

7 January 2009 | 6 pages

Satyam Computers Services (SATY.BO)

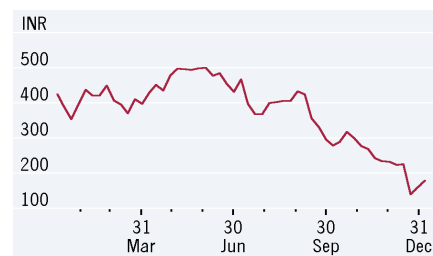
 Discontinuing coverage

Discontinuing Coverage

- We are discontinuing coverage of Satyam Computers Services in response to the Chairman's disclosures today. We believe that there will be critical regulatory and financial/accounting issues to resolve, apart from management composition in the short term. All this makes any analysis of the stock difficult.
- The Chairman of Satyam, Ramalinga Raju, disclosed the following today: (a) The balance sheet (September 30, 2008) carried inflated (non-existent) cash and bank balances of Rs50.4bn (against Rs53.61bn reflected in the books); (b) Accrued interest of Rs3.76bn was non-existent; (c) There was an understated liability of Rs12.3bn on account of funds arranged by the Chairman; (d) Overstated debtors position of Rs4.9bn; (e) Q2 actual revenues were Rs21.1bn (reported: Rs27.0bn) and operating profit was Rs0.61bn (reported: Rs6.49bn); (f) The gap in the balance sheet has risen on account of inflated profits over a period of several years.
- The firm's final recommendation for the company is Sell/High Risk (3H), and our target price is Rs170.
- This is our final recommendation on Satyam Computers Services; we will not provide updates to our previous research or ratings. You should not rely on this or previous research with respect to this company going forward.

Sell/High Risk	3H
Price (07 Jan 09)	Rs50.00
Target price	Rs170.00
Expected share price return	240.0%
Expected dividend yield	8.0%
Expected total return	248.0%
Market Cap	Rs33,694M
	US\$696M

Price Performance (RIC: SATY.BO, BB: SCS IN)



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See Appendix A-1 for Analyst Certification and important disclosures.

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Satyam Computers Services

Valuation

Our 12-month target price is Rs170, based on 5x FY10E EPS. Given the macro concerns, which imply lower visibility and that we expect Satyam's earnings to grow at ~10% CAGR over the next three years, we believe the stock should trade towards the lower end of its historical three-year trading range of 6-21x 12-month forward earnings. The proposed unrelated diversification (acquisition of Maytas properties and Maytas Infra) and the immediate cancellation could result in questions about management focus - hence we value the stock at 5x FY10 EPS, which is lower than the historical range in which Satyam has traded.

Risks

We rate Satyam as High Risk, in line with our quantitative risk-rating system which tracks 260-day historical share price volatility. The key upside risks to our target price are: (1) a sharp pickup in enterprise software license revenues; (2) the supply side situation becoming easier; (3) upside risks to earnings from a sharp US/global economic pickup; (4) any significant depreciation of the rupee against the USD/EUR/GBP; and (5) a sharp pickup in the BFSI sector.

Appendix A-1

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Satyam Computers Services (SATY.BO)

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Analyst: Surendra Goyal, CFA
Covered since October 5 2006

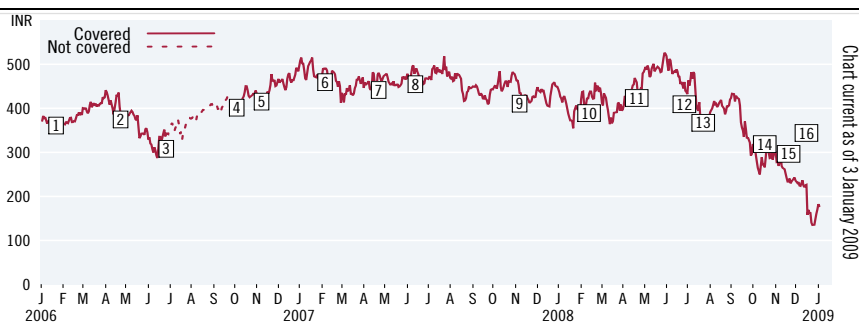


Chart current as of 3 January 2009

	Date	Rating	Target Price	Closing Price
1	22-Jan-06	1M	*450.00	371.68
2	24-Apr-06	*1L	*465.00	386.73
3	27-Jun-06	Coverage suspended		
4	4-Oct-06	*2M	*475.00	401.43
5	8-Nov-06	*1M	*510.00	415.20
6	6-Feb-07	1M	*582.00	490.65

	Date	Rating	Target Price	Closing Price
7	23-Apr-07	1M	*590.00	480.65
8	13-Jun-07	1M	*570.00	486.35
9	7-Nov-07	1M	*565.00	434.85
10	13-Feb-08	1M	*540.00	432.75
11	21-Apr-08	1M	*565.00	458.95
12	26-Jun-08	1M	*595.00	459.80

	Date	Rating	Target Price	Closing Price
13	23-Jul-08	1M	*475.00	377.70
14	17-Oct-08	1M	*340.00	265.95
15	20-Nov-08	*1H	*305.00	233.40
16	16-Dec-08	*3H	*170.00	226.50

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2008

	Buy	Hold	Sell
Citi Investment Research Global Fundamental Coverage	46%	37%	17%
% of companies in each rating category that are investment banking clients	48%	43%	38%

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Satyam Computers Services (SATY.BO)

7 January 2009

Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

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