

Time to reap, Buy

Strong in-line guidance, management upbeat, Buy

Post strong, in-line 4Q operations and FY08 guidance, we maintain our estimates forecasting 23% EPS CAGR over FY07-09 and our target price of Rs575, implying 21% stock upside. Our appreciating Rupee assumption has been offset by higher yield on treasury and slightly lower depreciation.

Robust 4Q on revenue, operating parameters & attrition

4QFY07 was impressive in robust USD revenue growth of c9%, highest among leading peers. Satyam also reported improvement in all operational parameters viz. pricing, utilization, offshore proportion of revenues and most importantly a decline in employee attrition.

Increased management bullishness on outlook

Management appeared more confident on outlook than it did a year ago or even three months back. Likely key reasons are robust growth outlook in enterprise solutions (42% of revs), pricing uptick and reduced employee attrition. Revenue growth of 28 to 30% in USD terms matches Infosys like last year but EPS growth guidance of avg. 19% is closer to Infy's 21% vs last year's 8% gap.

Maintain Buy, 21% upside

Our PO of Rs575 based on a PER of 18x FY09E reflects a PE discount of 24% to Infy's target PE, lower than its 1, 2 and 3 yr avg PE discount of 30% given narrowing growth differential. However, we believe the discount is justified given Infy's higher margins and RoE. We also note that for Satyam, we expect back-ended EPS growth, post flat to marginal qoq declines in 1Q & 2Q.

Estimates (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010
Net Income (Adjusted - mn)	9,819	14,047	17,218	20,970	NA
EPS	15.32	21.11	25.51	31.30	NA
EPS Change (YoY)	37.9%	37.7%	20.9%	22.7%	NA
Dividend / Share	3.50	3.50	4.00	4.50	NA
Free Cash Flow / Share	8.44	12.34	18.11	22.87	NA
ADR EPS (US\$)	0.693	0.933	1.22	1.50	NA
ADR Dividend / Share (US\$)	0.158	0.155	0.192	0.215	NA

Valuation (Mar)

	2006A	2007A	2008E	2009E	2010
P/E	31.07x	22.56x	18.67x	15.22x	NA
Dividend Yield	0.735%	0.735%	0.840%	0.945%	NA
EV / EBITDA*	23.24x	17.63x	14.15x	11.53x	NA
Free Cash Flow Yield*	1.72%	2.54%	3.80%	4.81%	NA

* For full definitions of *iQmethod*SM measures, see page 11.

Equity | India | Computer Services
23 April 2007



Merrill Lynch

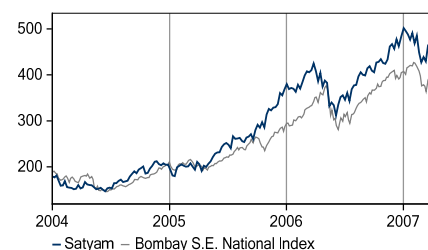
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Stock Data

Price (Common / ADR)	Rs476.20 / US\$25.70
Price Objective	Rs575.00 / US\$29.00
Date Established	22-Jan-2007 / 22-Jan-2007
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs270.50-Rs524.90
Market Value (mn)	US\$7,628
Shares Outstanding (mn)	669.0 / 334.5
Average Daily Volume	728,079
ML Symbol / Exchange	SAYPF / BSE
ML Symbol / Exchange	SAY / NYS
Bloomberg / Reuters	SCS IN / SATY.BO
ROE (2008E)	26.6%
Net Dbt to Eqty (Mar-2007A)	-66.8%
Est. 5-Yr EPS / DPS Growth	23.0% / 23.0%
Free Float	90.2%



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Refer to important disclosures on page 12 to 14. Analyst Certification on page 10. Price Objective Basis/Risk on page 10.

