



Patni Computer Systems

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,772	PATNI IN
	REUTERS CODE
S&P CNX: 2,943	PTNI.BO

23 October 2008

Neutral

Previous Recommendation: Neutral

Rs152

Equity Shares (m)	139.1
52-Week Range	466/135
1,6,12 Rel. Perf. (%)	7/0/18
M.Cap. (Rs b)	21.1
M.Cap. (US\$ b)	0.4

YEAR	NET SALES	* PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	26,112	3,572	24.9	14.6	6.1	0.9	16.8	21.2	0.3	1.6
12/07A	26,950	4,643	32.4	30.0	4.7	0.8	18.9	22.5	0.3	1.6
12/08E	31,761	3,682	28.7	-11.5	5.3	0.7	13.4	15.6	0.1	0.8
12/09E	34,890	3,602	27.9	-2.7	5.4	0.6	12.1	14.3	0.1	0.5

* Reflects adjusted PAT

Patni 3QCY08 results in line, PAT boosted by reversal of past provisions, Guides for negative growth for 4QCY08.

- Patni 3QCY08; revenues in line, guides for decline in 4Q:** Patni reported US\$ revenue growth of 0.5% QoQ (~1.5% in constant currency terms) to US\$184m, in line with its guidance (and estimates). The INR revenues grew 8.7% QoQ (26.5% YoY) to Rs8.5b. In the quarter Patni reversed certain past provisions based on the IRS reviews resulting in an increase in reported profit after tax by US\$18.7m (Rs872m). Adjusted EBITDA margins at 16.4% are up 100bp QoQ on account of currency and utilization improvements. Currency impacted EBITDA by 100bp while operating efficiencies expanded margins by 50bp. Adjusted PAT at Rs1.1b grew 8.8% QoQ (2.8% YoY).
- Rs2.4b buyback completed:** Patni's share buyback program was concluded. The company purchased 11m shares at a average price of Rs216 per share for a total consideration of Rs2.4b in quarter and during October. Cash from operating activities in the quarter was Rs1.3b. Overall, cash and equivalents stood at Rs12.9b at the end of the quarter (~US\$279m). DSO was flat QoQ at 89 days.
- Revising estimates downward on feeble growth outlook:** The company has been struggling for growth for past several quarters; we maintain a cautious outlook for Patni in CY09, given demand concerns in global business environment. We are revising our CY09E estimates downward on account of weak growth outlook and manpower addition. Our CY08 EPS stands revised to Rs28.7 from Rs26.6 on account of the revised rupee rate of Rs44.2 v/s Rs42.5 for CY08, while we have lowered our CY09 EPS to Rs27.9 from Rs30.1 to reflect demand concerns. The stock is trading at 5.4x CY09 earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE (US GAAP)

(Rs Million)

Y/E DECEMBER	CY07				CY08				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenues	6,724	6,628	6,736	6,862	7,061	7,837	8,523	8,340	26,950	31,761
Q-o-Q Change (%)	-1.2	-1.4	1.6	1.9	2.9	11.0	8.7	-2.1	3.2	17.9
Direct Expenses	4,204	4,303	4,470	4,594	4,843	5,267	5,594	5,545	17,570	21,248
Sales, General & Admin. Expenses	1,094	1,108	1,149	1,130	1,157	1,365	1,530	1,428	4,480	5,480
Operating Profit	1,427	1,217	1,117	1,138	1,061	1,205	1,399	1,367	4,899	5,032
Margins (%)	21.2	18.4	16.6	16.6	15.0	15.4	16.4	16.4	18.2	15.8
Other Income	268	635	441	295	59	285	197	-119	1,638	422
Depreciation	234	252	262	257	279	283	300	317	1,004	1,178
PBT bef. Extra-ordinary	1,460	1,600	1,296	1,176	842	1,207	1,296	931	5,533	4,276
Provision for Tax	260	253	198	179	117	170	168	140	890	594
Rate (%)	17.8	15.8	15.3	15.2	13.9	14.1	12.9	15.0	16.1	13.9
Net Income bef. Extra-ordinary	1,200	1,348	1,098	997	725	1,037	1,129	792	4,643	3,682
Q-o-Q Change (%)	5.8	12.3	-18.5	-9.2	-27.3	43.1	8.8	-29.8	30.0	-20.7
Extra-ordinary items	0	0	0	0	0	0	-873	0	0	-873
Net Income aft. Extra-ordinary	1,200	1,348	1,098	997	725	1,037	2,002	792	4,643	4,556
Q-o-Q Change (%)	5.8	12.3	-18.5	-9.2	-27.3	43.1	93.0	-60.4	74.9	-1.9

