Deutsche Bank

27 January 2011

TeleNav

Reuters: **TNAV.OQ** Bloomberg: **TNAV US** Exchange: **NMS** Ticker: **TNAV**

FYQ2 Results

Jonathan Goldberg, CFA
Research Analyst
(+1) 415 617-4259
jonathan.goldberg@db.com

Tom Ernst Jr
Research Analyst
( ) 800 592-0290
thomas.ernst@db.com

Nandan Amladi
Research Analyst
(+1) 212 250-4570
nandan.amladi@db.com

Forecast Change

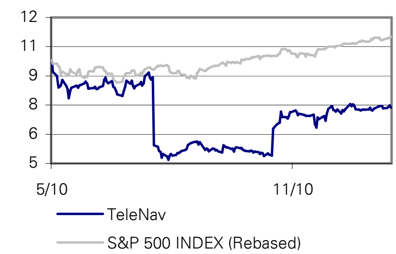
Hold

Price at 26 Jan 2011 (USD)	**7.49**
Price target	**8.00**
52-week range	**9.80 - 4.68**

Key changes

Price target	5.00 to 8.00 ↑	**60.0%**
EPS (USD)	0.75 to 0.88 ↑	**17.4%**
Revenue (USDm)	190.1 to 197.0 ↑	**3.6%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-2.4*	*49.2*	*–*
S&P 500 INDEX	*3.3*	*9.9*	*18.4*

Stock & option liquidity data

Market Cap (USDm)	312.8
Shares outstanding (m)	42.4
Free float (%)	100
Volume (26 Jan 2011)	79,833
Option volume (und. shrs., 1M avg.)	–

Strong results and good guidance
Telenav reported 2QFY10 revenue of $48.0 million ahead of our estimate of $46.9 million and consensus of $46.2 million; pro-forma EPS of $0.24 came in well ahead of the street's and our estimate of $0.17. We remain cautious on the company as it transitions to new revenue models. Hold.

Improvements in customer concentration
The company added almost 2 million new subscribers during the quarter. Customer concentration at AT&T and Sprint also fell sequentially. We are encouraged by the growth at T-Mobile US and US Cellular as well. This was the first quarter under the new Sprint contract and there were some signs that premium pricing models there can generate upside over the fixed terms.

New revenue legs progressing, albeit slowly
The company's various growth legs progressed with international now contributing 4% of revenue. Telenav's mobile ad platform is now live, and while revenue contribution is still minor, click-through and ad rates hold promise. Location-based and local advertising hold increasing promise and should the company find a good model here they have the potential to unlock substantial value.

Raising estimates and price target from $5 to $8, maintain Hold rating; risks
We have valued Telenav using a discounted cash flow analysis using a 2% perpetual growth rate in line with long-term industry growth and a 15% discount rate (using a 5.5% risk free rate, a beta of 1.4 and risk premium of 7%). Downside risks include the threat of continued competition from free navigation providers such as Google. Upside risks include the potential for increased ramp in premium services and a better than advertising results from Sprint customers in 2011.

Forecasts and ratios

Year End Jun 30	2010A	**2011E**
1Q EPS[1]	0.02	**0.29A**
2Q EPS	0.23	**0.24**
3Q EPS	0.31	**0.18**
4Q EPS	0.31	**0.17**
FY EPS (USD)	1.10	**0.88**
OLD FY EPS (USD)	1.10	**0.75**
% Change	0.0%	**17.4%**
P/E (x)	7.8	**8.4**
Revenue (USDm)	171.2	**197.0**

Source: Deutsche Bank estimates, company data

[1] Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank Securities Inc.

