Batlivala & Karani

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WE UNDERSTAND MONEY

REINITIATING COVERAGE

MID CAP

Share Data

Market Cap.	Rs 82.3 bn (US$ 1,704 mn)
Price	Rs 70
Target Price	Rs 80
BSE Sensex	17,065
Reuters	SATY.BO
Bloomberg	SCS IN
6M avg. daily turnover (US$ mn)	11.7
52-week High/Low (Rs)	114/54
Issued Shares	1,177 mn

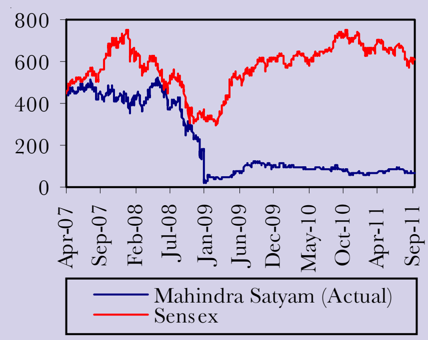
Valuation Ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	6.6	6.5
+/- (%)	57.2	(1.4)
PER (x)	10.6	10.7
EV/Sales (x)	0.9	0.8
EV/EBITDA (x)	6.4	5.5

Shareholding Pattern (%)

Promoters	43
FIIs	13
ADS	9
BFSI's	4
Public & Others	31

Relative Performance



Mahindra Satyam (Outperformer) 22 September 2011

"Rise" of the "Phoenix"

Mahindra Satyam (Satyam), the new addition in Mahindra and Mahindra group, is at an inflection point. The company has resolved most of its legal issues, reclaimed lost customers and built a strong management team, demonstrating its measures to get the company back in reckoning. The upward trend in financial and operating metrics and increasing client traction, make us believe that business momentum at Satyam will only get better, barring periods of macro uncertainty, which will impact the entire sector.

Year to March	FY10	FY11	FY12E	FY13E	CAGR (%)
P&L data (Rs mn)					**(FY11-13E)**
Revenue	54,810	51,450	61,947	69,207	16.0
EBITDA	5,548	4,551	8,857	9,882	47.4
Net profit	2,923	4,938	7,765	7,657	24.5
Margins (%)					
EBITDA	10.1	8.8	14.3	14.3	–
Net profit	5.3	9.6	12.5	11.1	–
Balance sheet (Rs mn)					
Total assets	55,891	61,214	61,802	74,042	10.0
Shareholders' funds	18,809	17,249	25,014	32,671	37.6
Per share data (Rs)					
Adjusted EPS	2.7	4.2	6.6	6.5	24.5
Returns (%)					
RoE	56.2	27.1	36.3	26.3	–
RoCE	15.9	18.2	28.2	24.6	–

- We believe Satyam is back on growth trajectory and is augmented by group, Mahindra's capabilities across different manufacturing verticals. In its three stage resurrection cycle, i) the company has stabilised its business, ii) done the necessary investments and in the third stage, it is about to "Rise" (latest brand positioning of the group), reaping the benefits of the first two stages.
- Rationalisation of SG&A costs, efficiency gains and increased offshore revenue contribution have already yielded significant margin expansion. We believe flattening of employee pyramid is the key margin lever available to absorb any margin decline due to wage inflation.
- We expect the company to post revenue CAGR of 16% and earnings CAGR of 25% over FY11-13E. At the current market price of Rs 70, the stock trades at 10.6x FY12E EPS of Rs 6.6 and 10.7x FY13E EPS of Rs 6.5. We initiate coverage on Mahindra Satyam with an Outperformer rating.

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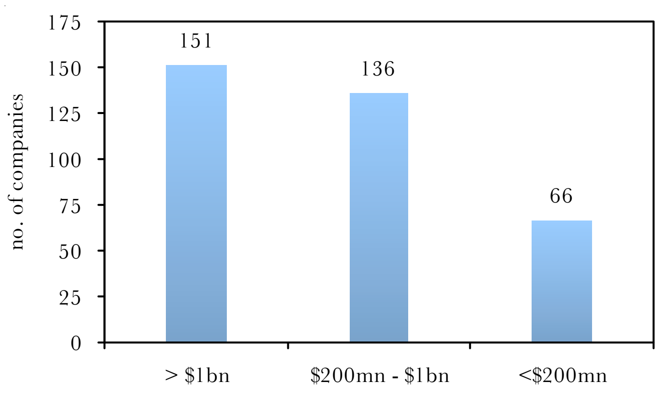
Analyst Declaration: We, Shradha Agrawal & Deepan Kapadia, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

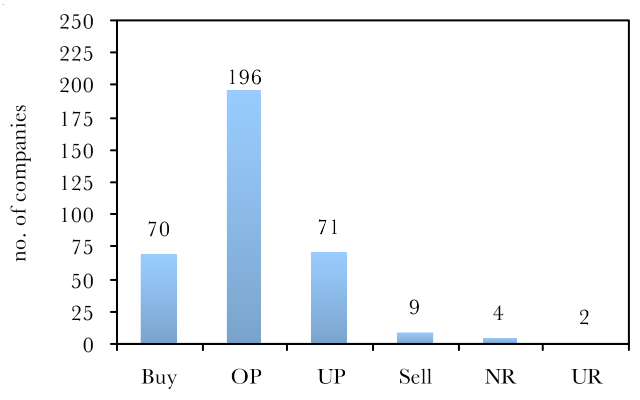
Index .... Page No.

B&K Universe Profile

By Market Cap (US$ mn)



By Recommendation



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B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

Investment arguments

Great act of clean-up

The most difficult and uphill task for the new management team at Satyam was to clean up the books of accounts of the earlier management. The erstwhile promoters had inflated assets by showing fictitious revenues and cash received from such revenues. The new management did a commendable job of cleaning up the balance sheet, which was the first significant positive step towards recovery. Before the re-statement of accounts, Satyam could not participate in some of the large deals (TCV> US$ 50 mn). This has now changed, with the company regaining even some of its lost customers in addition to adding new logos to its portfolio.

The "Big Bath"

One-off hits taken by the company

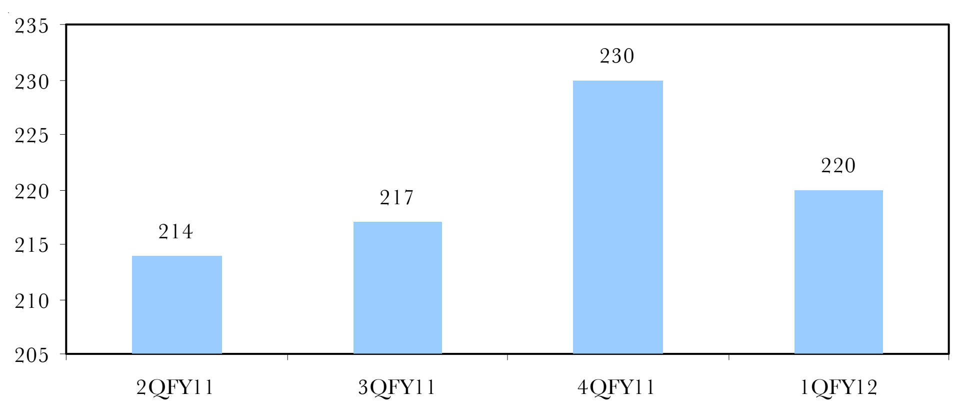
(Rs mn)	FY09	FY10	FY11
Expenses relating to restructuring/right sizing	–	934	–
Expenses related to forensic investigation and litigation support	832	1,068	201
Provision for doubtful debts, advances and impairment of assets	4,191	–	–
Provision for impairment losses in subsidiaries	7,719	2,167	520
Provision for contingencies	4,750	–	–
Prior period adjustments	62,428	–	–
Class action settlement	–	–	5,690
Total	**79,920**	**4,169**	**6,411**

Source: Company, B&K Research

Increasing client traction

Satyam witnessed a significantly high client attrition post the fraud committed by the erstwhile promoters. Post the new management taking over and restatement of accounts, the company has been able to participate in new requests for proposals (RFPs) and win new deals. The company has been able to reclaim ~8 of its lost customers and embargoes have been lifted at almost all accounts. Many of Satyam's existing customers like GE and GSK have extended their relationship with the company for periods ranging from three-five years. We expect a further build-up in business momentum in the coming quarters.

Active clients



Source: Company, B&K Research

Strengthening the senior leadership

Satyam had lost significant top level talent across verticals/service lines after the fraud, that moved on to competitors. The company has done a good job to fill in the vacancies arising out of these exits through internal promotions as well as outside hiring, demonstrating its measures to bring the company back on track. Satyam appointed heads for all verticals in late 2010 and is aggressively building up its top-level executive team to drive the company ahead.

Addition to the management team

Month of joining	Name	Role at Mahindra Satyam	Prior role
June 2011	Mr Sriram Papani	SVP & Global Head, Enterprise Business Solutions	Held leadership positions at Oracle and TCS.
March 2011	Mr Srirama Srinivasan	Vice President – Healthcare & Life Sciences	
February 2011	Mr Vasant Krishnan	CFO	SVP at Mahindra & Mahindra, COO of South Asian Real Estate, private equity fund, and has also acted as the CEO at Adani Group.
November 2010	Mr Lakshmanan Chidambaram	Head – Americas	VP sales – US, Canada of Syntel
November 2010	Mr Arvind Malhotra	Head – Strategic accounts, Public Services, Energy & Utility and Latin America business groups	EVP at Saber Corp
October 2010	Mr Manish Goenka	Head – Oracle Practice for Asia Pacific	Worked with Oracle Corporation in various capacities.
September 2010	Mr Kunihiko Higashi	Country Manager, Japan (spearheading overall operations, including sales, marketing, professional services & support)	Several senior management positions at SSA, Computer Associates, Cisco Systems People Soft, Cognos, Infor Global Solutions.
September 2010	Mr Gaurav Gupta	AVP – Strategic Partnerships in Europe for Aerospace and Defence sector	Worked with HCL Ltd. in UK as Director – Business Development.
August 2010	Mr Rasedi Mohamad	Senior Sales Manager, Malaysia	Worked with IBM and has >15 years of experience.
August 2010	Mr Azian Othman	Senior Sales Manager, Malaysia	Previous experience at HP, Logica and Teradata.
July 2010	Mr Roger Van Lier	Business Development Executive – Benelux	With >15 years of experience in ICT.
May 2010	Mr Pranab Choudhary	Country Head – Thailand	Pranab has >10 years experience in the APAC IT industry in various technical and operational positions.
May 2010	Mr Rahul Girotra	Head – SAP, APAC	More than 15 years of experience across SAP sales, consulting in IMS.
May 2010	Mr Darin Mckay	Country Head – New Zealand	Previous stints at Fujitsu, Vignette Corporation and was entrusted with setting up the company in New Zealand region.

