

October 19, 2011

<b>Reco</b>	<b>Previous Reco</b>
Not Rated	Not Rated
<b>CMP</b>	<b>Target Price</b>
Rs338	N. A.
EPS change FY12E/13E (%)	10/11
Target Price change (%)	-
Nifty	5,038
Sensex	16,748

### Price Performance

(%)	1M	3M	6M	12M
Absolute	13	(1)	(29)	(27)
Rel. to Nifty	14	9	(19)	(11)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	IT Services
Bloomberg	PATNI@IN
Equity Capital (Rs mn)	268
Face Value(Rs)	2
No of shares o/s (mn)	134
52 Week H/L	510/250
Market Cap (Rs bn/USD mn)	45/913
Daily Avg Volume (No of sh)	197629
Daily Avg Turnover (US\$m)	1.2

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	67.1	45.0	45.7
FII/NRI	27.5	44.7	44.1
Institutions	1.7	3.1	4.5
Private Corp	0.8	2.3	2.1
Public	2.9	4.9	3.6

Source: Capitaline

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- **Decent operational performance ahead of estimates. Revenues at US\$ 191 mn(+3.9% QoQ) with margins improving by ~600 bps QoQ after the sharp fall in June'11 qtr**
- **Profits at Rs. 842bn (-5.3% QoQ), beat est despite higher hedging losses (Rs 340 mn). Headcount reduces by ~500 to 17,850 with utilization improving by ~300 bps QoQ to 78.7%**
- **Front end integration with iGate completed while Delivery integration to be completed over next 12-18 months. Co's attrition has been brought below historical levels**
- **We find value in Patni given cash at ~38% of mkt cap, improvement in op performance ahead. Potential delisting by parent iGate remains an additional upside trigger**

### Decent revenue growth, margin improvement encouraging

After reporting a sequential decline in revenues in June'11 qtr, Patni's revenue growth in Sep'11 quarter was impressive at ~4% QoQ, in line with Emkay estimates (higher than consensus), Margins improved by ~600 bps sequentially to 17.6% (up by ~620 bps QoQ) yet again ahead of our expectations of ~330 bps led by gross margin improvement of ~320 bps. Co's headcount reduced by ~500 people sequentially to 17,850 with utilization improving by ~300 bps QoQ to 78.7%. Revenue growth during the quarter was led by ramp ups in top 11-20 client bracket as well as well as new business won by the combined iGate-Patni front end. Company management indicated that the front end integration between iGate and Patni has been completed fully with the delivery integration expected to be achieved over the next 12-18 months.

### See several margin levers driving improvement ahead

Although we expect Patni's operating performance to be volatile in the near term we see several sustainable margin levers for Patni in the form of (1) lower attrition (Patni's attrition has been significantly ahead of peers in the past, Sep'11 margin performance is clearly an evidence of how a lower attrition can help achieve higher utilisation /margins), (2) broadening of the employee pyramid ( average experience at Patni at > 7years V/s <3-4 years for Tier 1 peers) and (3) addressing the inherent operational inefficiencies. We see upsides to our EBITDA margin assumptions of 15.2%/16.6% for CY11/12 respectively

### Find value in the stock given several upside triggers

We raise our CY11/12 earnings estimates by ~10/11% to Rs 27.5/31.4 aided largely by higher margin assumptions and lower currency resets. Despite a sharp 15% upmove in the stock post results yesterday, we find value in Patni on account of (1) improving operating performance (clearly volatile in the near term, but improving in the medium/long term for reasons cited above), (2) cash accounting for ~38% of the current market cap and (3) a delisting by the parent iGate as 6 months post the 1<sup>st</sup> open offer get over in Nov'2011.