23 April 2007

*iQprofile*SM Satyam Computer Services

Key Income Statement Data (Mar)

	2006A	2007A	2008E	2009E	2010
(Rs Millions)					
Sales	47,926	64,851	82,591	104,243	NA
Gross Profit	19,882	26,272	32,462	40,215	NA
Sell General & Admin Expense	(8,220)	(10,894)	(13,304)	(16,698)	NA
Operating Profit	10,289	13,893	17,341	21,205	NA
Net Interest & Other Income	1,113	1,674	2,117	2,606	NA
Associates	NA	NA	NA	NA	NA
Pretax Income	11,401	15,566	19,458	23,811	NA
Tax (expense) / Benefit	(1,509)	(1,520)	(2,240)	(2,842)	NA
Net Income (Adjusted)	9,819	14,047	17,218	20,970	NA
Average Fully Diluted Shares Outstanding	646	666	675	670	NA

Key Cash Flow Statement Data

Net Income (Reported)	9,898	14,047	17,218	20,970	NA
Depreciation & Amortization	1,373	1,484	1,817	2,312	NA
Change in Working Capital	(1,989)	(2,472)	(1,984)	(2,667)	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(640)	(845)	(688)	(793)	NA
Cash Flow from Operations	8,641	12,215	16,363	19,822	NA
Capital Expenditure	(3,167)	(4,135)	(4,250)	(4,500)	NA
(Acquisition) / Disposal of Investments	763	0	0	0	NA
Other Cash Inflow / (Outflow)	1,598	0	0	0	NA
Cash Flow from Investing	(805)	(4,135)	(4,250)	(4,500)	NA
Shares Issue / (Repurchase)	1,292	2,853	0	0	NA
Cost of Dividends Paid	(2,549)	(2,588)	(3,009)	(3,392)	NA
Cash Flow from Financing	(420)	717	(3,009)	(3,392)	NA
Free Cash Flow	5,474	8,080	12,113	15,322	NA
Net Debt	(30,090)	(38,435)	(47,539)	(59,470)	NA
Change in Net Debt	(6,578)	(8,345)	(9,104)	(11,930)	NA

Key Balance Sheet Data

Property, Plant & Equipment	5,573	8,223	10,657	12,844	NA
Other Non-Current Assets	46	437	497	557	NA
Trade Receivables	13,527	19,728	23,536	28,505	NA
Cash & Equivalents	31,117	39,914	49,018	60,949	NA
Other Current Assets	1,108	649	649	649	NA
Total Assets	51,371	68,951	84,357	103,504	NA
Long-Term Debt	1,027	1,479	1,479	1,479	NA
Other Non-Current Liabilities	2,760	4,201	4,605	4,929	NA
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	4,370	5,745	6,538	7,783	NA
Total Liabilities	8,157	11,425	12,621	14,190	NA
Total Equity	43,214	57,526	71,736	89,313	NA
Total Equity & Liabilities	51,371	68,951	84,357	103,504	NA

*iQmethod*SM - Bus Performance*

Return On Capital Employed	24.2%	25.4%	24.7%	24.4%	NA
Return On Equity	25.8%	27.9%	26.6%	26.0%	NA
Operating Margin	21.5%	21.4%	21.0%	20.3%	NA
EBITDA Margin	24.3%	23.7%	23.2%	22.6%	NA

*iQmethod*SM - Quality of Earnings*

Cash Realization Ratio	0.9x	0.9x	1.0x	0.9x	NA
Asset Replacement Ratio	2.3x	2.8x	2.3x	1.9x	NA
Tax Rate (Reported)	13.2%	9.8%	11.5%	11.9%	NA
Net Debt-to-Equity Ratio	-69.6%	-66.8%	-66.3%	-66.6%	NA
Interest Cover	NM	NM	NM	NM	NA

Key Metrics

Sales Growth	36.1%	35.3%	27.4%	26.2%	NA
EBITDA Growth	34.6%	31.9%	24.6%	22.8%	NA
EBIT Growth	36.7%	35.0%	24.8%	22.3%	NA
Net Income Growth	37.3%	41.9%	22.6%	21.8%	NA

* For full definitions of *iQmethod*SM measures, see page 11.

Company Description

Set up in 1988, Satyam is India's fourth-largest IT services exporter (FY06 revenues: US\$1.1bn, 26,500 people). With end-to-end IT services, from application development to BPO, it is GE's third-largest offshore vendor, has a strong brand in software package solutions and is traditionally strong in BFSI & manufacturing verticals. It is broadening verticals, geographies, and client base.

Stock Data

Shares / ADR	2.00
Price to Book Value	4.4x

Starting FY08 on an optimistic note Maintain estimates and Buy with PO of Rs575

Post strong, in-line 4Q operations and FY08 guidance, we maintain our estimates forecasting 23% EPS CAGR over FY07-09 and our target price of Rs575, implying 21% stock upside. Our appreciating Rupee assumption has been offset by higher yield on treasury and slightly lower depreciation.

