

# Satyam Computer

## In pursuit of happiness

**F4Q07 showed strong volume-led revenue growth and declining attrition, while FY08 guidance exceeded expectations. But we are cautious on margins, with utilisation at near optimal levels and qoq realisation growth coming from the fixed-priced contracts.**

### Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	47925.9	64850.8	84962.9	111674	143256
EBITDA (Rsm)	11661.8	15377.1	19326.2	24950.7	30879.9
Reported net profit (Rsm)	11417.3	14047.4	17801.3	22324.6	26860.1
Normalised net profit (Rsm) <sup>1</sup>	9819.3	14047.4	17801.3	22324.6	26860.1
Normalised EPS (Rs)	14.8	20.7	25.9	32.5	39.1
Dividend per share (Rs)	3.50	3.00	5.00	8.00	10.0
Dividend yield (%)	0.74	0.63	1.05	1.68	2.11
Normalised PE (x)	32.0	22.9	18.3	14.6	12.2
EV/EBITDA (x)	24.6	18.1	14.1	10.6	8.20
Price/book value (x)	7.41	5.67	4.57	3.73	3.02
ROIC (%)	89.8	95.5	81.7	73.0	69.1

1. Post-goodwill amortisation and pre-exceptional items  
Accounting Standard: Local GAAP  
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

### F4Q07 results reinforce business momentum

Consolidated revenue rose 7.1% qoq to Rs17.8bn and EBITDA margins fell 162bp, in line with our estimates. PAT grew 16.7% to Rs3.9bn, as other income rose Rs600m. Excluding this, normalised PAT was up 4.9%. IT services US\$ revenue grew 8.8%, the highest among the top five players. Subsidiaries' performance also improved: US\$ revenue grew 7.5% qoq (7.3% last quarter), while net losses narrowed to Rs39m.

### Op metrics remain steady; qoq realisation growth highest in recent years

Satyam's volume growth (ex-domestic business) was 10% qoq, ahead of its peers' 5% growth. We expect the momentum to be sustained, given the 4% manpower addition this quarter and 36% over FY07. The highlight was the qoq increase in billing rates: 0.6% onsite and 0.7% offshore. Although lower than peers, the rates are the highest reported by Satyam in the last several years. Blended pricing fell 0.8% on increased offshore (up 130bp). Attrition fell to 15.7%, the lowest level since FY03. FY08 salary hike guidance is in line with peers. With freshers forming 68% of the net add in the past two years, we think effective wage hikes should be lower.

### ... but we see limited levers to management's outperform guidance

Management's US\$ revenue growth guidance of 28-30% is in line with Infosys'. In Rs terms, its guidance of 20-22% in revenue and 18-20% in EPS was lower, due to the exchange rate impact. However, unlike Infosys, we see limited room for outperformance. Satyam has already factored in 2-3% realisation growth in its guidance, due largely to a higher share of fixed-price contracts. We believe utilisation is near optimum and, if the hiring share for freshers remains the same in FY08, see little scope for improvement.

### Buy maintained, with a new target price of Rs577 (from Rs545)

We revise our estimates and target price to reflect better-than-expected realisation growth, headcount guidance and our new forex and risk-free rate assumptions. We introduce FY10 numbers. Satyam trades at a 24% discount to Infosys, in line on an 18-month average, and at 17x 12-month forward EPS, the mid-point of its trading band, on our estimates. We anticipate a gradual rerating in the near term on better-than-expected guidance.

Priced at close of business 25 April 2007.

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## Buy

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Software & Services

India

Price

Rs466.45

Target price

Rs577.00 (from Rs545.00)

Market capitalisation

Rs316.88bn (US\$7.74bn)

Avg (12mth) daily turnover

Rs466.08m (US\$10.32m)

Reuters

SATY.BO

Bloomberg

SCS IN

Asset allocation

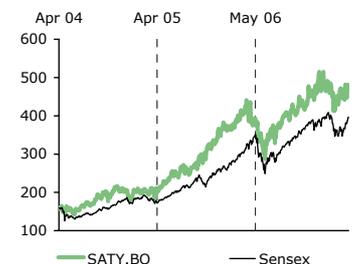
Equities Underweight

Cash Overweight

Bonds Overweight

Price performance (1M) (3M) (12M)

Price (Rs)	464.2	476.5	381.3
Absolute %	0.5	-2.1	22.3
Rel market %	-6.1	-1.7	0.2
Rel sector %	2.1	2.3	1.0



Stock borrowing: Moderate

Volatility (30-day): 47.06%

Volatility (6-month trend): ↑

52-week range: 524.90-270.50

Sensex: 14217.77

BBG AP Software: 334.05

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional  
Equities Team

www.abnamrobroking.co.in

# In pursuit of happiness

**4Q07 results showcased a strong volume-led revenue growth ahead of estimates, a better-than-expected FY08 guidance, and declining attrition. We remain cautious on the margin outlook.**

