

Strong quarter, though short of expectation

Raising estimates & PO to Rs575/US\$29

While Satyam missed the 3Q Rupee revenue and profit guidance due to forex losses, margin improvement was ahead of expectation. We raise FY08 and FY09 EPS estimates by 5 and 10% and price target by 15% on roll-forward of forecasts.

Forex losses result in 3Q revenue & profit miss

While Satyam met its USD revenue guidance, a steep Rupee appreciation and relatively lower hedging than peers resulted in a 3Q revenue and EPS guidance (before Restricted Stock Unit charge) by ~0.5% and ~3.7%. Volumes expanded nicely by 8% qoq in line with leading peers but pricing increase was conspicuous in its absence, likely due to a couple of large clients having ramped.

Margins expand nicely, attrition drops further

Seasonal factors such as lower leave encashment provision combined with impressive efficiency improvements such as improved employee mix and offshore shift helped Satyam expand EBITDA margins by 205bps qoq despite the appreciating Rupee, a dip in utilization and a jump in SG&A. Employee attrition reduced further by 60bps to 17.6% LTM basis.

20 to 25% PE discount to Infy may continue

We believe Satyam's 20 to 25% PE discount to Infosys may sustain given lower visibility to earnings, as reflected in the revenue and profit miss this quarter and lower forecast earnings growth of ~23% CAGR vs 30% for Infosys and TCS. Our preferred picks are TCS and Infosys, with greater near term triggers for TCS.

Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	7,116	9,819	13,811	17,230	21,326
EPS	11.11	15.32	20.75	25.52	31.60
EPS Change (YoY)	33.2%	37.9%	35.4%	23.0%	23.8%
Dividend / Share	2.50	3.50	4.00	4.50	5.50
Free Cash Flow / Share	9.26	8.44	14.56	17.08	22.71
ADR EPS (US\$)	0.509	0.688	0.938	1.15	1.43
ADR Dividend / Share (US\$)	0.115	0.157	0.181	0.203	0.249

Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	43.92x	31.84x	23.51x	19.12x	15.44x
Dividend Yield	0.512%	0.717%	0.820%	0.922%	1.13%
EV / EBITDA*	32.63x	24.23x	18.39x	14.52x	11.45x
Free Cash Flow Yield*	1.84%	1.71%	2.98%	3.52%	4.72%

* For full definitions of iQmethodSM measures, see page 11.



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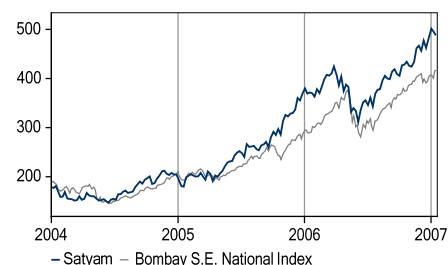
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Stock Data

Price (Common / ADR)	Rs487.90 / US\$23.70
Price Objective	Rs575.00 / US\$29.00
Date Established	22-Jan-2007 / 22-Jan-2007
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs270.50-Rs524.90
Market Value (mn)	US\$7,242
Shares Outstanding (mn)	657.0 / 328.5
Average Daily Volume	801,428
ML Symbol / Exchange	SAYPF / BSE
ML Symbol / Exchange	SAY / NYS
Bloomberg / Reuters	SCS IN / SATY.BO
ROE (2007E)	28.0%
Net Dbt to Eqty (Mar-2006A)	-69.6%
Est. 5-Yr EPS / DPS Growth	23.0% / 23.0%
Free Float	90.2%



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22 January 2007

iQprofileSM Satyam Computer Services

Key Income Statement Data (Mar)	2005A	2006A	2007E	2008E	2009E
(Rs Millions)					
Sales	35,208	47,926	64,539	83,627	108,768
Gross Profit	14,947	19,882	26,322	33,025	41,990
Sell General & Admin Expense	(6,265)	(8,220)	(10,955)	(13,560)	(17,311)
Operating Profit	7,549	10,289	13,795	17,331	21,850
Net Interest & Other Income	859	1,113	1,500	2,032	2,282
Associates	NA	NA	NA	NA	NA
Pretax Income	8,387	11,401	15,294	19,363	24,133
Tax (expense) / Benefit	(1,176)	(1,509)	(1,485)	(2,133)	(2,807)
Net Income (Adjusted)	7,116	9,819	13,811	17,230	21,326
Average Fully Diluted Shares Outstanding	649	646	666	675	675