Our PO of Rs575 based on 18x FY09E reflects a PE discount of 24% to Infy's target PE, lower than its 1, 2 and 3 yr avg PE discount of 30%.

Chart 1: Satyam's PE discount to Infosys at average levels



Source: Merrill Lynch, Bloomberg

While the FY08 EPS growth guidance of avg. 19% is closer to Infy's 21% vs last year's 8% gap, we believe the discount is justified given Infy's higher margins and RoE.

Table 1: Infy scores on margins and RoE, though growth differential narrowing

	Standalone		Consolidated						
	2002	2003	2003	2004	2005	2006	2007E	2008E	2009E
INFOSYS									
Rev g	37.0%	39.8%	39.8%	33.3%	46.9%	33.5%	45.9%	27.2%	30.6%
Margin %	39.8%	34.9%	34.9%	32.9%	32.8%	32.5%	31.6%	31.4%	30.5%
bps change				(203)	(10)	(28)	(87)	(22)	(85)
PAT g	29.6%	18.2%	18.2%	31.3%	47.3%	33.2%	56.5%	23.2%	25.5%
RONW (%)				41.0	43.6	40.4	42.3	35.9	33.8
SATYAM									
Rev g	42.0%	16.8%	na	15.2%	37.5%	36.1%	35.3%	27.4%	26.2%
Margin %	33.6%	30.6%	25.2%	26.5%	24.7%	24.3%	23.7%	23.2%	22.6%
bps change				128	(179)	(33)	(62)	(52)	(64)
PAT g	55.0%	-9.1%	na	32.2%	38.6%	38.0%	43.1%	23.6%	21.7%
RONW (%)			na	21.2	23.9	25.8	27.9	26.8	26.2

Source: Companies, Merrill Lynch Research

We also note that for Satyam, we expect more back-ended EPS growth, post flat to marginal qoq declines in 1Q & 2Q, given that unlike TCS and Infosys, Satyam has its annual wage increase in the Sep quarter.

Robust 4Q

Satyam reported the highest revenue growth among peers, in line with our expectation. However, EBITDA growth was impacted, as expected due to the Restricted Stock Unit charge kicking in this quarter. EPS growth was helped largely due to forex gains.

Table 2: Q4FY07 : Satyam reports sector leading revenue growth

Q4FY07	Revenue growth	EBITDA growth	EBITDA margin growth	EPS growth
TCS	5.9%	5.9%	1bps	6.1%
Infosys	3.0%	0.0%	-99bps	2.7%
Wipro - Global IT	6.0%	5.0%	1bps	na
Satyam	7.1%	0.1%	-162bps	16.3%