**Table 1 : Key financials**

	1Q06	2Q06	3Q06	4Q06	FY06	1Q07	2Q07	3Q07	4Q07	FY07
Cons revenues (US\$ m)	243	263	279	296	1,081	315	346	373	406	1,439
Change (yoy/qq)	9.4%	8.3%	5.8%	6.2%	37.6%	6.4%	10.0%	7.7%	8.8%	33.2%
<b>Cons revenues (Rsm)</b>	<b>10,587</b>	<b>11,550</b>	<b>12,653</b>	<b>13,136</b>	<b>47,926</b>	<b>14,429</b>	<b>16,019</b>	<b>16,611</b>	<b>17,792</b>	<b>64,851</b>
<b>Change (yoy/qq)</b>	<b>9.0%</b>	<b>9.1%</b>	<b>9.6%</b>	<b>3.8%</b>	<b>36.1%</b>	<b>9.8%</b>	<b>11.0%</b>	<b>3.7%</b>	<b>7.1%</b>	<b>35.3%</b>
Standalone revs (Rsm)	10,344	11,173	12,226	12,600	46,343	13,869	15,377	15,949	17,090	62,285
Change (yoy/qq)	8.5%	8.0%	9.4%	3.1%	33.8%	10.1%	10.9%	3.7%	7.2%	34.4%
Cost of revenue	6,393	6,781	7,381	7,509	28,064	8,323	9,831	9,681	10,768	38,602
<b>Gross profit</b>	<b>4,194</b>	<b>4,769</b>	<b>5,272</b>	<b>5,627</b>	<b>19,862</b>	<b>6,106</b>	<b>6,188</b>	<b>6,930</b>	<b>7,024</b>	<b>26,249</b>
<b>Gross margin</b>	<b>39.6%</b>	<b>41.3%</b>	<b>41.7%</b>	<b>42.8%</b>	<b>41.4%</b>	<b>42.3%</b>	<b>38.6%</b>	<b>41.7%</b>	<b>39.5%</b>	<b>40.5%</b>
Total operating exps	1,787	2,005	2,126	2,282	8,200	2,556	2,563	2,830	2,922	10,872
<b>EBITDA</b>	<b>2,407</b>	<b>2,764</b>	<b>3,146</b>	<b>3,345</b>	<b>11,662</b>	<b>3,550</b>	<b>3,625</b>	<b>4,100</b>	<b>4,102</b>	<b>15,377</b>
<b>EBITDA margin</b>	<b>22.7%</b>	<b>23.9%</b>	<b>24.9%</b>	<b>25.5%</b>	<b>24.3%</b>	<b>24.6%</b>	<b>22.6%</b>	<b>24.7%</b>	<b>23.1%</b>	<b>23.7%</b>
Depreciation & amort	313	347	341	372	1,373	362	375	394	354	1,484
<b>EBIT</b>	<b>2,094</b>	<b>2,417</b>	<b>2,805</b>	<b>2,973</b>	<b>10,289</b>	<b>3,188</b>	<b>3,250</b>	<b>3,706</b>	<b>3,748</b>	<b>13,893</b>
<b>EBIT margin</b>	<b>19.8%</b>	<b>20.9%</b>	<b>22.2%</b>	<b>22.6%</b>	<b>21.5%</b>	<b>22.1%</b>	<b>20.3%</b>	<b>22.3%</b>	<b>21.1%</b>	<b>21.4%</b>
Other income	234	316	330	289	1,168	745	282	102	704	1,833
Profit before tax	2,323	2,724	3,108	3,246	11,401	3,908	3,505	3,776	4,378	15,566
Income tax expense	392	333	386	397	1,509	368	307	403	442	1,520
<b>Net inc. from ops</b>	<b>1,931</b>	<b>2,392</b>	<b>2,722</b>	<b>2,848</b>	<b>9,893</b>	<b>3,540</b>	<b>3,198</b>	<b>3,372</b>	<b>3,936</b>	<b>14,046</b>
Minority interest	-2	-1	-5	2	-6	-1	0	0	0	-1
PAT	1,902	2,373	2,697	2,847	9,819	3,541	3,198	3,372	3,936	14,047
Change (yoy/qq)	-7.7%	24.8%	13.7%	5.5%	38.0%	24.4%	-9.7%	5.4%	16.7%	43.1%
<b>Adjusted Basic EPS</b>	<b>2.97</b>	<b>3.69</b>	<b>4.18</b>	<b>4.39</b>	<b>15.24</b>	<b>5.44</b>	<b>4.89</b>	<b>5.14</b>	<b>5.98</b>	<b>21.36</b>
Change (yoy/qq)	-7.9%	24.0%	13.4%	4.9%	36.1%	23.9%	-10.1%	5.2%	16.3%	40.2%

Source: Company data

Subsidiaries grew 7.5% in US\$ terms in 4Q07

Exchange rate impacted standalone revenue by 166bp

According to management, RSU charges and personnel expenses hurt gross margins by 91bp and 135bp, respectively

Lower SG&A contributed 62bp to EBITDA margins

D&A as a proportion of net fixed assets was lower by 98bp

Forex gains of Rs40m during the quarter vs Rs350m loss in 3Q07

Net income, excluding the impact of forex gains/losses, grew 8.4% qoq, ie, 6.4% ahead of our estimates

**Table 2 : Management-speak – and our interpretation**

What management said	What this could mean
<ul style="list-style-type: none"> <li>New clients and MSA renegotiations are at 3-5% higher price points; has factored in 2-3% realisation growth in FY08 guidance</li> </ul>	We believe the significant share of realisation gain has come more from the increased share of fixed-price projects – share up 3% over FY07 – and less from absolute increases in pricing. We retain our cautious view on the quantum of absolute pricing increases for Satyam.
<ul style="list-style-type: none"> <li>Gross add guidance for FY08 at 14,000-15,000, similar to the FY07 level</li> </ul>	We expect volume growth momentum to be sustained – headcount addition of 36% in FY07 is higher than peers. Given declining attrition, we estimate net add in FY08 could be 29% to the base.
<ul style="list-style-type: none"> <li>Strong deal pipeline – 10 deals of US\$50m+ are in the bidding process</li> </ul>	Indicates traction from a formalised group for large-deal pursuits. Our channel checks with peers indicate Satyam is now featuring in the bidding of large deals more than in the past.
<ul style="list-style-type: none"> <li>Guides for salary hikes of 16% for offshore and 5% for onsite; undecided on fresher salary hikes</li> </ul>	Guided FY08 salary hike is marginally lower than FY07 (though still higher than peers); with high fresher add and reducing attrition, we expect effective hikes to be significantly lower than last year. Fresher salary hikes are expected to follow industry trend of 10-15% increase.
<ul style="list-style-type: none"> <li>Expect EBIT margins to be flat in FY08 in US GAAP terms</li> </ul>	Pricing increase and lower effective wage hikes are positive, but utilisation is close to optimal and continued appreciation in rupee in the quarter means the degree of outperformance may be limited.

