

**Satyam Computer ----- Maintain OUTPERFORM**
**Strong guidance removes all doubts**

EPS: ◀▶ TP: ▶▶

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- Satyam reported strong 4Q FY3/07 results on Friday. Revenue grew 7% QoQ, 35% YoY, in line with our estimates. Net profit was 10% ahead of our numbers, due to higher forex gains.
- Management guided for revenue growth of 28-30% YoY and EPS growth of 27-29% YoY in FY3/08 in US\$ terms. Guidance in rupees was for 20-22% YoY revenue growth and 18-20% YoY EPS growth.
- The strong cost focus of management should lead to flat margins. Furthermore, good wins in large deals give comfort on revenue growth.
- We note that Satyam's US\$-based guidance implies similar growth to Infosys's guidance. Management's rupee-based EPS guidance is now close to consensus estimates, which could lead to consensus upgrades, in our opinion.
- Post-results we maintain our EPS estimates, OUTPERFORM rating and Rs625 target price. We believe Satyam should be the best performer among large cap Indian IT stocks in the next 12 months.

guidance. Wage inflation for FY3/08 is expected to be 5% for onsite and 15% for offshore, in line with peers. Tax rates are expected to rise in FY3/08 by 180-200bps.

Management guidance for FY3/08 EPS is now in line with consensus EPS estimates of the company. This should lead to a 3-5% upgrade in consensus earnings.

Further this guidance has been given at a Rs:US\$ rate of 42.3 (Infosys gave its guidance at exchange rate of 43.1)

**Investment conclusion**

Strong guidance by Satyam management has increased our comfort significantly in the company. This is despite the headwinds of strong currency appreciation and wage inflation. We believe that this reflects both the strong macro environment and also good execution by the company.

Post-results we are maintaining our EPS estimates and target price. We believe that the stock is cheap at 17.5x FY3/08 EPS, a 28% discount to Infosys P/E and that it should move up. In the near term, consensus upgrades and strong guidance should help the stock's performance. We maintain our OUTPERFORM rating.

Bbg/RIC	SCS IN / SATY.BO	Price (20 Apr 07, Rs)	476.20		
Rating (prev. rating)	O (O)	TP (Rs) (prev. TP)	625 (625)		
Shares outstanding (mn)	654.70	Est. pot. % chg. to TP	31		
Daily trad vol-6m (mn)		52-wk range (Rs)	515.20 - 287.00		
Daily trad val-6m avg (US\$ mn)	17.6	Mkt cap (Rs/US\$ bn)	311.8/ 7.2		
Free float (%)	83.0	Performance	1M	3M	12M
Major shareholders	Promoters 17%	Absolute	9.9	(2.4)	9.3
		Relative	2.5	1.6	(3.4)
<b>Year</b>	<b>3/05A</b>	<b>3/06A</b>	<b>3/07E</b>	<b>3/08E</b>	<b>3/09E</b>
Revenues (Rs mn)	35,208	47,926	64,851	85,210	110,738
EBITDA (Rs mn)	8,682	11,662	15,377	20,274	25,672
Net profit (Rs mn)	7,116	9,808	14,045	18,074	22,574
EPS (Rs)	11.2	15.2	21.5	27.3	33.9
- Change from prev. EPS (%)	n.a.	n.a.	2	0	0
- Consensus EPS (Rs)	n.a.	n.a.	21.0	25.9	31.7
EPS growth (%)	38.0	36.1	40.8	27.0	24.3
P/E (x)	42.5	31.3	22.2	17.5	14.1
Dividend yield (%)	0.5	0.7	0.7	0.9	1.1
EV/EBITDA (x)	33.6	24.2	17.8	13.2	10.0
P/B (x)	10.5	7.1	5.4	4.4	3.5
ROE (%)	25.7	27.3	27.9	27.8	27.7
Net debt/equity (%)	net cash	net cash	net cash		

Note 1: Ord/ADR=2. Note 2: Satyam Computer Services Limited is a software services company specialising in IBM, Windows and Unix platforms.

**Strong guidance is a big positive**

Satyam management guided to YoY revenue growth of 28-30% and EPS growth of 27-29% in US\$ terms. Rupee based guidance is for revenue growth of 20-22% YoY and EPS growth of 18-20% YoY.

For 1Q, management guided to revenue growth of 5-5.5% QoQ in US\$ terms and 1.2-1.7% in rupee terms. EPS is expected to be Rs5.93-5.98. Management guidance implies a 5.3-6.0% QoQ revenue growth and 4.4%-4.9% QoQ EPS growth for the remaining three quarters of the year and is not aggressive in our view.

Company explained that they are building a flat margin, a 200-300bps increase in pricing and continuous strength in volumes in their

**Figure 1: Satyam: Rupee based guidance analysis**

Rs mn	Guidance Jun-07	Implied Sep-07	Implied Dec-07	Implied Mar-08	Guidance FY3/08
Revenues - lower end	18,010	18,958	19,956	21,006	77,930
QoQ growth	1.2%	5.3%	5.3%	5.3%	
Revenues - higher end	18,100	19,183	20,330	21,547	79160
QoQ growth	1.7%	6.0%	6.0%	6.0%	
Rs	Jun-07	Sep-07	Dec-07	Mar-08	FY3/08
EPS - lower end	5.93	6.19	6.46	6.74	25.32
QoQ growth	-0.8%	4.4%	4.4%	4.4%	
EPS - higher end	5.98	6.27	6.58	6.90	25.73
QoQ growth	0.0%	4.9%	4.9%	4.9%	

Source: Company data, Credit Suisse estimates.