Source: Companies, ML Research

Table 3: Q4 results snapshot

Profit and loss statement, Rs mn	Q407	Q307	QoQ	Q406	YoY	ML est	Variation	FY07	FY06	YoY
Sales	17,792	16,611	7.1%	13,136	35.4%	17,480	1.8%	64,851	47,926	35.3%
Exports	17,010	15,852	7.3%	12,475	36.3%	17,084	-0.4%	61,881	45,967	34.6%
Domestic	781	759	2.9%	661	18.3%	396	97.3%	2,970	1,959	51.6%
Expenditure	13,689	12,511	9.4%	9,791	39.8%	13,435	1.9%	49,474	36,264	36.4%
Manpower costs	10,763	9,674	11.3%	7,500	43.5%	10,418	3.3%	38,579	28,047	37.6%
Other costs	2,927	2,838	3.1%	2,291	27.8%	3,017	-3.0%	10,894	8,217	32.6%
<i>Cost of hardware and software sold</i>	<i>5</i>	<i>7</i>	<i>-32.4%</i>	<i>9</i>	<i>-42.5%</i>	<i>8</i>	<i>-35.8%</i>	<i>23</i>	<i>20</i>	<i>13.5%</i>
<i>Operating and Administration Costs</i>	<i>2,922</i>	<i>2,830</i>	<i>3.2%</i>	<i>2,282</i>	<i>28.0%</i>	<i>3,009</i>	<i>-2.9%</i>	<i>10,872</i>	<i>8,197</i>	<i>32.6%</i>
EBITDA	4,102	4,100	0.1%	3,345	22.6%	4,045	1.4%	15,377	11,662	31.9%
Depreciation	354	394	-10.1%	372	-4.8%	442	-20.0%	1,484	1,373	8.1%
EBITA	3,748	3,706	1.1%	2,973	26.1%	3,603	4.0%	13,893	10,289	35.0%
Other income	704	102	592.2%	289	143.7%	394	78.9%	1,833	1,168	56.9%
Interest	74	32	129.7%	17	349.7%	19	296.8%	159	55	187.4%
PBT	4,378	3,776	16.0%	3,246	34.9%	3,978	10.1%	15,566	11,402	36.5%
Tax	442	403	9.7%	397	11.3%	404	9.6%	1,520	1,509	0.8%
PAT before affiliates & minority	3,936	3,372	16.7%	2,848	38.2%	3,574	10.1%	14,046	9,893	42.0%
Share of loss in associate cos.	-	-	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	2	-	-	-	(1)	73	-
Recurring PAT- Indian GAAP	3,936	3,372	16.7%	2,847	38.3%	3,574	10.1%	14,047	9,820	43.0%
Margins	Q407	Q307	QoQ	Q406	YoY	ML est	Variation	Q407	Q407	QoQ
EBITDA	23.1%	24.7%	-162bps	25.5%	-241bps	23.1%	-8bps	23.7%	24.3%	-62bps
EBIT	21.1%	22.3%	-124bps	22.6%	-157bps	20.6%	46bps	21.4%	21.5%	-5bps
PAT	22.1%	20.3%	182bps	21.7%	45bps	20.4%	168bps	21.7%	20.5%	117bps
Effective tax rate	10.1%	10.7%	-58bps	12.2%	-214bps	10.1%	-4bps	9.8%	13.2%	-347bps

Source: Merrill Lynch Research, Company

Table 4: Growth by Vertical

Q4FY07	% of Revenue	QoQ	YoY
Banking Financial Svcs. and Insurance	24.7%	3.5%	16.3%
Mfrg	27.2%	7.3%	27.4%
Telecom	21.8%	12.8%	61.3%
Retail	6.4%	13.2%	76.8%
Transportation	0.0%	14.6%	159.6%
Healthcare	8.0%	13.2%	76.8%
Others	11.9%	-2.1%	26.5%
Total	100.0%	7.2%	35.4%

Source: Company

Q4 revs grew 7% qoq (9% in USD terms) led by 9.5% qoq volume growth, pricing increase of 62 bps onsite and 72bps offshore. While the banking, financial services and insurance vertical along with the US business under-performed the company average, management stated that they did not see any signs of softness as a trend. Revenue growth was balanced across client buckets and client concentration continued to decline.

Table 5: Growth by Service Lines

Q4FY07	% of Revenue	QoQ	YoY
Software dev & Maintenance	46.4%	5.2%	24.1%
Consulting and Enterprise Business Solutions	42.6%	8.6%	46.9%
Extended engineering Solutions	7.0%	10.7%	47.9%
IMS	4.0%	9.0%	47.3%
Total	100.0%	7.2%	35.4%

Source: Company

Table 6: Growth by Geography

Q4FY07	% of Revenue	QoQ	YoY
North America	62.6%	4.3%	32.6%
Japan	1.5%	-4.5%	6.6%
Europe	19.9%	12.0%	44.3%
ROW	16.1%	14.5%	40.2%
Total	100.0%	7.1%	35.5%

Source: Company

Table 7: Client Growth Rates

Q4FY07	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Top	14%	-2%	12%	-10%	-6%	5%	1%	6%
Top 2 to 5	4%	4%	-3%	13%	2%	12%	4%	15%
Top 6 to 10	-3%	15%	0%	0%	8%	11%	15%	22%
Non Top 10	13%	10%	10%	7%	9%	13%	6%	6%

