

**PATNI COMPUTER SYSTEMS***Wins large deal from Universal American*

Patni Computer Systems (Patni) has bagged the largest deal in its history—a five year multi-million dollar deal to provide end-to-end policy administration services to **Universal American** (UA; a US health insurance company). Further, as part of the deal, Patni will acquire CHCS Services, a wholly owned subsidiary of UA with technologies in the healthcare insurance segment.

■ Signals entry into healthcare insurance space

This deal creates a new centre for Patni in Pensacola, Florida and also a new business vertical in the healthcare insurance space (as a third-party administrator (TPA)). It enhances Patni's existing BPO capabilities to deliver end-to-end platform-based solutions and TPA services to insurance providers' back-office transactions. It is also the first major deal for an Indian services provider in the healthcare segment after the Obama administration passed the healthcare reform bill.

■ Enough cash on hand

Patni has cash reserves of USD 440 mn (Dec 2009), which it plans to use for acquisitions; the company is also open to secure deals involving takeover of employees and assets with upfront payment. The UA deal seems to be first of this kind (due to acquisition of UA's subsidiary).

■ Our take: Adds 6-7% to earnings

Financial details of the deal have not been disclosed, but Patni had earlier stated that it is in final stages of negotiating two large deals (upwards of USD 200 mn).

We estimate, assuming USD 250 mn revenue for five years and incremental USD 50 mn per year (with 19% EBTIDA margins) will add ~6-7% to CY10E EPS of INR 42.2. Currently, the stock, at INR 550, trades at P/E of 13.0x CY10E EPS (pre revised) and 12.8x CY11E earnings. We maintain our **'HOLD'** recommendation on the stock. On a relative return basis, the stock is rated **'Sector Underperformer'**.

Financials

Year to December	CY08	CY09	CY10E	CY11E
Revenues (INR mn)	31,170	31,620	32,905	35,483
Rev. growth (%)	15.8	1.4	4.1	7.8
EBITDA (INR mn)	4,899	6,090	6,366	6,858
Net profit (INR mn)	4,380	5,723	5,608	5,731
Share outstanding (mn)	136	130	133	133
Diluted EPS (INR)	32.3	43.9	42.2	43.0
EPS growth (%)	(6.7)	36.2	(3.9)	1.8
Diluted P/E (x)	17.1	12.5	13.0	12.8
EV/EBITDA (x)	12.2	8.4	7.3	6.2
ROAE (%)	15.7	18.3	15.2	13.6

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Reuters: PTNI.BO Bloomberg: PATNI IN

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 550
52-week range (INR)	:	594 / 149
Share in issue (mn)	:	129.2
M cap (INR bn/USD mn)	:	71 / 1,603
Avg. Daily Vol. BSE/NSE ('000):	:	744.7

SHARE HOLDING PATTERN (%)

Promoters*	:	46.5
MFs, FIs & Banks	:	7
FIIIs	:	12
Others	:	34.4
* Promoters pledged shares (% of share in issue)	:	NIL

PRICE PERFORMANCE (%)

	Stock	Nifty EW Technology Index
1 month	(3.3)	0.5 (2.5)
3 months	23.1	9.4 7.7
12 months	266.2	53.0 126.5

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