b>10.4</b>	<b>(3.1%)</b>	<b>8.1</b>	<b>24.4%</b>
No of Shared Diluted (mn)	40	40		40	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>
<b>EBIDTA Margin %</b>	<b>21.4%</b>	<b>22.8%</b>	<b>-140</b>	<b>18.7%</b>	<b>266</b>
Operating margin %	15.5%	16.7%	-111	12.9%	267
<b>NPM %</b>	<b>12.9%</b>	<b>13.8%</b>	<b>-93</b>	<b>13.6%</b>	<b>-71</b>
<b>Net Sales US\$</b>	<b>58</b>	<b>55</b>	<b>5.9%</b>	<b>52</b>	<b>12.9%</b>

*Consolidated IT services revenues to grow 5.9% Q-o-Q to US\$ 58 mn primarily due to increased traction in new technological areas*

*We have projected a top line of US\$ 235.6 mn in FY13E up 13.6% y-o-y*

*Margins to contract 140 bps sequentially on account of weaker dollar and salary hikes given for offshore employees which will be effective from 1st July 12*

Source: Company, BP Equities research

*Total Hedges for IT companies in the quarter*

Total Hedges Of IT companies	Total Hedges US\$ (mn)	June '12 Quarter revenues US\$ mn	% of Quarterly revenues
<b>Infosys</b>	<b>1,100</b>	<b>1,752</b>	<b>63%</b>
HCL Tech	1,100	1,080	102%
<b>TCS</b>	<b>1,300</b>	<b>2,728</b>	<b>48%</b>
Wipro	1,700	1,515	112%
<b>Mahindra Satyam</b>	<b>210</b>	<b>342</b>	<b>61%</b>
Infinite Computers	45	59	76%
<b>Polaris</b>	<b>25</b>	<b>108</b>	<b>23%</b>

Source: Company, BP Equities research



**Currency movement on quarter closing basis**

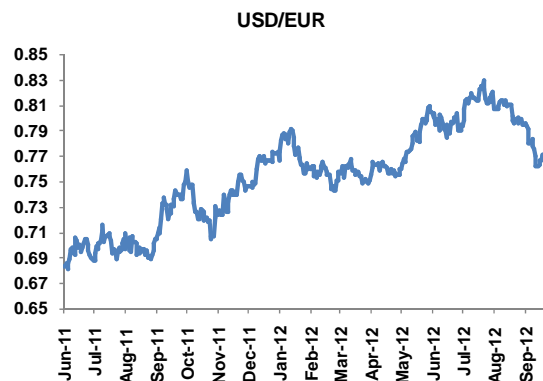
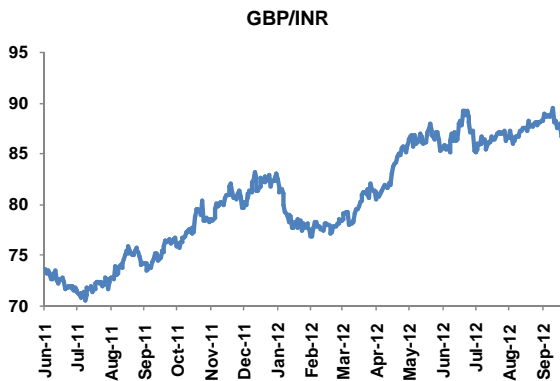
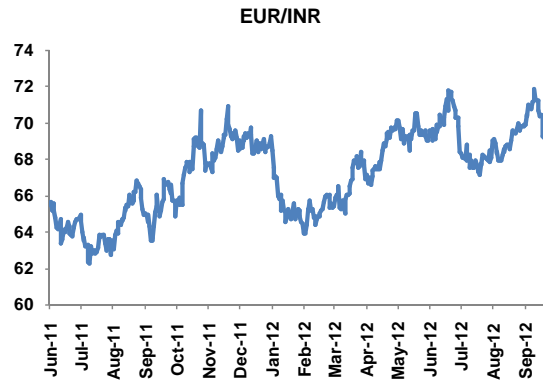
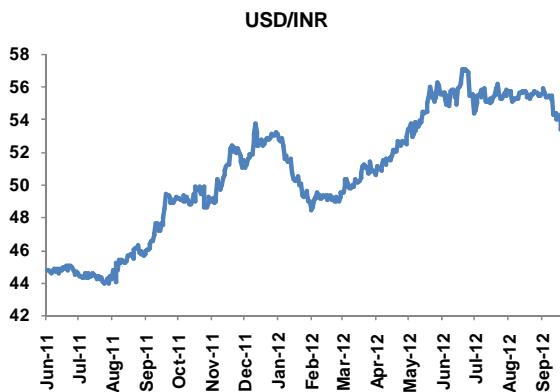
	US\$/INR	EUR/INR	GBP/INR	EUR/US\$	GBP/US\$	US\$/EUR	US\$/GBP
Close rate Q2 FY12	49.09	65.70	76.50	1.34	1.56	0.75	0.64
Close rate Q3 FY12	53.02	68.71	82.29	1.30	1.55	0.77	0.64
Close rate Q4 FY12	50.87	67.78	81.50	1.33	1.60	0.75	0.62
Close rate Q1 FY13	56.89	70.94	88.57	1.25	1.56	0.80	0.64
Close rate Q2 FY13	53.02	69.15	86.75	1.29	1.62	0.77	0.62
% Change since Q4 FY12 Closing	4.2%	2.0%	6.4%	-3.1%	1.3%	3.2%	-1.3%
% Change since Q1 FY13 Closing	-6.8%	-2.5%	-2.1%	3.7%	4.2%	-3.6%	-4.0%
Change in FY12	14.0%	4.8%	13.9%	-7.9%	-0.2%	8.6%	0.2%