E: MOST Estimates

Patni 3QCY08: Revenues flat; guides for revenue decline in 4Q; maintain Neutral

Patni reported US\$ revenue growth of 0.5% QoQ to US\$184m, in line with its guidance (and estimates). Revenues grew by ~1.5% in constant currency terms. INR revenues grew 8.7% QoQ (26.5% YoY) to Rs8.5b.

In the quarter Patni reversed certain past provisions based on IRS reviews resulting in one-time increase in gross profit of US\$2.8m, other income of US\$8.3m and decrease in tax expense of US\$7.7m, consequently, reported profit after tax increased by US\$18.7m (Rs872m), and impacted operating and net margins.

Adjusted EBITDA margins at 16.4% were up 100bp QoQ on account of currency and utilization improvements. Currency impacted EBITDA by 100bp while operating efficiencies expanded margins by 50bp. SGA as a percentage of sales grew 30bp QoQ to 17.6%. Adjusted PAT at Rs1.1b grew 8.8% QoQ (2.8% YoY).

Guides for negative growth; headcount reduced

Patni has guided for 3.5% QoQ decline in US\$ revenues to US\$177m, and 7.8% decline in PAT to US\$22.5m, citing demand uncertainty as a reason.

Decline in guided revenues comes on the back of reduction in headcount in 3Q. Total employee headcount for the quarter is at 14,701, down by 343 employees from 15,044 in 2Q. This is the second consecutive quarter where Patni has reduced headcount. Last quarter the employee number was reduced by 108 employees.

Revenues from Europe, Telecom, decline QoQ

European US\$ revenues saw a QoQ decline of 5.9%, while Telecom declined by 11.5%. Management mentioned this was on account of unfavorable cross currency relating to European billing.

Growth was predominantly seen in Insurance at 8.3% growth, while financial services declined by 1.9% QoQ. Revenue breakdown by service offerings showed a 4.2% rise in ADM-led revenues v/s 6.4% decline in Enterprise Solutions. While revenue growth was seen across top clients, the group of 6-10 clients witnessed decline of 4.1% QoQ.

Other highlights

- ✂ Forex gain of Rs55m was booked in the quarter v/s a loss of Rs202m in 1Q.
- ✂ Outstanding hedges amounted to US\$443m, booked at a realization rate between Rs39.3-47.
- ✂ Provision reversals impacted gross profit by Rs130m, other income by Rs385m and tax expense by Rs357m, increasing the net profit by Rs872m.
- ✂ Patni's share buyback program was concluded during the quarter with the company having purchased 11m shares at a average price of Rs216 per share for a total consideration of Rs2.4b
- ✂ Cash from operating activities during the quarter was Rs1.3b. Overall cash and equivalents stood at Rs12.9b at the end of the quarter (~US\$279m). DSO were flat QoQ at 89 days

Revising estimates downward on feeble growth outlook

Considering Patni's 4Q US\$ guidance the company is expected to post weaker revenue growth of 8.5% for CY08. The company has been struggling for growth for some time and we maintain a cautious outlook for Patni in CY09 as well given demand concerns in the global business environment.

We are revising our CY09E estimates downward on account of weak growth outlook and manpower addition. Our CY08 EPS stands revised to Rs28.7 from Rs26.6 on account of revised rupee rate of Rs44.2 v/s Rs42.5 for CY08, while we have lowered our CY09 EPS to Rs27.9 from Rs30.1 to reflect the demand concerns for Patni. The stock trades at 5.4x CY09 earnings. Maintain **Neutral**.