Model updated:29 October 2010

Running the numbers

North America

United States

Wireless Equipment

TeleNav

Reuters: TNAV.OQ Bloomberg: TNAV US

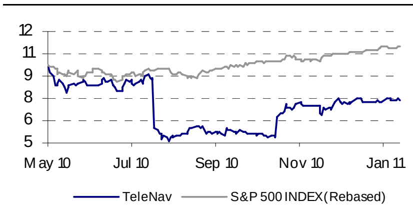
Hold

Price (26 Jan 11)	USD 7.49
Target price	USD 8.00
52-week Range	USD 4.68 - 9.80
Market Cap (m)	USDm 313 EURm 228

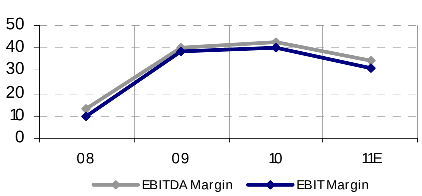
Company Profile

TeleNav is a provider of location based services, or LBS, on mobile phones. Their LBS solutions provide consumers and enterprises with location specific, real time and personalized features and functions. Through their hosted service delivery model, they provide solutions through the networks of leading wireless carriers in the United States, including Sprint Nextel Corporation, or Sprint, and AT&T Inc., or AT&T, as well as through certain carrie.

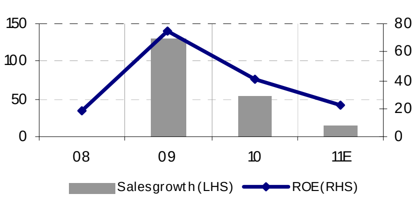
Price Performance



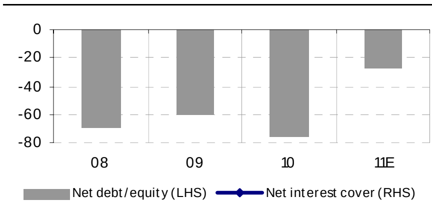
Margin Trends



Growth & Profitability



Solvency



Jonathan Goldberg, CFA

+1 415 617-4259 jonathan.goldberg@db.com

Fiscal year end 30-Jun	2008	2009	2010	2011E
Financial Summary				
DB EPS (USD)	0.02	0.07	1.10	0.88
Reported EPS (USD)	0.01	0.09	1.34	0.83
DPS (USD)	0.00	0.00	0.00	0.00
BVPS (USD)	0.18	0.40	9.57	4.44
Valuation Metrics				
Price/Sales (x)	nm	nm	0.8	1.6
P/E (DB) (x)	na	na	7.8	8.4
P/E (Reported) (x)	na	na	6.4	8.9
P/BV (x)	0.0	0.0	0.9	1.7
FCF yield (%)	na	na	26.0	18.0
Dividend yield (%)	na	na	0.0	0.0
EV/Sales	nm	nm	0.1	0.7
EV/EBITDA	nm	nm	0.3	2.1
EV/EBIT	nm	nm	0.3	2.4
Income Statement (USDm)				
Sales	48	111	171	197
EBITDA	6	45	74	69
EBIT	5	42	68	61
Pre-tax profit	5	42	68	62
Net income	**5**	**30**	**41**	**38**
Cash Flow (USDm)				
Cash flow from operations	**0**	**24**	**44**	**62**
Net Capex	-2	-8	-10	-6
Free cash flow	**-2**	**16**	**35**	**56**
Equity raised/(bought back)	0	0	43	-2
Dividends paid	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	0	0	2	-114
Net cash flow	**-2**	**16**	**80**	**-60**
Change in working capital	*-11*	*-9*	*-13*	*10*
Balance Sheet (USDm)				
Cash and cash equivalents	17	33	113	52
Property, plant & equipment	3	7	10	8
Goodwill	0	0	0	0
Other assets	16	32	51	165
Total assets	**36**	**72**	**174**	**225**
Debt	0	0	0	0
Other liabilities	12	17	25	36
Total liabilities	**12**	**17**	**25**	**36**
Total shareholders' equity	**24**	**55**	**149**	**189**
Net debt	*-17*	*-33*	*-113*	*-52*
Key Company Metrics				
Sales growth (%)	nm	130.7	54.4	15.1
DB EPS growth (%)	na	333.8	1,526.3	-20.4
Payout ratio (%)	0.0	0.0	0.0	0.0
EBITDA Margin (%)	13.1	40.3	43.0	34.8
EBIT Margin (%)	9.9	38.1	40.0	31.0
ROE (%)	18.9	74.8	40.6	22.2
Net debt/equity (%)	-69.1	-60.5	-75.7	-27.6
Net interest cover (x)	nm	nm	nm	nm
DuPont Analysis				
EBIT margin (%)	9.9	38.1	40.0	31.0
x Asset turnover (x)	1.3	2.0	1.4	1.0
x Financial cost ratio (x)	1.0	1.0	1.0	1.0
x Tax and other effects (x)	1.0	0.7	0.6	0.6
= ROA (post tax) (%)	**12.8**	**54.7**	**33.7**	**18.8**
x Financial leverage (x)	1.5	1.4	1.2	1.2
= ROE (%)	**18.9**	**74.8**	**40.6**	**22.2**
annual growth (%)	*na*	*296.4*	*-45.7*	*-45.3*
x NTA/share (avg) (x)	0.1	0.1	3.3	3.7
= Reported EPS	**0.01**	**0.09**	**1.34**	**0.83**
annual growth (%)	*na*	*523.3*	*1,408.6*	*-38.3*