### Financials

Y/E Dec (in Rs mn)	Net Sales	EBITDA %	EBITDA %	PAT	EPS (Rs)	ROE %	P/E(x) (x)	EV/ EBITDA (x)	P/B (x)
FY10	31,620	6,442	20.4	5,723	43.6	18.3	7.8	3.7	1.3
FY11	31,689	6,194	19.5	6,020	44.9	18.2	7.5	4.7	1.4
FY12E	35,150	5,326	15.2	2,938	21.7	9.2	15.6	5.1	1.4
FY13E	39,733	6,610	16.6	4,254	31.4	12.5	10.8	3.6	1.3

## Quarterly performance

Rs mn	Q1CY10	Q2CY10	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)	YTD 11	YTD 10
<b>Revenue</b>	<b>7,745</b>	<b>7,776</b>	<b>7,967</b>	<b>8,200</b>	<b>8,477</b>	<b>8,221</b>	<b>9,453</b>	<b>18.7</b>	<b>15.0</b>	<b>26,151</b>	<b>23,488</b>
<b>Operating Expenditure</b>	<b>6,052</b>	<b>6,186</b>	<b>6,461</b>	<b>6,796</b>	<b>6,968</b>	<b>7,281</b>	<b>7,792</b>	<b>20.6</b>	<b>7.0</b>	<b>22,042</b>	<b>18,700</b>
Cost of revenues	4,596	4,689	5,071	5,293	5,351	5,506	6,032	19.0	9.6	16,889	14,355
as % of sales	59.3	60.3	63.6	64.5	63.1	67.0	63.8			64.6	61.1
SG&A expenses	1,457	1,497	1,391	1,503	1,618	1,775	1,760	26.6	(0.9)	5,153	4,344
as % of sales	18.8	19.2	17.5	18.3	19.1	21.6	18.6			19.7	18.5
<b>EBITDA</b>	<b>1,693</b>	<b>1,590</b>	<b>1,505</b>	<b>1,405</b>	<b>1,508</b>	<b>940</b>	<b>1,661</b>	<b>10.3</b>	<b>76.7</b>	<b>4,109</b>	<b>4,789</b>
Depreciation	280	327	285	281	324	458	548	92.1	19.5	1,330	892
<b>EBIT</b>	<b>1,413</b>	<b>1,264</b>	<b>1,220</b>	<b>1,124</b>	<b>1,185</b>	<b>482</b>	<b>1,113</b>	<b>(8.8)</b>	<b>131.1</b>	<b>2,779</b>	<b>3,897</b>
Other Income	413	520	329	616	456	496	(172)	(152.2)	(134.6)	780	1,261
<b>PBT</b>	<b>1,825</b>	<b>1,783</b>	<b>1,549</b>	<b>1,739</b>	<b>1,641</b>	<b>977</b>	<b>941</b>	<b>(39.2)</b>	<b>(3.7)</b>	<b>3,559</b>	<b>5,157</b>
Total Tax	328	311	268	(30)	461	89	99	(63.1)	11.3	649	907
<b>Adjusted PAT</b>	<b>1,497</b>	<b>1,473</b>	<b>1,281</b>	<b>1,769</b>	<b>1,180</b>	<b>889</b>	<b>842</b>	<b>(34.2)</b>	<b>(5.2)</b>	<b>2,911</b>	<b>4,251</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0	0			0	0
<b>APAT after MI</b>	<b>1,497</b>	<b>1,473</b>	<b>1,281</b>	<b>1,769</b>	<b>1,180</b>	<b>889</b>	<b>842</b>	<b>(34.2)</b>	<b>(5.2)</b>	<b>2,911</b>	<b>4,251</b>
Extra ordinary items	0	0	0	0	0	-781	0			-781	0
<b>Emkay PAT</b>	<b>1,497</b>	<b>1,473</b>	<b>1,281</b>	<b>1,769</b>	<b>1,180</b>	<b>108</b>	<b>842</b>	<b>(34.2)</b>	<b>679.9</b>	<b>2,130</b>	<b>4,251</b>
<b>Reported EPS</b>	<b>11.7</b>	<b>11.4</b>	<b>9.9</b>	<b>13.7</b>	<b>8.9</b>	<b>0.8</b>	<b>6.3</b>	<b>(36.4)</b>	<b>664.4</b>	<b>16.0</b>	<b>32.9</b>

Margins (%)								(bps)	(bps)		
EBIDTA	21.9	20.5	18.9	17.1	17.8	11.4	17.6	(133)	613	15.7	20.4
EBIT	18.2	16.3	15.3	13.7	14.0	5.9	11.8	(354)	592	10.6	16.6
EBT	23.6	22.9	19.4	21.2	19.4	11.9	10.0	(948)	(193)	13.6	22.0
PAT	19.3	18.9	16.1	21.6	13.9	1.3	8.9	(716)	760	8.1	18.1
Effective Tax rate	18.0	17.4	17.3	(1.7)	28.1	9.1	10.5	(680.1)	141.4	18.2	17.6