Month of joining	Name	Role at Mahindra Satyam	Prior role
May 2010	Mr Ram Ramachandran	Head Sales - ASEAN	Worked with HCL Tech for over 10 years and held key executive positions in Malaysia, Singapore, Australia and US.
December 2009	Mr Bobby Gupta	Business Development head for Australia New Zealand	Previously IBM's APAC head for telecom expense management.
December 2009	Mr Gautam S. Kaji	Independent Director (also member of Audit Committee)	Founder and Chairman of Centennial Group Inc. He has also served as MD of Operations and Chairman of World Bank.
November 2009	Mr Hari Narayanan	Business Development head for Japan	Country manager of SRM Technologies, Japan.
November 2009	Mr Sudhir Nair	SVP & Head of Infrastructure Services	AVP – infrastructure mgmt services at Infosys.
October 2009	Mr Vijayanand Vadrevu	SVP – Strategic Initiatives	He has over 17 years experience with Wipro. For the last three years, he worked as VP and head for life sciences vertical solutions for three years.
October 2009	Mr Vikram Nair	Head – Europe	Has held Tech Mahindra's European operations outside of BT since August 2005.
October 2009	Mr Aloke Palsikar	Head – Central Europe and Nordics	Previous employee of Satyam and other work experience with L&T Infotech as Head of Marketing (European region)
October 2009	Mr Suneel Unni	Head – South Europe and Benelux region	Vast experience across industries like Telecom, Consumer Products and IT. He has been a former employee of Satyam.
October 2009	Mr Gulta Blake	Head – BFSI, Retail and Public sector business in UK and Ireland	Former employee of Satyam.

Source: Various Media articles, Company, B&K Research

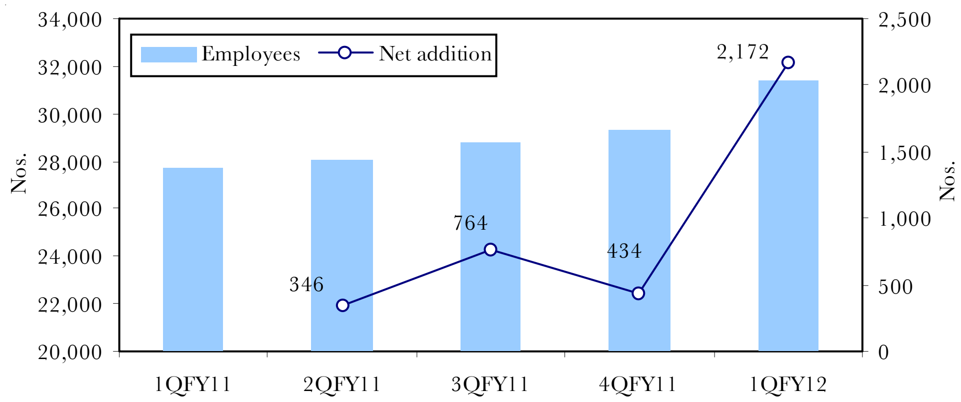
Improving financials

The company's ability to participate in deals after it published its financials, has led to robust revenue growth in the last one year. Satyam's revenue CQGR over the last three quarters has been strong at 5.7%, matching the growth rates of industry leader TCS. The company has also improved its margins by ~900 bps over the last three quarters, led by rationalisation of SG&A, efficiency gains and increase in offshore revenue mix. Improving financials indicate the company is back on its growth trajectory.

Strong hiring target indicates strong growth momentum

Satyam added 2,266 employees in FY11 to take the total headcount to 29,266. For the current fiscal, Satyam is targeting to add 5,000 freshers (gross) alone. In addition to this, the company will continue with its need based lateral hiring. In 1QFY12 alone, Satyam reported net addition of 2,172 employees. We believe the strong hiring momentum indicates a healthy order book.

Strong hiring



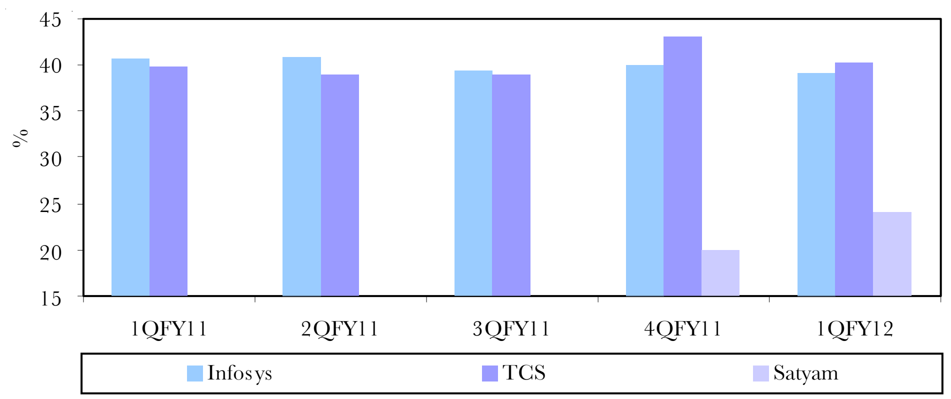
Source: Company, B&K Research

Margin levers – Most but not all exhausted, yet

Correction of employee pyramid

We believe better employee pyramid is the key margin lever available to the company, after having effectively utilised other levers viz. utilisation, offshore revenue contribution and SG&A rationalisation. Satyam's employee base had deteriorated significantly post the scandal and during the upturn, the company had to hire more laterals and sub-contractors to fill in the gap of immediate demand, leading to employee mix getting skewed more towards laterals. The proportion of employees with less than three years of work experience is only ~25% at Satyam versus ~40-45% for larger peers. For FY11, the company has indicated a gross hiring target of 5,000 freshers, which we believe will help in correcting the pyramid.

Proportion of employees with less than three years of work experience



Source: Company, B&K Research

Enterprise application services – good to have in good times

Hired 1,700+ employees in EBS in 3Q and 4QFY11

Satyam is known for its strengths in ERP implementation, with this service line contributing ~40-45% to its revenue. We believe certain components in ERP, like package implementation entail better pricing and the maintenance component ensures revenue stickiness. A rising contribution from ERP, which is more likely in a robust macro environment, would suggest an improvement in the company's portfolio blended pricing. The company added 60 new logos in Enterprise Business Solutions (EBS) in FY11 and has about 11,000 employees working in this service line. However, ERP spends are discretionary in nature and are the first to get impacted during budget cut.

Major legal issues resolved

Satyam had to face a few legal lawsuits pursuant to the detection of fraud and the claims made by various stakeholders. The new management has made considerable progress in successfully resolving majority of the issues, with the key pending issues being: Aberdeen Class Action and IT department claims. Once these pending issues get resolved, it will further reduce the uncertainty surrounding the company's cash flows and future liabilities.

Non-tax related legal issues status

Claim	Details	Status
Alleged Advances	37 companies filed for alleged advances amounting to Rs 12,304 mn. The legal notices also claim compensation @ 18% pa from the date of advance till date of repayment.	Matter is under investigation by various Government Agencies. Satyam has provided for this amount separately as contingent liability.
Class Action Complaint	Lead plaintiffs claimed compensation for the losses arising out of their investment in company's common stock and American Depository Shares (ADS).	The case has been settled for US$ 125 mn and 25% of any net recovery that Satyam may in future obtain against any of the PWC-related entities. Satyam has already deposited the agreed amount in the Escrow account. The USDC has given the preliminary approval on the settlement agreement and the final one is pending.
Upaid Systems Limited	Upaid Systems filed for claim exceeding US$ 1 bn for fraud and forgery in addition to other punitive damages, fees and costs.	The case has been settled for US$ 70 mn. Satyam has already deposited the agreed amount in the Escrow account.
Aberdeen Complaint	20 investors claimed compensation for the losses arising out of their investment in the company's common stock and ADS. Recovery sought is over US$ 68 mn.	Satyam is contesting the above lawsuit and the outcome is not determinable at this stage.

Source: Company, B&K Research

Expanding delivery footprint

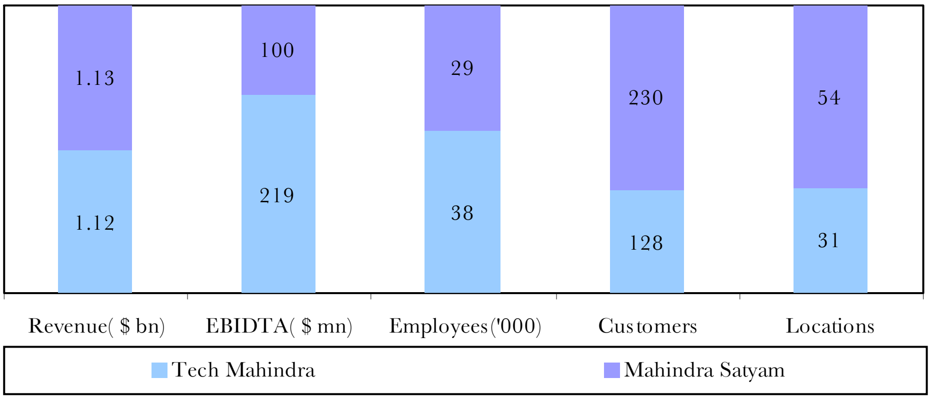
Satyam has global development and delivery centers in US, Canada, Brazil, the UK, Hungary, Egypt, UAE, India, China, Malaysia, Singapore, and Australia. The company has been expanding its delivery footprint with CoE in Bangalore and Hyderabad and data center in Singapore. The company has also expanded delivery footprint in UK by opening a new delivery centre in Eindhoven, Netherlands.

Strong combined entity – Mahindra Satyam and Tech Mahindra

We see the combined entity, with revenue size of US$ 2 bn+, and presence across verticals as a strong formidable player in the industry. Satyam has a strong presence in ERP which TechM can cross sell to its telecom clients while Satyam can explore TechM's expertise in telecommunications to offer mobility solutions to its enterprise customers. The partnership has already resulted in some new wins for Satyam in the last year.

Satyam could also benefit from TechM's presence in Infrastructure Management Services (IMS) and BPO, two key growth segments. In addition, TechM could leverage Satyam's significant sales presence in countries like Australia and New Zealand, where TechM does not have a significant footprint. Also, we believe combining shared functions like HR, finance and accounting, learning & development, etc. could help further leverage synergies.