Source: Company, ABN AMRO

**Table 3 : How the margin drivers moved**

	4Q06	3Q07	4Q07	Change (%)	
				qoq	yoy
<b>Exchange rate (Rs/US\$)</b>	<b>44.40</b>	<b>44.55</b>	<b>43.87</b>	<b>-1.5%</b>	<b>-1.2%</b>
Consolidated revenues (Rs m)	13,136	16,611	17,792	7.1%	35.4%
IT services revenues (Rs m)	12,600	15,949	17,090	7.2%	35.6%
<b>A. EXECUTION DRIVERS - IT Services</b>					
<b>Utilization</b>					
Onsite	97.8%	96.8%	96.6%	-13bp	-114bp
Offshore (ex trainees)	79.9%	77.6%	78.4%	82bp	-149bp
<b>Billed effort ('000 person-hours)</b>					
Onsite	2,627	3,097	3,240	4.6%	23.4%
Offshore	5,448	7,258	8,127	12.0%	49.2%
<b>Total exports</b>	<b>8,075</b>	<b>10,355</b>	<b>11,368</b>	<b>9.8%</b>	<b>40.8%</b>
<b>Average realization (US\$/hour)</b>					
Onsite	56	57	57	0.62%	1.74%
Offshore	23	23	23	0.72%	1.23%
<b>Blended</b>	<b>30</b>	<b>29</b>	<b>29</b>	<b>-0.82%</b>	<b>-3.00%</b>
<b>B. COST DRIVERS - IT Services</b>					
Cost of revenues	7,164	9,293	10,361	11.5%	44.6%
As % of revenues	56.9%	58.3%	60.6%	235bp	376bp
<b>Gross profit</b>	<b>5,435</b>	<b>6,655</b>	<b>6,730</b>	<b>1.1%</b>	<b>23.8%</b>
<b>Gross margin</b>	<b>43.1%</b>	<b>41.7%</b>	<b>39.4%</b>	<b>-235bp</b>	<b>-376bp</b>
Operating expenses	2,080	2,566	2,658	3.6%	27.8%
As % of revenues	16.5%	16.1%	15.6%	-54bp	-96bp
<b>Operating profit (EBITDA)</b>	<b>3,355</b>	<b>4,089</b>	<b>4,072</b>	<b>-0.4%</b>	<b>21.4%</b>
<b>Operating margin</b>	<b>26.6%</b>	<b>25.6%</b>	<b>23.8%</b>	<b>-182bp</b>	<b>-281bp</b>

Source: Company data

According to management, rupee appreciation impacted EBIT margins by 50-60bp in 4Q07

Export volume growth was above 9% for the third consecutive quarter

Blended realisation fell qoq, despite increases in onsite and offshore realisation, as the share of offshore effort was up 130bp qoq

Management expects wage hikes to impact margins by 325-350bp in FY08

**Table 4 : Key manpower and execution metrics**

(Nos)	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
<b>Employee base</b>								
Satyam consolidated	22,117	24,155	25,071	28,276	29,639	34,105	37,230	38,586
IT services	20,505	22,482	23,432	26,511	27,634	31,659	34,405	35,670
BPO services (Nipuna)	1,612	1,673	1,639	1,765	2,005	2,446	2,825	2,916
<b>Net addition</b>								
Satyam consolidated	1,586	2,038	916	3,205	1,363	4,466	3,125	1,356
IT services	1,341	1,977	950	3,079	1,123	4,025	2,746	1,265
As a % of opening base	7.0%	9.6%	4.2%	13.1%	4.2%	14.6%	8.7%	3.7%
BPO services (Nipuna)	245	61	-34	126	240	441	379	91
As a % of opening base	17.9%	3.8%	-2.0%	7.7%	13.6%	22.0%	15.5%	3.2%
<b>Recruitment mix - IT Services</b>								
- Laterals	72.3%	30.3%	23.3%	19.6%	56.6%	25.7%	22.5%	50.7%
- Freshers	27.7%	69.7%	76.7%	80.4%	43.4%	74.3%	77.5%	49.3%
Attrition (TTM) - IT services	16.7%	16.2%	18.0%	19.2%	19.6%	18.3%	17.6%	15.7%
<b>Utilization</b>								
Onsite	97.1%	97.0%	97.6%	97.8%	97.0%	97.0%	96.8%	96.6%
Offshore (excluding trainees)	76.8%	79.4%	79.7%	79.9%	79.6%	78.8%	77.6%	78.4%
Offshore (including trainees)	74.2%	74.7%	74.3%	72.2%	71.2%	71.1%	68.5%	71.4%

Source: Company data

36% addition to total headcount in FY07

4Q07 net addition was in line with our estimate of 1,379

According to management, planned gross additions of 14,000-15,000 in IT services in FY08

Attrition levels have been falling in the last three quarters

Table 5 : Key client metrics

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
<b>Client base</b>								
Active Clients	410	429	452	469	489	504	523	538
Net client addition	20	19	23	17	20	15	19	15
Client attrition	11	13	12	5	14	20	15	20
Revenue per active client (US\$m/qtr)	0.58	0.59	0.60	0.61	0.62	0.66	0.68	0.72
<b>Revenue concentration</b>								
Top client	9.9%	9.0%	9.4%	8.0%	7.1%	6.7%	6.3%	6.1%
Top5 clients	27.2%	25.7%	24.6%	24.3%	22.7%	22.3%	21.6%	22.2%
Top10 clients	39.4%	38.7%	36.8%	35.9%	34.4%	33.9%	34.2%	36.3%
Non GE clients	90.1%	91.1%	90.6%	92.0%	92.9%	93.3%	93.7%	93.9%
Repeat business	91.9%	92.4%	92.1%	91.4%	87.7%	86.1%	85.7%	88.7%
<b>Revenue growth</b>								
Top client	13.3%	-2.7%	10.9%	-9.8%	-5.5%	3.0%	1.9%	5.2%
Top2-5 clients	3.7%	3.4%	-4.0%	13.1%	1.9%	10.0%	5.5%	14.5%
Top5 clients	7.0%	1.2%	1.2%	4.3%	-0.5%	7.8%	4.5%	11.8%
Top6-10 clients	-3.4%	14.2%	-0.9%	-0.1%	8.5%	9.1%	16.4%	21.5%
Top10 clients	3.6%	5.2%	0.5%	2.9%	2.4%	8.2%	8.6%	15.4%
Non Top10 clients	12.7%	8.6%	9.0%	6.9%	9.0%	10.7%	7.3%	5.4%
Non-GE clients	8.5%	8.4%	5.2%	7.0%	7.7%	10.3%	8.2%	9.1%
Repeat business	9.4%	7.8%	5.3%	4.6%	2.3%	7.8%	7.3%	12.6%
<b>Relationship distribution</b>								
\$1m+ clients	134	137	142	150	142	154	164	180
Change	4	3	5	8	-8	12	10	16
\$5m+ clients	38	43	49	46	51	54	54	57
Change	3	5	6	-3	5	3	0	3
\$10m+ clients	21	22	25	27	33	32	32	35
Change	0	1	3	2	6	-1	0	3

Source: Company data

4.6% CQGR in revenue/active client in the last four quarters

Revenue dependence on GE continued to fall

Revenue from new business was down 14% qoq

Revenue growth was faster in large accounts, in line with trends reported by TCS and Infosys

