

January 21, 2008

Rating	Outperformer
Price	Rs371
Target Price	Rs443
Implied Upside	19.2%
Sensex	17,605

(Prices as on January 21, 2008)

#### Trading Data

Market Cap. (Rs bn)	248.5
Shares o/s (m)	669.1
Free Float	91.2%
Avg. Daily Vol ('000)	469.2
Avg. Daily Value (Rs m)	204.9

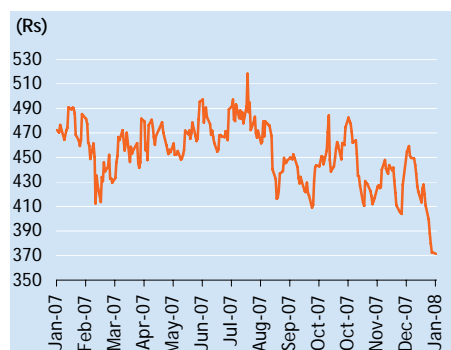
#### Major Shareholders

Promoters	8.8%
Foreign	67.4%
Domestic Inst.	13.8%
Public & Others	10.0%

#### Stock Performance

(%)	1M	6M	12M
Absolute	(13.2)	(22.3)	(23.9)
Relative	(5.0)	(35.4)	(48.0)

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



Source: Bloomberg

## Satyam Computers

### Outstanding Performance ...with more to follow

- **Results:** Satyam reported Q3FY08 numbers with excellent revenue growth accompanied by good profit growth. Consolidated revenue grew by 8.1% QoQ in rupee terms to Rs21.96bn. Operating profit grew 17% QoQ, while PAT grew 6.0% QoQ to Rs4.33bn. Operating (EBITDA) margin expanded by 164bps, while lower other income and higher interest provisioning led to a contraction in PAT margin by 38bps.
- **Acquires Bridge Consulting:** Satyam announced the acquisition of Bridge Strategy Group, a Chicago based management consulting firm with annual revenue US\$17m. The US\$35m all cash deal serves to bolster Satyam's consulting division by adding over 36 consulting professionals from Bridge.
- **The break-up:** Revenue growth was driven by 9.4% blended volume growth. Pricing growth onsite grew 2.36%, while offshore grew 2.27%. Satyam added 32 new clients in Q3FY08 (including 9 in the US\$10mn+ range).
- **Valuation:** We expect Satyam to report profit growth of 20.5%, 28.0% and 17.5% in FY08, FY09 and FY10 respectively. We believe Satyam's robust business model will continue to deliver numbers superior to its peer group averages, even as the sector gears to face potential headwinds in the form of turbulent business macro environment going forward. At the CMP of Rs371, it quotes at 11.7x FY09E earnings. We maintain Outperformer rating on the stock with a target price of Rs443 (14x FY09E earnings).

Key financials (Y/e March)	FY07	FY08E	FY09E	FY10E
Revenue (Rs m)	64,851	84,267	111,579	143,003
Growth (%)	35.3	29.9	32.4	28.2
EBITDA (Rs m)	15,377	18,049	24,210	30,782
PAT (Rs m)	14,046	16,919	21,656	25,440
EPS (Rs)	21.6	24.7	31.6	37.2
Growth (%)	21.2	14.2	28.0	17.5
Net DPS (Rs)	3.5	3.7	4.3	4.7

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	23.7	21.4	21.7	21.5
RoE (%)	28.3	26.4	27.0	25.4
RoCE (%)	27.4	25.8	26.5	25.0
EV / sales (x)	3.2	2.4	1.7	1.2
EV / EBITDA (x)	13.7	11.1	7.8	5.3
PE (x)	17.2	15.0	11.7	10.0
P / BV (x)	4.4	3.5	2.8	2.2
Net dividend yield (%)	1.0	1.0	1.1	1.3