Source: Company, Emkay Research

We build in a conservative 10% US\$ revenue growth for CY12. Earnings upped by ~10/11% for CY11/12 led largely by higher margin assumptions and lower currency resets

All fig in Rs mn except EPS and (%)	CY11E			CY12E		
	Old	New	% change	Old	New	% change
Revenues( US\$ mn)	762	753	-1.2%	828	828	0.0%
Revenues	34136	35150	3.0%	37242	39733	6.7%
EBITDA	4847	5326	9.9%	6077	6610	8.8%
EBITDA mgns, %	14.2	15.2	95.1	16.3	16.6	31.6
Net profits	3393	3719	9.6%	3851	4253	10.4%
EPS	25.0	27.5	9.8%	28.4	31.4	10.6%

Source: Company, Emkay Research

## Operating Metrics at Glance

	Q3 CY11	Growth	
		% QoQ	% YoY
<b>Revenue by Geographical Segments (%)</b>			
Americas	78.3%	2.6%	4.1%
EMEA	14.2%	12.6%	28.5%
APAC	7.5%	3.9%	0.1%
<b>Total Employees</b>	17,853	-2.8%	7.8%
		<b>bps</b>	<b>bps</b>
<b>Utilization (%)</b>	78.7%	300	470
<b>Revenue by Project Type (%)</b>			
Time and Material	53.7%	-50	-140
Fixed Price (including Fixed Price SLA)	46.3%	50	140

## Financials

## Income Statement

Y/E, Dec. (Rs. m)	CY09	CY10	CY11E	CY12E
<b>Net Sales</b>	31,620	31,689	35,150	39,733
Growth (%)		0	11	13
<b>Total Expenditure</b>	(25,178)	(25,495)	(29,824)	(33,123)
Growth (%)		1	17	11
<b>EBIDTA</b>	6,442	6,194	5,326	6,610
Growth (%)		(4)	(14)	24
<b>EBIDTA %</b>	20.4	19.5	15.2	16.6
Other Income	-	-	-	-
Depreciation	(1,169)	(1,173)	(1,893)	(2,273)
<b>EBIT</b>	<b>5,273</b>	<b>5,020</b>	<b>3,433</b>	<b>4,337</b>
Interest	-	-	-	-
<b>EBT</b>	<b>6,795</b>	<b>6,897</b>	<b>3,677</b>	<b>5,597</b>
Tax	(1,072)	(877)	(738)	(1,343)
<b>EAT</b>	<b>5,723</b>	<b>6,020</b>	<b>2,938</b>	<b>4,254</b>
Growth (%)		5	(51)	45
EAT (%)	18.1	19.0	8.4	10.7

## Balance Sheet

Y/E, Dec. (Rs. m)	CY09	CY10	CY11E	CY12E
Equity share capital	265	261	271	271
Reserves & surplus	34,397	31,092	65,914	69,097
Minority Interest	-	-	-	-
<b>Networth</b>	<b>34,662</b>	<b>31,353</b>	<b>66,185</b>	<b>69,368</b>
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	-	-	-	-
<b>Deferred Tax Liability</b>	<b>1,048</b>	<b>44</b>	-	-
<b>Total Liabilities</b>	<b>35,711</b>	<b>31,397</b>	<b>66,186</b>	<b>69,368</b>
Goodwill	-	-	-	-
Gross Block	16,797	16,873	50,808	52,008
Less: Depreciation	(5,830)	(6,205)	(8,099)	(10,372)
<b>Net block</b>	<b>10,967</b>	<b>10,668</b>	<b>42,709</b>	<b>41,636</b>
<b>Capital WIP</b>	-	-	-	-
<b>Investment</b>	<b>17,827</b>	<b>12,729</b>	<b>12,729</b>	<b>12,729</b>
<b>Current Assets</b>	<b>10,815</b>	<b>13,367</b>	<b>18,576</b>	<b>23,226</b>
Inventories	-	-	-	-
Sundry debtors	5,077	6,825	7,319	8,273
Cash & bank balance	2,944	3,527	6,057	9,292
Loans & advances	775	1,836	1,733	1,742
Other current assets	2,019	1,178	3,467	3,919
<b>Current Liab &amp; Prov</b>	<b>6,104</b>	<b>7,699</b>	<b>10,166</b>	<b>10,560</b>
Current liabilities	6,104	7,699	9,203	10,015
Provisions	-	-	963	544
<b>Net current assets</b>	<b>4,711</b>	<b>5,668</b>	<b>8,410</b>	<b>12,666</b>
<b>Misc exps</b>	-	-	-	-
<b>Deferred Tax</b>	<b>2,205</b>	<b>2,337</b>	<b>2,337</b>	<b>2,337</b>
<b>Total Assets</b>	<b>35,711</b>	<b>31,397</b>	<b>66,185</b>	<b>69,368</b>