Source: Company data, Deutsche Bank estimates

Telenav reported 2QFY10 revenue of $48.0 million ahead of our estimate of $46.9 million and consensus of $46.2 million; pro-forma EPS of $0.24 came in well ahead of the street's and our estimate of $0.17.

Telenav's main customers, Sprint and AT&T, respectively represented 45% and 40% of the revenue. The AT&T contract was renewed with no change to the terms, which means it is still a revenue sharing agreement. T-mobile and US cellular accounted for 9% of revenues.

The company saw continued improvement in its mobile advertising platform. The click through rate was 3.6% and for those who clicked, the drive through rate was over 24%. In addition, the company continues to leverage its core customer area to grow revenue from premium navigation, automotive and enterprise LBS. This segment accounted for less than 5% of revenues in the prior year and now accounts for 7% of revenues.

The company increased its monthly paid subscribers to 19.6 million, up from 17.7 million in the prior quarter and 12.7 million in the prior year.

Guidance

The company guided earnings of $0.16 to $0.18 per share for FYQ3, ahead of the street and our expectations of $0.16. The company also revised its full year guidance upward, saying revenue would be between $195 and $200 million and non-GAAP earnings would be between $0.84 and $0.88 per share. This is above the street and our revenue estimate of $190 million. The EPS estimate is above the street estimate of $0.56 and our estimate of $0.75.

Financials

The company generated $28.5 in cash from operations and increased their cash position to 155.7 million. During the quarter the company repurchased 328,000 shares, bringing shares outstanding to between 45 and 46 million.

Conclusion

Telenav continues to generate solid quarters. The company beat our estimates across most metrics. This was the first full quarter under the new Sprint agreement. Under this, Sprint pays Telenav a fixed fee regardless of subscriber adds. This has been a meaningful overhang on the stock and a factor which puts a dent in their revenue growth for the year. However, even on this front there were signs of positive trends. The company generated some revenue from premium subscriptions with Sprint subscribers, this is still relatively small but bodes well for the company's long-term growth.

The chief concern we have with Telenav, and a key issue we hear from investors, is the high level of customer concentration. Sprint contributed 45% of revenue and AT&T 40%, and as we saw two quarters ago large carrier customers are not afraid to throw their weight around. We saw two encouraging signs on this front. The first, the company announced they have renewed their AT&T contract for two years under existing terms. We were concerned that AT&T would follow Sprint's lead and seek better terms from Telenav. That has not come to pass. Secondly, revenue concentration has come down to 85% in Q2 from 87% in Q1 and >90% a year ago. The other legs of the company's business all advanced a bit, with international revenue now up 4%. The new carrier customers, T-Mobile US and US Cellular, now contribute 9% of revenue which is a strong showing for relationships less than a year old.