Key Cash Flow Statement Data

Net Income (Reported)	7,211	9,898	13,811	17,230	21,326
Depreciation & Amortization	1,133	1,373	1,573	2,134	2,829
Change in Working Capital	(166)	(1,989)	(1,100)	(3,179)	(3,663)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(425)	(640)	(559)	(699)	(858)
Cash Flow from Operations	7,752	8,641	13,724	15,486	19,633
Capital Expenditure	(1,839)	(3,167)	(4,157)	(4,200)	(4,500)
(Acquisition) / Disposal of Investments	202	763	0	0	0
Other Cash Inflow / (Outflow)	0	1,598	0	0	0
Cash Flow from Investing	(1,638)	(805)	(4,157)	(4,200)	(4,500)
Shares Issue / (Repurchase)	1,027	1,292	1,271	0	0
Cost of Dividends Paid	(1,794)	(2,549)	(2,952)	(3,341)	(4,116)
Cash Flow from Financing	(659)	(420)	(1,427)	(3,341)	(4,116)
Free Cash Flow	5,913	5,474	9,567	11,286	15,133
Net Debt	(23,512)	(30,090)	(37,977)	(45,922)	(56,939)
Change in Net Debt	(5,348)	(6,578)	(7,887)	(7,945)	(11,017)

Key Balance Sheet Data

Property, Plant & Equipment	3,779	5,573	8,157	10,223	11,894
Other Non-Current Assets	870	46	434	494	554
Trade Receivables	8,952	13,527	17,958	22,895	29,457
Cash & Equivalents	23,701	31,117	39,257	47,202	58,219
Other Current Assets	247	1,108	960	960	960
Total Assets	37,549	51,371	66,765	81,774	101,084
Long-Term Debt	189	1,027	1,280	1,280	1,280
Other Non-Current Liabilities	1,896	2,760	4,026	4,418	4,995
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	2,483	4,370	6,116	6,844	8,367
Total Liabilities	4,568	8,157	11,422	12,542	14,642
Total Equity	32,981	43,214	55,343	69,232	86,441
Total Equity & Liabilities	37,549	51,371	66,765	81,774	101,084

iQmethodSM - Bus Performance*

Return On Capital Employed	23.2%	24.2%	25.5%	25.5%	25.5%
Return On Equity	23.9%	25.8%	28.0%	27.7%	27.4%
Operating Margin	21.4%	21.5%	21.4%	20.7%	20.1%
EBITDA Margin	24.6%	24.3%	23.8%	23.3%	22.7%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.1x	0.9x	1.0x	0.9x	0.9x
Asset Replacement Ratio	1.6x	2.3x	2.6x	2.0x	1.6x
Tax Rate (Reported)	14.0%	13.2%	9.7%	11.0%	11.6%
Net Debt-to-Equity Ratio	-71.3%	-69.6%	-68.6%	-66.3%	-65.9%
Interest Cover	NM	NM	NM	NM	NM

Key Metrics

Sales Growth	37.5%	36.1%	34.7%	29.6%	30.1%
EBITDA Growth	28.6%	34.6%	31.8%	26.7%	26.8%
EBIT Growth	34.8%	36.7%	34.1%	25.6%	26.1%
Net Income Growth	37.0%	37.3%	39.5%	24.8%	23.8%

* For full definitions of iQmethodSM measures, see page 11.

Company Description

Set up in 1988, Satyam is India's fourth-largest IT services exporter (FY06 revenues: US\$1.1bn, 26,500 people). With end-to-end IT services, from application development to BPO, it is GE's third-largest offshore vendor, has a strong brand in software package solutions and is traditionally strong in BFSI & manufacturing verticals. It is broadening verticals, geographies, and client base.

Stock Data

Shares / ADR	2.00
Price to Book Value	5.8x

Short of expectation...

While Satyam met its US Dollar terms revenue guidance, a steep 3.7% Rupee appreciation and relatively lower hedging than peers (~US\$300m vs US\$500m to 1bn by peers like TCS and Infosys), resulted in a Rupee revenue guidance miss.

In fact, if the company had not postponed the Restricted Stock Unit charge to the next quarter, it would have missed the Rupee net profit guidance as well. Satyam missed the 3Q revenue and EPS guidance (before RSU charge) by ~0.5% and ~3.7%.

Table 1: Rupee Guidance missed...

	Q3FY07 Actual	Guidance range		Missed by	
		Upper	Lower	Upper	Lower
Revenue (INR mn)	16,611	16,660	16,740	0.3%	0.8%
EPS before RSU charge (INR)	5.16	5.38	5.4	4.1%	4.4%
EPS adjusted for RSU charge (INR)	4.91	5.09	5.11	3.5%	3.9%

Note: * RSU charge of Rs180mn assumed for calculations of post RSU charge EPS

Source: Company

...But reasonably strong operating performance

While Satyam missed its Rupee guidance and consensus numbers due to higher than expected forex losses, operating results were largely in line with MLe.

