

Satyam Computers

Good 2QFY09 reaffirms business stability, Remain positive

- **Satyam reported good 2QFY09** with revenues at top end of guidance, 100 bps margin decline due to salary hikes and a foreign exchange gain (due to lower hedging position). Rupee revenues/EPS grew 8%/6% Q/Q. Performance was consistent across service lines and industry verticals with 1800+ net headcount addition, declining attrition and largely stable pricing. Debtor days declined and cash increased to Rs 80/share.
- **FY09 guidance was adjusted for currency movements and macro environment weakness.** FY09 US\$ revenue guidance was cut by 4% but EPS increased by 1% as rupee depreciation helps margins – Satyam expects a strong 100-150 bps margin expansion in FY09. Rupee revenue/EPS guidance was increased by 1%/5% - Satyam now expects 33-35% Rupee EPS growth in FY09.
- **Satyam's performance reinforces the message given by Infosys** – current business environment remains steady. This is backed by a good quarter from IBM Global Services and suggestions of strong business pipeline from several IT Services players (IBM, Accenture, Infosys, HCL Technologies). With decision making expected to be slow near-term, we believe it is fair to expect muted 3Q/4QFY09 as Infosys/Satyam have guided. However business should accelerate as deals get closed and ramp-up. For Satyam specifically, the company continues to execute well in tough times and exhibit improvement in systems that Satyam has seen over last 2-3 years.
- **Investment view:** We remain positive on prospects of offshore players in a slowing macro environment and expect more work to offshore over the coming 9-12 months. For Satyam, our estimates remain largely unchanged and we expect 23% EPS CAGR over FY08-10E. Our P/E-based Jun-09 target price is Rs 475/share. With the stock having fallen sharply, valuations at FY09E/FY10E P/E of 8x/7x are inexpensive and we remain buyers at current prices.

Overweight

SATY.BO, SCS IN

Price: Rs265.95

Price Target: Rs475.00

India

eBusiness/IT Services

Manoj Singla, CFA^{AC}

(91-22) 6639-3017/(44-20) 7325-1191
manoj.singla@jpmorgan.com

J.P. Morgan India Private Limited

Bhavin Shah

(852) 2800-8538
bhavin.a.shah@jpmorgan.com

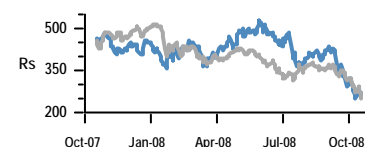
J.P. Morgan Securities (Asia Pacific) Limited

Nishit Jasani

(91-22) 6639-3008
nishit.x.jasani@jpmorgan.com

J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
ABS	-40.0%	-23.9%	-35.8%	-41.8%
REL	10.0%	-0.6%	-13.7%	2.9%

Table 1: Reuters: SATY.BO/SATY.US, Bloomberg: SCS IN/SAY US

RsB (YE: Mar)	FY08A	FY09E	FY10E	FY11E	RsB	FY08A	FY09E	FY10E	FY11E	52-Week range	Rs214-544
Sales	84.7	115.6	136.5	164.4	Y/E BPS (Rs)	108.0	137.4	167.4	201.0	Shares Outstg	676Mn
Operating Profit	16.7	24.1	27.2	32.6	ROE (%)	26.0	27.6	25.1	22.7	Date of price	17 Oct 2008
EBITDA	18.3	26.6	30.1	35.8	ROIC (%)	48.0	48.2	43.7	40.8	Avg daily vol	5.2Mn
Net profit	16.9	22.8	25.8	28.2		1Q	2Q	3Q	4Q	Index (Sensex)	9,975
EPS	25.2	33.8	38.2	41.8	EPS (FY08) A	5.7	6.1	6.5	7.0	Free float	85%
P/E (x)	10.8	8.1	7.1	6.5	EPS (FY09) E	8.1	8.6	8.3	8.7	Avg daily val (US\$)	43.8 Mn
EV/EBITDA (x)	9.0	6.2	5.5	4.6	EPS (FY10) E	9.0	9.1	9.8	10.2	Exchange rate	Rs48.8/US\$1
P/B (x)	2.5	2.0	1.6	1.4	Abs. Per.(1M, 3M, 12M)	-23.4	-30.8	-39.5		Market Cap	US\$ 3.8B
Cash	45.0	58.2	74.4	91.1	Rel. Per.(1M, 3M, 12M)	-2.5	-18.1	8.9		Dividend Yld (%)	1%
Equity	72.4	92.8	113.1	135.8	Target Price (6/2009)	Rs.	475			ADR	US\$14.4

Source: J.P. Morgan estimates, Company reports

See page 13 for analyst certification and important disclosures, including non-US analyst disclosures.

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of J.P. Morgan in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at www.morganmarkets.com or can call 1-800-477-0406 toll free to request a copy of this research.