Going forward we will be watching two factors. First, can the company return to positive operating leverage? In a SaaS model, contribution margins from each incremental customer should be highly positive. For Telenav, the new Sprint model and ongoing R&D costs, mean that operating leverage is not apparent, and we still do not have the company growing earnings in FY12. However, there are some signs that by FY 13 (which we are not yet modeling) should see a return to earnings growth. The Sprint contract remains a sore spot, but we are comfortable with the company's R&D investments. A second focus will be the company's ability to diversify and grow revenue. As noted above, there are early signs that this is proceeding slowly. The big question here will be can the company's ad platform gain traction. We had not expected any meaningful contribution from this until FY12, and see no change to that. However, location-based services continues to be an important area of interest in the Web community. Telenav has some very powerful data that with time they should be able to monetize. On the call, they noted that they have one of the largest databases of real-time traffic nodes in the form of almost 20 million active users pinging their network. Many companies are searching for viable business models here and the success of local advertising websites such as Groupon point to the strong interest in successful platforms. It remains unclear whether Telenav can find a successful model in this domain, but they would hold significant value if and when they can unlock that model.

We remain cautious pending further signs of resolving this issue and thus reiterate our Hold rating.

In line with the company's latest guidance, we are raising our estimates as follows:
3Q11 was $46m and $0.16, is $49m and $0.17
4Q11 was $45m and $0.13, is $49m and $0.17
FY11 was $190m and $0.75, is $196m and $0.88
FY12 was $193m and $0.65, is $207m and $0.81
CY11 was $182m and $0.51, is $196m and $0.69

Risks & Valuation
We are raising our price target from $5 to $8 in line with our revised estimates. Our valuation is based on a discounted cash flow analysis using a 2% perpetual growth rate in line with long-term industry growth and a 15%discount rate (using a 5.5% risk free rate, a beta of 1.4 and risk premium of 7%).

We see two primary sources of downside risk for Telenav. The first is their dependence on a small number of carrier customers for their revenue. Carriers are known to be very demanding customers. While we believe Telenav's relationship with its carrier partners is strong, the risk exists that these carriers source navigation elsewhere or more likely pressure Telenav to bring down its prices. A second, related risk is competition from OTT navigation providers. The most significant of these are deep-pocketed players in the mobile and Internet landscape including Google, Nokia and Microsoft. These three all offer comparable navigation services bundled with their mobile operating systems (OS) at no cost to carriers or consumers. We think Telenav's relationship with the carriers shield them to some degree from this competition, but long-term expect pricing to converge on these $0 offerings. The chief upside risk is that the renegotiation with Sprint resolves with no change in earnings and the company returns to its prior growth trajectory. The company also has the ability to win new customers or see major customers such as AT&T switch to bundled pricing plans which would drive earnings above our estimates. We would also see upside risk should the company's mobile ad platform take off sooner than expected.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
TeleNav	TNAV.OQ	7.37 (USD) 27 Jan 11	2

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See "Important Disclosures Required by Non-US Regulators" and Explanatory Notes.

2. Deutsche Bank and/or its affiliate(s) makes a market in securities issued by this company.

Important Disclosures Required by Non-U.S. Regulators

Please also refer to disclosures in the "Important Disclosures Required by US Regulators" and the Explanatory Notes.

2. Deutsche Bank and/or its affiliate(s) makes a market in securities issued by this company.

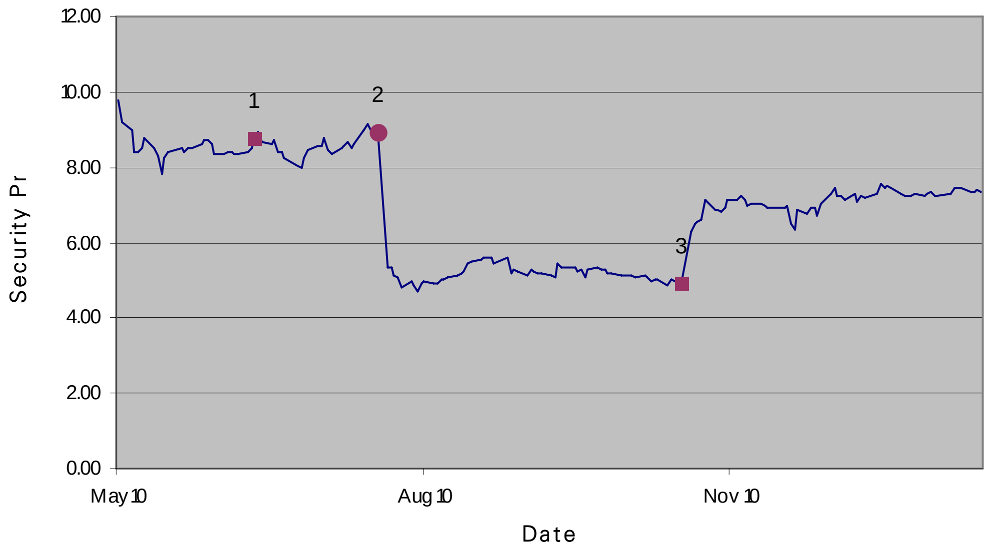
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=TNAV.OQ**.**

