

Margin miss, rev growth to be watched

3Q margins below our est., rev momentum key to watch

3Q revenue was in line with our est. but EBIT margins (ex forex) were 93bps below our est mainly on higher compensation. Higher other income & lower forex losses led to a 7% PAT beat. We tweak our CY09/10/11 EBIT forecasts by 1-3%, EPS forecasts by 5-7% and up our PO to Rs480/US\$20.5 (vs Rs465, US\$20). Next qrt muted 1% qq rev guidance. Retain Neutral on our view that margins have peaked, and expanded mngmt team will take time to deliver on revs. Key to earnings growth & further re-rating is new client wins that can drive up rev growth.

Strong in-line rev growth; Margins weaker than our est.

3Q revs grew nicely 3%qq, ahead of guidance, in line with our est. led by volumes/insurance & mfg/infra mgmt services. However, EBIT margins (ex forex) were 67bp lower qq & 93bps below our est mainly on stock comp charge to senior hires in last 9 mths. This is despite utilization moving up further to a peak of 77%, incldg trainees. Net employees declined by 173, though by less than last qrt.

Next 2 qrts revs seasonally muted; New deal wins key

Patni has guided for a 1% qq growth in revs next qrt. and we expect similar peak revs in the qrt after also, given fewer working days and its client mix. Key to further earnings growth and re-rating is momentum in new client wins. Patni's high top ten client concentration at 51% vs peers at 20-30% and mature client profile has been a drag on revenue growth. Mngmt highlighted a good deal pipeline but uncertain outlook on closures. Discretionary spend outlook still muted. We forecast 12% rev and 9% EBIT (ex forex) growth over CY09-11 and see limited stock upside at CY09 EV/E to CY09-11 Eg of 2.2x.

Estimates (Dec)

(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	4,669.6	3,659.8	4,586.0	5,149.6	5,510.2
EPS	33.46	26.98	35.63	40.01	42.81
EPS Change (YoY)	31.7%	-19.4%	32.1%	12.3%	7.0%
Dividend / Share	3.00	3.00	3.00	3.00	3.00
Free Cash Flow / Share	14.8	35.6	29.2	48.8	41.9
ADR EPS (US\$)	1.62	1.24	1.52	1.70	1.82
ADR Dividend / Share (US\$)	0.15	0.14	0.13	0.13	0.13

Valuation (Dec)

	2007A	2008A	2009E	2010E	2011E
P/E	13.3x	16.5x	12.5x	11.1x	10.4x
Dividend Yield	0.7%	0.7%	0.7%	0.7%	0.7%
EV / EBITDA*	8.3x	7.7x	6.2x	6.5x	5.9x
Free Cash Flow Yield*	3.6%	8.4%	6.5%	10.9%	9.4%

* For full definitions of *iQmethod*SM measures, see page 10.

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Stock Data

Price (Common / ADR)	Rs445.05 / US\$19.25
Price Objective	Rs480.00 / US\$20.50
Date Established	2-Nov-2009 / 2-Nov-2009
Investment Opinion	C-2-7 / C-2-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs94.00-Rs522.70
Market Value (mn)	US\$1,218
Shares Outstanding (mn)	128.5 / 64.3
Average Daily Volume	1,266,433
BofAML Ticker / Exchange	PATIF / BSE
BofAML Ticker / Exchange	PTI / NYS
Bloomberg / Reuters	PATNI IN / PTNI.BO
ROE (2009E)	15.4%
Net Dbt to Eqty (Dec-2008A)	-53.5%
Est. 5-Yr EPS / DPS Growth	12.0% / 8.0%
Free Float	34.8%

Key Changes

(Rs)	Previous	Current
Price Obj.	465.00	480.00
2009E EPS	34.01	35.63
2010E EPS	37.63	40.01
2011E EPS	39.97	42.81
2009E EBITDA (m)	5,698.4	6,540.6
2010E EBITDA (m)	6,026.1	6,252.2
2011E EBITDA (m)	6,526.5	6,828.7

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Refer to important disclosures on page 11 to 14. Analyst Certification on Page 9. Price Objective Basis/Risk on page 9.

