

November 16, 2010

Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs 85	Rs70
EPS change FY11E/12E (%)	(48)/(24)
Target Price change (%)	(14)
Nifty	6,122
Sensex	20,310

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(1)	(3)	(27)
Rel. to Nifty	2	(12)	(19)	(41)

Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	SCS@IN
Equity Capital (Rs mn)	2353
Face Value(Rs)	2
No of shares o/s (mn)	1176
52 Week H/L	121/79
Market Cap (Rs bn/USD mn)	101/2,258
Daily Avg Volume (No of sh)	19132112
Daily Avg Turnover (US\$m)	40.5

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	42.7	42.7	42.7
FII/NRI	22.5	22.4	21.6
Institutions	3.3	3.9	4.6
Private Corp	8.4	10.2	10.5
Public	23.2	20.8	20.6

Source: Capitaline

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- **Mahindra Satyam's result continue to indicate the 'Hard toil' faced by the company as Sep'10 qtr revenues decline by ~2% QoQ, margins falling by ~380 bps QoQ to 5.9%**
- **Result vindicate our negative stance on the company as it faces stiff challenges from both weaker competitive positioning in erstwhile areas of strength**
- **Cut our FY11E/12E/13E margins to 8.4%/14%/14.7% (V/s 15.2%/17.1%/17% earlier) driving a 48%/24%/19% to Rs 2.7/4.9/6(V/s Rs 5.1/6.4/7.5 earlier)**
- **Maintain REDUCE rating with a revised March'12 DCF based TP of Rs 70(V/s Rs 81 earlier, implying ~12.5x 1 yr forward P/E)**

H1FY11 results continue to indicate the ongoing challenges faced by Mahindra Satyam

Mahindra Satyam (MS)'s indicate the ongoing struggles being faced by the company as it tries to resurrect itself. We note that the company faces significant pressure on operating margins, given growth continues to elude in a more favorable macro environment. (Tier 1's seeing sequential revenue growth in high single digits during the Sep'10 quarter with a number of mid tier peers also benefitting from the strong macro environment during the quarter).

Although Mahindra Satyam's H1FY11 revenue performance at US\$ 541 mn(US\$ 268 mn, -2% QoQ on the back of revenues of US\$ 273 mn in June'10 qtr) was marginally better than expectations, the sequential decline in revenues during Sep'10 quarter indicates that the company might still have seen some client ramp downs during the quarter. Further co's EBITDA margins at 5.9% in Sep'10 quarter were down by ~380 bps sequentially on a/c of lower revenues and wage increments implemented during the quarter as company tries to retain/recruit talent in a tightening supply environment. Co has reported H1FY11 EPS at Rs 1.

Cutting FY11/12/13E earnings by ~48%/24%/19% respectively to Rs 2.7/4.9/6, Retain REDUCE with a revised TP of Rs 70

Although we still continue to build in a strong revenue recovery for MS at ~20% CAGR (over FY11E-13E after building a 4.3% YoY decline for FY11, we tweak our earnings model primarily for (1) lower margins at 8.4%/14.1%/14.7% for FY11/12/13E (V/s 15.3%/17.1%/17% earlier on a/c of higher supply side pressures and a reset in US\$/INR to Rs 45/44/44 for H2FY11/ 12/13),and (2) increase in FY11/12/13E tax rate to 24.5%/25%/25%(V/s 15%/24%/24% earlier) driving in ~48%/24%/19% cut in our FY11/12/13E earnings to Rs 2.7/4.9/6.0 (V/s Rs 5.1/6.4/7.5 earlier). We retain REDUCE on Mahindra Satyam with a revised DCF based March'12 TP of Rs 70(V/s Rs 81 earlier). Key risks to our call emanates from the potential merger ratio between Tech M and Mahindra Satyam being in favor of MS.

Financials

Y/E	March	Net	EBITDA	EBITDA	PAT	EPS	ROE	P/E	EV/	P/B
(in Rs mn)		Sales		%		(Rs)	%	(x)	EBITDA	(x)
FY10		54,810	4,569	8.3	2,930	2.5	58.5	34.2	17.3	5.3
FY11E		49,899	4,198	8.4	3,148	2.7	14.2	34.5	18.2	4.6
FY12E		59,288	8,350	14.1	5,782	4.9	23.3	17.3	8.8	3.6
FY13E		70,498	10,391	14.7	7,163	6.1	22.9	14.0	6.5	2.9

Quarterly performance

In Rs mn	Q2FY11	Q1FY11	QoQ(%)
Revenues(US\$ mn)	267.8	273.1	-2.0%
Net sales	12424	12480	-0.4%
Operating expenses	11689	11266	
EBITDA	735	1,214	-39.5%
Margins (%)	5.9	9.7	
Depreciation	429	594	
EBIT	306	620	-50.6%
Margins (%)	2.5	5.0	
Forex Gains/(Losses)	-91	336	
Other income	295	292	
Pre-tax profit	510	1,248	
Tax provided	270	264	
Profit after tax	240	984	
Emkay Net profit	233	975	-76.1%
EPS, Rs	0.2	0.8	

