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Revenue increased 3.9%QoQ to USD191mn (6.8%YoY growth). EBITDA margin was 17.6%, above expectation (PINCe 14.3%), driven by higher utilisation (+280bpsQoQ to 78.5%) and rupee depreciation and absence of one-time expenses. PAT was Rs842mn.

Revenue recovered sequentially but still low on YoY basis

Revenue grew 15%QoQ to Rs9,453mn (based on quarter end rupee which depreciated 9.6%QoQ against dollar). Forex loss was Rs337mn but lower tax rate helped to increase PAT. EPS for Q3 was Rs6.22.

Restructuring led to lower SG&A

The front end sales team is restructured to achieve synergy benefits resulting in some gains. There was no one-time expense incurred in last quarter related to the acquisition.

EMEA rebound after weak Q2

EMEA geography (14.2% revenue contribution) grew 12.6%QoQ, Americas (78.3% revenue contribution) grew 2.6%QoQ and APAC (7.5% revenue contribution) grew 3.9%QoQ.

Fewer disclosures in this quarter

In the earnings release, the company has not disclosed information related to exposure to verticals, service lines contribution and client related metrics.

Top 10 clients decline 0.4%QoQ; employee count declined

Growth came from smaller clients as non top-10 clients grew 7.9%QoQ compared to 0.4%QoQ growth in top 10 clients (46.4% revenue contribution compared to 48.4% in Q2). Employee count declined by 519 to 17,853. Utilisation improved 280bpsQoQ to 78.5%.

Outlook and Valuation—Revenue growth has been good in this quarter but on annual basis it still lagged behind peers. Apart from the factor that there were no one-time expenses, the operating margin improved drastically due to efficiency measures and rupee depreciation. The growth rate is expected to be better in CY12 due to the new management's approach. We revise our estimates based on INR/USD rate of 46 for CY11 and 47 for CY12. Maintain 'HOLD' recommendation on the stock with a target price of Rs350 based on 11x CY12E EPS.

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	Jun-11	Sep-11
Net sales	8,477	8,221	9,453
YoY Gr.(%)	9.4%	5.7%	18.7%
Op.Profit	1,361	160	1,661
OPM(%)	16.1%	1.9%	17.6%
Adj.Net Profit	1,180	108	842
YoY Gr. (%)	-21.2%	-92.6%	-34.2%

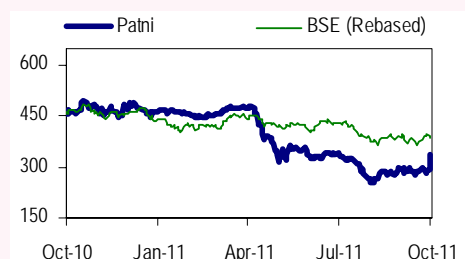
STOCK DATA

Market cap	Rs44.7bn
Book Value per share	Rs234
Shares O/S (F.V. Rs2)	135.5mn
Free Float	12%
Avg Trade Value (6 months)	Rs 127mn
52 week High/Low	509/250
Bloomberg Code	PATNI IN
Reuters Code	PTNI.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	10.3	(0.7)	(27.8)
Relative	9.3	7.5	(16.0)

RELATIVE PERFORMANCE



KEY FINANCIALS (Rs mn)

	CY08	CY09	CY10	CY11E	CY12E
Net Sales	34,923	30,435	31,436	35,204	41,186
YoY Gr.(%)	33.7	-12.9	3.3	12.0	17.0
Op. Profit	5,549	5,978	5,761	4,911	6,890
Op. Marg.(%)	15.9	19.6	18.3	14.0	16.7
Adj. Net Profit	4,925	5,558	5,966	3,053	4,313
YoY Gr.(%)	9.6	12.8	7.4	-48.8	41.2

KEY RATIOS

Dil. EPS (Rs)	36.3	42.7	44.6	22.7	32.0
ROCE (%)	16.2	14.7	15.5	4.6	6.7
RoE (%)	17.8	16.0	19.0	4.5	6.1
PER (x)	9.1	7.7	7.4	14.6	10.3
EV/ Net Sales (x)	1.3	1.5	1.5	1.3	1.1
EV/EBDITA (x)	8.3	7.6	7.9	9.3	6.6