iQprofileSM Patni Computer Systems

Key Income Statement Data (Dec)	2007A	2008A	2009E	2010E	2011E
(Rs Millions)					
Sales	27,160	31,608	31,937	33,159	36,985
Gross Profit	9,508	10,752	12,051	12,076	13,137
Sell General & Admin Expense	(3,663)	(6,289)	(6,079)	(5,731)	(6,308)
Operating Profit	4,863	3,245	4,667	5,205	5,778
Net Interest & Other Income	957	(807)	(568)	93	0
Associates	NA	NA	NA	NA	NA
Pretax Income	4,863	3,245	4,667	5,205	5,778
Tax (expense) / Benefit	(892)	(597)	(1,061)	(1,169)	(1,646)
Net Income (Adjusted)	4,670	3,660	4,586	5,150	5,510
Average Fully Diluted Shares Outstanding	140	136	129	129	129

Key Cash Flow Statement Data

Net Income	4,670	3,660	4,586	5,150	5,510
Depreciation & Amortization	982	1,218	1,305	1,140	1,050
Change in Working Capital	38	55	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(1,131)	1,633	(1,415)	656	(290)
Cash Flow from Operations	4,559	6,566	4,476	6,946	6,271
Capital Expenditure	(2,513)	(1,738)	(732)	(694)	(900)
(Acquisition) / Disposal of Investments	(605)	175	0	0	0
Other Cash Inflow / (Outflow)	(2,209)	0	0	0	0
Cash Flow from Investing	(5,328)	(1,562)	(732)	(694)	(900)
Shares Issue / (Repurchase)	133	(2,325)	0	0	0
Cost of Dividends Paid	(489)	(503)	(384)	(384)	(384)
Cash Flow from Financing	(356)	(2,840)	(390)	(384)	(383)
Free Cash Flow	2,046	4,829	3,743	6,252	5,371
Net Debt	(13,006)	(14,892)	(18,151)	(23,178)	(21,113)
Change in Net Debt	1,107	(2,177)	(3,359)	(5,868)	(4,987)

Key Balance Sheet Data

Property, Plant & Equipment	6,740	7,358	6,751	5,992	4,354
Other Non-Current Assets	5,477	6,553	6,466	6,169	4,652
Trade Receivables	5,374	5,451	6,084	6,359	5,438
Cash & Equivalents	13,019	14,901	18,156	23,182	21,117
Other Current Assets	2,839	2,437	2,303	2,407	2,059
Total Assets	33,449	36,700	39,761	44,110	37,620
Long-Term Debt	NA	NA	NA	NA	NA
Other Non-Current Liabilities	1,960	1,868	1,387	2,017	1,504
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	4,639	6,989	6,504	6,937	5,961
Total Liabilities	6,613	8,865	7,896	8,958	7,468
Total Equity	26,837	27,834	31,865	35,152	30,152
Total Equity & Liabilities	33,449	36,700	39,761	44,110	37,620

iQmethodSM - Bus Performance*

Return On Capital Employed	12.3%	11.3%	12.9%	11.3%	12.0%
Return On Equity	19.0%	13.4%	15.4%	15.4%	16.9%
Operating Margin	17.9%	10.3%	14.6%	15.7%	15.6%
EBITDA Margin	18.0%	16.7%	20.5%	18.9%	18.5%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.0x	1.8x	1.0x	1.3x	1.1x
Asset Replacement Ratio	2.6x	1.4x	0.6x	0.6x	0.9x
Tax Rate (Reported)	18.4%	18.4%	22.7%	22.5%	28.5%
Net Debt-to-Equity Ratio	-48.5%	-53.5%	-57.0%	-65.9%	-70.0%
Interest Cover	NA	NA	NA	NA	NA

Key Metrics

Sales Growth (YoY)	3.7%	16.4%	1.0%	3.8%	11.5%
EBITDA Growth (YOY)%	0.5%	7.8%	24.1%	-4.4%	9.2%
EBIT Growth (YoY)	-2.9%	3.7%	29.2%	-2.4%	13.0%
Net Income Growth (%)	32.3%	-21.6%	25.3%	12.3%	7.0%

* For full definitions of iQmethodSM measures, see page 10.