Revenue was 1% lower than MLe and EBITDA (after providing for the Restricted Stock Unit charge of Rs180m, that was earlier expected to kick off in 3Q and was part of our forecasts, though now it has been postponed to 4Q) was 1.5% ahead of MLe. Net profit (after providing for the Restricted Stock Unit charge that was earlier expected to kick off in 3Q and was part of our forecasts, though now it has been postponed to 4Q) was 4% lower than MLe due to higher forex losses.

Table 2: Q3FY07 snapshot

Rs mn	Q3FY07	Q2FY07	QoQ	Q3FY06	YoY	MLe	Variation
Sales	16,611	16,019	3.7%	12,653	31.3%	16,800	-1.1%
Export	15,852	15,253	3.9%	12,178	30.2%	16,278	-2.6%
Domestic	759	766	-0.9%	475	60.0%	523	45.2%
Total Expenses	12,511	12,394	0.9%	9,507	31.6%	12,938	-3.3%
Manpower costs	9673.5	9827.1	-1.6%	7374.4	31.2%	10,198	-5.1%
Other costs	2837.8	2566.8	10.6%	2132.7	33.1%	2,740	3.6%
EBITDA	4,100	3,625	13.1%	3,146	30.3%	3,862	6.2%
Depreciation	394	375	5.0%	341	15.5%	404	-2.5%
EBIT	3,706	3,250	14.0%	2,805	32.1%	3,458	7.2%
Other income	102	282	-64.0%	330	-69.1%	285	-64.3%
Interest	32	27	18.8%	27	21.4%	7	361.4%
PBT	3,776	3,505	7.7%	3,108	21.5%	3,736	1.1%
Tax	403	307	31.5%	386	4.4%	385	4.8%
PAT after extraordinaries	3,372	3,198	5.4%	2,722	23.9%	3,351	0.6%
Share of profit in asso. cos.				(29)			
Minority Interest				(5)			
Recurring PAT	3,372	3,198	5.4%	2,697	25.0%	3,351	0.6%
Margins	Q3FY07	Q2FY07	QoQ	Q3FY06	YoY	Mle	Variation
EBITDA (%)	24.7%	22.6%	205bps	24.9%	-18bps	23.0%	169bps
NPM (%)	20.3%	20.0%	34bps	21.3%	-102bps	19.9%	35bps
EBIT %	22.3%	20.3%	202bps	22.2%	14bps	20.6%	173bps
Tax rate	10.7%	8.8%	193bps	12.4%	-175bps	10.3%	38bps

Source: Company, Merrill Lynch Estimates

Strong volume growth, pricing could have been better

Satyam's blended volume growth of 8% qoq was similar to its top tier peers which grew 8-10% sequentially in volumes. Offshore volumes were up 11% qoq while onsite volumes grew 5% qoq, similar to the 11% and 6% reported by Infosys.

However, US\$ revenue grew slower at 8% qoq vs Infosys at 10% qoq and TCS at 12.5%, due to flat pricing in case of Satyam whereas top tier peers saw 1-3% increase in billing rates. While Satyam also highlighted that new customers are coming in at 3 to 5% higher prices and some existing clients are renegotiating prices, the absence of any pricing increase this quarter was disappointing, likely the result of a couple of large clients having ramped. Management is however, hopeful that some price increase will reflect in FY08, as the new customers ramp.

Table 3: Compares well on volume growth; lags on pricing growth

Q3FY07 performance	QoQ Volume growth	Pricing growth
Infosys	9.70%	1.40%
TCS	7.80%	2%
Wipro	9.3% in IT and 7.1% in BPO	-0.4%
Satyam	8% qoq	0.1% to 0.5%

Source: Companies

Skewed growth across revenue segments

Growth across revenue segments were skewed likely due to a large infrastructure management project coming to a close / moving to maintain phase for a top 10 US Banking/Financial services/Insurance client.

Banking, Financial Services and Insurance (BFSI) exhibited a sequential decline in revenue this quarter whereas Retail, transportation and logistics showed robust 20% qoq growth likely due to work from Nissan ramping up.

Table 4: Growth by Vertical

	% of Revenue	QoQ	YoY
Banking, Financial Services and Insurance	25.6%	-7.1%	20%
Manufacturing	27.1%	5.4%	29%
Telecom	20.7%	5.4%	47%
Healthcare	7.6%	7.5%	40%
Retail, Transportation and Logistics	6.0%	19.7%	24%
Others	13.0%	13.8%	39%

Source: Company, Merrill Lynch Research

Among service lines Infrastructure Management Services showed a decline of 22% qoq whereas Enterprise Applications and Engineering solutions grew robustly.