Source: Company Data; PL Research

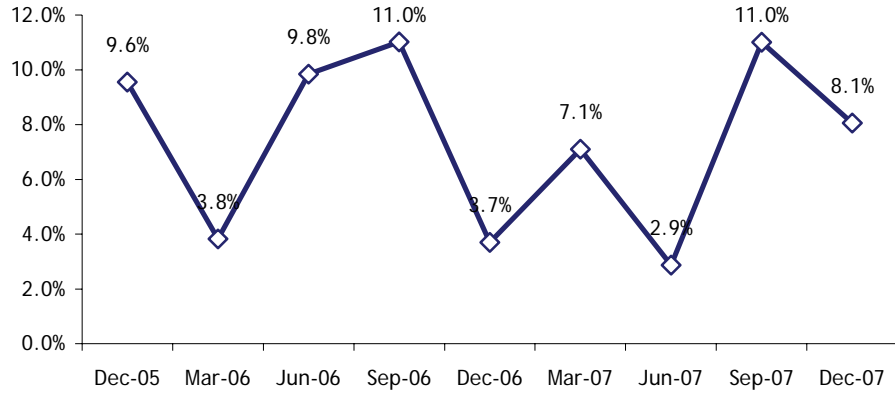
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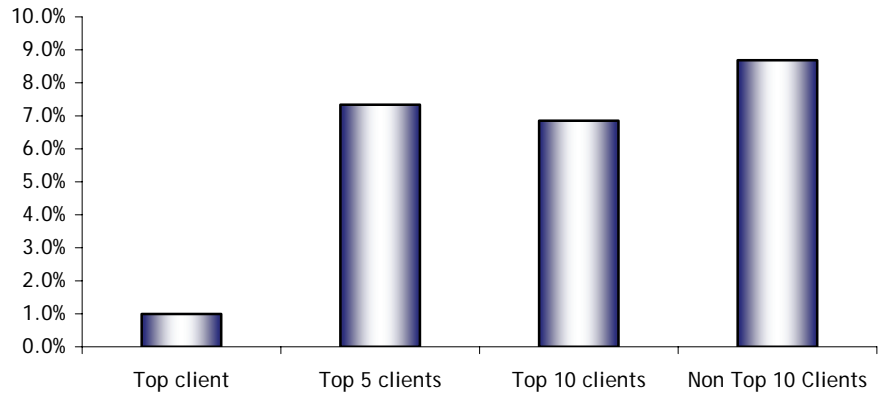
## Result Highlights

Revenue grew 8.1% QoQ to Rs21.95bn



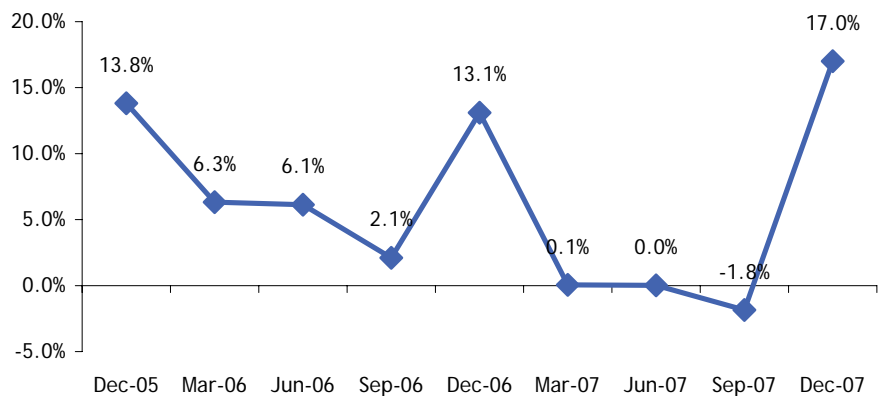
Source: Company Data, PL Research

It was satisfying to see broad-based growth with non-top 10 clients participating in the company's growth, even as top client grew a mere 1% QoQ