Exhibit 1 - Quarterly Performance

(Rs mn, except EPS)	Q3CY10	Q2CY11	Consensus	Q3CY11(PINCe)	Q3CY11	QoQ	YoY	Variance (PINC vs Actual)
Revenue (USD)	178.8	183.8	-	188.4	191.0	3.9%	6.8%	1.3%
Revenue	7,967	8,221	8,684	9,139	9,453	15.0%	18.7%	3.4%
Total Operating Income								
Gross Profit	2,896	2,715	-	3,153	3,421	26.0%	18.1%	8.5%
Gross Margin	36.3%	33.0%	-	34.5%	36.2%	316 bps	-16 bps	169 bps
EBITDA	1,414	160	1,011	1,310	1,661	936.7%	17.4%	26.8%
EBITDA Margin	17.8%	1.9%	11.6%	14.3%	17.6%	1562 bps	-18 bps	323 bps
Other Income	329	496	-	-19	-171.6	-134.6%	-152.2%	817.6%
PBT	1,549	197	891	709	941	376.7%	-39.2%	32.7%
Tax	268	89	150	199	98.8	11.0%	-63.1%	-50.2%
Tax Rate	17%	45%	17%	28%	10%	-3460 bps	-680 bps	-1750 bps
Net Income	1,281	108	742	511	842	677.1%	-34.2%	65.0%
Net Income Margin	16%	1%	9%	6%	9%	759 bps	-717 bps	332 bps
EPS	9.6	0.8	5.3	3.8	6.2	674.0%	-35.0%	64.3%

Source: PINC Research, Bloomberg, Company

Exhibit 2 - EMEA grew strongly 12.6%QoQ

Geography (USD mn)	Q3CY10	Q2CY11	Q3CY11	QoQ	YoY
Americas	144	146	150	2.6%	4.2%
EMEA	21	24	27	12.6%	28.5%
APAC	14	14	14	3.9%	0.1%
<i>% contribution</i>					
Americas	80.3%	79.3%	78.3%	-100 bps	-200 bps
EMEA	11.8%	13.1%	14.2%	110 bps	240 bps
APAC	8.0%	7.5%	7.5%	0 bps	-50 bps

Source: PINC Research, Company

Exhibit 3 - Onsite growth of 5.7%QoQ

Delivery Location (USD mn)	Q3CY10	Q2CY11	Q3CY11	QoQ	YoY
Onsite	98	95	100	5.7%	2.5%
Offshore	81	89	91	2.0%	12.0%
<i>% of Total</i>					
Onsite	54.6%	51.5%	52.4%	90 bps	-220 bps
Offshore	45.4%	48.5%	47.6%	-90 bps	220 bps

Source: PINC Research, Company

Exhibit 4 - FPP grew 5%QoQ, likely to contribute to help margin

Project Type (USD mn)	Q3CY10	Q2CY11	Q3CY11	QoQ	YoY
Fixed Price	80	84	88	5.0%	10.1%
Time and Material	99	100	103	2.9%	4.1%
% of Total					
Fixed Price	44.9%	45.8%	46.3%	50 bps	140 bps
Time and Material	55.1%	54.2%	53.7%	-50 bps	-140 bps

Source: PINC Research, Company

Exhibit 5 - Utilisation improved 280bpsQoQ to 78.5% and headcount reduced 2.8%QoQ

Employee metrics	Q3CY10	Q2CY11	Q3CY11	QoQ	YoY
Total employees	17,511	18,372	17,853	-2.8%	2.0%
Offshore	13,996	14,662	14,391	-1.8%	2.8%
Onsite	3,515	3,710	3,462	-6.7%	-1.5%
Net addition	1,795	(190)	-519	173.2%	-128.9%
Utilisation	74.0%	75.7%	78.5%	280 bps	450 bps
Attrition	25.9%	22.9%		-2290 bps	-2590 bps

Source: PINC Research, Company

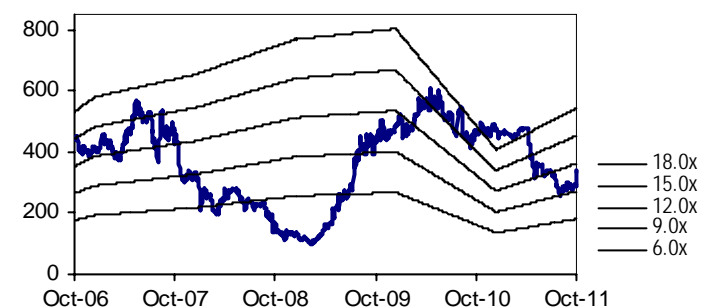
Income Statement					
Year end 31 Dec (Rs mn)	CY08	CY09	CY10	CY11E	CY12E
Net sales	34,923	30,435	31,436	35,204	41,186
Growth (%)	33.7	-12.9	3.3	12.0	17.0
Gross profit	11,916	11,639	11,769	12,548	14,645
Other operating charges	6,367	5,661	6,008	7,637	7,755
EBITDA	5,549	5,978	5,761	4,911	6,890
Growth (%)	23.1	7.7	-3.6	-14.8	40.3
Depreciation	858	753	760	1,725	2,100
Other income	258	493	1,830	1,114	1,201
EBIT	4,691	5,225	5,002	3,186	4,790
Interest paid	228	61	1	1	1
Pre-tax profit (before E/o items)	5,178	5,779	6,833	4,301	5,991
Tax Provision	660	1,047	866	1,247	1,678
E/o loss / (Income)	0	0	0	0	0
Net profit	4,925	5,558	5,966	3,053	4,313
Adjusted net profit	4,925	5,558	5,966	3,053	4,313
Growth (%)	9.6	12.8	7.4	-48.8	41.2
Diluted EPS (Rs)	36.3	42.7	44.6	22.7	32.0
Diluted EPS Growth (%)	12.7	17.6	4.5	-49.2	41.2