Combined strength of Satyam and Tech Mahindra at FY11 end



Source: Company, B&K Research

Satyam' strength in manufacturing complemented by group's manufacturing strengths

Satyam caters to 25 of Fortune 500 companies in manufacturing vertical

Satyam has legacy strength in manufacturing vertical (accounting for 32% of its revenue) and its manufacturing/engineering competency is now further complemented by Mahindra group's manufacturing strengths. Satyam has end-to-end capabilities, from design to manufacturing, across automotive and aerospace and is further making investments in embedded engineering services to capture the avionics, medical devices and auto electronics space.

Other group synergies

End-to-end value proposition "Art-to-Part"

Apart from leveraging on the Mahindra group's capabilities in manufacturing, Satyam is also looking to explore synergies with various group companies having similar interests.

- CanvasM (80% TechM subsidiary) which specialises in telecom Value Added Services.
- BristleCone which specialises in supply chain consulting and IT services.

Satyam is also trying to leverage domain expertise and client relationships of M&M's other group companies, like Mahindra Systech and Mahindra Aerospace.

Valuations

Mahindra Satyam is back on growth trajectory after having won the lost confidence of its clients and having resolved majority of the legal issues. The company has exhibited a strong performance over the last four quarters, with industry leading revenue growth rate and substantial margin improvement. With the company's improved ability to participate in large RFPs, we expect the revenue momentum to sustain. However, we believe much of the margin improvement has already happened and improvement from hereon would be an uphill task. The company has effectively rationalised its SG&A expenses and has shown significant efficiency gains over the last four quarters. Correction of employee pyramid is the only significant lever available to the company to combat the pressure of wage inflation, in our view.

We have built in a US$ revenue CAGR of 16% over FY11-13E, which is in-line with its peers' growth of 12-18%.

- For FY12, we expect the company to show US$ revenue growth of 20% YoY, which bakes in a 3.8% CQGR over 1QFY12E's exit revenue of US$ 320 mn. Strong hiring guidance of 5,000 freshers and need based lateral hiring, gives us confidence that the company will meet our revenue expectation.
- Our US$ revenue growth assumption of 11% for FY13 implies a CQGR of 2.7%, which we believe is a reasonable assumption in the current environment, given Satyam has a higher exposure to ERP at ~40-45%, which is relatively more discretionary in nature.

While we expect EBITDA margins to improve by 550 bps to 14.3% in FY12 over FY11, we are building in stable margins for FY13E. We have built in tax rate increase to 17% and 24% in FY12E and FY13E, respectively, from 10% in FY10. Because of the sharp increase in tax rate (due to STPI benefits expiry), our EPS CAGR over FY11-13E works out to be ~25% despite EBITDA CAGR of 47%, over the same time frame.

Revenue CAGR

(%)	FY09-11	FY11-13E
IInfosys	13.8	15.3
TCS	16.7	18.3
Wipro	9.9	12.1
HCL Tech	27.5	16.3
Satyam	(22.6)	15.2

EBITDA CAGR

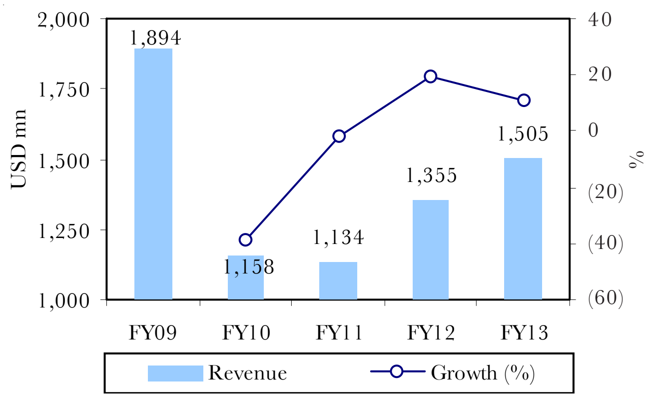
(%)	FY09-11	FY11-13E
Infosys	11.6	11.3
TCS	24.9	14.3
Wipro	21.5	7.7
HCL Tech	8.2	15.3
Satyam	–	47.4

PAT CAGR

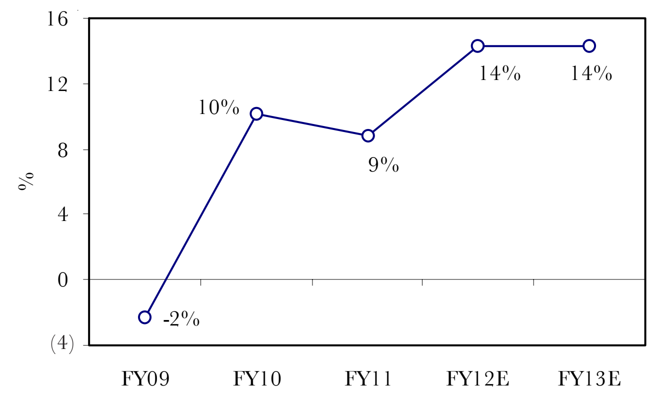
(%)	FY09-11	FY11-13E
Infosys	6.7	12.7
TCS	29.6	13.3
Wipro	17.9	5.7
HCL Tech	15.5	20.6
Satyam	–	24.5

Satyam's stock has corrected sharply by ~40% from its one year high of Rs 114 because of overall market weakness. At the current valuations, the stock is attractively priced and we initiate coverage on Mahindra Satyam with an Outperformer rating. We have assigned a P/E multiple of ~12x to our EPS estimate of Rs 6.5 for FY13 to arrive at the target price of Rs 80. Our target multiple is at a 35% discount to our target multiple for industry leader, TCS. Key risk to our call is an unfavorable swap ratio with Tech Mahindra.