Patni Computer Systems: an investment profile

Company description

Patni Computer Systems Ltd. is one of Top 10 Information Technology services and Business Solutions company in India with over 14,701 professionals, servicing clients across diverse industries, from 21 sales offices across the Americas, Europe and Asia-Pacific, and 19 Global Delivery Centers in strategic locations across the world.

Key investment arguments

- One of earliest established Indian IT company which could benefit from IT offshoring.
- Experience of integrating successfully and realizing benefits from acquisitions.

Key investment risks

- Reduced global IT-spend due to economic slowdown in the US.
- Sharper appreciation of Indian rupee against major currencies like US\$, GBP and Euro.
- Patni's relatively weaker business model.

Recent developments

- Schindler partners with Patni for revolutionary elevator technology.
- Won a US\$200m strategic deal with UK-based The Car phone Warehouse .

Valuation and view

- Revenue CAGR of -12% and earnings CAGR of -7% over FY07-FY09E.
- Valuations at 5.3x CY08E and 5.4x CY09E earnings, with buyback being the only trigger.
- Maintain **Neutral**.

Sector view

- Indian offshoring has been vindicated with the global clients and service providers making India their base for IT-enabled solutions. India still has less than a 5% share in the global IT market. We are positive on the sector from a long term perspective.
- Economic slowdown in the US, sub prime crises and sharper currency appreciation remain key concerns.
- We believe frontline Indian IT companies would be better placed to sail through the near term adversities mentioned above.

COMPARATIVE VALUATIONS

		PATNI	HCL TECH	SATYAM
P/E (x)	CY08E	5.3	6.1	7.8
	CY09E	5.4	6.4	7.2
P/BV (x)	CY08E	0.7	1.3	2.0
	CY09E	0.6	1.0	1.6
EV/Sales (x)	CY08E	0.1	0.6	1.1
	CY09E	0.1	0.3	0.8
EV/EBITDA (x)	CY08E	0.8	2.6	4.6
	CY09E	0.5	1.2	3.5

SHAREHOLDING PATTERN (%)

	JUN-08	MAR-08	JUN-07
Promoter	43.9	43.9	44.0
Domestic Inst	4.5	4.5	4.5
Foreign	46.1	45.6	47.5
Others	5.5	6.0	4.1

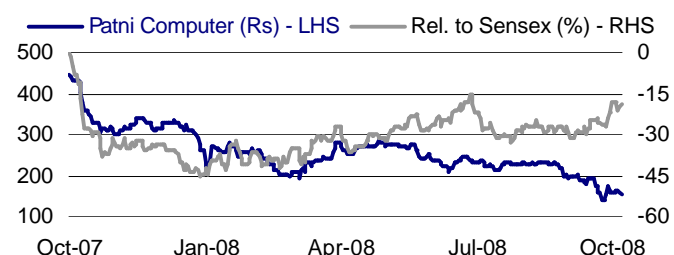
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VIATION (%)
CY08	28.7	27.6	4.0
CY09	28.0	30.8	-8.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
152	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E DECEMBER	2005	2006	2007	2008E	2009E
Sales	20,242	26,112	26,950	31,761	34,890
Change (%)	38.9	29.0	3.2	17.9	9.9
Cost of Goods Sold	12,499	16,424	17,570	21,248	24,836
Gross Profit	7,743	9,688	9,379	10,513	10,055
SG&A Expenses	3,818	4,796	4,480	5,480	5,363
EBITDA	3,925	4,893	4,899	5,032	4,692
% of Net Sales	19.4	18.7	18.2	15.8	13.4
Depreciation	684	839	1,004	1,178	1,308
Other Income	115	446	1,638	422	887
Interest expense	0	0	0	0	0
PBT	3,356	4,500	5,533	4,276	4,270
Tax	620	928	890	594	669
Rate (%)	18.5	20.6	16.1	13.9	15.7
PAT	2,736	3,572	4,643	3,682	3,602
Change (%)	4.7	30.6	30.0	-20.7	-2.2
Extr-ord Items	0.0	917.4	0.0	-873.3	0.0
Net Income	2,736	2,654	4,643	4,556	3,602
Change (%)	6.5	-3.0	74.9	-19	-20.9