Source: Company Data, PL Research

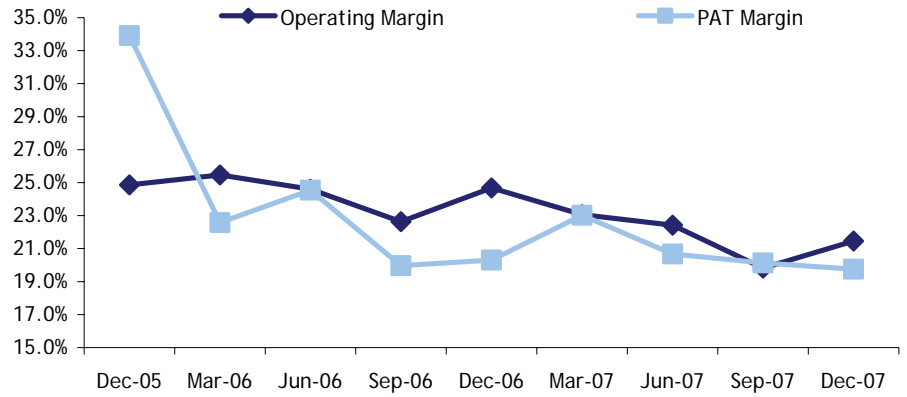
Operating profit grew a robust 17.0% QoQ



Source: Company Data, PL Research

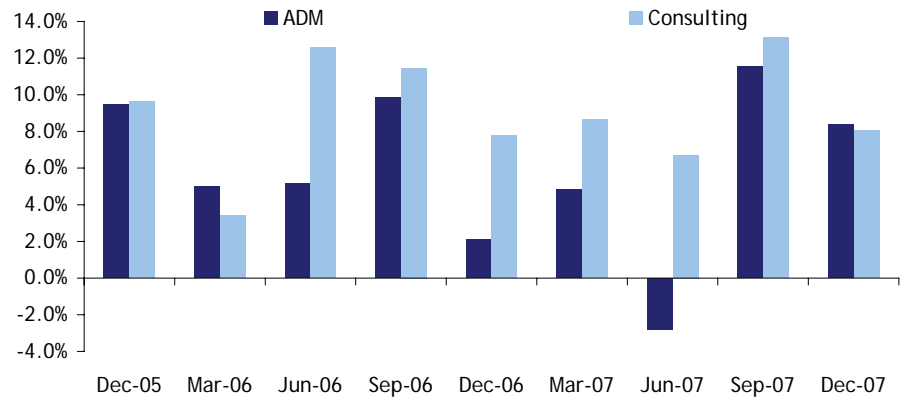


Operating profit margin expanded 164 bps on lower costs, while PAT margin declined by 38bps on account of lower other income and higher interest outflow...