Management mentioned three large deal wins in FY07; expects new large deals coming from non-US geographies

Pursuing 10-15 large deals at present

Table 6 : Services portfolio

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
<b>Revenue breakdown</b>								
<b>ADM</b>	<b>51%</b>	<b>50%</b>	<b>50%</b>	<b>51%</b>	<b>48%</b>	<b>48%</b>	<b>47%</b>	<b>46%</b>
<b>Non-ADM</b>	<b>49%</b>	<b>50%</b>	<b>50%</b>	<b>49%</b>	<b>52%</b>	<b>52%</b>	<b>53%</b>	<b>54%</b>
Package implementation	37%	39%	39%	39%	40%	40%	42%	43%
Engineering services	7%	7%	6%	6%	6%	6%	7%	7%
Infrastructure services	4%	4%	4%	4%	5%	5%	4%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Revenue (US\$m) and Change (qoq)</b>								
<b>ADM</b>	<b>122</b>	<b>128</b>	<b>135</b>	<b>144</b>	<b>147</b>	<b>159</b>	<b>169</b>	<b>181</b>
Change	5%	5%	6%	7%	2%	9%	6%	7%
<b>Non ADM</b>	<b>116</b>	<b>127</b>	<b>134</b>	<b>140</b>	<b>156</b>	<b>173</b>	<b>189</b>	<b>209</b>
Change	13%	10%	6%	4%	11%	11%	9%	11%
Package implementation	89	100	106	111	122	134	150	166
Change	14%	13%	6%	5%	9%	10%	12%	10%
Engineering services	17	17	17	18	18	21	24	27
Change	10%	-1%	2%	6%	0%	17%	14%	13%
Infrastructure services	10	10	11	10	16	17	14	16
Change	13%	0%	11%	-6%	53%	9%	-19%	11%

Source: Company data

6.7% decline in the share of ADM services in the past eight quarters

Non-ADM share of portfolio is the highest among Top4 players

ADM services grew at 5.9% CQGR in the past four quarters

Non-ADM services grew at 10.5% CQGR in the past four quarters

**Table 7 : Performance of subsidiaries**

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
<b>Revenues (\$m)</b>								
Nipuna	3.33	4.15	4.86	7.62	7.93	9.00	9.74	11.47
CitiSoft	2.06	3.74	3.49	3.73	3.66	4.56	4.37	4.93
Satyam China	0.90	1.18	1.36	1.35	1.39	1.89	2.32	1.96
Satyam Technologies Inc.	0.31	0.39	0.45	0.59	0.44	0.41	0.40	0.25
<b>Net Profit/(Loss) (\$m)</b>								
Nipuna	-2.51	-2.42	-2.11	-0.56	-1.35	-1.03	-1.27	-0.23
CitiSoft	-0.14	-0.10	-0.42	0.16	-0.11	0.38	-0.27	0.18
Satyam China	-0.30	-0.20	-0.36	-0.35	-0.39	-0.39	-0.42	-0.73
Satyam Technologies Inc.	0.02	-0.01	0.03	0.05	0.04	0.00	0.01	-0.10
<b>Total</b>								
Revenue (Rs m)	242.7	377.0	426.7	536.5	560.7	641.7	662.5	701.2
Growth	33.7%	55.3%	13.2%	25.7%	4.5%	14.4%	3.2%	5.8%
EBITDA margin	-36.1%	-19.9%	-23.5%	-2.0%	-1.1%	8.0%	1.6%	4.3%
Net Profit/(Loss) (Rs m)	-158.4	-133.9	394.8	-52.8	-59.7	-25.3	-60.7	-39.2

Source: Company data

Management guides for 60% top-line growth for Nipuna in FY08

According to management, improved performance in subsidiaries contributed 60bp to margins in FY07...

... however, overall profitability from subsidiaries was still significantly below the corporate average

**Table 8 : Guidance analysis**

	Guidance		Implied growth (qoq/yoy)	
	Lower	Upper	Lower	Upper
<b>1Q08 guidance</b>				
Revenue (Rs bn)	18.1	18.1	1.2%	1.7%
Revenue (\$ m)	425.8	427.9	5.0%	5.5%
EPS (Rs)	5.93	5.98	-0.8%	0.0%
<b>FY08 guidance</b>				
Revenue (Rs bn)	77.9	79.2	20.2%	22.1%
Revenue (\$ m)	1,842.3	1,871.4	28.0%	30.0%
EPS (Rs)	25.32	25.73	18.1%	20.0%

Source: Company data

1Q08 US\$ guidance compares well with 3.3-3.7% for Infosys and 2.9% for Wipro

Weak EPS guidance for 1Q08 factors in the impact of equity dilution and stronger rupee

FY08 US\$ revenue growth guidance is in line with Infosys'; EPS guidance is comparatively lower due to RSU charges and FX impact

**Table 9 : Key metrics – how the big five stack up**

	TCS	Infosys	Wipro	Satyam	HCLT
<b>Financial Metrics</b>					
Qoq US\$ revenue growth – Jan-Mar quarter	7.8%	5.1%	7.8%	9.5%	9.5%
CQGR - US\$ revenues (TTM)	9.1%	9.8%	7.8%	8.1%	9.6%
EBITDA margin – Jan-Mar quarter	28.3%	31.7%	26.7%	-23.8%	21.3%
Qoq change - EBITDA margin expansion	1bp	-99bp	-110bp	-182bp	102bp
<b>Operational Metrics</b>					
Qoq growth – billed effort - Jan-Mar quarter	6.4%	3.8%	5.4%	9.8%	3.9%
Avg realisation (US\$/person-month) - blended	6,743	7,041	6,434	5,074	5,462
Qoq growth - avg blended realisation – Jan-Mar quarter	3.0%	1.7%	1.3%	-0.8%	4.1%
CQGR - avg blended realisation – TTM	2.7%	1.5%	0.8%	-0.8%	3.5%
<b>Manpower Metrics</b>					
Net manpower addition – Jan-Mar quarter	5,919	2,809	1,642	1,356	1,832
Net additions - delivery manpower – TTM	19,946	18,661	12,288	9,011	9,055
- As % of opening base	35.0%	37.7%	24.4%	36.3%	33.8%
<b>Client Metrics</b>					
Revenue/active client (US\$m, annualised) – Jan-Mar quarter	5.37	6.90	4.46	2.90	6.14
CQGR - revenue/active client (US\$ mn, annualized) - TTM	8.5%	7.6%	2.6%	4.6%	n.a.
Net clients addition - Jan-Mar quarter	26	12	14	15	6
US\$1m+ clients (as a % of total base)	38.1%	55.0%	42.3%	33.5%	62.3%
US\$10m+ clients (as a % of total base)	9.6%	14.2%	11.8%	6.5%	10.6%
US\$50m+ clients (as a % of total base)	1.8%	2.4%	n/a	n/a	1.3%
<b>Stock Metrics</b>					
P/E (12-month forward)	21.9x	22.6x	22.4x	17.2x	16.7x
Change in stock price (yoy)	27%	28%	6%	22%	12%