Company Description

Patni, India's top10 IT services exporter is GE's 2nd-largest offshore vendor. Key strengths: Reasonable scale, domain focus, ability to manage large clients & quality delivery. A dominant player in insurance, telecom services, product engineering and manufacturing. Key market is US. It is focusing on broadening its client and revenue base.

Investment Thesis

Post the sharp re-rating since Mar 2009, we believe expectations on revenue growth and margins are stretched. While the company has strengthened its management team and has delivered impressively on operational tightening, we believe, revenue pick-up will be gradual. In our view margin levers like utilisation at peak and margins could decline if the Rupee appreciates and revenue scale-up takes time. Believe the re-rating done for now and risk-reward turning unfavorable.

Stock Data

Shares / ADR	2.00
Price to Book Value	1.8x

Key Changes (ADR)

(US\$)	Previous	Current
Price Obj.	20.00	20.50
2009E EPS	1.45	1.52
2010E EPS	1.60	1.70
2011E EPS	1.70	1.82

Deal wins to be watched, Neutral Maintain Neutral, limited upside, in our view

3Q revenue was in line with our est. but EBIT margins (ex forex) were 93bps below our estimate mainly on higher compensation. Higher other income & lower forex losses led to a 7% PAT beat.

We tweak our CY09/10/11 EBIT forecasts by 1-3%, EPS forecasts by 5-7% and up our PO to Rs480/US\$20.5 (vs Rs465, US\$20).

Management gave a muted 1% qq rev guidance for 4q (Dec qrt).

We retain Neutral on our view that margins have peaked, and expanded management team will take time to deliver on revs. We forecast 12% rev and 9% EBIT (ex forex) growth over CY09-11 and see limited stock upside at CY09 EV/E to CY09-11 Eg of 2.2x.

Key to earnings growth and further re-rating is new client wins that can drive up rev growth.

3Q: Strong in-line rev growth; Margins weaker than our est.

3Q revs grew nicely 3%qq, ahead of guidance, in line with our est. led by volumes/insurance & mfg/infra mgmnt services.

However, EBIT margins (ex forex) were 67bp lower qq & 93bps below our est mainly on stock comp charge to senior hires in last 9 mths.

Margins fell despite utilization moving up by 250bps to a peak of 77%, incldg trainees.

Net employees declined by 173, though at a lower pace than last qrt. Attrition reduced.

Cash per share of Rs 139 while DSO (incl. unbilled revs) stayed flat qoq at 75 days.

Table 1: Q3 bettered guidance

Q3 (mil)	Actual	Guidance			Var
		Lower End	Upper End	Avg	
Revs (\$)	167.2	163.0	165.0	164.0	1.9%
Net income ex forex (\$)	26.6	22.5	23.5	23.0	15.5%

Source: BofA Merrill Lynch Research

Table 2: Q3 P&L

(\$ thousands)	Sep-09	Jun-09	QoQ	Sep-08	YoY	BofAMLe	Variation
Revenues	167,190	161,899	3%	183,477	-9%	166,687	0%
Cost of revenues	101,808	101,068	1%	119,791	-15%	103,658	-2%
Gross Profit	65,382	60,831	7%	63,686	3%	63,028	4%
Sales & Marketing	14,157	11,995	18%	13,176	7%	12,668	12%
General and Administration	15,602	13,755	13%	19,125	-18%	14,168	10%
SG&A Total	29,759	25,750	16%	32,301	-8%	26,837	11%
Provision for doubtful debts & advances	526	-12	-4483%	639	-18%	333	58%
Forex (gain)/loss, net	2,259	4,130	-45%	-1,173	-293%	4,000	-44%
EBITDA	32,838	30,963	6%	31,919	3%	31,858	3%

Table 2: Q3 P&L

(\$ thousands)	Sep-09	Jun-09	QoQ	Sep-08	YoY	BofAMLe	Variation
EBITDA ex forex	35,097	35,093	0%	30,746	14%	35,858	-2%
Depreciation	6,900	6,700	3%	7,049	-2%	6,190	11%
EBIT	25,938	24,263	7%	24,870	4%	25,668	1%
EBIT ex forex	28,197	28,393	-1%	23,697	19%	29,668	-5%
Other income / (exp), net	3,831	11,227	-66%	3,098	24%	2,500	53%
Income before income taxes	29,769	35,490	-16%	27,968	6%	28,168	6%
Income taxes	5,456	6,824	-20%	3,561	53%	5,352	2%
Net Income	24,313	28,666	-15%	24,407	0%	22,816	7%