Revenue growth

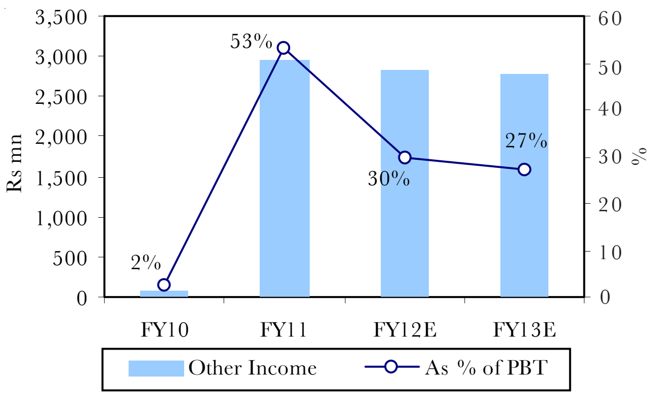


EBITDA margin movement

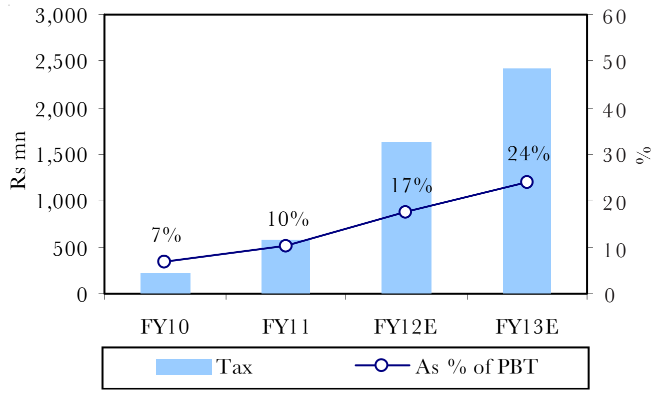


Source: Company, B&K Research

High Other Income

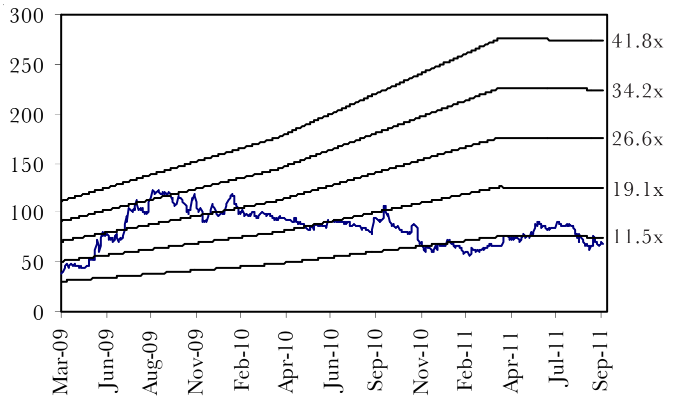


Tax movement

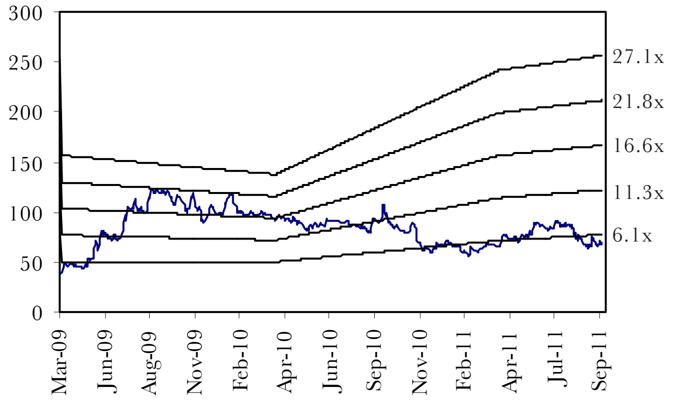


Source: Company, B&K Research

PER Band



EV/EBITDA Band



Source: B&K Research

Relative valuation

Company	Infosys	TCS	Wipro	HCL Tech	Satyam	TechM	Patni
Year end	March	March	March	June	March	March	December
CMP (Rs)	**2,436**	**1,044**	**357**	**405**	**70**	**650**	**297**
M.cap (US$ mn)	**28,951**	**42,279**	**18,124**	**5,783**	**1,704**	**1,710**	**825**
Revenue in FY11/CY10 (US$ mn)	**6,041**	**8,186**	**5,221**	**3,545**	**1,134**	**1,127**	**702**
USD revenue growth YoY (%)							
FY11	25.7	29.1	18.9	31.1	(2.1)	15.4	7.0
FY12E	18.0	23.5	13.5	18.2	19.5	6.8	4.9
FY13E	12.7	13.3	10.7	14.4	11.0	10.3	5.6
CAGR FY11-13E	15.3	18.3	12.1	16.3	15.2	8.5	5.3
EBITDA growth YoY (%)							
FY11	14.2	28.9	9.0	5.8	(18.0)	(11.4)	1.5
FY12E	10.0	15.5	5.0	13.0	94.6	(5.2)	(37.9)
FY13E	12.6	13.0	10.5	17.6	11.6	7.7	35.3
CAGR FY11-13E	11.3	14.3	7.7	15.3	47.4	1.0	(8.3)
EPS (Rs)							
FY11	119.5	44.4	21.9	23.3	4.2	58.6	43.0
FY12E	133.7	50.7	22.3	27.5	6.6	48.6	23.7
FY13E	151.8	57.0	24.4	34.0	6.5	52.8	33.2
EPS growth (%)							
FY11	9.6	26.0	15.0	30.0	57.0	0.8	21.8
FY12E	11.9	14.2	2.0	17.7	57.2	(17.0)	(44.8)
FY13E	13.6	12.4	9.5	23.6	(1.4)	8.7	40.0
CAGR FY11-13E	12.7	13.3	5.7	20.6	24.5	5.3	(12.1)
RoE (%)							
FY11	26.6	36.9	24.4	20.7	27.1	23.6	17.1
FY12E	25.5	34.4	21.0	20.7	36.3	16.8	6.5
FY13E	24.4	31.5	20.0	22.0	26.3	15.8	6.5
P/E (x)							
FY12E	18.2	20.6	16.0	14.8	10.6	13.4	6.7
FY13E	16.0	18.3	14.6	11.9	10.7	12.3	6.1
EV/Sales (x)							
FY12E	3.7	4.3	2.2	1.5	0.9	1.7	0.7
FY13E	3.2	3.7	1.9	1.3	0.8	1.4	0.5
EV/EBITDA (x)							
FY12E	12.3	15.2	11.7	9.3	6.4	9.4	4.8
FY13E	10.5	13.1	10.2	7.8	5.5	8.2	2.8

Possible swap ratios with Tech Mahindra

TechM has always indicated the intention to merge Mahindra Satyam and TechM ever since it acquired ~42.7% stake in the company in April 2009. The management expects merger to be completed within next one year. We believe merging TechM into Satyam would be easier, given a higher promoter holding in TechM (~71%). Also, given a diversified service portfolio and a wider client base of Satyam, it would be better to keep Satyam the surviving entity, we believe. We, however, believe that merger between the two entities would be in favour of TechM on account of higher promoter holding while the promoters' stake in Satyam routed through TechM is ~30%. Below are the scenarios for the possible swap ratio between the two entities and our analysis suggests that swap ratio below 8.5-9.5 (number of Satyam shares for every share of TechM, assuming Satyam to be the surviving entity) will be perceived negatively by the shareholders of TechM.

The possible swap ratio

No. of shares of Mahindra Satyam (Satyam)	1,176
No. of shares of Tech Mahindra (TechM)	127
CMP of SCS (Rs)	70
CMP of TechM (Rs)	650
Mcap of Satyam (Rs mn)	82,348
Mcap of TechM (Rs mn)	82,806
B&K's fair value of Satyam	80
B&K's fair value of TechM	707
Scenario 1: Mahindra Satyam takes over Tech Mahindra at the CMP	
No. of new Satyam shares to be issued to buy TechM	1,183
No. of outstanding shares of TechM currently	127
Swap ratio (for every share of TechM)	**9.3**
Scenario 2: Tech Mahindra takes over Mahindra Satyam at the CMP	
No. of new TechM shares to be issued to buy Satyam fully	126
TechM owns 42.7% of Satyam	502
Remaining shares to be bought by TechM	674
No. of new TechM shares to be issued to buy the remaining minority stake in Satyam	72
Swap ratio (for every share of Satyam)	**0.11**
Scenario 3: Mahindra Satyam takes over Tech Mahindra at B&K's fair values of both these companies	
No. of new Satyam shares to be issued to buy TechM	1,122
No. of outstanding shares of TechM currently	127
Swap ratio (for every share of TechM)	**8.8**

Investment concerns

High exposure to manufacturing and ERP – risky in difficult times?

My strength and weakness is manufacturing

Mahindra Satyam derives ~40-45% of its revenue from ERP, which has a higher exposure to manufacturing at 36%, thus taking the company's overall exposure to this vertical up to ~32%, higher than the peers' concentration of 10-20%. While it is difficult to comment on which vertical (BFSI, manufacturing or telecom) will be impacted the most in macro slowdown, the weak PMI data across indicates certain slowdown in manufacturing sector. This might hurt Satyam more, as its exposure to this sector is higher, compared to peers.

Also ERP spends are discretionary in nature and are the first to get impacted during budget cut. Thus Satyam's higher exposure to ERP puts it in a more vulnerable position than its peers.

Majority margin levers already utilised

We believe company has exhausted most of its operating levers

We note here that SG&A in Satyam is excluding salary cost

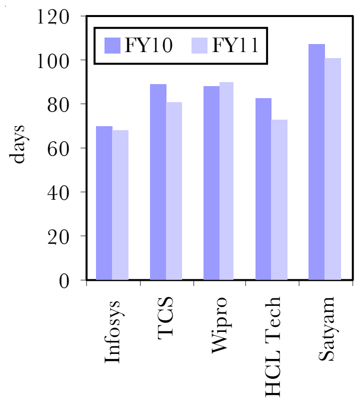
a) **SG&A:** Satyam has been able to eliminate most of its redundant SG&A expenses over quarters and SG&A expenses as a % of revenue has come down to 15% from 18% four quarters back. We believe SG&A percentage for Satyam has reached industry average of ~12-16% and it would be difficult to further reduce the cost materially.

b) **Utilisation:** Current utilisation including trainees at 74% is closer to industry average and the management has expressed its comfort in operating at utilisation of ~75%, so we believe this lever has been significantly utilised by the company already.

c) **Attrition:** Attrition rate for the company has come down from 25% in 1QFY11 to 17% in 1QFY12. We believe improvement in attrition is not a significant source of operating leverage available to the company now. The company, on the contrary has deferred its annual salary increment cycle by a quarter and this we believe could lead to some short term spike up in attrition in 2Q.

High DSO

DSO including unbilled revenue (average)



Source: Company, B&K Research

Mahindra Satyam's DSO (including unbilled receivables) at 101 remains high compared to peers' average of 70-90. Unbilled revenue is high at ~6% of revenues, leading to a higher DSO. We believe the high DSO could be because of relatively higher business from India where the collection cycle is longer.

Unfavourable swap ratio

TechM has always indicated the intention to merge Mahindra Satyam and TechM ever since it acquired ~42.7% stake in the company in April 2009. Post getting the required regulatory approvals, the management expects merger to be completed within next one year. We believe that merger between the two entities would be in favour of TechM on account of higher promoters' (MBT) holding at ~71% while the promoters' stake in Satyam routed through TechM is ~30%.

Contingent liability and other pending issues

Satyam has been able to resolve majority of the legal issues but there are still some pending cases, currently under dispute, which could strain the company's balance sheet at a later date, if the ruling is not in Satyam's favour. Recently, Satyam received notices from Income Tax (IT) department claiming Rs 6.2 bn on past assessments for 2003-04 to 2008-09 rejecting tax credits on fictitious income. The company challenged the demand but was ordered by Supreme Court on 15 April 2011 to submit a Bank Guarantee for the same amount. Again, the company received notices from IT department claiming Rs 10.3 bn for assessment year 2002-03 and Rs 10.7 bn for 2007-08, disallowing the exemptions claimed.

Will continue to be a source of concern

Net contingent liability of Satyam (Rs mn)

Department	Amount claimed	Provision	Net contingent liability
Income Tax	27,325	4,047	23,278
Sales Tax	4,606	–	4,606
Service Tax	202	–	202
Tax on overseas department	152	–	152

Source: Company, B&K Research

Details of claims by various tax authorities

Nature of dues	Forum where dispute is pending	Period to which the amount relates	Amount claimed (Rs mn)
Income Tax	Income Tax Appellate Tribunal	2007-08	2,562
Income Tax	Income Tax Appellate Tribunal	2006-07	812
Income Tax	Commissioner of Income Tax Appeals	2004-06	1,441
Income Tax	Income Tax Appellate Tribunal	2002-04	1,349
Income Tax	Commissioner of Income Tax Appeals	2001-02	8
New York State Income Tax	New York State Department of Taxation and Finance	2005-07	93
California State Income Tax	Franchise Tax Board, California	2003-05	54
Pennsylvania StateIncome Tax	Commonwealth of Pennsylvania - Department of Revenue	1998-2005	3
Sales Taxes (includes penalty)	High Court of Andhra Pradesh	2007-09	52
Service Tax (includes penalty)	Central Excise and Service Tax Appellate Tribunal	2004-05 to 2008-09	202
Income Tax	Income Tax Appellate Tribunal	2002-03	10,377
Income Tax	Income Tax Appellate Tribunal	2007-08	10,757
Sales Taxes	Tamil Nadu Sales Tax Department	1999-2000 to 2004-05	4,554

Source: Company, B&K Research

Industry risks

a) **Cross currency movement:** Satyam derives majority of its revenue from international markets and its earnings are sensitive to fluctuations in currency. We have assumed USD/INR rate of 46 for FY12 and FY13E. Any appreciation in rupee against the dollar will have a negative impact on our estimates. Unfavourable movement of other currencies like GBP and Euro will also have a bearing on our numbers.

b) **Further deterioration of macro environment:** The total contract value for 2Q11 was US$ 19 bn, 40% lower than same period last year and lowest quarterly figure since 1Q03 as per research firm, Ovum. Decrease in spends by clients could hamper growth of the industry and Mahindra Satyam, as well.

Company background

Mahindra Satyam, erstwhile Satyam Computer Services, was incorporated in 1987 by Mr B. Ramalinga Raju. Satyam, under his leadership, was regarded as the fourth largest Indian IT services company, until the promoters confessed fraud of inflating the company's balance sheet. Satyam Computers was then acquired by Tech Mahindra in April 2009; through a bidding process conducted by the Government of India and was subsequently renamed as Mahindra Satyam. Mahindra Satyam is now part of the large conglomerate Mahindra group which has interests in automotive, equipment, defense, hospitality, etc.

Chronology of events after the scam

15 November 2010: The new management does a commendable job of restating Satyam's financials; the company gets back on growth trajectory.