Source: Company data, Bloomberg

Though top-line growth remained healthy, margins were hit across players due to significant negative fx impact for the second consecutive quarter

Realization growth was seen across players – Satyam's blended realisation was negative due to the impact of offshoring

Except for Wipro, all players reported robust manpower adds for FY07 in excess of 30%

Client mining was evident with varying levels of success across players

We expect premium valuations of Tier1 players to sustain, as scale leverage remains a distinct advantage

# Buy maintained

**We expect valuations to be sustained at current levels as fears on the macro environment recede. We maintain our Buy recommendation and raise our target to Rs577, which implies 24% potential upside from current levels.**

## We reiterate our Buy and raise our DCF-based target price to Rs577

We have revised our forecasts, factoring in the higher-than-expected realisation growth in 4Q07, and management guidance for headcount addition for 1Q08 and FY08. Our currency assumptions have also been changed to reflect the latest view of our regional economists. We project FY07-10 revenue CAGR of 30.2% (32.7% in USD terms) and a net income CAGR of 24.1%. We have also changed our risk-free rate assumption in our DCF model from 7.75% to 8.25%, in line with our economists' view, and have adjusted other assumptions marginally to maintain fair value and a six- to 12-month target price of Rs577. At our target, the stock is valued at 21.6x FY08F basic EPS and represents 24% potential upside from current levels.

The key downside risks to our target price for Satyam are: 1) rupee appreciation exceeding the level we assume; 2) a slowdown in the US economy that could affect corporate IT spending; 3) a major breach of data security by an Indian firm resulting in strong regulatory action against outsourcing. Upside could come from: 1) rupee depreciation; and 2) acquisitions/large deal wins not built into our model.

**Table 10 : What has changed in our key assumptions and forecasts**

	FY08F	FY09F	FY10F		FY08F	FY09F	FY10F
<b>Exchange rate (Rs/US\$)</b>							
Old	43.86	43.06	-				
New	43.09	42.60	42.60				
Change	-1.7%	-1.1%	-				
<b>A. OPERATIONAL ASSUMPTIONS - IT services</b>							
<b>Total employees - delivery</b>				<b>Utilization</b>			
Old	46,855	58,557	-	Old	79.2%	79.2%	-
New	45,760	56,894	69,102	New	78.4%	78.7%	79.0%
Change	-2.3%	-2.8%	-	Change	-78bp	-48bp	-
<b>Billed effort (person-months)</b>				<b>Billed effort share - onsite</b>			
Old	377,362	481,832	-	Old	27.9%	27.9%	-
New	371,504	475,711	588,359	New	26.5%	26.4%	26.2%
Change	-1.6%	-1.3%	-	Change	-138bp	-150bp	-
<b>Billing rate (US\$/p-m) - Onsite</b>				<b>Billing rate (US\$/p-m) - Offshore</b>			
Old	57.54	59.08	-	Old	23.29	23.67	-
New	57.89	59.68	61.56	New	23.66	24.39	25.16
Change	0.6%	1.0%	-	Change	1.6%	3.0%	-
<b>B. FINANCIAL FORECASTS - SATYAM CONS</b>							
<b>Revenue (US\$ m)</b>				<b>Revenue (Rs m)</b>			
Old	1,999	2,636	-	Old	87,666	113,479	-
New	1,972	2,621	3,363	New	84,963	111,674	143,256
Change	-1.4%	-0.5%	-	Change	-3.1%	-1.6%	-
<b>EBITDA margin</b>				<b>EPS - basic (Rs)</b>			
Old	22.0%	21.1%	-	Old	25.50	30.82	-
New	22.7%	22.3%	21.6%	New	26.68	33.46	40.26
Change	75bp	120bp	-	Change	4.6%	8.6%	-

Source: Company data, ABN AMRO forecasts

**Our new currency assumptions reflect the latest view of our regional economists**

**We factor in guidance for 14,000-15,000 gross adds as well as USD revenue guidance for FY08 into our assumptions**

**We increase share of offshore effort to factor in management's intention to continue to move work offshore in FY08**

**Given the strongest quarterly realization increase since FY02 and a 2-3% increase built into FY08 guidance, we raise our realization assumptions**

**Revised pricing assumptions and lower SG&A assumptions (0.3-0.5% of sales) drive our higher EBITDA margin forecasts**

**Higher yield assumptions on liquid assets contribute 90-100bp to EPS change**

**Chart 1 : Satyam - PE valuation band movement (Rs)**



Source: Bloomberg, ABN AMRO

We see limited downside in valuation, with management allaying concerns on long-term demand scenario and salary hikes for FY08 at FY07 levels

We believe the stock could see gradual re-rating in the near term on the back of better than expected guidance

**Chart 2 : Satyam - valuation discount to Infosys**



Source: Bloomberg, ABN AMRO

Satyam's valuation discount to Infosys has ranged 20-30% over the last 12 months, and is currently at around the mid point...