Cash Flow Statement					
Year end 31 Dec (Rs mn)	CY08	CY09	CY10	CY11E	CY12E
Pre-tax profit	4,927	5,558	5,966	3,053	4,313
Depreciation	1,346	1,218	1,274	1,375	1,621
Total tax paid	(447)	(411)	(665)	(1,247)	(1,678)
Chg in working capital	1,652	78	(620)	6,538	(785)
Other operating activities	(218)	(76)	163	0	0
Cash flow from oper. (a)	7,259	6,366	6,119	9,719	3,471
Capital expenditure	(2,106)	(868)	(1,394)	(1,408)	(2,471)
Chg in investments	380	(5,289)	5,278	(8,019)	895
Other investing activities	0	0	(4)	0	0
Cash flow from inv. (b)	(1,726)	(6,157)	3,879	(9,427)	(1,576)
Free cash flow (a+b)	5,533	209	9,998	292	1,895
Equity raised/(repaid)	9	256	60	0	0
Debt raised/(repaid)	0	0	0	0	0
Change in Minorities Interest	0	0	0	0	0
Dividend (incl. tax)	(556)	(429)	(9,695)	(545)	(739)
Other financing activities	(2,565)	38	425	0	0
Cash flow from fin. (c)	(3,111)	(136)	(9,211)	(545)	(739)
Net chg in cash (a+b+c)	2,422	74	787	(253)	1,156

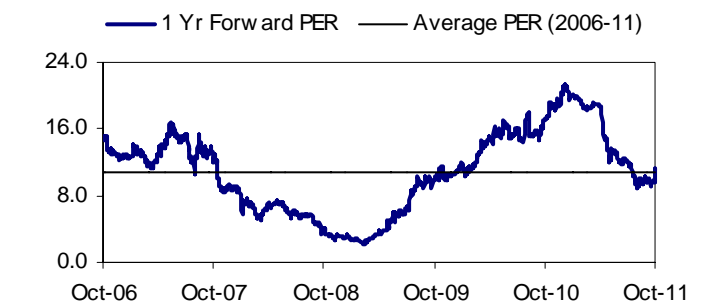
Balance Sheet					
Year end 31 Dec (Rs mn)	CY08	CY09	CY10	CY11E	CY12E
Equity Share capital	13,143	13,094	13,523	13,945	14,187
Reserves & surplus	14,594	21,569	17,830	54,196	56,355
Shareholders' funds	27,737	34,662	31,353	68,141	70,542
Minorities interests	0	0	0	0	0
Total Debt	1,894	2,037	2,245	1,833	1,865
Capital Employed	29,630	36,699	33,598	69,974	72,407
Net fixed assets	12,787	11,939	11,967	41,268	42,833
Net Other Current Assets	895	2,478	4,425	3,082	3,246
Cash & Cash Eq.	2,921	2,945	3,527	3,499	4,716
Investments	12,061	17,827	12,729	21,145	20,616
Net Deferred Tax Assets	938	1,511	950	980	997
Total assets	29,603	36,699	33,598	69,974	72,407

Key ratios					
Year end 31 Dec	CY08	CY09	CY10	CY11E	CY12E
OPM (%)	15.9	19.6	18.3	14.0	16.7
Net margin (%)	14.1	18.3	19.0	8.7	10.5
Yield (%)	1.2	1.0	22.6	0.9	0.9
Net debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net Working Capital (days)	134	239	199	251	211
Asset turnover (x)	1.0	0.7	0.8	0.5	0.5
ROCE (%)	16.2	14.7	15.5	4.6	6.7
RoE (%)	17.8	16.0	19.0	4.5	6.1
EV/Net sales (x)	1.3	1.5	1.5	1.3	1.1
EV/EBITDA (x)	8.3	7.6	7.9	9.3	6.6
PER (x)	9.1	7.7	7.4	14.6	10.3
Price/Book (x)	1.6	1.2	1.4	0.7	0.6

P/E Band



Avg PER



T E A M

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