Source: Internet, BP Equities research

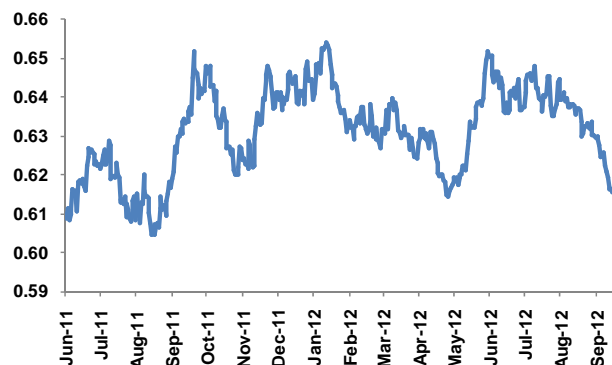
**Currency movement on quarter average basis**

	US\$/INR	EUR/INR	GBP/INR	EUR/US\$	GBP/US\$	US\$/EUR	US\$/GBP
Average rate Q3 FY12	50.74	68.36	79.77	1.35	1.57	0.74	0.64
Average rate Q4 FY12	50.21	65.84	78.91	1.31	1.57	0.76	0.64
Average rate Q1 FY13	53.99	69.22	85.35	1.28	1.58	0.78	0.63
Average rate Q2 FY13	53.47	69.05	87.18	1.25	1.58	0.80	0.63
Change %	-1.0%	-0.2%	2.1%	-2.7%	-0.4%	2.8%	0.4%

Source: Internet, BP Equities research



USD/GBP



**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

**General Disclaimer**

This report has been prepared by the research department of BP WEALTH Management Pvt. Ltd. and BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP WEALTH Management Pvt. Ltd. and BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP WEALTH Management Pvt. Ltd. any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP WEALTH Management Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP WEALTH Management Pvt. Ltd. and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP WEALTH Management Pvt. Ltd. or any of its affiliates to any registration or licensing requirement within such jurisdiction.

**Corporate Office:****4th Floor, Rustom Bldg, 29, Veer Nariman Road, Fort, Mumbai – 400001****Phone- +91 22 61596161 Website- [www.bpwealth.com](http://www.bpwealth.com)**