Source: BofA Merrill Lynch Research

Table 3: Margin performance below estimates

	Sep-09	Jun-09	QoQ (bps)	Sep-08	YoY (bps)	BofAML e	Variation (bps)
Gross	39.1%	37.6%	153	34.7%	440	37.8%	129
EBITDA ex forex	21.0%	21.7%	-68	16.8%	423	21.5%	-52
EBIT ex forex	16.9%	17.5%	-67	12.9%	395	17.8%	-93
PAT	14.5%	17.7%	-316	13.3%	124	13.7%	85
Effective tax rate	18.3%	19.2%	-90	12.7%	560	19.0%	-67

Source: BofA Merrill Lynch Research

Table 4: Growth by vertical (USD terms)

	% of Revenue	QoQ	YoY
Financial Services	12.3%	-8.0%	-10.3%
Insurance	31.2%	8.5%	13.3%
Product Engg	14.6%	-0.2%	-12.5%
Manufacturing, Retail & Distribution	28.4%	5.9%	-12.3%
Communication, Media & utilities	13.5%	1.8%	-30.5%
Total	100.0%	3.3%	-8.9%

Source: BofA Merrill Lynch Research

Table 5: Growth by service line (USD terms)

	% of Revenue	QoQ	YoY
Application Development & Maintenance	65.0%	3.4%	-7.7%
Package software implementation	12.9%	-3.5%	-21.6%
Infra Mgmt services	6.0%	31.8%	16.3%
Product Engg services	11.1%	1.4%	-6.3%
BPO	5.0%	-2.6%	-14.0%
Total	100.0%	3.3%	-8.9%

Source: BofA Merrill Lynch Research

Table 6: Growth by geography (USD terms)

	% of Revenue	QoQ	YoY
Americas	80.8%	4.3%	-4.0%
EMEA	13.5%	-1.8%	-29.7%
APAC	5.7%	1.5%	-10.4%
Total	100.0%	3.3%	-8.9%

Source: BofA Merrill Lynch Research

Table 7: Growth by client bucket (USD terms)

	Dec-07	Mar 08	Jun-08	Sep-08	Dec-08	Mar 09	Jun-09	Sep-09
GE (top client)	0.3%	-10.0%	-3.1%	1.5%	0.7%	-0.9%	3.5%	-0.1%
Top 5 clients	-1.3%	-4.6%	1.2%	5.0%	1.1%	-13.7%	14.3%	6.3%
Top 10 clients	-1.5%	-2.4%	2.8%	2.3%	3.4%	-14.6%	10.6%	5.9%
Top 2-10	-2.1%	0.4%	4.7%	2.6%	4.2%	-18.6%	13.1%	7.9%
Non top 10	6.7%	4.6%	4.0%	-0.9%	-9.8%	-8.2%	-2.7%	0.6%

Source: BofA Merrill Lynch Research

Table 8: Utilization near peak levels

	Dec-07	Mar 08	Jun-08	Sep-08	Dec-08	Mar 09	Jun-09	Sep-09
Utilization	73.4%	70.0%	72.0%	75.0%	73.1%	70.3%	74.4%	77.0%

Source: BofA Merrill Lynch Research

Table 9: Marginal decline in headcount for the quarter

	Dec-07	Mar 08	Jun-08	Sep-08	Dec-08	Mar 09	Jun-09	Sep-09
Additions - Net	655	207	-108	-343	193	-354	-760	-173

Source: BofA Merrill Lynch Research

Next 2 qrts revs seasonally muted; New deal wins key

Patni has guided for a 1% qq growth in revs next quarter and we expect similar weak revs in the qrt after also, given fewer working days and its client mix.

Table 10: Q4, Q1 seasonally weak

	Q1CY06	Q2CY06	Q3CY06	Q4CY06	Q1CY07	Q2CY07	Q3CY07	Q4CY07	Q1CY08	Q2CY08	Q3CY08	Q4CY08	Q1CY09
Rev growth (USD, qoq)	4.8%	10.2%	6.1%	1.7%	1.1%	4.7%	3.7%	2.8%	1.3%	3.5%	0.5%	-3.9%	-11.4%

Source: BofA Merrill Lynch Research

Key to further earnings growth and re-rating is momentum in new client wins. Patni's high top ten client concentration at 51% vs peers at 20-30% and mature client profile has been a drag on revenue growth.