16 April 2009: Tech Mahindra wins the bid for Satyam; infuses ~US$ 600 mn into the company for a 42.6% stake.

09 March 2009: Board and advisors outline transparent and competitive bidding process.

02 March 2009: Indian regulators enable strategic acquisition process through changes to existing norms.

14 January 2009: Deloitte and KPMG appointed to restate accounts.
Legal, management and investment advisors appointed.

10 January 2009: Indian Government helps form new Board of Directors, consisting of eminent business leaders.

07 January 2009: Ramalinga Raju confesses of inflating the balance sheet.

Three stage transformational journey

Successful execution of strategy

2009-10: Stabilise → **2010-11: Invest** → **2011-12: Growth**

2009-10: Stabilise
- Governance
- Financials
- Cost Control
- Stem Customer attrition

2010-11: Invest
- Build customer and associate confidence
- Clear legal hurdles
- Get current in financials
- Put right leadership in place

2011-12: Growth
- Focus on profitable growth
- Growth across portfolio
- Greater vertical and regional focus
- Thrust on matured services

Source: Company, B&K Research

Management

The new management team, under the leadership of Mr C.P. Gurnani, has over the last two years, done a commendable job of winning back client confidence, resolving pending legal issues and strengthening the executive team. The management has also made public its intent to merge both TechM and Satyam, after getting the required regulatory approvals

Key management personnel

Name	Designation	Prior experience
Mr Vineet Nayyar	Chairman	MD of HCL Corporation and Vice Chairman of HCL Technologies. In addition, he is the Vice Chairman of Tech Mahindra
Mr C.P. Gurnani	CEO	Headed Tech Mahindra Global Operations.
Mr Vasant Krishnan	CFO	SVP at Mahindra & Mahindra, CFO of Adani Group and COO of South Asian Real Estate PE fund.
Mr Hari T	Chief Marketing Officer (CMO) and Chief People Officer (CPO)	Head - Human Resources at DSQ Software.
Mr Atul Kunwar	President	Headed Tech Mahindra's Asia-Pacific, R&D services.
Mr Vijayanand Vadrevu	Senior Vice President – Strategic Initiatives	Headed Life Science Vertical Solutions at Wipro.
Mr A.S. Murty	Chief Technology Officer	Has been with Satyam from 1994.
Mr Rakesh Soni	Chief Operating Officer	EVP – Perot System.
Mr Manish Mehta	Chief Solutions Officer – Verticals Global Head, Consulting and Enterprise Solutions	Chief Delivery Officer at Patni.

Source: Company, B&K Research

Satyam provides the entire gamut of services ranging from application integration, consulting and enterprise business solutions, engineering design support to e-commerce and consulting. Satyam is particularly strong in ERP and amongst verticals; it has a strong foothold in manufacturing. The parentage of Mahindra will further enhance its engineering skills in manufacturing.

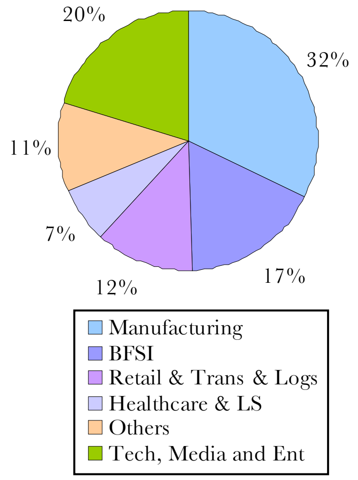
Shareholding

Tech Mahindra through its subsidiary, Venturebay Consultant Pvt. Ltd., holds the promoter stake in the company. The institutional stake has increased from 12.6% in 4QFY11 to 16.8% in 1QFY12.

Shareholding pattern (%)

Promoter	42.6
Institutional	16.8
Others	31.2
Custodian (Against Depository Receipts)	9.4

Revenue split



Source: Company, B&K Research

Vertical concentration

BFSI, telecom and manufacturing still account for the chunk of revenues for the tier-1 vendors at ~65-70%. For Satyam, the contribution from manufacturing is higher at 32% versus 12-27% for its larger peers. In both FY10 and FY11, periods which capture the weakness post Lehman crisis and recovery thereon, the growth rate in manufacturing lagged compared to BFSI, for the tier-1 vendors. While BFSI might be the first vertical to get impacted in the current slowdown led by European banks, we believe the impact will flow down to manufacturing, too, if the situation worsens further.

Growth rate in BFSI

(% YoY growth)	FY08	FY09	FY10	FY11
Infosys	29	6	3	32
TCS	36	4	11	29
Wipro	–	26	2	23
HCL Tech	56	9	21	27

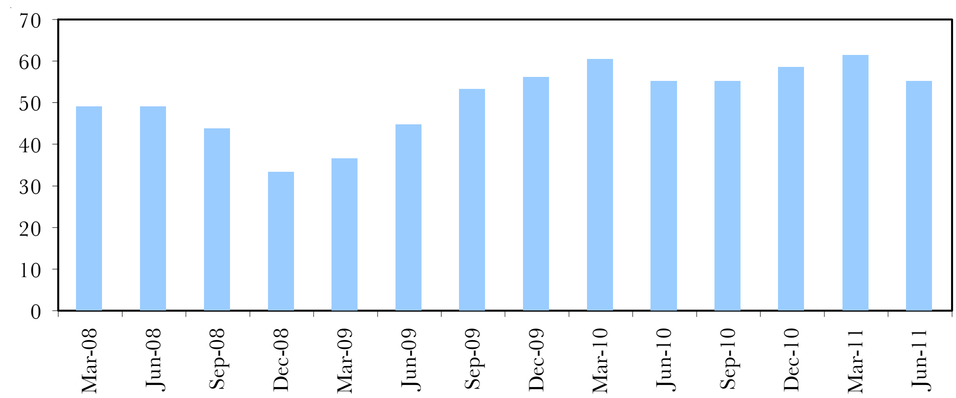
Growth rate in Manufacturing

(% growth)	FY08	FY09	FY10	FY11
Infosys	47	50	4	24
TCS	9	43	(16)	17
Wipro	–	30	(7)	13
HCL Tech	34	23	13	27

Weakness in manufacturing

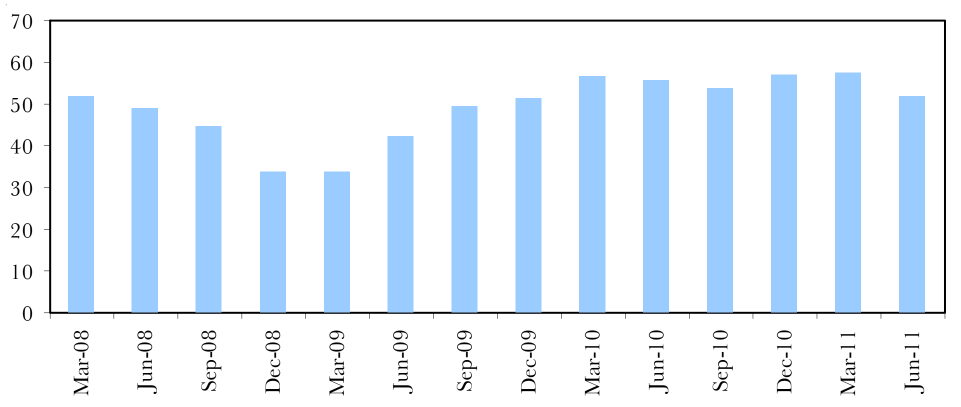
Purchasing Manager Index (PMI) has fallen for majority sizeable countries across the world. PMI is a composite of survey results of purchasing managers in the manufacturing sector on five key indices: a) New orders b) Output c) Employment d) Suppliers' delivery times and e) Stocks of purchases and we believe is a good proxy to determine the health of manufacturing vertical. The recent fall in PMI points to a deteriorating health of manufacturing sector.

US PMI data



Source: Bloomberg, B&K Research

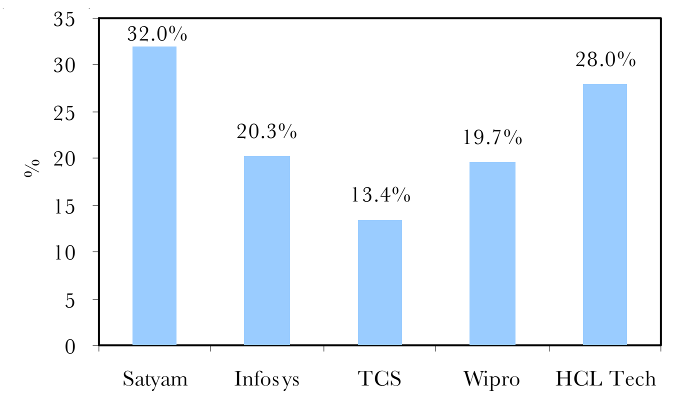
UK PMI data



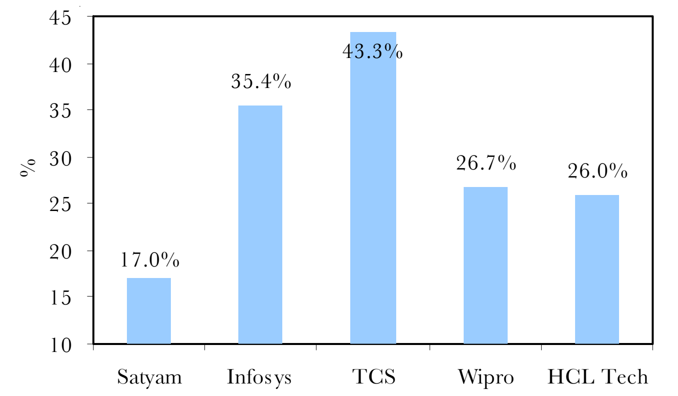
Source: Bloomberg, B&K Research

Satyam gets a higher contribution from this sector so the impact could be relatively more. In FY10, after telecom, manufacturing was the other key vertical which got impacted the most.

Revenue contribution from manufacturing



Revenue contribution from BFSI



Source: Company, B&K Research

However, we could be proven wrong in our argument if focus on cost reduction and capability improvement prevents any cut in offshoring budget. The latest TPI data also talks about the trend of adoption of cloud computing, infrastructure sourcing, managed services by manufacturing companies which would mean no impact on these companies' healthy offshoring budget. The TPI index for industry segments show that financial services experienced the worst 1HFY11 with TCV down by 21%. Manufacturing was comparatively immune to the slowdown with TCV down by 16%.

We have factored in the expected weakness in manufacturing in our revenue growth assumption for Satyam. CQGR of 2.7% in FY13 bakes in this weakness.

Client metrics – client concentration relatively high but clients not mined effectively...

Satyam has a relatively higher client concentration, with its top 10 logos accounting for ~40% of its revenue, compared to 20-30% for its peers. Hence, strong revenue growth from top accounts is required to ensure strong overall growth.