Source: Company

Table 8: Client concentration

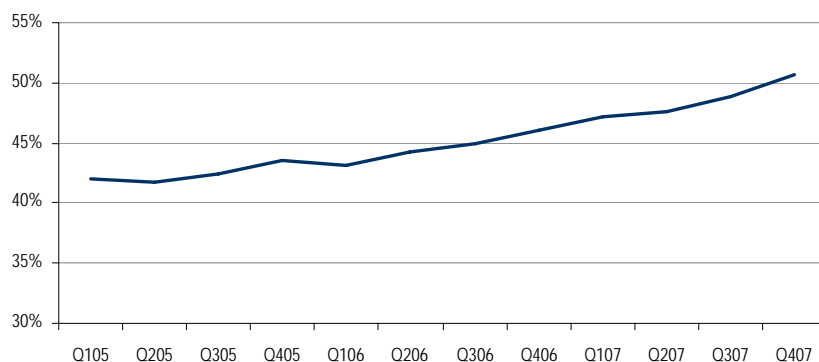
	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Top client	9.9%	9.0%	9.4%	8.0%	7.1%	6.7%	6.3%	6.1%
Top 5%	27.2%	25.7%	24.6%	24.3%	22.7%	22.3%	21.6%	22.2%
Top10%	39.4%	38.7%	36.8%	35.9%	34.4%	33.9%	34.2%	36.3%

Source: Company

Margin declined 162bps qoq due to Restricted Stock Unit charge kicking in this quarter as well as Rupee appreciation and hence EBITDA was flat.

Satyam reported improvement in all operational parameters viz. pricing, utilization ex trainees (up 80bps qoq to 78.4%), increasing offshore proportion of revenues and most importantly employee attrition. Attrition, a big worry at this time last year, declined further to 15.7% LTM basis vs 17.6% in Q3.

Chart 2: Increasing % of offshore revenue



Source: Company

Profit was up 17% qoq helped by forex gains and flattish depreciation.

Increased management bullishness on outlook

The **FY08 revenue growth guidance of 28 to 30% in USD terms, in line with Infy** and Rupee rev growth at 20 to 22% assuming Re rate at Rs42.3, was in line with our expectation.

Rupee EPS growth at 18% to 20% was ahead of expectation given the strong Rupee assumption (of RS42.3 ~1.8% higher than the quarter end rate of Rs43.1). This factors in a margin impact of about 350 bps from a 5% wage hike onsite and 16% offshore, a 2% impact from Rupee appreciation largely set off by 2-3% pricing increase, further shift offshore, broadening the employee pyramid, improvement in profitability of subsidiaries, primarily BPO sub Nipuna and S,G&A leverage.

FY08 EPS guidance is back ended. Q1 EPS guidance is flat qoq, based on our forecast of slight decline in Sep quarter given wage increase.

Table 9: FY08 guidance at midpoint of the range

Rupee Guidance	FY07 Actual	FY08 Guided	YoY
Revenue- Rs mn	6485	7855	21.1%
EPS- Rs	21.45	25.53	19.0%
USD Guidance	FY07 Actual	FY08 Guided	YoY
Revenue- USD mn	1461	1885	29.0%
EPS- USD	0.91	1.17	28.6%

Source: Company

Table 10: Implied growth for EPS and ADR EPS

	Q4FY07	Q1FY08	Q2FY08	
implied growth calculation- INR	Guidance FY08	Actual	ML est.	Guided Implied growth Q3-Q4
ESP- INR	25.53	5.98	5.96	5.9 9.6%

Source: Merrill Lynch Estimates and company for Q1FY08 and FY08 guidance numbers

Management appeared significantly more confident on the outlook for the company than it did a year ago or even three months ago. It also expects to maintain margins within a narrow band. Likely key reasons for bullishness are:

Continued robust growth outlook in enterprise solutions

Consulting and enterprise solutions, which includes solutions using software packages like SAP or Oracle or solutions relating to business intelligence, data warehousing etc. continues to present strong growth opportunities. Enterprise solutions forms 43% of revenues and continues to grow above company growth levels at over 40%. Management highlighted that customers were preferring to use packaged software solutions as opposed to custom software solutions.