BALANCE SHEET					
(Rs Million)					
Y/E DECEMBER	2005	2006	2007	2008E	2009E
Share Capital	269	270	276	257	257
Share Premium	13,206	13,455	13,455	13,455	13,455
Other Reserves	6,572	8,709	12,888	14,640	17,701
Net Worth	20,047	22,434	26,619	28,351	31,413
Loans	31	17	15	13	10
Capital Employed	20,078	22,451	26,634	28,364	31,423
Gross Block	6,342	8,668	10,865	13,291	16,217
Less : Depreciation	2,281	3,120	4,125	5,303	5,642
Net Block	4,061	5,547	6,740	7,988	10,575
Other assets	1,946	2,619	5,477	3,938	3,613
Investments	6,256	10,717	11,300	11,135	14,286
Curr. Assets	11,425	9,046	9,471	13,527	11,775
Debtors	3,284	5,100	5,680	7,024	6,932
Cash & Bank Balance	6,568	2,409	2,040	4,442	2,717
Loans & Advances	0	0	0	0	0
Other Current Assets	1,573	1,537	1,751	2,060	2,126
Current Liab. & Prov	4,067	5,655	6,589	8,742	9,552
Creditors	242	486	267	568	350
Other liabilities	3,612	4,101	4,258	5,255	5,429
Provisions	213	1,068	2,064	2,919	3,773
Net Current Assets	7,358	3,392	2,882	4,784	2,223
Deferred Tax	456	176	235	518	725
Application of Funds	20,077	22,451	26,634	28,364	31,423

E: M0St Estimates

RATIOS					
Y/E DECEMBER	2005	2006E	2007	2008E	2009E
Basic (Rs)					
EPS	21.8	25.8	33.6	28.7	28.1
EPS - Diluted	-	24.9	32.4	28.7	27.9
Cash EPS	39.9	48.4	63.5	70.0	72.0
Book Value	159.5	162.4	192.6	220.9	244.8
Valuation (x)					
P/E		5.9	4.5	5.3	5.4
Cash P/E		3.1	2.4	2.2	2.1
EV/EBITDA		16	16	0.8	0.5
EV/Sales		0.3	0.3	0.1	0.1
Price/Book Value		0.9	0.8	0.7	0.6
Profitability Ratios (%)					
RoE	16.8	16.8	18.9	13.4	12.1
RoCE	20.6	21.2	22.5	15.6	14.3
Turnover Ratios					
Debtors (Days)	59	71	77	81	73
Asset Turnover (x)	3.2	3.0	2.5	2.4	2.2
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0

CASH FLOW STATEMENT					
(Rs Million)					
Y/E DECEMBER	2005	2006	2007	2008E	2009E
CF from Operations	3,102	3,891	3,902	4,698	4,208
Cash for Working Capital	-214	1,121	1,026	-437	-616
Net Operating CF	3,317	2,770	2,876	5,135	4,824
Net Purchase of FA	-2,499	-2,326	-2,197	-2,426	-2,926
Net Purchase of Invest.	-2,526	-4,461	-582	164	-3,151
Net Cash from Invest.	-5,025	-6,787	-2,780	-2,262	-6,077
Proceeds from Equity Rais	5,240	250	6	-20	0
Proceeds from LTB/STB	-15	-14	-2	-3	-3
Dividend Payments	-288	-378	-470	-464	-456
Cash Flow from Fin.	4,937	-142	-466	-487	-458
Free Cash Flow	818	444	679	2,709	1,898
Net Cash Flow	3,229	-4,158	-370	2,387	-1,711
Opening Cash Balance	3,338	6,568	2,409	2,040	4,442
Add: Net Cash	3,229	-4,158	-370	2,387	-1,711
Closing Cash Balance	6,567	2,409	2,040	4,427	2,731



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Disclosure of Interest Statement

Patni Computer Systems

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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