Client concentration

(%)	Top client	Top 5 clients	Top 10 clients
Infosys	4.5	15.9	25.2
TCS	7.1	20.7	28.9
Wipro	3.3	10.9	19.4
HCLT	NA	15.4	24.6
Satyam	10.0	26.0	39.0

Source: Company, B&K Research

Satyam's client mining skills is relatively weak with revenue/client at US$ 5.4 mn, almost half of Infosys' revenue at ~US$ 10.6 mn. Client mining is however gradually improving with 1QFY12 results showing a ~10% QoQ growth from the top 10 accounts. We see further scope of improvement as the company leverages the capabilities of TechM in enterprise mobility and IMS.

Improving client wallet share

Annualised revenue/client

(US$ mn)	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
Infosys	9.2	10.1	10.4	10.3	10.6
TCS	7.7	8.6	8.9	9.3	10.1
Wipro	5.6	5.7	6.1	6.2	6.0
HCL tech	7.2	7.5	8.0	8.1	8.2
Satyam	4.7	4.7	4.9	4.9	5.4

Average size of top 10 accounts

(US$ mn)	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
Infosys	142	160	163	160	168
TCS	219	241	258	266	279
Wipro	95	98	103	110	109
HCL Tech	77	83	88	92	95
Satyam	–	–	–	44	46

Source: Company, B&K Research

Rationalisation of clients

Improving client traction

(%)	3QFY11	4QFY11	1QFY12
More than US$ 1 mn	121	144	130
More than US$ 5 mn	45	48	47
More than US$ 10 mn	31	33	36
More than US$ 20 mn	10	12	14
More than US$ 50 mn	3	3	3

Source: Company, B&K Research

Deal wins

Month	Client	Nature of deal
August 2011	IRDA	To develop system integration driven solution.
May 2011	Roche	Partnership to provide IT lifecycle support services.
April 2011	Qatar University	Oracle EBS R12 implementation.
March 2011	Aspire Zone Foundation, Qatar	Multi-million, multi-year deal to provide onsite and offshore support on various application development and infrastructure services projects.
March 2011	OMRAN	Oracle ERP implementation.
February 2011	NAVTEQ	Renews contract for two years with Mahindra Satyam BPO.
November 2010	Insurance Regulatory and Development Authority	SAP ERP implementation.
October 2010	Commonwealth of Kentucky	Large contract with the Commonwealth of Kentucky, USA for design and delivery of a document management system for the child support system.
June 2010	GSK	Renewed its existing contract for a further period of five years with Mahindra Satyam BPO. The company provides GSK with a fully integrated cost effective scalable model.
May 2010	Strategic partnership with BASF IT Services	To enhance BASF's capacity to provide managed services for the company's extensive installed base of SAP.
March 2010	KMD (largest Danish-based IT companies)	KMD, which specializes in the public sector, signed a renewed contract with Mahindra Satyam for the next four years worth approximately US$ 48 mn ending in December 2013.
October 2009	Contracts in MENA region	Substantial deals with organisations in eight regional countries in MENA for total amounting AED 30 mn.
September 2009	GE	GE, amongst top 5 clients, extended its multi-million dollar contract for three years effective January 2010.
July 2009	GSK	5 year Support Contract with GSK to provide SAP and other critical systems support to GSK's businesses across the world.

Source: Media articles, Company, B&K Research

Broadening of employee pyramid – the key margin lever

Salary cost (including salary cost of marketing and support people) for Satyam is 65% of its revenue compared to ~50-55% for peers. We would like to highlight here that the personnel cost in Satyam includes salary cost of support along with delivery personnel, while for peers; cost of services does not include support staff salary. We have added below only the salary cost of support people for Infosys and TCS, for like-to-like comparison.

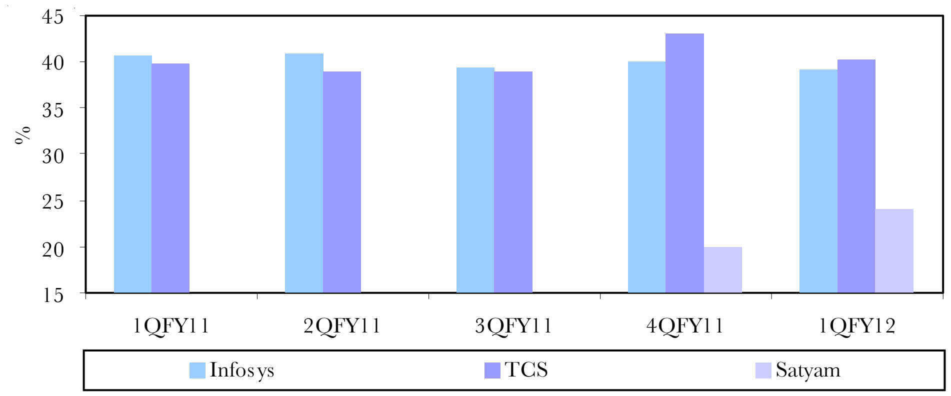
We have excluded subcontracting cost from personnel cost in Satyam

Like-to-like comparison of salary cost (salary expense of delivery+support staff)

(% of revenue)	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
Infosys	54.6	53.0	54.0	54.5	56.7
TCS	51.3	50.4	50.1	50.3	51.6
Satyam	69.5	73.5	71.0	65.7	64.9

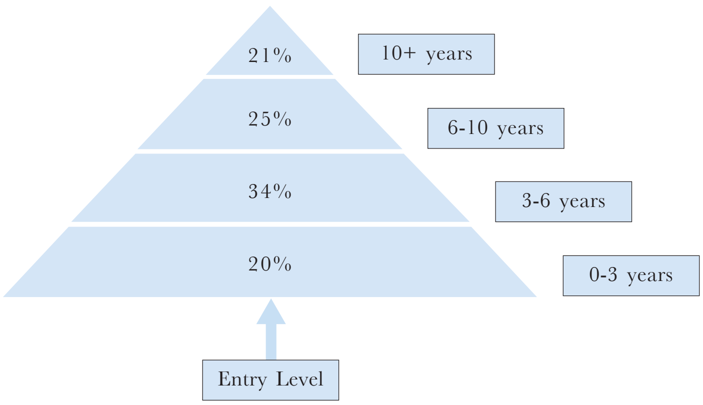
Satyam's employee pyramid which is more skewed towards laterals is the reason for its high salary cost. The proportion of employees with less than three years of work experience is ~25% compared to ~40-45% for larger peers. We believe with increased fresher hiring (Satyam has guided to ~5,000 gross freshers' addition for FY12), the pyramid will get broadened, helping the company to achieve better margins. We have already started seeing improvement in employee pyramid with the proportion of employees with less than three years experience moving up to 24% in 1QFY12 from 20% in FY11.

Proportion of employees with less than three years of work experience



Source: Company, B&K Research

Employee pyramid as of 4QFY11



Source: Company, B&K Research

Revenue productivity low... is there any scope of improvement here?

Despite a greater proportion of higher package implementation business (which commands higher bill rate compared to other services) Satyam's blended revenue productivity is low.

With industry average utilisation and favourable onsite-offshore revenue mix, we attribute the low revenue/employee to lower billing rate. Our calculation suggests that Satyam's offshore billing rate is low compared to its peers.

Blended revenue/employee

(US$ mn)	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
Infosys	47,308	48,862	49,617	48,983	50,045
TCS	43,836	45,963	45,882	45,193	47,710
Wipro	42,637	43,928	44,984	45,770	44,509
Satyam	39,490	38,763	39,401	41,541	40,715
Patni	36,490	38,929	39,852	41,436	40,025

Source: Company, B&K Research

Satyam, has however, shown improvement in its revenue productivity in the last four quarters. Its revenue productivity is now comparable to Patni. While we appreciate there has been an improvement in this metric over quarters, we believe a further increase could be difficult given a difficult macro environment.

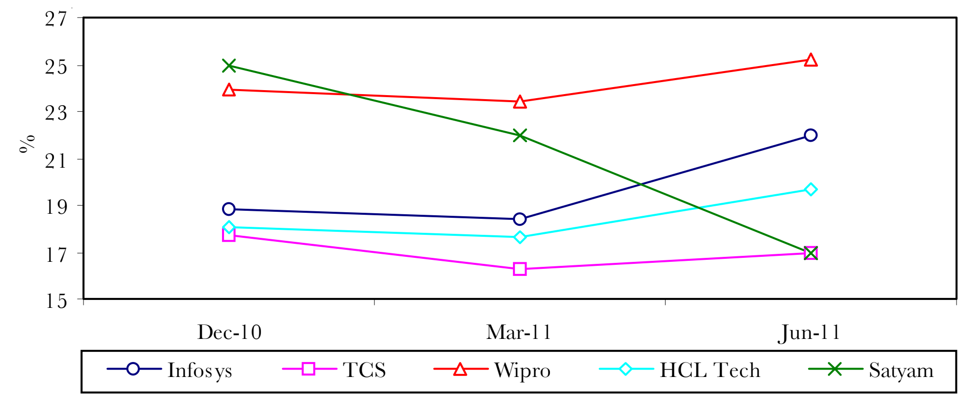
Other key employee metrics

Utilisation including trainees – comfortable level

(%)	Sep 10	Dec 10	Mar 11	Jun 11
Infosys	74.3	72.6	68.4	69.6
TCS	77.7	77.1	75.1	76.2
Wipro	70.9	68.6	68.9	69.7
HCL Tech	70.1	70.1	71.9	72.5
Satyam	71.0	73.5	74.0	74.0

Quarterly annualised attrition - expect attrition to inch up as salary hike is due

