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AT&T-Tech Mahindra deal to click on many fronts

Deal gives Tech Mahindra the perfect opportunity to reduce dependence on its largest customer, BT.

An expanded relationship with AT&T will drive US revenue growth further.



Adith Charlie

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AT&T's acquisition of an 8 per cent stake in Tech Mahindra will pave the way for a stronger relationship between the two parties.

Though the deal may not immediately translate into incremental revenues for Tech Mahindra, it will give the Mumbai-based company an edge over other competitors

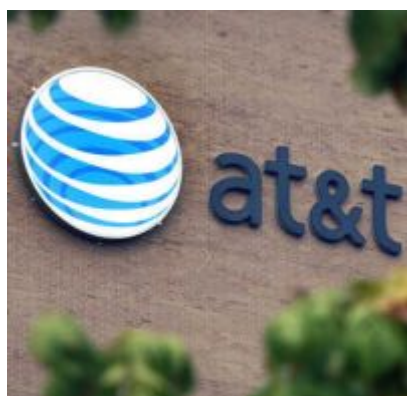
while bidding for offshoring deals from AT&T in the future.

Theoretically, it gives Tech Mahindra the perfect opportunity to reduce dependence on its largest customer, BT. The London-based company, which also holds a 31 per cent stake in Tech Mahindra, has trimmed costs by upwards of £100 million by reworking pricing of its off-shoring contracts with all vendors.

AT&T acquired the 8.07 per cent stake from Mahindra BT Investment Co Mauritius, by exercising a 2005 options agreement. AT&T had the option of picking the shares by July 2010, since it was able to generate targeted revenues, as stipulated in the agreement, for Tech Mahindra.

With revenues of \$123 billion in 2009, AT&T is almost four times the annual revenue of BT. For the record, Tech Mahindra already generates over 15 per cent of its revenues from AT&T.

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"The nature of the business outsourced by AT&T to Tech Mahindra is highly cyclical in nature and is repetitive in a sense. The strengthening of relationship between the two parties could set the stage ready for more engagements from AT&T for Tech Mahindra," said Mr. Kamlesh Bhatia, Principal Research Analyst with Gartner.

Analysts draw a parallel to BT, which in spite of being a key stakeholder in Tech Mahindra, does outsource a fair bit of work to companies such as Infosys, HCL and

“Nevertheless, Tech Mahindra gets the largest share of BT's outsourced work. Similarly, this equity alliance with AT&T gives Tech Mahindra an edge (over other competitors),” said Mr. Peter Schumacher, President & CEO, Value Leadership Group, a US-based management consultancy firm.

Moreover, BT has been scouting for selling its 31 per cent stake in Tech Mahindra for quite some time now. Whenever that happens, the quantum of business BT does with Tech Mahindra may diminish and hence it makes sense for Tech Mahindra to cultivate its next biggest customer, AT&T. One of the challenges for the Tech Mahindra board will be to address the interests of both AT&T and BT, given that both companies compete aggressively on the wholesale side of the business.

In the previous fiscal, Tech Mahindra generated 67 per cent revenues from Europe, 60 per cent of which came from the UK alone. “An expanded relationship with AT&T will drive US revenue growth further and thereby help the company diversify its geographic revenue and currency mix. This is critical given the enormous volatility of the UK pound vs. the rupee and other currencies over the last five years,” said Mr. Schumacher.

However, all eyes will now be on Tech Mahindra's sales team to see how effectively it can use the '8 per cent stake' in its sales pitch and thereby increase the volume of business with AT&T.