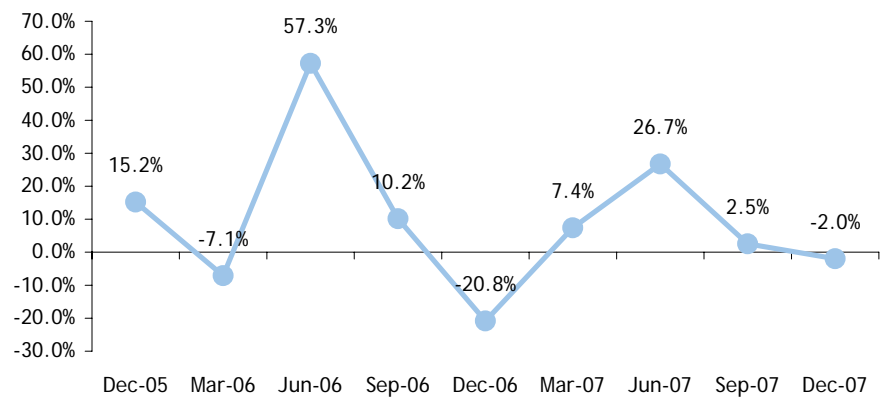
Source: Company Data, PL Research

While ADM and Consulting (EBS) grew over 8%



Source: Company Data, PL Research

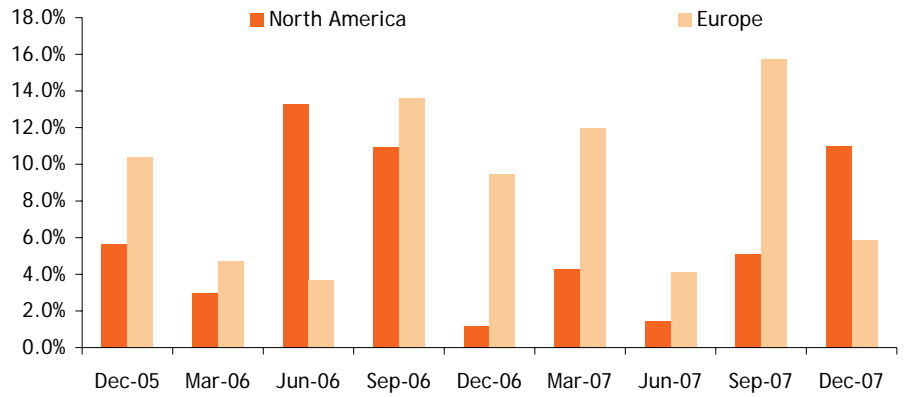
IMS, considered to be a major growth area, surprisingly declined 2% QoQ



Source: Company Data, PL Research

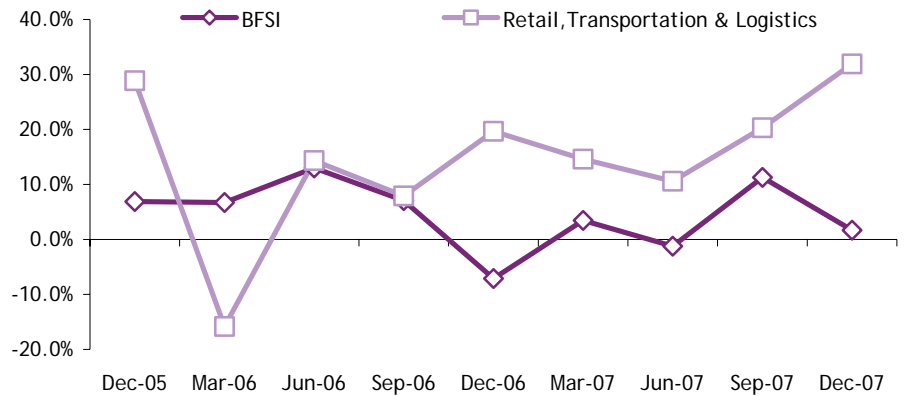


Growth was observed across all geographies -US grew over 11% and Europe 5% QoQ



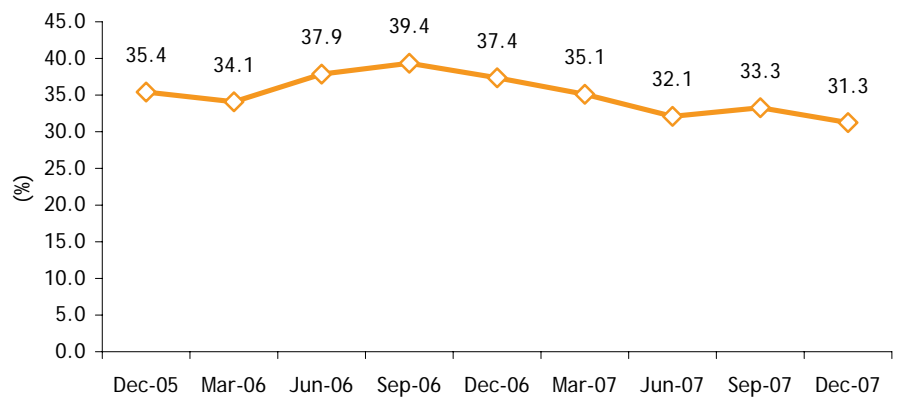
Source: Company Data, PL Research

Amongst verticals, BFSI managed a modest 1.7% growth QoQ, while Retail & Transportation acted as growth engines with over 31% QoQ growth