Table 11: Revenue concentration risk highest for Patni

	TCS	Infosys	Wipro	HCL	Patni
Top client	6.8%	4.6%	2.7%	na	11.9%
Top 10 clients	28.9%	26.2%	19.7%	27.2%	51.4%

Source: BofA Merrill Lynch Research

We believe margins (ex-forex hedging) will decline next year given our assumption of 5% rupee appreciation, likely decline in utilization and wage inflation pressure. This will be partly offset by improving employee pyramid, growing fixed price contracts and operating leverage. Management indicated pushback on any pricing hikes.

Mnmgmt highlighted a good deal pipeline but uncertain outlook on closures. Discretionary spend outlook still muted.

Financials

Table 12: Consolidated Statement of Income USD '000

	CY2007	Rec. CY2008	CY2009E	CY2010E	CY2011E	CY09>08	CY10>09	CY11>10
Revenues	662,913	718,884	654,146	716,956	821,900	-9%	10%	15%
Cost of revenues excl D&A	430,841	474,336	407,309	455,852	529,967	-14%	12%	16%
Gross Profit	232,072	244,548	246,837	261,104	291,933	1%	6%	12%
S&M	45,847	52,557	53,513	60,941	68,598			
G&A	65,685	70,499	58,395	62,724	69,000			
S,G&A Total	112,757	124,682	112,871	125,921	140,184	-9%	12%	11%
Forex (gain)/loss, net	(23,351)	18,359	11,642	(2,000)	-	n.m.	n.m.	n.m.
EBITDA	142,666	101,507	122,324	137,183	151,749	21%	12%	11%
Depreciation & Amortsn	23,973	27,700	26,730	24,644	23,341	-4%	-8%	-5%
EBIT	118,693	73,807	95,594	112,538	128,408	30%	18%	14%
EBIT ex forex	95,342	92,166	107,236	110,538	128,408	16%	3%	16%
Other Income (Expense), net	17,067	23,018	20,061	24,079	30,616	-25%	151%	49%
Income before income taxes	135,760	96,825	115,655	136,617	159,024	19%	18%	16%
Income taxes	21,783	13,586	21,723	25,274	36,576	60%	16%	45%
Net Income	113,977	83,239	93,931	111,343	122,449	13%	19%	10%
PAT %	17.2%	11.6%	14.4%	15.5%	14.9%			
Net Profit (Rs mn)	4,670	3,660	4,586	5,150	5,510	25%	12%	7%

Source: BofA Merrill Lynch Research

Table 13: Consolidated P&L statement (US GAAP translated into INR at avg exchange rate), Rs mil

	CY2007	Recurring CY2008	CY2009E	CY2010E	CY2011E	CY09>08	CY10>09	CY11>10
Average Exchange Rate	40.97	43.97	48.82	46.25	45.00			
P&L								
Revenues	27,160	31,608	31,937	33,159	36,985	1.0%	3.8%	11.5%
Cost of revenues excl D&A	17,652	20,855	19,886	21,083	23,849	-4.6%	6.0%	13.1%
Gross Profit	9,508	10,752	12,051	12,076	13,137	12.1%	0.2%	8.8%
S,G&A Total	4,620	5,482	5,511	5,824	6,308	0.5%	5.7%	8.3%
Forex (gain)/loss, net	(957)	807	568	(93)	-	-29.6%	-116.3%	-100.0%
EBITDA	5,845	4,463	5,972	6,345	6,829	33.8%	6.2%	7.6%
Depreciation & Amortsn	982	1,218	1,305	1,140	1,050	7.2%	-12.7%	-7.8%
EBIT	4,863	3,245	4,667	5,205	5,778	43.8%	11.5%	11.0%
EBIT ex forex	3,906	4,052	5,236	5,112	5,778	29.2%	-2.4%	13.0%
Other income / (exp), net	699	1,012	979	1,114	1,378	-3.2%	13.7%	23.7%
Income before income taxes	5,562	4,257	5,647	6,319	7,156	32.6%	11.9%	13.3%
Income taxes	892	597	1,061	1,169	1,646	77.6%	10.2%	40.8%
Recurring net income	4,670	3,660	4,586.0	5,150	5,510	25.3%	12.3%	7.0%

