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Q4 FY07
Result Update

Satyam Computers

Outperformer

Rs 476

April 23, 2007

High 'other income' led to robust bottom-line growth

Company Details				Result Snapshot	
Market Cap:	Rs 327.9bn			<p>Satyam's Q4 FY07 results broadly lined up with expectations. Revenue rose 7.1% qoq, to Rs 17.8bn, whereas net profit jumped 16.7%, to Rs 3.9bn. 'Other income' vaulted 5.9x qoq, to Rs 704m, chiefly from the high Q3 forex loss of Rs 350m, which turned into a Rs 30-m profit in Q4.</p> <p>For FY08, management has guided to rupee growths of 20-22% in revenue and 18-20% in earnings, considering the rupee appreciation and 2% equity dilution due to ESOPs. However, we believe that, in FY08, Satyam would be able to manage revenue growth of 26% and earnings growth of 25%.</p>	
52 Week High/Low:	Rs 525 / 271				
Bloomberg Code:	SCS@IN				
Reuters Code:	SATY.BO / NS				
Shares O/s:	688m				
Average Volume (3 months):	4.4m			<p>We downgrade our BUY rating to OUTPERFORMER, with a price target of Rs523 (17x FY09E earnings).</p>	
Price Performance					
(%)	1m	3m	12m		
Absolute	2.0	(2.4)	17.8		
Relative to Sensex	(2.4)	(0.4)	2.3		

Q4 FY07 Result Overview

(Rs m)

Y/e March	Q4 FY07	Q3 FY07	qoq gr. (%)	Q4 FY06	FY06	FY07E	yoy gr. (%)
Net Sales	17,792	16,611	7.1	13,136	47,926	64,851	35.3
Total Expenses	13,689	12,511	9.4	9,791	36,264	49,474	36.4
Operating Profits / EBITDA	4,102	4,100	0.1	3,345	11,662	15,377	31.9
Depreciation	354	394	(10.1)	372	1,373	1,484	8.1
EBIT	3,748	3,706	1.1	2,973	10,289	13,893	35.0
Interest	74	32	129.7	17	55	159	187.4
EBT before Other Income	3,674	3,674	0.0	2,957	10,234	13,734	34.2
Other Income	704	102	592.2	289	1,168	1,833	56.9
PBT	4,378	3,776	16.0	3,246	11,402	15,566	36.5
Tax	442	403	9.7	397	1,509	1,520	0.8
<i>Tax Rate (%)</i>	<i>10.1</i>	<i>10.7</i>		<i>12.2</i>	<i>13.2</i>	<i>9.8</i>	
PAT before Extraordinaries	3,936	3,372	16.7	2,848	9,893	14,046	42.0
Extraordinaries	-	-		1.8	72.6	(1.2)	
PAT after Extraordinaries	3,936	3,372	16.7	2,847	9,821	14,047	43.0
Key Ratios							
<i>GPM (%)</i>	<i>39.5</i>	<i>41.8</i>	<i>(2.3)</i>	<i>42.9</i>	<i>41.5</i>	<i>40.5</i>	<i>(1.0)</i>
<i>OPM (%)</i>	<i>23.1</i>	<i>24.7</i>	<i>(1.6)</i>	<i>25.5</i>	<i>24.3</i>	<i>23.7</i>	<i>(0.6)</i>
<i>EBITM (%)</i>	<i>21.1</i>	<i>22.3</i>	<i>(1.2)</i>	<i>22.6</i>	<i>21.5</i>	<i>21.4</i>	<i>(0.0)</i>
<i>NPM (%)</i>	<i>22.1</i>	<i>20.3</i>	<i>1.8</i>	<i>21.7</i>	<i>20.5</i>	<i>21.7</i>	<i>1.2</i>
Adj. EPS before Extra. (Rs)	6.0	5.1	16.7	4.3	15.1	21.4	42.0

(Stock price as on April 20, 2007)



Result Highlights

Volume-led growth; high 'other income' saved the day

Satyam's revenue grew 7.1% qoq, largely due to the 7.3% volume growth (the highest so far delivered by Tier-I players) and a 0.6% rise in the blended billing rate. Although the operating profit was flat qoq, the net profit grew 16.7% due to high 'other income' of Rs 704m.

The operating margin slipped 160bp qoq, mainly due to RSU charges and rupee appreciation. The utilization rate improved from 68.5% to 71.3%; SG&A expenses (as percentage of sales) dropped 60bp to 16.4%, and offshore revenue contribution increased from 48.9% to 50.6% qoq. All these helped the company prevent a further fall in operating margins.

US revenue contribution and onsite revenue mix continues to slide

The US share of revenue for Satyam continued to slide -- from 65.9% in Q1 to 62.6% in Q4. We believe that this has been the result of the management's efforts to build up geographically well-spread revenue.

Also, the onsite share of revenue, which was as high as 57% in FY06, has slipped to 52.4% in Q2 and 49.4% in Q4. The shift in share of revenue from onsite to offshore has been one of the factors that helped the company to some extent negate the effect of the rupee appreciation on its margins.

Earnings outlook and valuations

From FY07 to FY09, we expect CAGRs of 24% and 23% in Satyam's revenue and earnings, respectively. Despite pressure on its margins for various reasons (such as a higher-than-industry-average wage hike and the strengthening rupee), we still believe the company has several levers available to sustain operating margins at the current 23-24%.

For FY08 and FY09, we expect Satyam to report, respectively, revenue of Rs 81,599m and Rs 99,752m; and net profit of Rs 17,516m and Rs 21,192m. At the CMP of Rs 476, the stock quotes at 18.7x FY08E and 15.5x FY09E earnings. We downgrade our **BUY** rating to **OUTPERFORMER**, with a target price of Rs 523 (17x FY09E earnings).



Key Figures

Y/e March	FY06	FY07	FY08E	FY09E
Revenues (Rs m)	47,926	64,851	81,599	99,752
EBITDA (Rs m)	11,660	15,377	19,136	23,142
Margins (%)	24.3	23.7	23.5	23.2
PAT (Rs m)	9,892	14,046	17,516	21,192
EPS (Rs)	14.4	20.4	25.4	30.8
PER (x)	33.1	23.3	18.7	15.5
EV / EBITDA (x)	25.5	17.6	14.3	11.2
EV / Sales (x)	6.2	4.2	3.3	2.6
RoCE (%)	33.1	33.0	32.4	32.2
RoE (%)	26.4	28.0	27.4	27.3

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