Table 11: Revenue by service line

	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07
% by revenue								
Software dev & Maintenance	51.3%	50.1%	50.1%	50.7%	48.5%	48.0%	47.3%	46.4%
Consulting and Enterprise Business Solutions	37.4%	39.4%	39.4%	39.3%	40.3%	40.4%	42.0%	42.6%
Extended engineering Solutions	7.2%	6.6%	6.4%	6.4%	6.0%	6.4%	6.8%	7.0%
IMS	4.2%	3.9%	4.1%	3.7%	5.2%	5.2%	3.9%	4.0%
YoY growth								
Software dev & Maint	22.9%	24.8%	30.4%	28.8%	28.8%	32.7%	23.8%	24.1%
Consulting and Enterprise Business Solutions	55.2%	49.0%	55.8%	48.8%	46.8%	42.2%	39.8%	46.9%
Extended engineering Solutions	50.2%	36.3%	26.0%	21.6%	14.2%	35.1%	39.3%	47.9%
IMS	35.1%	21.8%	39.4%	23.4%	71.7%	85.4%	25.5%	47.3%
Total	35.8%	34.0%	39.4%	35.2%	36.3%	38.7%	31.2%	35.4%

Source: Company

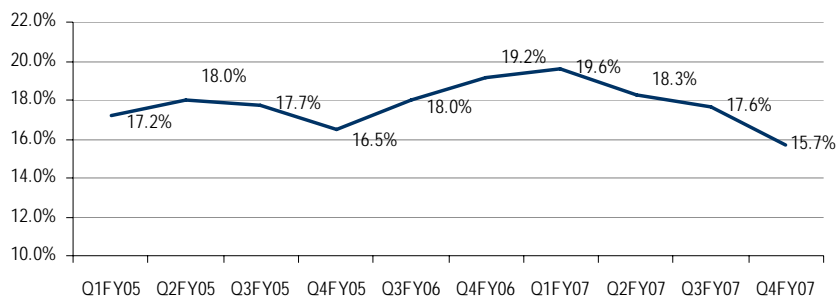
Pricing confidence

Given the contract renegotiations over the last year and the higher rates at which new customers are being signed on, management appeared confident of achieving 2 to 3% higher realization in the coming year. We believe this would also include fixed productivity led higher realization. Our model assumes a 2% price increase offshore and onshore.

Reduced employee attrition

Compared to last year at this time, Satyam's attrition has declined consistently this year and is likely adding to management confidence on outlook.

Chart 3: LTM Attrition trending down



Source: Company

Financial tables

Table 12: Profit and loss statement

Rs million	2005	2006	2007	2008E	2009E
Sales	35,208	47,926	64,851	82,591	104,243
Expenditure					
Manpower costs	20,261	28,044	38,579	50,129	64,028
Other costs	6,265	8,220	10,894	13,304	16,698
EBITDA	8,682	11,662	15,377	19,158	23,517
Other income	868	1,168	1,833	2,343	2,852
Interest	9	56	159	226	246
Depreciation	1,133	1,373	1,484	1,817	2,312
EBIT	7,549	10,289	13,893	17,341	21,205
Write offs	22	1	-	-	-
PBT	8,387	11,401	15,566	19,458	23,811
Tax	1,176	1,509	1,520	2,240	2,842
PAT before extraords & minority	7,211	9,893	14,046	17,218	20,970
Non-recurring Items	-	1,598	-	-	-
PAT after extraordinaries	7,211	11,491	14,046	17,218	20,970
Profit/(Loss) In Associate Cos.	(94)	(79)	-	-	-
Minority Interest	-	(6)	(1)	-	-
Reported Profit	7,116	11,417	14,047	17,218	20,970
Recurring PAT	7,116	9,819	14,047	17,218	20,970

Source: Merrill Lynch Research, Company

Table 13: Balance sheet

	2005	2006	2007	2008E	2009E
Liabilities					
Equity Capital	1,553	1,577	1,868	1,868	1,868
Reserves & Surplus	31,428	41,596	55,658	69,868	87,446
Shareholders funds	32,981	43,173	57,526	71,736	89,313
Minority Interest	-	42	-	-	-
Debt	189	1,027	1,479	1,479	1,479
Total	33,170	44,241	59,005	73,215	90,792
Assets					
Gross block	10,142	13,172	15,054	20,821	25,321
<i>Net Assets commissioned</i>	<i>1,381</i>	<i>3,030</i>	<i>1,882</i>	<i>5,767</i>	<i>4,500</i>
Less: Depreciation	7,057	8,402	9,848	11,664	13,977
Net fixed assets	3,086	4,770	5,207	9,157	11,344
Capital Work-In-Progress	693	803	3,017	1,500	1,500
Inventories	2	2	0	0	0
Investments	763	-	0	0	0
Debtors	7,805	11,684	17,432	20,611	24,847
Loans & advances	1,148	1,843	2,296	2,924	3,658
Cash	23,701	31,117	39,914	49,018	60,949
Other current assets	245	1,106	649	649	649
Deferred asset/(liabilities)	107	46	437	497	557
Sundry creditors	(1,720)	(3,323)	(4,174)	(4,967)	(6,212)
Other current liabilities	(763)	(1,047)	(1,571)	(1,571)	(1,571)
Provisions	(1,896)	(2,760)	(4,201)	(4,605)	(4,929)
Total	33,170	44,241	59,005	73,215	90,792