Source: BofA Merrill Lynch Research

Table 14: Key Ratios (US\$ basis)

	CY2007	CY2008	CY2009E	CY2010E	CY2011E
Gross Margin %	35.0%	34.0%	37.7%	36.4%	35.5%
EBITDA Margin %	21.5%	14.1%	18.7%	19.1%	18.5%
EBIT Margin %	17.9%	10.3%	14.6%	15.7%	15.6%
EBIT Margin (without forex related gains/losses) %	14.4%	12.8%	16.4%	15.4%	15.6%
PBT %	20.5%	13.5%	17.7%	19.1%	19.3%
PAT %	17.2%	11.6%	14.4%	15.5%	14.9%
RONW %	19.2%	13.3%	15.3%	15.7%	15.0%
S&M as % of Sales	6.9%	7.3%	8.2%	8.5%	8.3%
G&A as % of Sales	9.9%	9.8%	8.9%	8.7%	8.4%
Effective tax rate %	16.0%	14.0%	18.8%	18.5%	23.0%
ADR EPS- Weighted avg Diluted	1.63	1.23	1.46	1.73	1.90
YoY Growth	43.3%	-24.9%	19.0%	18.5%	10.0%
EPS Rs- Weighted avg Diluted	33.5	27.0	35.63	40.0	42.8
YoY Growth	29.7%	-19.4%	32.1%	12.3%	7.0%

Source: BofA Merrill Lynch Research

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Table 15: Consolidated Balance Sheet, US GAAP, '000 US\$

	CY2007	CY2008	CY2009E	CY2010E	CY2011E
Assets					
Cash and Cash Equivalents (incl treasury investments)	32,626	60,138	128,822	255,708	366,545
Investments	297,726	245,530	245,530	245,530	245,530
Accounts Receivable	136,372	111,814	125,453	137,498	157,625
Excess earnings	32,417	30,663	28,675	31,428	36,028
Deferred income taxes	6,879	9,796	8,961	9,821	11,259
Prepaid expenses	2,133	2,586	2,688	2,946	3,378
Other Current Assets	30,601	6,935	7,169	7,857	9,007
Property, Plant & Equipment, net	171,027	150,930	139,200	129,556	126,215
Goodwill	66,713	65,309	65,784	65,784	65,784
Intangible Assets, Net	31,881	27,073	23,957	21,957	19,957
Deferred income taxes	12,479	19,309	19,309	19,309	19,309
Investments	3,426	2,769	2,769	2,769	2,769
Other Assets	24,476	19,957	21,506	23,571	27,021
Total	848,755	752,810	819,823	953,735	1,090,428
Liabilities					
Capital lease obligations	278	176	143	159	184
Trade accounts payable	10,518	8,939	8,551	9,563	11,016
Excess billings	3,555	6,000	5,701	6,376	7,344
Income taxes payable	14,004	15,049	12,826	14,345	16,524
Accrued expenses	55,080	56,167	49,880	55,786	64,261
Other Current Liabilities	34,287	57,031	57,006	63,756	73,441
Total Current Liabilities	117,722	143,362	134,107	149,986	172,770
Capital Lease Obligations excluding current installments	326	184	100	100	100
Other Liabilities	25,363	24,486	15,000	20,000	20,000
Income taxes payable	22,574	11,479	10,000	20,000	20,000
Deferred Income taxes	1,806	2,343	3,600	3,600	3,600
Other Long Term Liabilities	50,069	38,492	28,700	43,700	43,700
Shareholders Funds	680,964	570,956	657,016	760,049	873,957
Total	848,755	752,810	819,823	953,735	1,090,428