Source: Company Data, PL Research

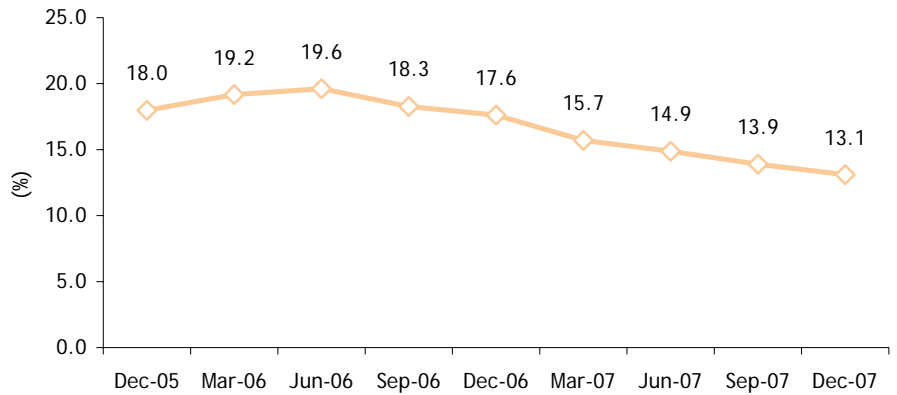
Breaking away from peer group pattern, the % of fixed price contracts showed a surprising downward trend of 2% QoQ



Source: Company Data, PL Research



Attrition rate over the past few quarters have declined, making Satyam's attrition rate amongst the lowest in the industry



Source: Company Data, PL Research

Key operating metrics

(Rs m)

Y/e March	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
US\$5m customers	49	46	51	54	54	57	65	75	79
US\$10m customers	25	27	33	32	32	35	36	40	49
New customers added	35	22	34	35	34	35	29	37	32
Active clients	452	469	489	504	521	538	551	577	598
Receivable days	75	72	77	80	82	87	90	92	89
Total employees	23,432	26,511	27,634	31,659	34,405	35,670	38,386	41,423	44,847



## Q3 FY08 result overview

(Rs m)

Y/e March	Q3FY08	Q2FY08	QoQ gr. (%)	Q3FY07	9MFY08	9MFY07	YoY gr. (%)
Net sales	21,956	20,317	8.1	16,611	60,575	47,059	28.7
Total expenses	17,244	16,290	5.9	12,511	47,733	35,784	33.4
Software development	13,813	13,034	6.0	9,681	37,912	27,834	36.2
Others	3,431	3,256	5.4	2,830	9,821	7,950	23.5
Operating profits / EBITDA	4,712	4,027	17.0	4,100	12,842	11,275	13.9
Depreciation	423	391	8.3	394	1,201	1,131	6.2
EBIT	4,289	3,636	17.9	3,706	11,641	10,144	14.8
Interest	81	42	94.3	32	156	85	83.8
EBT before other income	4,208	3,595	17.1	3,674	11,485	10,059	14.2
Other income	705	1,105	(36.2)	102	2,442	1,129	116.4
PBT	4,913	4,700	4.5	3,776	13,927	11,188	24.5
Tax	576	609	(5.4)	403	1,717	1,078	59.3
<i>Tax rate (%)</i>	<i>11.7</i>	<i>13.0</i>		<i>10.7</i>	<i>12.3</i>	<i>9.6</i>	
PAT before extraordinary	4,336	4,091	6.0	3,372	12,210	10,110	20.8
Extraordinary	-	(0.0)		-	(0.0)	(1.2)	
PAT after extraordinary	4,336	4,091	6.0	3,372	12,210	10,112	20.8
<b>Key ratios</b>							
<i>GPM (%)</i>	<i>37.1</i>	<i>35.8</i>	<i>1.2</i>	<i>41.7</i>	<i>37.4</i>	<i>40.9</i>	<i>(3.4)</i>
<i>OPM (%)</i>	<i>21.5</i>	<i>19.8</i>	<i>1.64</i>	<i>24.7</i>	<i>21.2</i>	<i>24.0</i>	<i>(2.8)</i>
<i>NPM (%)</i>	<i>19.8</i>	<i>20.1</i>	<i>(0.4)</i>	<i>20.3</i>	<i>20.2</i>	<i>21.5</i>	<i>(1.3)</i>
Adjusted EPS (Rs)	6.3	6.0	6.0	4.9	17.8	14.8	20.8



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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