

## Patni Computers (PATCOM)

Rs 469

### Buy the management...

Patni Computers Ltd is one of the oldest and the sixth-largest IT solution providers in India. The company provides IT services, mainly focused on banking, financial services, manufacturing and telecom verticals. Its service gamut includes application development and maintenance, enterprise solutions, embedded technology service and product engineering services. More than 78% of the company's revenues come from US and the rest from EMEA and APAC regions.

#### ■ New management and approach

The senior management has been restructured over the last 1.5 years to gear up the growth level, which was facing headwinds due to lack of management focus, attrition and low growth from top clients. The new management is focusing on micro verticals and trying to tap emerging markets like APAC. This will be beneficial for the company in the longer term as its revenue concentration in the US geography is high, which needs to be addressed. Further, with proven cost management during the downturn, the company has proved its ability to sustain margins.

#### ■ CHCS acquisition could yield incremental revenues

Patni acquired CHCS in June 2010 for a consideration of US\$6 million. This will enable it to serve as third-party administrator for its insurance clients. Also, it has acquired a managed service platform from one of its manufacturing clients at US\$13 million. This will give it a stable revenue stream from it as well as enable it to market it to other clients in the same domain.

#### ■ Demand landscape looks bright

The management has indicated that it is witnessing broad-based growth with a healthy deal pipeline. Out of this, two or three deals have a total contract value (TCV) of \$30-50 million each. Patni intends to hire 1,500 net employees in H2CY10 to map into the demand. Also, it saw attrition abating in Q3CY10 with higher growth likely from Europe despite challenging macro conditions.

### Valuation

Since discretionary expenses are coming in for Indian IT companies and the managements' optimistic commentary, we expect 12% revenue CAGR over CY09-CY12E. The stock is currently trading at cheap valuations of 11.5x CY11E EPS and 11x CY12E EPS of Rs 40.6 and Rs 42.7, respectively. Thus, we recommend the stock as **Pick of the Week**. We have valued the stock at 12x CY12E EPS with a target price of Rs 516 with 10% upside from current levels.

#### Exhibit 1: Financial Summary

(Rs crore)	CY09	CY10E	CY11E	CY12E
Net Sales	3,146.1	3,191.2	3,613.3	3,962.9
EBITDA	619.1	641.5	713.0	758.5
EBITDA margin(%)	19.7	20.1	19.7	19.1
Net Profit	586.5	558.3	544.8	572.8
EPS (Rs)	45.0	41.6	40.6	42.7

Source: Company, ICICIdirect.com Research

#### Rating matrix

Target	:	Rs. 516
Target Period	:	3 months
Potential Upside	:	10 %

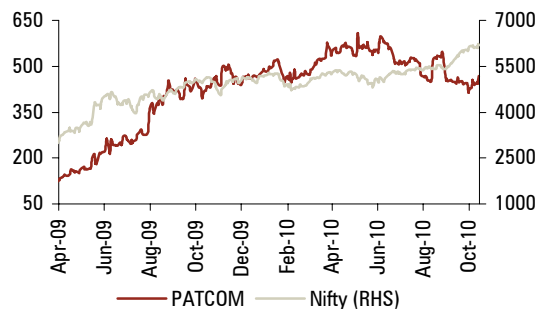
#### Stock data

Market Capitalisation	Rs 6097 crore
Debt (Q2CY11)	Rs 0.77 crore
Cash (Q2CY11)	Rs 1346 crore
EV	Rs 4752 crore
52 week H/L	551/369
Equity capital	Rs 26 crore
Face value	Rs 2
FII Holding (%)	12.29
DII Holding (%)	6.45

#### Relative return

Returns (%)	1M	3M	6M	12M
Patni Computers L	1.44	-10.55	-17.21	7.74
Mphasis Ltd	-4.01	3.72	-4.12	0.43
Mindtree Ltd	2.67%	-8.67%	-13.91%	-6.64%

#### Price movement



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