Source: BofA Merrill Lynch Research

02 November 2009

Table 16: Cash flow statement, US GAAP, '000 USD

	CY2007	CY2008	CY2009E	CY2010E	CY11E
Operating activities					
Net income	113,975	101,421	93,931	111,343	122,449
Depreciation & amortization of intangibles	25,053	27,712	26,730	24,644	23,341
Deferred taxes	-10,130	-9,216	835	-860	-1,438
Provision for doubtful debts and advances	1,182	1,626	0	0	0
Loss on sale of property, plant and equipment	-265	-372	0	0	0
Loss on sale of investments	-6,370	-9,732	0	0	0
Compensation cost related to stock options	4,673	3,897	0	0	0
Changes in working capital					
Accounts receivable	-13,492	9,987	-13,639	-12,046	-20,126
Cost and estimated earnings in excess of billings of uncompleted contracts	-8,300	-3,289	1,988	-2,753	-4,600
Other current assets	-21,663	21,016	-336	-946	-1,581
Other assets	1,252	-1,676	1,092	-65	-1,450
Trade account payable others	-1,805	-958	-388	1,012	1,453
Billing in excess of costs & est earnings on uncompleted contracts	59	3,082	-300	675	969
Taxes payable	10,776	-5,444	-2,222	1,519	2,179
Accrued expenses	8,104	9,464	-6,287	5,906	8,475
Other current liabilities	4,222	11,263	-25	6,750	9,685
Other liabilities	3,953	-9,453	-9,708	15,000	0
Net cash by operating activities	111,272	149,343	91,672	150,179	139,354
Investing activities					
Purchase of property, plant & equipment	-61,891	-43,362	-15,000	-15,000	-20,000
Proceeds from sale of property, plant & equipment	558	3,842	0	0	0
Purchase of investments	-1,149,343	-973,062	0	0	0
Proceeds from sale of investments	1,134,569	977,051	0	0	0
Payments for acquisitions, net of cash acquired	-33,795	0	0	0	0
Payment for acquisition of technology related intangibles	-20,369	0	0	0	0
Tax benefit on incentive stock option of Patni telecom	235	0	0	0	0
Net cash used in investing activities	-130,036	-35,532	-15,000	-15,000	-20,000
Financing activities					
Payment of capital lease obligations	-430	-293	-117	17	24
Dividend on common share	-11,933	-11,441	-7,872	-8,310	-8,540
Proceeds from common shares issued	3,239	191	0	0	0
Purchase of common stock	0	-53,062	0	0	0
Net cash from financing activities	-8,682	-64,590	-7,989	-8,293	-8,516
Effect of exchange rate	13,562	-21,709	0	0	0
Net increase in cash & cash equivalents	-13,884.0	27,512.5	68,683.1	126,886.1	110,837.7
Cash and cash equivalents at beginning of year	46,510	32,626	60,138	128,822	255,708
Cash and cash equivalents at end of year	32,626	60,138	128,822	255,708	366,545
Cash and equivalents at end of year (incl treasury inv)	330,352	305,668	374,351	501,237	612,075

Source: BofA Merrill Lynch Research

Price objective basis & risk

Patni (PATIF / PTI)

Our PO of Rs480 (US\$20.5 for the ADR) is at 12xCY10e P/E ex cash plus 20% haircut to cash on books of Rs139/share. Risks: Relatively high client concentration, delayed macro recovery and currency appreciation. Faster than expected revenue diversification, poses key upside risk to revs.

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India - Software & IT Services Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
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	Firstsource	FSSOF	FSOL IN	Mitali Ghosh
	Mphasis Ltd	MPSSF	MPHL IN	Pratish Krishnan
	Rolta India	RLTAF	RLTA IN	Pratish Krishnan
	Rolta India-GDR	XLROF	RTI LI	Pratish Krishnan
	WNS (Holdings) L	WNS	WNS US	Mitali Ghosh
NEUTRAL	Genpact Ltd	G	G US	Mitali Ghosh
	Patni	PATIF	PATNI IN	Mitali Ghosh
	Patni Computer	PTI	PTI US	Mitali Ghosh
	Tech Mahindra	TMHAF	TECHM IN	Pratish Krishnan

India - Software & IT Services Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
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	ExService Holdi	EXLS	EXLS US	Mitali Ghosh
	HCL	XHCLF	HCLT IN	Mitali Ghosh
	Hexaware Tech	XFTCF	HEXW IN	Pratish Krishnan
	Infosys Tech	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
	Infotech Enterprises Ltd	IFKFF	INFTC IN	Pratish Krishnan
	Mastek	MSKDF	MAST IN	Pratish Krishnan
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Wipro	WIPRF	WPRO IN	Mitali Ghosh
	Wipro	WIT	WIT US	Mitali Ghosh