Table 5: Growth by Services

Growth by Service Lines	% of Revenue	QoQ	YoY
Software dev & Maintenance	47.3%	2%	24%
Consulting and Enterprise Business Solutions	42.0%	8%	40%
Extended engineering Solutions	6.8%	10%	39%
Infrastructure Management Services	3.9%	-22%	26%
Total	99.9%	4%	31%

Source: Company, Merrill Lynch Research

While US grew by merely 1% qoq, Europe drove growth, with revenues up 9% qoq.

Expansion in margins helped by seasonality plus efficiencies

Seasonal factors combined with impressive efficiency improvements such as improved employee mix and offshore shift helped Satyam expand EBITDA margins by 205bps qoq despite 120bps negative impact by the appreciating Rupee, a dip in utilization and a 100bps jump in SG&A.

As below, margin improvement was achieved by seasonal benefit of lower leave encashment and gratuity provision, increased offshoring, broadening of employee pyramid, improvement in fixed price contract productivity and rotation of onsite employees.

Positive factors	Remarks	Impact
Increase in offshore	Offshore revenue % increased by 130bps qoq	+50 to 60 bps
Employee pyramid broadening, Onsite-offshore rotation of people, Fixed price contract productivity and absorption of annual wage hike given in the Sep quarter	Efficiency improvements	+240 bps
Seasonal reduction in leave encashment and gratuity provision	Seasonal	+200bps
Negative factors		
SG&A	Higher travel cost	-100bps
Rupee appreciation	3.7% Rupee appreciation impacted negatively	-120bps
Drop in utilization	Offshore utilization including trainees fell 260bps to 68.5%.	-60 to 80 bps

Source: Company, Merrill Lynch Research

Subsidiary performance was a disappointment, and was explained by seasonality in Citisoft and investment in Nipuna.

Table 7: Subsidiaries prove to be a drag

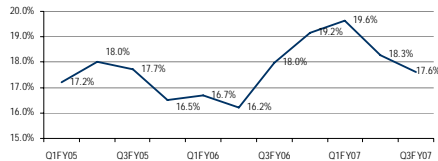
Satyam consolidated	Q3FY07	Q2FY07	QoQ	Q3FY06	YoY
Sales (INR mn)	16,611	16,019	3.7%	12,653	31.3%
EBITDA (INR mn)	4,100	3,625	13.1%	3,146	30.3%
PAT (INR mn)	3,372	3,198	5.4%	2,697	25.0%
Satyam standalone	Q3FY07	Q2FY07	QoQ	Q3FY06	YoY
Sales (INR mn)	15948.7	15377.1	3.7%	12226.3	30.4%
EBITDA (INR mn)	4089.4	3573.6	14.4%	3245.9	26.0%
PAT (INR mn)	3433	3223.4	6.5%	2868.8	19.7%
Subsidiary performance	Q3FY07	Q2FY07	QoQ	Q3FY06	YoY
Sales (INR mn)	663	642	3.2%	427	55.3%
EBITDA (INR mn)	10	51	-79.5%	(100)	-110.5%
PAT (INR mn)	(61)	(25)	Incd loss	(171)	Lower loss

Source: Company, Merrill Lynch Research

Attrition decline, a positive

Satyam saw employee attrition continue to decline as monetary efforts (above industry annual wage hike in Sep quarter) and RSU award to top 1,200 to 1,500 people combined with non-monetary incentives such as greater onsite rotation etc. , pays off.

Chart 1: Attrition trends down for second successive quarter



Source: Company

Management denies any talks with global Systems Integrator

Recently there have been reports in the market about a likely alliance/acquisition of Satyam with/by a large global Systems Integrator company. The Satyam management has emphasized in its earnings release that they would continue existence as an independent company and are not looking to be acquired.

Slight downward revision of annual Rupee guidance, modest 4Q guidance

Satyam has tweaked up annual US\$ guidance but revised down its Rupee revenue guidance and EPS (before RSU charge) marginally.

In 4Q Satyam is looking at a 4 to 4.5% qoq growth in revenue to Rs.17,280m to Rs17,360m and a 5.4% qoq growth in EPS despite provision of a Rs180m Restricted stock compensation charge, given likely absence of the forex losses.

Table 8: Annual guidance revised downwards in INR terms...