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Jonathan Goldberg

Historical recommendations and target price: TeleNav (TNAV.OQ)

(as of 1/27/2011)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

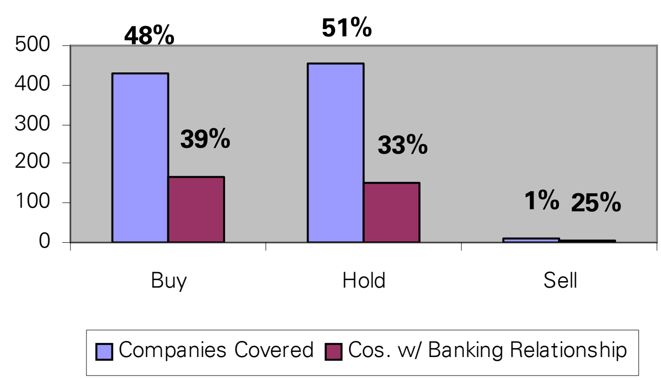
*New Recommendation Structure as of September 9, 2002

1.	6/23/2010:	Buy, Target Price Change USD12.00	3.	10/29/2010:	Hold, Target Price Change USD5.00
2.	7/30/2010:	Downgrade to Hold, Target Price Change USD9.00			

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.
Notes:
1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
   Buy: Expected total return (including dividends) of 10% or more over a 12-month period
   Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
   Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



North American Universe

Regulatory Disclosures

1. Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

2. Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at http://gm.db.com.

3. Country-Specific Disclosures

Australia: This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

Brazil: The views expressed above accurately reflect personal views of the authors about the subject company(ies) and its(their) securities, including in relation to Deutsche Bank. The compensation of the equity research analyst(s) is indirectly affected by revenues deriving from the business and financial transactions of Deutsche Bank.

EU countries: Disclosures relating to our obligations under MiFiD can be found at http://globalmarkets.db.com/riskdisclosures.

Japan: Disclosures under the Financial Instruments and Exchange Law: Company name - Deutsche Securities Inc. Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations. "Moody's", "Standard & Poor's", and "Fitch" mentioned in this report are not registered as rating agency in Japan unless specifically indicated as Japan entities of such rating agencies.

New Zealand: This research is not intended for, and should not be given to, "members of the public" within the meaning of the New Zealand Securities Market Act 1988.

Russia: This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

Deutsche Bank Securities Inc.

North American locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
Tel: (212) 250 2500

Deutsche Bank Securities Inc.
One International Place
12th Floor
Boston, MA 02110
United States of America
Tel: (1) 617 217 6100

Deutsche Bank Securities Inc.
222 South Riverside Plaza
30th Floor
Chicago, IL 60606
Tel: (312) 537-3758

Deutsche Bank Securities Inc.
3033 East First Avenue
Suite 303, Third Floor
Denver, CO 80206
Tel: (303) 394 6800

Deutsche Bank Securities Inc.
1735 Market Street
24th Floor
Philadelphia, PA 19103
Tel: (215) 854 1546

Deutsche Bank Securities Inc.
101 California Street
46th Floor
San Francisco, CA 94111
Tel: (415) 617 2800

Deutsche Bank Securities Inc.
700 Louisiana Street
Houston, TX 77002
Tel: (832) 239-4600

International locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West,Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Global Disclaimer