## Cash Flow

Y/E, Dec. (Rs. m)	CY09	CY10	CY11E	CY12E
Net Profit after Tax	5,723	6,020	2,938	4,254
Add : Depreciation	1,169	1,173	1,893	2,273
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>(2,179)</b>	<b>2,617</b>	<b>(1,595)</b>	<b>(2,468)</b>
<b>Operational Cash Flows</b>	<b>6,125</b>	<b>5,521</b>	<b>5,417</b>	<b>6,522</b>
<b>Capital expenditure</b>	<b>(316)</b>	<b>(874)</b>	<b>(311)</b>	<b>(1,200)</b>
Investments	(5,578)	5,098	-	-
<b>Investing Cash Flows</b>	<b>(5,895)</b>	<b>4,224</b>	<b>(311)</b>	<b>(1,200)</b>
<b>Borrowings</b>	-	-	-	-
dividend paid	(461)	(10,588)	(435)	(498)
Issue of shares	2,615	1,198	-	-
Share Premium	-	-	-	-
<b>Financing Cash Flows</b>	<b>(208)</b>	<b>(9,163)</b>	<b>(2,576)</b>	<b>(2,088)</b>
changes in cash	23	582	2,530	3,235
Opening balance	2,922	2,944	3,527	6,057
<b>Closing balance</b>	<b>2,944</b>	<b>3,527</b>	<b>6,057</b>	<b>9,292</b>

## Key ratios

Y/E, Dec.	CY09	CY10	CY11E	CY12E
EPS (Rs)	43.6	44.9	21.7	31.4
CEPS (Rs)	52.5	53.6	35.7	48.2
Book Value Per Share (Rs)	264.0	233.8	240.4	263.9
Dividend Per Share (Rs)	3.0	67.5	2.7	3.1
<b>Valuations Ratios (x)</b>				
PER	7.8	7.5	15.6	10.8
P/CEPS	7.8	9.4	12.8	9.8
P/BV	1.3	1.4	1.4	1.3
EV/EBIDTA	3.7	4.7	5.1	3.6
EV/Sales	0.7	0.9	0.8	0.6
M-Cap/sales	1.4	1.4	1.2	1.1
<b>Profitability Ratios (%)</b>				
RoCE	16.6	15.0	10.7	12.7
RoNW	18.3	18.2	9.2	12.5
EBITDA Margin	20.4	19.5	15.2	16.6
EBIT Margins	16.7	15.8	9.8	10.9
Net Profit Margin	18.1	19.0	8.4	10.7

**Recommendation History: Patni Computers – PATNI IN**

Date	Reports	Reco	CMP	Target
26/07/2011	<a href="#">Patni Computer Q2CY11 Result Update</a>	Not Rated	322	N.A.
27/04/2011	<a href="#">Patni Computer Q1CY11 Result Update</a>	Not Rated	459	N.A.
09/02/2011	<a href="#">Patni Computer Q4CY10 Result Update</a>	Not Rated	464	N.A.
11/01/2011	<a href="#">Patni Computers Event Update</a>	Not Rated	646	N.A.

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
18/10/2011	<a href="#">TCS Q2FY12 Result Update</a>	Hold	1,120	1,060
18/10/2011	<a href="#">Mindtree Q2FY12 Result Update</a>	Accumulate	386	450
18/10/2011	<a href="#">Persistent Q2FY12 Result Update</a>	Hold	323	330
12/10/2011	<a href="#">Infosys Q2FY12 Result Update</a>	Accumulate	2,681	2,800

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