	New guidance	Erstwhile guidance	Revision
Revenue (Rs mn)	64,380	64,640	-0.4%
EPS before RSU charge (Rs)	21.19	21.35	-0.7%

Source: Company

Table 9: ...but guidance in USD terms revised marginally up on revenue

	New guidance	Erstwhile guidance	Revision
Revenue (USDmn)	1,444	1,437	0.5%
EPS before RSU charge (USD)	0.93	0.93	0.0%

Source: Company

Raising estimates, PO to Rs575/US\$29

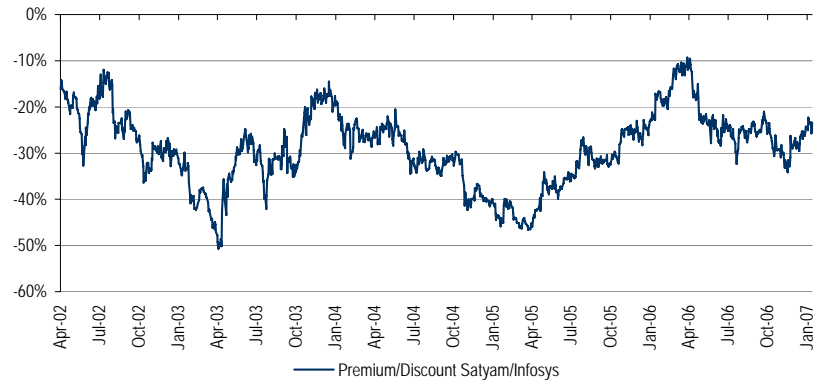
We are **raising our FY08 and FY09 revenue and EPS estimates by 5% and 10%** on the back of a 0% and 3% revision in estimate and a 50-60bps improvement in margin, led by the efficiency gains reflected this quarter.

On the back of our higher estimates and roll-forward of estimates for our 1-yr target price to 12months forward basic earnings ended Dec 08, **we raise our local target price to Rs575 and our ADR target price to US\$29, ~17% and 22% upside from current levels.**

Satyam is trading at ~25% discount to Infosys currently, which we believe may remain at between 20 and 25% given lower visibility to earnings, as reflected in the revenue and profit miss this quarter as well as due to lower earnings growth forecast of 23% CAGR vs 30% for Infosys and TCS. Our target price of Rs575 is based on little over 20% discount to Infosys target PE of 24x. It implies 22x FY08E basic EPS.

Our preferred picks in the sector are TCS and Infosys, which offer about 20% upside from current levels. While the valuation gap between TCS and Infosys play since October is behind us now, we believe **near term triggers in TCS are higher** given positive earnings revision momentum (we are 5% ahead on FY08 earnings estimates) and a 14% qoq growth in profits in Q4 vs 6% in Infosys, as per our forecast.

Chart 2: Satyam PE discount to Infosys



Source: Merrill Lynch Research

Financials

Table 10: Profit and loss statement

Rs mn	2005	2006	2007E	2008E	2009E
Sales	35,208	47,926	64,539	83,627	108,768
Expenditure					
Manpower costs	20,261	28,044	38,217	50,602	66,778
% to Sales	58	59	59	61	61
Other costs	6,265	8,220	10,955	13,560	17,311
% to Sales	18	17	17	16	16
EBITDA	8,682	11,662	15,367	19,464	24,679
Other income	868	1,168	1,603	2,107	2,377
Interest	9	56	104	75	95
Depreciation	1,133	1,373	1,573	2,134	2,829
EBIT	7,549	10,289	13,795	17,331	21,850
Write offs	22	1	-	-	-
PBT	8,387	11,401	15,294	19,363	24,133
Tax	1,176	1,509	1,485	2,133	2,807
PAT before extraords & minority	7,211	9,893	13,810	17,230	21,326
Non-recurring Items	-	1,598	-	-	-
PAT after extra ordinaries	7,211	11,491	13,810	17,230	21,326
Profit/(Loss) In Associate Cos.	(94)	(79)	-	-	-
Minority Interest	-	(6)	(1)	-	-
Reported Profit	7,116	11,417	13,811	17,230	21,326
Recurring PAT	7,116	9,819	13,811	17,230	21,326

Source: Company, Merrill Lynch Estimates

Table 11: Balance Sheet

Rs mn	2005	2006	2007E	2008E	2009E
Liabilities					
Equity Capital	1,553	1,577	2,248	2,248	2,248
Reserves & Surplus	31,428	41,596	53,095	66,984	84,193
Shareholders funds	32,981	43,173	55,343	69,232	86,441
Minority Interest	-	42	-	-	-
Debt	189	1,027	1,280	1,280	1,280
Total	33,170	44,241	56,623	70,512	87,722
Assets					
Gross block	10,142	13,172	15,652	20,797	25,297
<i>Net Assets commissioned</i>	<i>1,381</i>	<i>3,030</i>	<i>2,480</i>	<i>5,145</i>	<i>4,500</i>
Less: Depreciation	7,057	8,402	9,941	12,074	14,903
Net fixed assets	3,086	4,770	5,712	8,723	10,394
Capital Work-In-Progress	693	803	2,445	1,500	1,500
Inventories	2	2	0	0	0
Investments	763	-	0	0	0
Debtors	7,805	11,684	15,945	20,243	26,007
Loans & advances	1,148	1,843	2,013	2,652	3,450
Cash	23,701	31,117	39,257	47,202	58,219
Other current assets	245	1,106	960	960	960
Deferred asset/(liabilities)	107	46	434	494	554
Sundry creditors	(1,720)	(3,323)	(4,333)	(5,061)	(6,584)
Other current liabilities	(763)	(1,047)	(1,783)	(1,783)	(1,783)
Provisions	(1,896)	(2,760)	(4,026)	(4,418)	(4,995)
Total	33,170	44,241	56,623	70,512	87,722