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

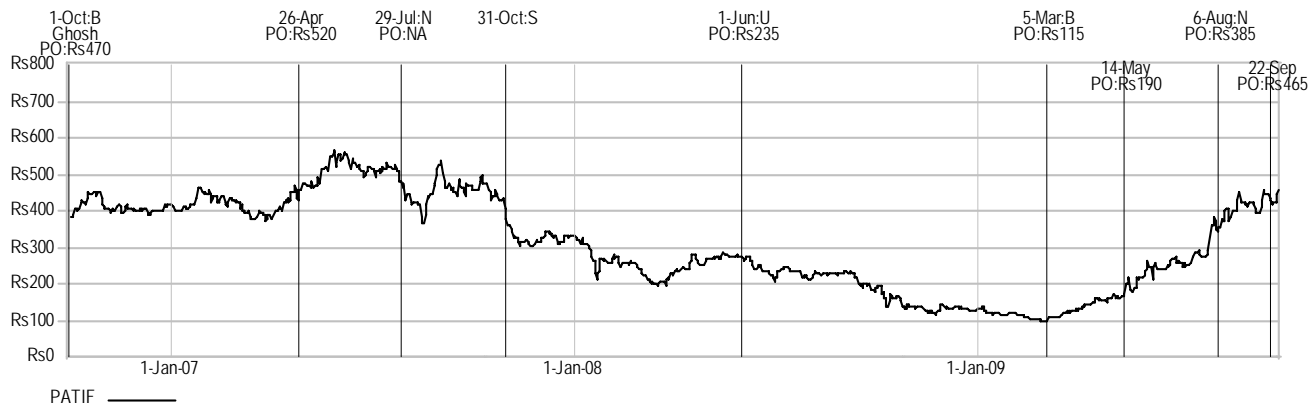
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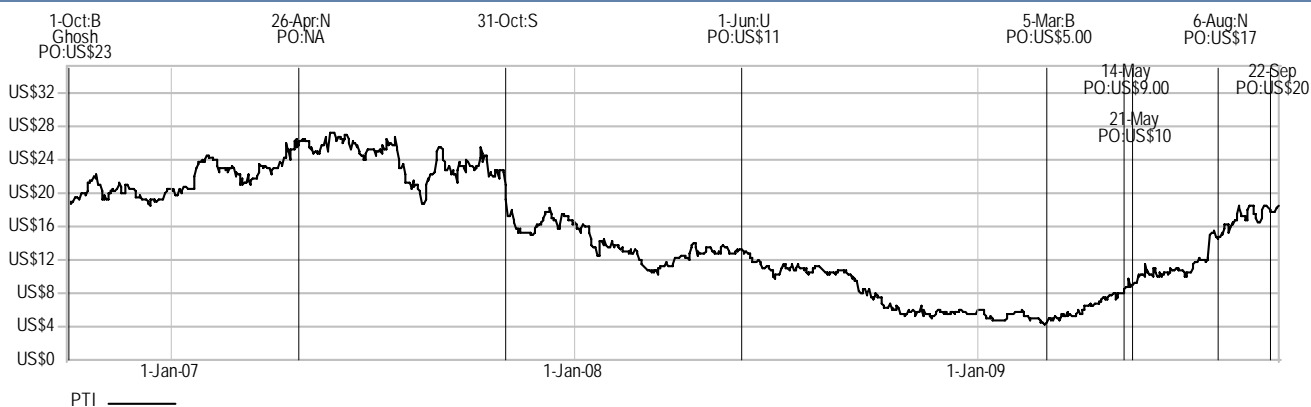


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*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2009 or such later date as indicated.

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PTI Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	98	45.37%	Buy	56	64.37%
Neutral	53	24.54%	Neutral	37	77.08%
Sell	65	30.09%	Sell	25	41.67%

Investment Rating Distribution: Global Group (as of 01 Sep 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1528	47.19%	Buy	740	53.86%
Neutral	815	25.17%	Neutral	436	60.39%
Sell	895	27.64%	Sell	378	45.99%

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