Source: Company, Emkay Research

(All fig in Rs mn except EPS)	FY11E			FY12E			FY13E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	1,090	1,109	1.7%	1,378	1,347	-2.2%	1,602	1,602	0.0%
Revenues	50,144	49,899	-0.5%	62,026	59,288	-4.4%	72,090	70,498	-2.2%
EBITDA	7,623	4,198	-44.9%	10,613	8,350	-21.3%	12,277	10,391	-15.4%
Net profits	6,053	3,148	-48.0%	7,579	5,782	-23.7%	8,832	7,163	-18.9%
EPS	5.1	2.7	-48.0%	6.4	4.9	-23.7%	7.5	6.0	-18.9%

Source: Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Sales	54,810	49,899	59,288	70,498
Growth (%)		(9)	19	19
Total Expenditure	(50,241)	(45,702)	(50,938)	(60,107)
Growth (%)		(9)	11	18
EBIDTA	4,569	4,198	8,350	10,391
Growth (%)		(8)	99	24
EBIDTA %	8.3	8.4	14.1	14.7
Other Income	1,056	1,511	1,610	1,750
Depreciation	(2,144)	(1,786)	(2,251)	(2,591)
EBIT	3,481	3,922	7,709	9,550
Interest	(329)	(100)	-	-
EBT	3,152	3,822	7,709	9,550
Tax	(222)	(1,018)	(1,927)	(2,388)
EAT	2,930	2,803	5,782	7,163
Growth (%)		(4)	106	24
EAT (%)	5.3	5.6	9.8	10.2

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity share capital	2,352	2,352	2,352	2,352
Reserves & surplus	43,947	47,095	52,878	60,040
Minority Interest	201	201	201	201
Networth	46,500	49,648	55,431	62,593
Secured Loans	422	-	-	-
Unsecured Loans	-	-	-	-
Loan Funds	422	-	-	-
Total Liabilities	46,923	49,648	55,431	62,593
Goodwill	-	-	-	-
Gross Block	12,009	13,509	16,509	20,509
Less: Depreciation	(2,144)	(3,930)	(6,182)	(8,773)
Net block	9,865	9,579	10,327	11,736
Capital WIP	-	-	-	-
Investment	6,268	4,686	4,686	4,686
Current Assets	39,799	43,138	49,568	59,930
Inventories	-	-	-	-
Sundry debtors	9,230	10,253	11,370	13,520
Cash & bank balance	21,768	23,725	26,990	32,696
Loans & advances	3,845	4,101	5,198	6,567
Other current assets	4,956	5,058	6,010	7,146
Current Liab & Prov	24,222	22,967	24,365	28,972
Current liabilities	8,818	9,296	9,746	11,589
Provisions	15,404	13,671	14,619	17,383
Net current assets	15,577	20,171	25,203	30,958
Misc exps	15,187	15,187	15,187	15,187
Deferred Tax	26	26	27	26
Total Assets	46,923	49,648	55,431	62,593

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Profit after Tax	(1,239)	2,903	5,782	7,163
Add : Depreciation	2,144	1,786	2,251	2,591
Add : Misc exp w/off				
Net changes in WC	(3)	(904)	(2,716)	(2,813)
Operational Cash Flows	914	2,053	6,265	9,705
Capital expenditure	379	(1,500)	(3,000)	(4,000)
Investments	(5,994)	-	-	-
Investing Cash Flows	(5,615)	(1,500)	(3,000)	(4,000)
Borrowings	(7,720)	(422)	-	-
dividend paid	-	-	-	-
Issue of shares	29,180	(1)	-	-
Share Premium	-	-	-	-
Financing Cash Flows	21,460	(423)	-	-
changes in cash	16,759	130	3,265	5,705
Opening balance	5,009	21,768	23,725	26,990
Closing balance	21,768	23,725	26,990	32,696

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
EPS (Rs)	2.5	2.5	4.9	6.1
CEPS (Rs)	4.3	4.0	6.8	8.3
Book Value Per Share (Rs)	15.9	18.6	23.5	29.6
Dividend Per Share (Rs)	-	-	-	-
Valuations Ratios (x)				
PER	34.2	34.5	17.3	14.0
P/CEPS	20.0	21.6	12.6	10.4
P/BV	5.3	4.6	3.6	2.9
EV/EBIDTA	17.3	18.2	8.8	6.5
EV/Sales	1.4	1.5	1.2	1.0
M-Cap/sales	1.8	2.0	1.7	1.4
Profitability Ratios (%)				
RoCE	25.5	11.6	24.3	24.7
RoNW	58.5	14.2	23.3	22.9
EBITDA Margin	8.3	8.4	14.1	14.7
EBIT Margins	4.4	4.8	10.3	11.1
Net Profit Margin	5.3	5.6	9.8	10.2

Recommendation History: Mahindra Satyam – SCS IN

Date	Reports	Reco	CMP	Target
11/10/2010	Mahindra Satyam Re-initiating Coverage	Reduce	86	81

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/10/2010	Patni Q3CY10 Result Update.pdf	Not Rated	465	NA
27/10/2010	Tech Mahindra Q2FY11 Result Update	Hold	787	810
22/10/2010	Wipro Q2FY11 Result Update	Reduce	450	420
22/10/2010	TCS Q2FY11 Result Update	Accumulate	984	1,075

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