Source: Company, Merrill Lynch Estimates

22 January 2007

Table 12: Cash flow statement

Rs mn	FY05	FY06	FY07E	FY08E	FY09E
Cash Flow from Operating Activities					
PBT	8,387	11,401	15,294	19,363	24,133
Depreciation and Amortization	1,133	1,373	1,573	2,134	2,829
(Increase)/Decrease in inventories	3	(0)	2	-	-
(Increase)/Decrease in sundry debtors	(1,811)	(3,880)	(4,261)	(4,298)	(5,763)
(Increase)/Decrease in loans and advances	(371)	(696)	(170)	(639)	(798)
(Increase)/Decrease in current liabilities and other provisions	1,588	1,951	2,771	1,060	2,040
Income tax paid	(1,176)	(1,509)	(1,485)	(2,133)	(2,807)
Net Cash Flow from Operating activities	7,752	8,641	13,724	15,486	19,633
Cash Flows from Investing Activities					
Capital Expenditure	(1,839)	(3,167)	(4,157)	(4,200)	(4,500)
Change in Investments (Excluding Treasury)	80	763	(0)	-	-
Change in treasury investments	121	-	-	-	-
Net Cash used for Investing activities	(1,638)	(2,403)	(4,157)	(4,200)	(4,500)
Free Cash Flow From Operations (Pre Extraordinaries)	5,913	5,474	9,567	11,286	15,133
Cash from extraordinary items	-	1,598	-	-	-
Cash Flows from Financing Activities					
Change in Share Capital	1,027	1,250	1,313	0	0
Change in Secured Loans	107	838	253	-	-
Change in Unsecured Loans	-	-	-	-	-
Change in Minority Interest	-	42	(42)	-	-
Total Change in Loans	107	838	253	-	-
Dividends and tax on dividends	(1,794)	(2,549)	(2,952)	(3,341)	(4,116)
Net Cash Flow from Financing Activities	(659)	(420)	(1,427)	(3,341)	(4,116)
Net Increase in cash during the year	5,455	7,416	8,140	7,945	11,017
Cash at the beginning of the year	18,246	23,701	31,117	39,257	47,202
Cash at the end of the year	23,701	31,117	39,257	47,202	58,219
Cash and Cash equivalents at the end of the year	23,701	31,117	39,257	47,202	58,219

Source: Company, Merrill Lynch Estimates

Table 13: Key ratios

	2005	2006	2007E	2008E	2009E
Profitability					
EPS Basic (Rs) Indian GAAP	11.1	15.1	21.0	26.1	32.0
EPS Diluted (Rs) Indian GAAP	11.02	14.75	20.46	25.53	31.60
CEPS (Rs)	12.9	17.2	23.4	29.3	36.3
ADR EPS (Indian GAAP)USD at projected Rs/USD rates	0.50	0.69	0.93	1.20	1.51
ADR EPS (US GAAP) USD at projected Rs/USD rates	0.49	0.66	0.89	1.17	1.48
Return					
RONW (%)	23.9	25.8	28.0	27.7	27.4
DPS (Rs)	2.5	3.5	4.0	4.5	5.5
Balance Sheet/Cash Flow Related					
Gearing	0.6%	2.3%	2.3%	1.8%	1.5%
Book value (Rs)	51.7	66.5	84.2	104.8	129.7
Sales/Cap employed	1.2	1.2	1.3	1.3	1.4
Debtor Days Of Sales	81	89	90	88	87
Free Cash Flow To Firm (Rs mn)	6,057	6,232	10,059	11,421	15,288

Source: Company, Merrill Lynch Estimates

Price Objective Basis & Risk

Satyam

Satyam's trading discount to Infosys we believe may remain at between 20 and 25% given lower visibility to earnings. Our target price of Rs575 is based on little over 20% discount to Infosys target PE of 24x. It implies 22x FY08E basic EPS.