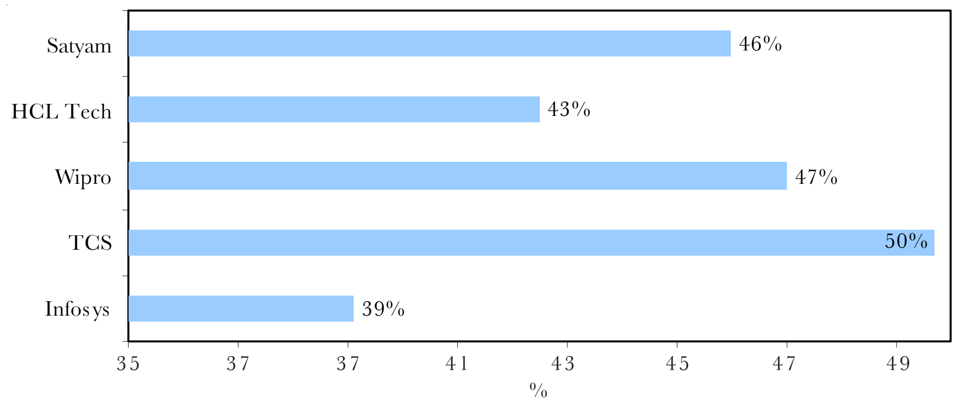
Salary hike has been deferred to 3Q



Source: Company, B&K Research

Quality of revenue

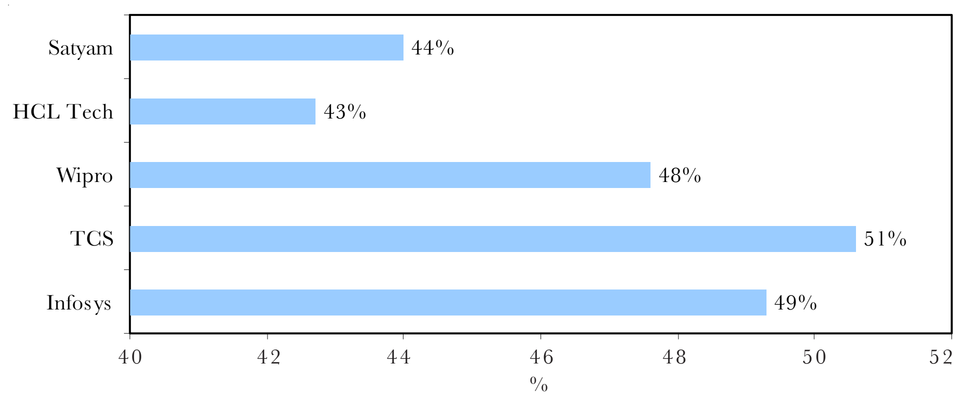
Fixed price project contribution: 46% of Satyam's revenue contribution is from fixed price projects. This is in-line with the peers in the industry



Source: Company, B&K Research

Offhsore:Onsite mix: Satyam and HCLT have major proportion of onsite revenue

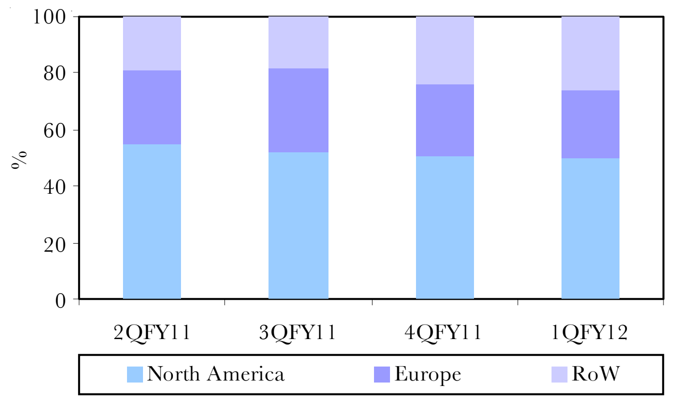
Geographical diversity would be one of the most important synergies following out of amalgamation of Tech Mahindra and Mahindra Satyam



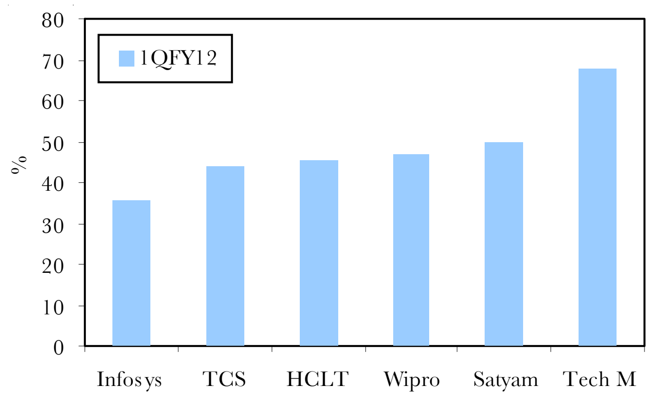
Source: Company, B&K Research

Geographical presence: Mahindra Satyam gets approximately half of its revenues from US and rest is split between Europe and Rest of the World.

Geographical split



Non-US exposure



Source: Company, B&K Research

Note: Except employee metrics, all other operating metrics for Satyam are for standalone company

Improving financials

Revenue growth on account of good volume growth

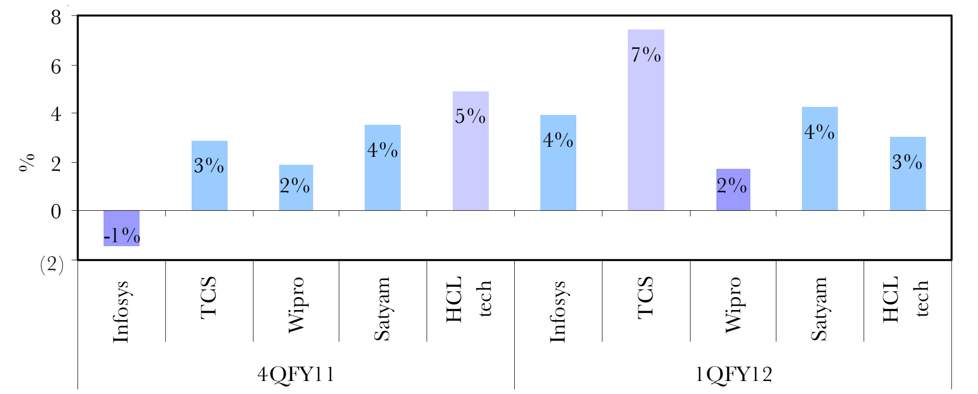
Satyam's revenue CQGR over the last three quarters has been strong at 5.7%, matching the growth rates of industry leader TCS.

Revenue CQGR

(%)	Over last four quarters	Over last three quarters
Infosys	5.3	3.8
TCS	7.7	6.4
Wipro	4.0	3.4
HCLT	6.9	6.2
Satyam	5.3	5.7

The company's ability to participate in deals after it got current in its financials, led to robust volume growth

Volume growth



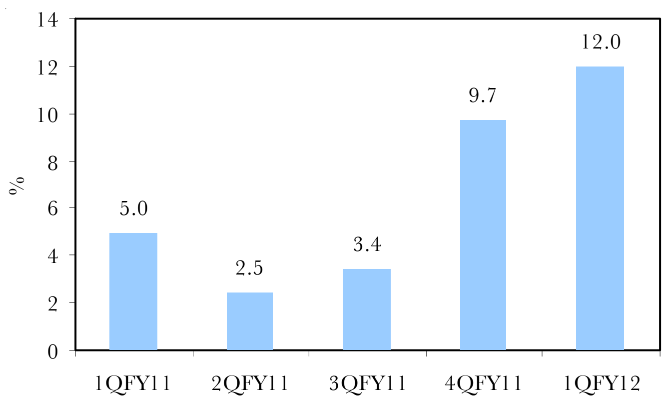
Source: Company, B&K Research

Margins improvement

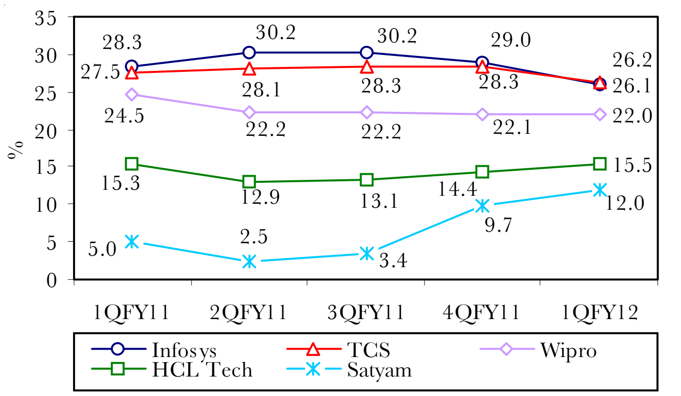
Further, salary hike in 3Q will put pressure on margins

The company has shown a significant improvement of ~500 bps in margins over the past four quarters. Rationalisation of SG&A, improvement in efficiency and increased offshore revenue mix are some of the levers leading to such an improvement in margins. However, we believe it would be difficult to expand margins from the current levels, given the company has already utilised majority of the levers barring employee pyramid.

Improvement in EBIT margins



Comparison of margin improvement versus Peers



Source: Company, B&K Research

Some recent developments

Mahindra Group and Cisco partnership

The parent company of Satyam, Mahindra group, has entered into a non-binding agreement with Cisco on go-to-market strategies in areas like smart cities, virtual dealership, sports and entertainment, and cloud services. Under the collaboration, Cisco and Mahindra will explore opportunities to develop cloud-based solutions and services around virtual sales, sports and entertainment as a service in both BOT and managed services models.

The first project under this initiative is intended to be the Mahindra Innovation Park, which the group believes will expand M&M's customer touch points and enhance its brand visibility. Mahindra and Cisco will also explore working together to build the private cloud roadmap for various group companies of parent Mahindra.

The connectivity services will be handled by Tech Mahindra, while content and application will be provided by Mahindra Satyam. Mahindra will get access to Cisco's framework and products across geographies.

Growth on non-linear front: iDecisions

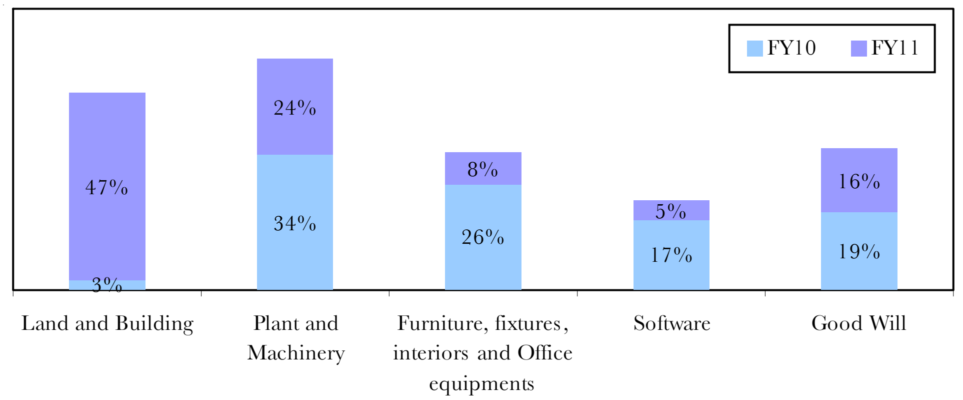
iDecisions is a proprietary BI frame work developed by Mahindra Satyam for industries like BFSI, Manufacturing, LifeSciences & HealthCare, Retail, Telecom and Travel and Logistics. The use of a central, pre-built industry standard data model saves from duplication of effort and saves time. iDecision partners with leading technology vendors like Business Objects, Cognos, IBM and major players in Business Intelligence (BI) and Data Warehousing (DW) space. The company's focus on products and framework would help non-linear revenues in the coming years.