... and we expect this to be sustained, as Satyam's scalability is still not evident

## Key assumptions and forecasts

**Table 11 : Key assumptions and forecasts**

(Rs m)	FY06A	FY07A	1Q08F	2Q08F	3Q08F	4Q08F	FY08F	FY09F	FY10F
<b>Exchange rate (Rs/US\$)</b>	<b>44.35</b>	<b>45.06</b>	<b>43.20</b>	<b>43.50</b>	<b>43.15</b>	<b>42.60</b>	<b>43.09</b>	<b>42.60</b>	<b>42.60</b>
<b>A. Key operating metrics - IT services</b>									
Total employees	26,511	35,670	37,339	41,595	44,172	45,760	45,760	56,894	69,102
Billed person-months	201,216	272,473	84,530	89,865	94,874	102,235	371,504	475,711	588,359
Change (yoy/qoq)	38.4%	35.4%	9.5%	6.3%	5.6%	7.8%	36.3%	28.1%	23.7%
Avg. realization - On-site (US\$/hr)	55.79	56.46	57.16	57.62	58.08	58.54	57.89	59.68	61.56
Change (yoy/qoq)	0.3%	1.2%	0.5%	0.8%	0.8%	0.8%	2.5%	3.1%	3.2%
Avg. realization - Offshore (US\$/hr)	22.98	23.10	23.36	23.55	23.73	23.92	23.66	24.39	25.16
Change (yoy/qoq)	0.6%	0.5%	0.5%	0.8%	0.8%	0.8%	2.4%	3.1%	3.2%
<b>B. Key financial forecasts</b>									
Revenue - IT services (\$ m)	1,045	1,382	421	451	481	522	1,874	2,476	3,150
Change (yoy/qoq)	35.2%	32.3%	8.0%	7.1%	6.7%	8.6%	35.6%	32.1%	27.2%
Cons. revenue (\$ m)	1,081	1,439	441	474	506	551	1,972	2,621	3,363
Change (yoy/qoq)	37.6%	33.2%	8.8%	7.3%	6.9%	8.8%	37.0%	33.0%	28.3%
<b>Cons. revenue (Rs m)</b>	<b>47,926</b>	<b>64,851</b>	<b>19,063</b>	<b>20,600</b>	<b>21,845</b>	<b>23,456</b>	<b>84,963</b>	<b>111,674</b>	<b>143,256</b>
Change (yoy/qoq)	36.1%	35.3%	7.1%	8.1%	6.0%	7.4%	31.0%	31.4%	28.3%
<b>Gross margin</b>	<b>41.4%</b>	<b>40.5%</b>	<b>41.5%</b>	<b>37.1%</b>	<b>37.4%</b>	<b>39.5%</b>	<b>38.9%</b>	<b>38.2%</b>	<b>37.0%</b>
<b>Operating margin</b>	<b>24.3%</b>	<b>23.7%</b>	<b>25.4%</b>	<b>21.1%</b>	<b>21.3%</b>	<b>23.4%</b>	<b>22.7%</b>	<b>22.3%</b>	<b>21.6%</b>
<b>PAT (Rs m)</b>	<b>9,819</b>	<b>14,047</b>	<b>4,465</b>	<b>3,996</b>	<b>4,300</b>	<b>5,041</b>	<b>17,801</b>	<b>22,325</b>	<b>26,860</b>
Change (yoy/qoq)	38.0%	43.1%	13.4%	-10.5%	7.6%	17.2%	26.7%	25.4%	20.3%
<b>EPS - Basic (Rs)</b>									
EPS - Basic (Rs)	15.24	21.36	6.69	5.99	6.45	7.56	26.68	33.46	40.26
EPS - Fully Diluted (Rs)	14.84	20.73	6.50	5.81	6.26	7.34	25.91	32.49	39.09
Shares outstanding - basic (m)	644.46	657.59	667.20	667.20	667.20	667.20	667.20	667.20	667.20
Shares outstanding - fully diluted (m)	661.51	677.52	687.17	687.17	687.17	687.17	687.17	687.17	687.17

Source: Company data, ABN AMRO forecasts

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## SATYAM COMPUTER: KEY FINANCIAL DATA

### Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	47925.9	64850.8	84962.9	111674	143256
Cost of sales	-28067	-38602	-51955	-69045	-90236
Operating costs	-8197.1	-10872	-13682	-17679	-22141
<b>EBITDA</b>	<b>11661.8</b>	<b>15377.1</b>	<b>19326.2</b>	<b>24950.7</b>	<b>30879.9</b>
DDA & Impairment (ex gw)	-1372.8	-1484.4	-1603.0	-2059.4	-2619.1
<b>EBITA</b>	<b>10289.0</b>	<b>13892.7</b>	<b>17723.2</b>	<b>22891.3</b>	<b>28260.8</b>
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
<b>EBIT</b>	<b>10289.0</b>	<b>13892.7</b>	<b>17723.2</b>	<b>22891.3</b>	<b>28260.8</b>
Net interest	-55.4	-159.2	-318.2	-318.2	-318.2
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	1733.8	1832.8	2823.8	3385.8	4033.7
<b>Reported PTP</b>	<b>11967.4</b>	<b>15566.3</b>	<b>20228.8</b>	<b>25958.9</b>	<b>31976.3</b>
Taxation	-2074.8	-1520.1	-2427.5	-3634.2	-5116.2
Minority interests	5.50	1.20	0.00	0.00	0.00
Exceptionals (post-tax)	1598.0	0.00	0.00	0.00	0.00
Other post-tax items	-78.8	0.00	0.00	0.00	0.00
<b>Reported net profit</b>	<b>11417.3</b>	<b>14047.4</b>	<b>17801.3</b>	<b>22324.6</b>	<b>26860.1</b>
Normalised Items Excl. GW	1598.0	0.00	0.00	0.00	0.00
<b>Normalised net profit</b>	<b>9819.3</b>	<b>14047.4</b>	<b>17801.3</b>	<b>22324.6</b>	<b>26860.1</b>

Source: Company data, ABN AMRO forecasts

year to Mar

### Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	31117.0	39914.2	45952.8	54627.9	65256.3
Other current assets	14635.3	20377.1	26648.2	34922.9	44497.2
Tangible fixed assets	5572.5	8223.4	10754.8	14136.0	18133.7
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	46.2	436.7	436.7	436.7	436.7
<b>Total assets</b>	<b>51371.0</b>	<b>68951.4</b>	<b>83792.4</b>	<b>104124</b>	<b>128324</b>
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	7129.9	9946.6	10889.2	15140.4	18725.4
Long term debt (3)	1027.1	1478.8	1478.8	1478.8	1478.8
Oth non-current liab	0.00	0.00	0.00	0.00	0.00
<b>Total liabilities</b>	<b>8157.0</b>	<b>11425.4</b>	<b>12368.0</b>	<b>16619.2</b>	<b>20204.2</b>
Total equity (incl min)	43214.0	57526.0	71424.4	87504.4	108120
<b>Total liab &amp; sh equity</b>	<b>51371.0</b>	<b>68951.4</b>	<b>83792.4</b>	<b>104124</b>	<b>128324</b>
Net debt (2+3-1)	-30090	-38435	-44474	-53149	-63778