Company-specific risks are high concentration of revenues from enterprise solutions, higher than expected attrition, and the risk of large deals having a lower profitability than the company average, especially during the initial transition phase. Industry-wide risks are a slowdown in the US economy and risk of Rupee/USD appreciation.

TCS (TACSF; Rs1,298; C-1-7)

Our Rs1,600 PO for TCS is set at 23x 1-yr rolling forward EPS. This is at a 5% discount to our target multiple for Infosys at 24x and lower than TCS' current 1yr forward PE of 26x. At our target price TCS would trade at 21x FY09E vs Infosys at 23x FY09E.

Risks: a) possible risks to margins from large deals, b) the ability to manage Growth, c) lower wages than peers onsite, d) growing competition from western Systems Integrators like Accenture, e) Industry wide risks of a slowdown in the US economy, higher than expected wage pressures and Rupee/USD appreciation.

Infosys (INFYF; Rs2203; C-1-7)

For Infosys, our 1-yr target PO of Rs2,650 on the local is at 24x rolling forward EPS (12m ending Dec08), in line with the 3-yr average PE. Our ADR PE of US\$67 is at 10% premium to the local, lower than the current premium of 16%.

Risks are a) Growing competition from western systems integrators like Accenture, b) Ability to manage growth, c) Industry-wide risks of a slowdown in the US economy, higher than expected wage pressures and Rupee/USD appreciation.

Analyst Certification

I, Mitali Ghosh, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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***iQmethod*SM 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	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

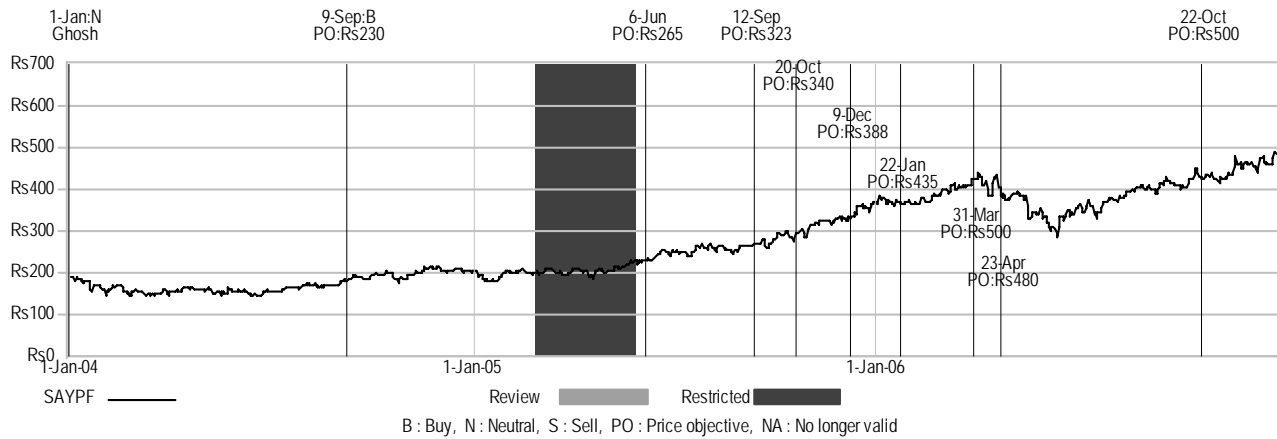
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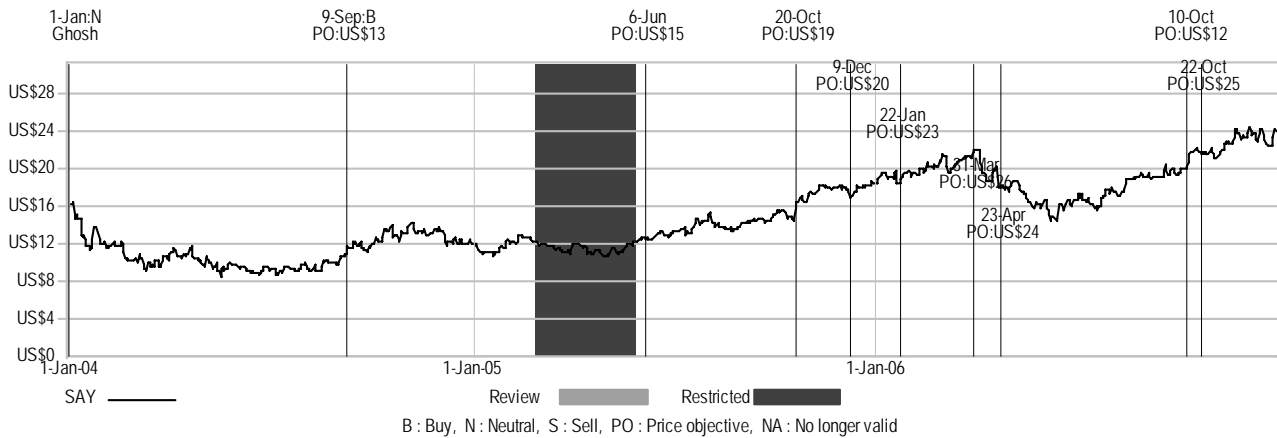
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SAYPF Price Chart