Winding down of ADS

Post scam, the company continued to trade on NYSE, but financial under US GAAP could not be restated for more than a year. The ADS were transferred to OTC from 14 October 2010. Subsequently, the company announced a programme to wind down the ADS. The ADS holders have three options; they can offload during the winding down period or open a brokerage account (if eligible in India) and convert their ADS to Indian equity and sell or let the depository sell the deposit in markets. Termination of ADS agreement will result in cancellation of all the depository receipt and delisting from the exchange (NYSE). The depository would sell custodian shares between 12 March 2012 and 31 March 2012 and the proceeds, net of fees, would be distributed on pro rata basis. The shares held by the depository will be categorised as FII holding post the termination of ADS. The company would not have any cash outflow as the shares would be sold in open market.

Balance sheet analysis

Addition to Gross Block



Source: Company, B&K Research

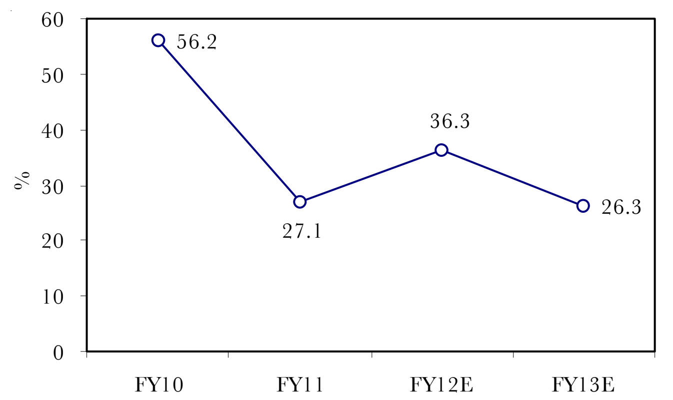
Mahindra Satyam added Rs 3,023 mn to its gross block in FY11. Land and building was the major chunk of the addition accounting for 47% of the addition, while plants and machinery accounted for 24%.

Cash and investments

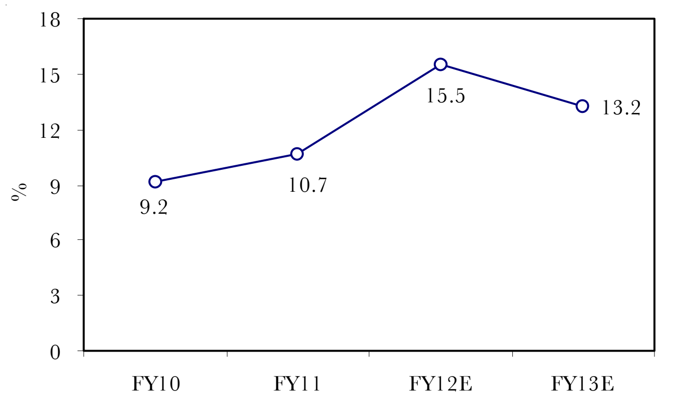
As at March 2011, the company had cash and equivalents of Rs 31,886 mn (US$ 713 mn). This amount includes ~US$ 70 mn deposited by the company in the initial escrow account on account of Upaid case settlement and ~US$ 125 mn against US class action suit settlement. We expect the cash outgo on the above two issues will happen by FY12 end and have accordingly factored in the same in our numbers.

Return ratios

RoE



RoE adjusted



Source: Company, B&K Research

The reported RoE looks high because of the erosion in networth on account of one-time charges; the company took in its P&L over FY09-11. On an adjusted basis, the company's RoE in FY11 is lower at 11%, which improves to 16% in FY12.

Associate Stock Option Plan (ASOP)

The company has 24 mn ASOPs outstanding, accounting for ~2% of the company's equity.

Details of ASOPs

	ASOP – A	ASOP – B	ASOP – ADS	ASOP – RSUs	ASOP – RSUs (ADS)
No. of options granted during the year	Nil	5,210,000	634,079	Nil	Nil
The maximum vesting period	NA	5 years	5 years	5 years	5 years
Options vested during the year	Nil	2,563,110	236,299	300,869	44,576
Options exercised during the year	400	2,420	Nil	301,271	38,150
The total number of shares arising as a result of exercise of options during the year	8,000	2,420	Nil	301,271	76,300
Options cancelled/lapsed	3,100	4,759,471	397,658	220,207	40,814
Total number of options in force	Nil	21,613,932	1,921,751	811,830	154,096
Weighted average price of exercised option (Rs)	87.10	91.64	NA	84.33	245.26

Subsidiaries

The combined loss of all the subsidiaries in FY11 was Rs 864 mn. Major investments made by Satyam in its subsidiaries in FY10 and FY11:

- Satyam made the remaining contingent payment of Rs 358 mn for Bridge Strategy Group LLC, (acquired for Rs 1,489 mn in FY08). Also, it infused further capital of Rs 149 mn in 4QFY11 and Rs 178 mn in 1QFY12.
- Satyam through its subsidiary, Satyam Computer Belgium, made the deferred conditional payment of Rs 238 mn in FY11 and Rs 193 mn of final conditional payment in 1QFY12 for S&V management Consultants. Subsequently, it sold its entire stake for Euro 6 mn and the provision for diminution of Rs 194 mn was reversed in the P&L in 1QFY12.

Major subsidiaries financials

Name of the subsidiary	% holding	Revenue (Rs mn)	% of consolidated revenue	PAT (Rs mn)	% of consolidated PAT
Satyam BPO Limited	100	1,118	30	12	1
Satyam Computer Services (Shanghai) Co. Limited	100	378	10	(8)	(1)
Satyam Computer Services (Nanjing) Co. Limited	100	85	2	(45)	(5)
Citisoft Plc., UK	100	397	11	12	1
Citisoft Inc, US	100	470	13	26	3
Bridge Strategy Group LLC (Bridge Strategy)	100	515	14	(236)	(27)
Satyam Computer ServicesBelgium, BVBA (Satyam Belgium)	100	–	–	(732)	(85)
S&V Management Consultants NV (S&V)	100	615	16	68	8
Satyam Venture Engineering Services Private Limited (SVES)	50	807	11	65	4

Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net sales	**54,810**	**51,450**	**61,947**	**69,207**
Growth (%)	*(37.8)*	*(6.1)*	*20.4*	*11.7*
Operating expenses	(49,262)	(46,899)	(53,090)	(59,325)
Operating profit	5,548	4,551	8,857	9,882
EBITDA	**5,548**	**4,551**	**8,857**	**9,882**
Growth (%)	*NA*	*(18.0)*	*94.6*	*11.6*
Depreciation	(2,144)	(1,847)	(2,068)	(2,365)
Other income	77	2,942	2,818	2,768
EBIT	**3,481**	**5,646**	**9,607**	**10,285**
Interest paid	(329)	(97)	(181)	(181)
Pre-tax profit (before non-recurring)	3,152	5,549	9,426	10,104
Non-recurring items	(4,169)	(6,411)	0	0
Pre-tax profit (after non-recurring)	(1,017)	(862)	9,426	10,104
Tax (current + deferred)	(222)	(578)	(1,639)	(2,425)
Net profit (before Minority Interest, Pref. Dividend, etc.)	(1,239)	(1,440)	7,787	7,679
Minority interests	(7)	(33)	(22)	(22)
Reported PAT	**(1,246)**	**(1,473)**	**7,765**	**7,657**
Adjusted net profit	**2,923**	**4,938**	**7,765**	**7,657**
Growth (%)	*NA*	*68.9*	*57.2*	*(1.4)*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Cash and marketable sec.	21,768	27,538	24,634	32,080
Other current assets	17,925	19,748	22,059	24,717
Investments	6,268	4,348	4,348	4,348
Net fixed assets	9,865	9,499	10,681	12,816
Other non-current assets	65	81	81	81
Total assets	**55,891**	**61,214**	**61,802**	**74,042**
Current liabilities	24,116	31,044	23,846	28,406
Total debt	422	315	315	315
Other non-current liabilities	12,343	12,372	12,372	12,372
Total liabilities	**36,881**	**43,731**	**36,533**	**41,093**
Share capital	2,353	2,353	2,353	2,353
Reserves & surplus	16,456	14,896	22,661	30,318
Shareholders' funds	**18,809**	**17,249**	**25,014**	**32,671**
Minorities interests	201	234	256	278
Total equity & liabilities	**55,891**	**61,214**	**61,802**	**74,042**
Capital employed	**31,775**	**30,170**	**37,957**	**45,636**

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Pre-tax profit	(1,017)	(862)	9,426	10,104
Depreciation	2,144	1,847	2,068	2,365
Change in working capital	618	5,105	(9,509)	1,902
Total tax paid	(231)	(565)	(1,639)	(2,425)
Cash flow from oper. (a)	**1,514**	**5,525**	**346**	**11,946**
Capital expenditure	3,423	(1,405)	(3,250)	(4,500)
Change in investments	(6,268)	1,920	0	0
Others	(3,044)	(76)	0	0
Cash flow from inv. (b)	**(5,889)**	**439**	**(3,250)**	**(4,500)**
Free cash flow (a+b)	**(4,375)**	**5,964**	**(2,904)**	**7,446**
Equity raised/(repaid)	29,509	185	0	0
Debt raised/(repaid)	(7,720)	(107)	0	0
Others	(655)	(272)	0	0
Cash flow from fin. (c)	**21,134**	**(194)**	**0**	**0**
Net chg in cash (a+b+c)	**16,759**	**5,770**	**(2,904)**	**7,446**

Key Ratios

Yr end 31 Mar (%)	FY10	FY11	FY12E	FY13E
Adjusted EPS (Rs)	2.7	4.2	6.6	6.5
Growth	NA	57.0	57.2	(1.4)
Book NAV/share (Rs)	17.4	14.9	21.5	28.0
Tax	(21.8)	(67.1)	17.4	24.0
EBITDA margin	10.1	8.8	14.3	14.3
EBIT margin	6.4	11.0	15.5	14.9
RoCE	15.9	18.2	28.2	24.6
Net debt/Equity	(112.3)	(155.7)	(96.2)	(96.4)

Valuations

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
PER	26.2	16.7	10.6	10.7
PCE	15.1	12.1	8.4	8.2
Price/Book	4.0	4.7	3.3	2.5
EV/Net sales	1.3	1.1	0.9	0.8
EV/EBITDA	13.2	12.8	6.4	5.5

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
Net margin (%)	5.3	9.6	12.5	11.1
Asset turnover	1.1	0.9	1.0	1.0
Leverage factor	9.3	3.2	2.9	2.3
Return on equity (%)	56.2	27.1	36.3	26.3