Source: Company data, ABN AMRO forecasts

year ended Mar

### Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	11661.8	15377.1	19326.2	24950.7	30879.9
Change in working capital	-2685.1	-2925.1	-5328.4	-4023.6	-5989.2
Net interest (pd) / rec	n/a	n/a	n/a	n/a	n/a
Taxes paid	-2013.9	-1910.6	-2427.5	-3634.2	-5116.2
Other oper cash items	n/a	n/a	n/a	n/a	n/a
<b>Cash flow from ops (1)</b>	<b>6962.8</b>	<b>10541.4</b>	<b>11570.3</b>	<b>17292.8</b>	<b>19774.5</b>
Capex (2)	-3166.7	-4135.3	-4134.4	-5440.6	-6616.9
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	3966.2	1674.8	2505.6	3067.6	3715.5
<b>Cash flow from invest (3)</b>	<b>799.5</b>	<b>-2460.5</b>	<b>-1628.8</b>	<b>-2373.0</b>	<b>-2901.3</b>
Incr / (decr) in equity	1377.9	2890.8	0.00	0.00	0.00
Incr / (decr) in debt	837.9	451.7	0.00	0.00	0.00
Ordinary dividend paid	-2562.4	-2626.2	-3902.9	-6244.7	-6244.7
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
<b>Cash flow from fin (5)</b>	<b>-346.6</b>	<b>716.3</b>	<b>-3902.9</b>	<b>-6244.7</b>	<b>-6244.7</b>
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
<b>Incr/(decr) cash (1+3+5+6)</b>	<b>7415.7</b>	<b>8797.2</b>	<b>6038.6</b>	<b>8675.1</b>	<b>10628.5</b>
Equity FCF (1+2+4)	3796.1	6406.1	7435.9	11852.2	13157.6

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

## SATYAM COMPUTER: PERFORMANCE AND VALUATION

Standard ratios	Satyam Computer					HCL Technologies			Infosys Technologies		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY07F	FY08F	FY09F	FY08F	FY09F	FY10F
Sales growth (%)	36.1	35.3	31.0	31.4	28.3	38.3	30.0	28.2	31.7	30.2	26.1
EBITDA growth (%)	34.3	31.9	25.7	29.1	23.8	39.7	30.3	25.5	31.7	30.2	26.0
EBIT growth (%)	36.3	35.0	27.6	29.2	23.5	44.3	32.0	25.3	32.0	30.2	26.2
Normalised EPS growth (%)	34.7	39.7	24.9	25.4	20.3	50.7	22.3	22.3	32.1	29.6	26.2
EBITDA margin (%)	24.3	23.7	22.7	22.3	21.6	21.0	21.1	20.6	31.6	31.6	31.6
EBIT margin (%)	21.5	21.4	20.9	20.5	19.7	16.9	17.2	16.8	28.0	28.0	28.0
Net profit margin (%)	20.5	21.7	21.0	20.0	18.7	17.9	17.2	16.4	27.3	27.1	27.2
Return on avg assets (%)	22.2	23.6	23.7	24.1	23.3	19.7	20.7	21.3	31.4	30.2	28.9
Return on avg equity (%)	25.8	27.9	27.6	28.1	27.5	24.5	26.1	27.3	37.8	36.7	35.1
ROIC (%)	89.8	95.5	81.7	73.0	69.1	43.0	45.9	45.3	82.9	87.2	88.0
ROIC - WACC (%)	75.0	80.7	66.8	58.2	54.2	28.1	31.0	30.4	68.7	72.9	73.8
				<i>year to Mar</i>			<i>year to Jun</i>			<i>year to Mar</i>	
<b>Valuation</b>											
EV/sales (x)	5.98	4.29	3.21	2.36	1.77	3.26	2.50	1.92	5.83	4.33	3.29
EV/EBITDA (x)	24.6	18.1	14.1	10.6	8.20	15.5	11.9	9.30	18.5	13.7	10.4
EV/EBITDA @ tgt price (x)	30.4	22.5	17.6	13.3	10.4	18.2	13.9	11.0	24.8	18.6	14.3
EV/EBIT (x)	27.9	20.0	15.4	11.5	8.96	19.3	14.6	11.4	20.8	15.5	11.7
EV/invested capital (x)	21.9	14.6	10.1	7.68	5.71	7.48	5.93	4.77	16.2	12.7	9.96
Price/book value (x)	7.41	5.67	4.57	3.73	3.02	4.55	3.94	3.32	7.71	5.79	4.40
Equity FCF yield (%)	1.21	1.99	2.28	3.63	4.03	2.60	2.86	3.88	3.27	4.22	5.47
Normalised PE (x)	32.0	22.9	18.3	14.6	12.2	21.3	17.4	14.2	23.3	18.0	14.3
Norm PE @tgt price (x)	38.9	27.8	22.3	17.8	14.8	24.7	20.2	16.5	30.8	23.7	18.8
Dividend yield (%)	0.74	0.63	1.05	1.68	2.11	2.41	2.41	2.41	0.84	1.09	1.34
				<i>year to Mar</i>			<i>year to Jun</i>			<i>year to Mar</i>	
<b>Per share data</b>	<b>FY06A</b>	<b>FY07A</b>	<b>FY08F</b>	<b>FY09F</b>	<b>FY10F</b>	<b>Solvency</b>	<b>FY06A</b>	<b>FY07A</b>	<b>FY08F</b>	<b>FY09F</b>	<b>FY10F</b>
Tot adj dil sh, ave (m)	661.5	677.5	687.2	687.2	687.2	Net debt to equity (%)	-69.6	-66.8	-62.3	-60.7	-59.0
Reported EPS (INR)	17.3	20.7	25.9	32.5	39.1	Net debt to tot ass (%)	-58.6	-55.7	-53.1	-51.0	-49.7
Normalised EPS (INR)	14.8	20.7	25.9	32.5	39.1	Net debt to EBITDA	-2.58	-2.50	-2.30	-2.13	-2.07
Dividend per share (INR)	3.50	3.00	5.00	8.00	10.0	Current ratio (x)	6.42	6.06	6.67	5.91	5.86
Equity FCF per share (INR)	5.74	9.46	10.8	17.2	19.1	Operating CF int cov (x)	0.00	0.00	0.00	0.00	0.00
Book value per sh (INR)	64.1	83.7	103.9	127.3	157.3	Dividend cover (x)	3.83	5.35	4.56	3.57	4.30
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: SATY.BO - Rs466.45; HCLT.BO - Rs332.35; INFY.BO - Rs2017.90  
Source: Company data, ABN AMRO forecasts