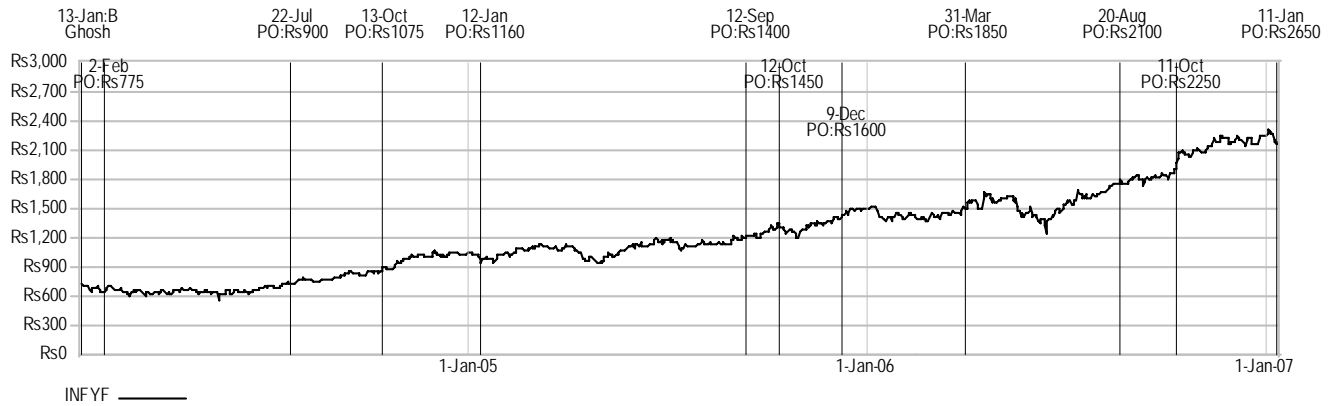
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SAY Price Chart



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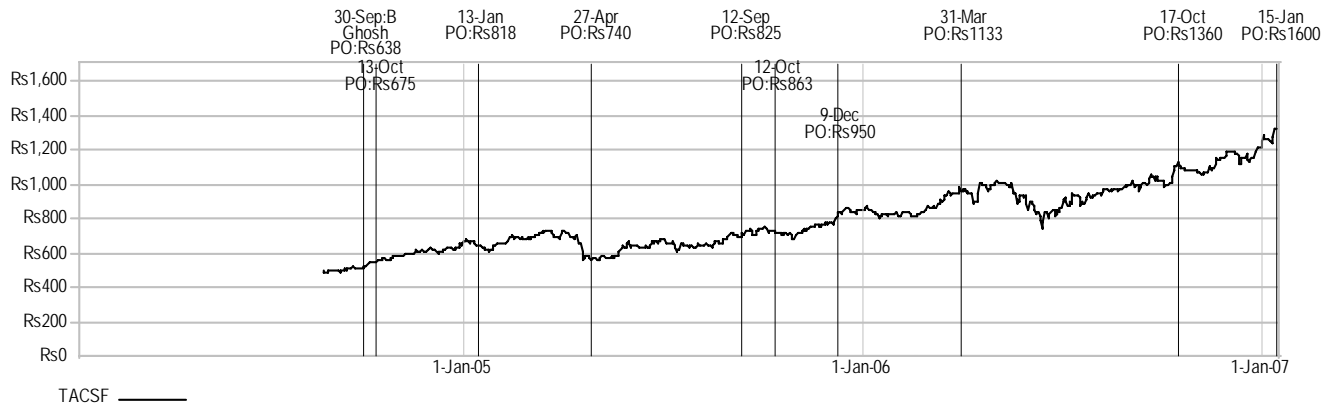
INFYF Price Chart



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

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TACSF Price Chart



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

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	104	41.94%	Buy	19	18.27%
Neutral	128	51.61%	Neutral	24	18.75%
Sell	16	6.45%	Sell	2	12.50%

Investment Rating Distribution: Global Group (as of 31 Dec 2006)

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Buy	1306	42.74%	Buy	406	31.09%
Neutral	1509	49.38%	Neutral	446	29.56%
Sell	241	7.89%	Sell	53	21.99%

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22 January 2007

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