**Figure 2: 4Q FY3/07 result details**

Rs mn	Actual 4Q3/06	Actual 3Q3/07	Actual 4Q3/07	QoQ	YoY	CS estimates 4Q3/07	Diff
Net Sales	13,136	16,611	17,792	7.1%	35.4%	17,659	0.7%
Gross Profit	5,256	6,537	6,670	2.0%	26.9%	6,847	-2.6%
Gross Margin	40.0%	39.4%	37.5%			38.8%	
EBIT	2,973	3,706	3,748	1.1%	26.1%	3,840	-2.4%
EBIT Margin	22.6%	22.3%	21.1%			21.7%	
Depreciation	372	394	354	-10.1%	-4.8%	420	-15.7%
EBITDA	3,345	4,100	4,102	0.1%	22.6%	4,260	-3.7%
EBITDA Margin	25.5%	24.7%	23.1%			24.1%	
Other income	272	69	630			183	245%
Net income	2,850	3,372	3,936	16.7%	38.1%	3,584	9.8%
Net margins	21.7%	20.3%	22.1%			20.3%	
EPS	8.85	2.57	5.98	133%	-32.4%	5.44	9.8%

Source: Company data, Credit Suisse estimates.

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**Companies Mentioned** (Price as of 20 Apr 07)

Satyam Computer (SATY.BO, Rs476.20, OUTPERFORM, TP Rs625.00, MARKET WEIGHT)

Infosys Technologies (INFY.BO, Rs2055.25, OUTPERFORM, TP Rs2675.00, MARKET WEIGHT)

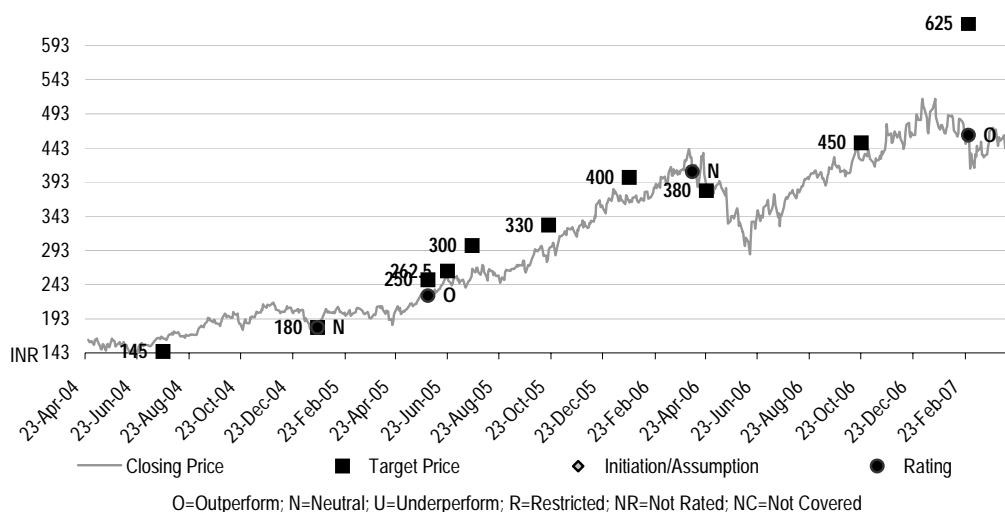
**Disclosure Appendix**

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**3-Year Price, Target Price and Rating Change History Chart for SATY.BO**



SATY.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/Assumption
23-Jul-04	164.575	145		
21-Jan-05	179.95	180	NEUTRAL	
31-May-05	226.75	250	OUTPERFORM	
23-Jun-05	254.025	262.5		
22-Jul-05	266.4	300		
20-Oct-05	293.75	330		
23-Jan-06	363.125	400		
07-Apr-06	408.275	380	NEUTRAL	
24-Apr-06	386.725	380		
23-Oct-06	425	450		
26-Feb-07	461.45	625	OUTPERFORM	

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**Price Target:** (12 months) for (SATY.BO)

**Method:** Our target price for Satyam of Rs625 is based on a price-to-earnings (P/E) multiple of 19.2x, a 20% discount to Infosys's (INFO IN) target P/E multiple. We use two-year forward earnings per share (EPS) of Rs33 to calculate our one-year forward target price. Our target P/E multiple takes into account Satyam's historical P/E multiple and its discount to Infosys's multiple.

**Risks:** Key risks to our target price for Satyam of Rs625 include weakness in the US economy, which could lead to slower revenue growth. Also, the inability of the company to win large contracts could lead to longer-term issues with growth. On margins, due to its lower wages compared to other large Indian IT companies, Satyam could face higher wage pressure leading to lower than expected profits. The performance of its subsidiaries could remain below par for some more time, leading to earnings per share (EPS) below our estimates.

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