Source: Merrill Lynch Research, Company

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Table 14: Cash flow statement

Rs million	FY05	FY06	FY07	FY08E	FY09E
Cash Flow from Operating Activities					
PBT	8,387	11,401	15,566	19,458	23,811
Depreciation and Amortization	1,133	1,373	1,484	1,817	2,312
(Increase)/Decrease in inventories	3	(0)	2	-	-
(Increase)/Decrease in sundry debtors	(1,811)	(3,880)	(5,748)	(3,180)	(4,236)
(Increase)/Decrease in loans and advances	(371)	(696)	(453)	(628)	(733)
(Increase)/Decrease in current liabilities and other provisions	1,588	1,951	2,883	1,136	1,509
Income tax paid	(1,176)	(1,509)	(1,520)	(2,240)	(2,842)
Net Cash Flow from Operating activities	7,752	8,641	12,215	16,363	19,822
Cash Flows from Investing Activities					
Capital Expenditure	(1,839)	(3,167)	(4,135)	(4,250)	(4,500)
Change in Investments (Excluding Treasury)	80	763	(0)	-	-
Change in treasury investments	121	-	-	-	-
Net Cash used for Investing activities	(1,638)	(2,403)	(4,135)	(4,250)	(4,500)
Free Cash Flow From Operations (Pre Extraordinaries)	5,913	5,474	8,080	12,113	15,322
Cash from extraordinary items	-	1,598	-	-	-
Cash Flows from Financing Activities					
Change in Share Capital	1,027	1,250	2,895	0	(0)
Change in Secured Loans	107	838	452	-	-
Change in Minority Interest	-	42	(42)	-	-
Total Change in Loans	107	838	452	-	-
Dividends and tax on dividends	(1,794)	(2,549)	(2,588)	(3,009)	(3,392)
Net Cash Flow from Financing Activities	(659)	(420)	717	(3,009)	(3,392)
Net Increase in cash during the year	5,455	7,416	8,797	9,104	11,930
Cash at the beginning of the year	18,246	23,701	31,117	39,914	49,018
Cash at the end of the year	23,701	31,117	39,914	49,018	60,949
Cash and Cash equivalents at the end of the year	23,701	31,117	39,914	49,018	60,949

Source: Merrill Lynch Research, Company

Table 15: Key ratios

	2005	2006	2007	2008E	2009E
Profitability					
EPS Basic (Rs) Indian GAAP	11.1	15.1	21.4	25.7	31.3
EPS Diluted (Rs) Indian GAAP	11.02	14.75	20.81	25.70	31.30
CEPS (Rs)	12.9	17.2	23.7	28.5	34.7
ADR EPS (US GAAP) USD at projected Rs/USD rates	0.49	0.66	0.91	1.18	1.49
Return					
RONW (%)	23.9	25.8	27.9	26.6	26.0
ROCE (%)	28.1	29.6	30.5	29.8	29.3
DPS (Rs)	2.5	3.5	3.5	4.0	4.5
Balance Sheet/Cash Flow Related					
Gearing	0.6%	2.3%	2.5%	2.0%	1.6%
Book value (Rs)	51.7	66.5	87.8	107.2	133.3
Sales/Cap employed	1.2	1.2	1.3	1.2	1.3
Debtor Days Of Sales	81	89	98	91	87
Free Cash Flow To Firm	6,057	6,232	8,629	12,399	15,628
Productivity					
IT Svcs Sales Per Employee (\$)	47,321	47,443	46,309	46,942	46,640
IT Svcs Operatg Profit/Employee US\$	11,669	11,544	10,981	10,889	10,522
Net Profit/Employee US\$	9,692	9,793	10,030	9,786	9,382

Source: Merrill Lynch Research, Company

Price Objective Basis & Risk

Our PO of Rs575 is based on a PER of 18x FY09E representing a discount of 24% to Infy's target PE, lower than its 3 yr avg PE discount of 30% to reflect Infy's superior margins and RoE. However, we believe that the discount is likely to reduce given narrowing differential in growth rates.