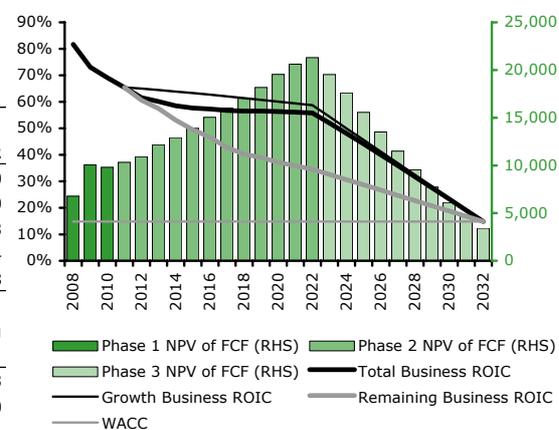
## SATYAM COMPUTER: VALUATION METHODOLOGY

Economic Profit Valuation			INR m		%		Discounted Cash Flow Valuation			INR m		%	
Adjusted Opening Invested Capital			20978.1		6		Value of Phase 1: Explicit (2008 to 2010)			26662.4		8	
NPV of Economic Profit During Explicit Period			37340.4		11		Value of Phase 2: Value Driver (2011 to 2022)			188011.0		54	
NPV of Econ Profit of Remaining Business (1, 2)			66595.9		19		Value of Phase 3: Fade (2023 to 2032)			109165.7		31	
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)			221880.3		64		Terminal Value			22960.8		7	
Enterprise Value			346794.6		100		Enterprise Value			346799.9		100	
Plus: Other Assets			0.0		0		FCF Grth Rate at end of Phs 1 implied by DCF Valuation			11.4			
Less: Minorities			0.0		0		FCF Grth Rate at end of Phs 1 implied by Current Price			12.5			
Less: Net Debt (as at 25 Apr 2007)			-38435.4		-11								
Equity Value			385230.0		111								
No. Shares (millions)			667.2										
<b>Per Share Equity Value</b>			<b>577.00</b>										
Current Share Price			466.45										
Upside			<b>23.7%</b>										
<b>Sensitivity Table</b>			<b>No of Years in Fade Period</b>										
			<b>4</b>	<b>7</b>	<b>10</b>	<b>11</b>	<b>12</b>						
<b>WACC</b>	<b>12.9%</b>		597.8	653.2	705.6	722.5	739.0						
	<b>13.9%</b>		547.7	594.0	637.0	650.6	664.0						
	<b>14.9%</b>		503.5	542.1	577.4	588.5	599.3						
	<b>15.9%</b>		464.2	496.5	525.6	534.6	543.4						
	<b>16.9%</b>		429.4	456.4	480.3	487.7	494.8						
<b>Performance Summary</b>			<b>Phase 2 Avg</b>										
			<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>(2011 - 2022)</b>							
Invested Capital Growth (%)			41.2	27.5	29.1	20.3							
Operating Margin (%)			20.9	20.5	19.7	16.0							
Capital Turnover (x)			4.5	4.1	4.2	4.1							

Source: ABN AMRO

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

### Returns, WACC and NPV of Free Cash Flow



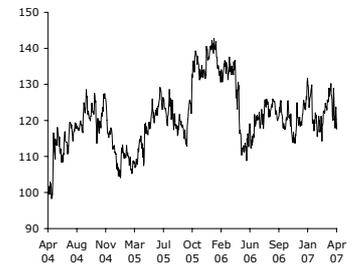
# Satyam Computer

## Company description

Satyam is the fourth-largest IT solutions provider from India. It is one of the pioneers of offshore IT services delivery. The company has 538 clients and employs more than 38,500 professionals across IT and BPO services. It has domain competencies in verticals such as Manufacturing, Banking and Financial Service, and Insurance among others. More than 42% of its revenue comes from package implementation services.

**Buy**

## Price relative to country



## Strategic analysis

**Average SWOT company score: 3**

## Shareholding, FY07

### Strengths

**3**

Large offshore IT outsourcing services provider with an established client base. Entrepreneurial and risk-taking management.

### Weaknesses

**2**

Lack of credible global brand/presence and lack of full-service capabilities due to the limitation of skill sets.

### Opportunities

**4**

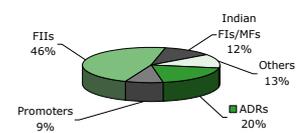
Growing market opportunity for Indian offshore IT and IT-enabled services and offshore becoming mainstream.

### Threats

**2**

Global vendors setting up capacities in India; depreciating dollar; new entrants increasing wages and other costs are reducing cost arbitrage in the offshore sector.

Scoring range is 1-5 (high score is good)



Source: Company data

## Market data

### Headquarters

Mayfair Centre, S.P. Road, Secunderabad 500 003, Andhra Pradesh, India

### Website

[www.satyam.com](http://www.satyam.com)

### Shares in issue

667.2m

### Freefloat

91%

### Majority shareholders

Promoters & their relatives (9%), JPMorgan Asset Management (3%), Aberdeen Asset Managers (3%)

## India

## Country view

**Neutral**

## Country rel to Asia Pacific

The market looks expensive, but we believe it will remain supportive when regional funds seek a domestically-driven home with continuing robust earnings growth. The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. At the sector level, we still like autos, software and construction-related stocks.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



## Competitive position

**Average competitive score: 3-**

## Broker recommendations

### Supplier power

**2-**

Bargaining power shifting to employees due to an increase in the options in the Indian IT landscape - MNC product vendors, MNC IT services capacities, client insourcing, etc.

### Barriers to entry

**2-**

Low entry barriers in the offshore IT services business. MNCs are ramping up capacities and employee strength.

### Customer power

**2-**

Increasing customer bargaining power due to offshoring becoming mainstream and key service offerings becoming commoditised. New intermediaries are helping better price discovery.

### Substitute products

**5+**

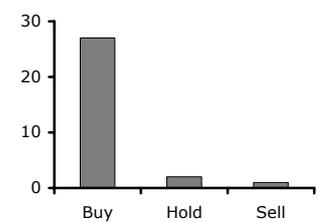
Other offshore locations, such as Eastern Europe, the Philippines and China. However, this will have an impact only in the medium to long term.

### Rivalry

**2-**

Intense rivalry due to similar commoditised offerings and same 'low-cost little differentiation' positioning.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg