

3 May 2010

Tech Mahindra

*Forex boosts profits; maintain Buy*Rating: **Buy**

Target Price: Rs1,010

Share Price: Rs774

- **Lowering target price, maintain Buy.** TechM's profit was higher than our estimate on account of higher forex gain. We lower FY11/12 estimates 7.5%/6.6% respectively to factor in rupee appreciation, salary hikes (mentioned by the company) and a higher tax rate, and lower target price to Rs1,010 (from Rs1,130).
- **4QFY10: Forex boosts profit.** In rupee terms, 4Q revenue slid 0.3% qoq to Rs11.8bn, and in dollar terms rose 1.9% (growing 3.7% on constant currency). Lower wage and travel costs led to margins being flat qoq. Forex gain of ~Rs620m helped TechM's profit rise 30.9% qoq.

Key takeaways. Tech Mahindra added three clients (taking the total to 113). The offshore mix was up 100bp qoq to 62%. Blended utilization was flat. Europe grew 1.4% qoq. BT revenue is seen to be stable, at ~£70-72m/quarter. Stress is still seen with its other clients, and BT senses growth in two to three quarters.

- **Valuation.** Our new target price of Rs1,010, comprises Rs720 (12x FY11e earnings, maintained at 12x) and Rs290 (on account of its 42.7% holding in Satyam, after a 25% holding co. discount).
- **Satyam financials, details on BT deals unknown.** Much depends on Satyam's reported figures (Jun '10), and details of the BT deals are still not known. We believe that there exist risks on both these fronts.

| Key data | TECHM IN / TEML.BO |
|-----------------------|--------------------|
| 52-week high/low | Rs1,158/Rs315 |
| Sensex/Nifty | 17559/5278 |
| 3-m average volume | US\$9.7m |
| Market cap | Rs95bn/US\$2.1bn |
| Shares outstanding | 122m |
| Free float | 25.2% |
| Promoters | 74.9% |
| Foreign Institutions | 0.6% |
| Domestic Institutions | 8.7% |
| Public | 15.9% |

Quarterly results

| Year end 31 Mar | 4QFY09 | 4QFY10 | % yoy | FY09 | FY10 | % yoy |
|--------------------|--------|--------|----------|--------|--------|----------|
| Sales (Rsm) | 10,513 | 11,833 | 12.6 | 44,647 | 46,254 | 3.6 |
| EBITDA (Rsm) | 2,842 | 2,788 | (1.9) | 12,152 | 11,325 | (6.8) |
| EBITDA margin (%) | 27.0 | 23.6 | (347)bps | 27.2 | 24.5 | (273)bps |
| Interest (Rsm) | 23 | 311 | 1252..2 | 25 | 2,184 | 8636.0 |
| Depreciation (Rsm) | 286 | 399 | 39.5 | 1,097 | 1,338 | 22.0 |
| Other income (Rsm) | 78 | 739 | 847.4 | -378 | 754 | NM |
| PBT (Rsm) | 2,611 | 2,817 | 7.9 | 10,652 | 8,557 | (19.7) |
| Tax (Rsm) | 306 | 542 | 77.1 | 1,179 | 1,440 | 22.1 |
| Tax rate (%) | 11.7 | 19.2 | 752bps | 11.1 | 16.8 | 576 |
| PAT (Rsm) | 2,305 | 2,275 | (1.3) | 9,473 | 7,117 | (24.9) |

Source: Company, Anand Rathi Research

Financials

| Year end 31 Mar | FY11e | FY12e |
|--------------------|--------|--------|
| Sales (Rsm) | 49,937 | 56,852 |
| Net profit (Rsm) | 7,555 | 8,869 |
| EPS (Rs) | 60.2 | 70.2 |
| Growth (%) | 3.8 | 16.7 |
| PE (x) | 12.9 | 11.0 |
| PBV (x) | 2.7 | 2.2 |
| RoE (%) | 24.0 | 23.0 |
| RoCE (%) | 23.0 | 24.2 |
| Dividend yield (%) | 0.5 | 0.6 |
| Net gearing (%) | 16.8 | (3.8) |

Source: Bloomberg, Anand Rathi Research

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Appendix 1

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Ratings Guide

| | Buy | Hold | Sell |
|---------------------------|------|--------|------|
| Large Caps (>US\$1bn) | >20% | 5-20% | <5% |
| Mid/Small Caps (<US\$1bn) | >30% | 10-30% | <10% |

Anand Rathi Research Ratings Distribution (as of 31 Mar 10)

| | Buy | Hold | Sell |
|---|-----|------|------|
| Anand Rathi Research stock coverage (118) | 61% | 12% | 27% |
| % who are investment banking clients | 8% | 0% | 0% |

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