Risks are a slowdown in the US impacting the assumption on bill rate increase, high concentration in enterprise solutions and risk of higher than expected employee attrition.

Analyst Certification

I, Mitali Ghosh, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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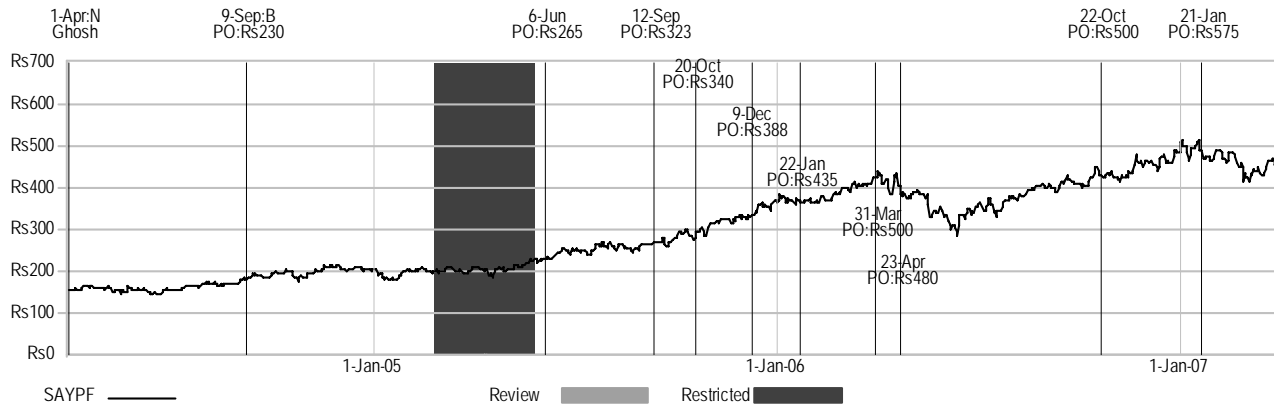
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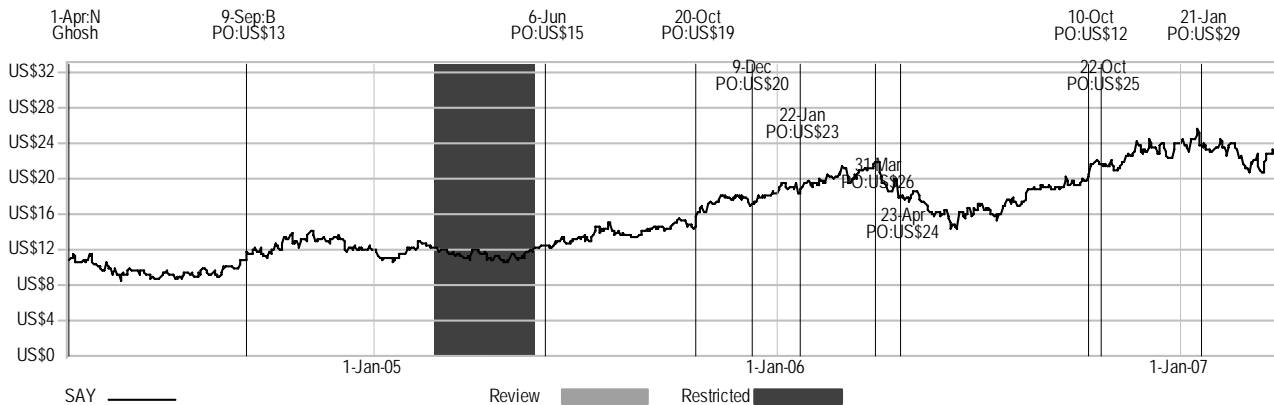
SAYPF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of March 31, 2007 or such later date as indicated.

SAY Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of March 31, 2007 or such later date as indicated.

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Buy	114	41.76%	Buy	21	20.39%
Neutral	146	53.48%	Neutral	31	22.79%
Sell	13	4.76%	Sell	1	9.09%

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Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

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