2QFY09 – Good quarter in current tough environment

Satyam reported 2QFY09 inline with expectations with revenues of US\$ 652m coming in at the higher end of guidance of US\$ 645.6-651.9 m. US\$ revenues grew 4.5% Q/Q despite the cross currency headwinds, driven by 4% Q/Q volume growth and stable pricing. Rupee-revenues grew 7.6% Q/Q due to Rupee depreciation. However, the realized rupee exchange rate was only Rs44/US\$ which was below expectations and lead to both rupee revenue and margins coming in below our expectations.

However, margins declined 104bps Q/Q due to wage hikes given this quarter (12% offshore wage hike and 3% onsite wage hike), partly offset by SG&A cost reductions and rupee depreciation against US\$.

Other income was better than expected with foreign exchange gain of Rs 85.1 m as against loss of Rs363 m in 1QFY09. Overall, net profit grew 6% Q/Q.

Table 2: Actual 1Q FY09 results compared with our expectations

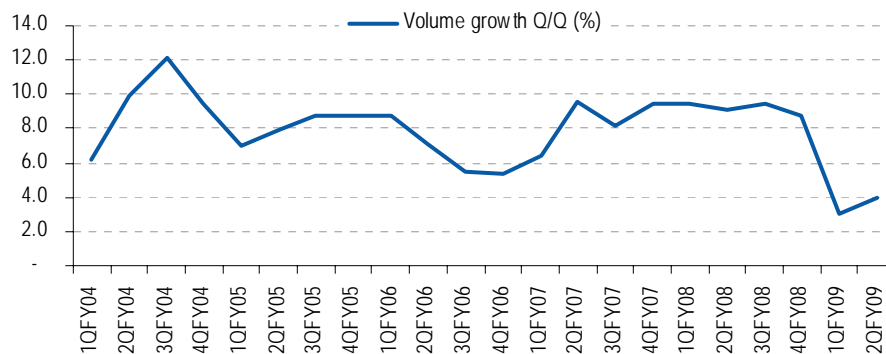
Rs m	Actual	Expectations	Diff. (%)
Revenue	28,193	29,286	(3.7)
Gross Profit	10,333	11,259	(8.2)
EBIT	5,864	6,476	(9.4)
EBITDA	6,509	6,955	(6.4)
Net Other Income	664	139	
Pre Tax Profit	6,528	6,615	(1.3)
Net Profit after min/sub	5,809	5,649	2.8
EPS (Rs)	8.6	8.4	3.0
Margins (%)			
Gross Margin	36.7	38.4	(1.8)
Operating Margin	20.8	22.1	(1.3)
EBITDA Margin	23.1	23.7	(0.7)
Net Margin	20.6	19.3	1.3

Source: Company data, J.P. Morgan estimates.

Satyam reported revenues and operating profit below our estimates as average rupee rate realized was below our estimate. Overall, net profit came in higher than expected due to foreign exchange gains.

Performance metrics were decent

Figure 1: Volume growth Q/Q



Source: Company data, J.P. Morgan estimates.

Satyam saw 4% Q/Q volume growth in 2Q FY09. Growth for last two quarters has been low compared to historical trend implying a tougher demand environment – however this growth rate is better than most peers.

Pricing

In 2Q FY09, Satyam saw a slight decline in pricing down 0.43% of offshore and 0.75% onsite. However, company clarified that this was largely due to the sharp cross currency movements and pricing was up 0.2% for onsite and 0.5% for offshore. While management accepted that pricing would be under pressure if the current weak environment continues for next few quarters, they maintained that they had not seen price reductions so far from their customers. We note that the trend of price increases is over and are building in slight price declines in our model.

Table 3: Offshore pricing trend as compared to larger peers

Q/Q growth	1Q FY07	2Q FY07	3Q FY07	4Q FY07	1Q FY08	2Q FY08	3Q FY08	4Q FY08	1QFY09	2QFY09
Infosys	0.2	1.1	1.7	1.4	1.0	2.6	1.3	0.5	0.0	-0.3
Satyam	0.2	0.4	0.3	0.7	1.5	1.3	2.3	0.5	-0.2	-1.3

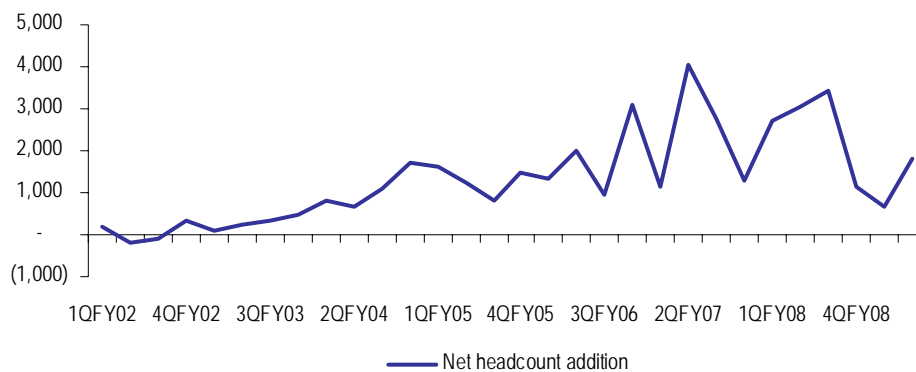
Source: Company data, J.P. Morgan estimates.

Reduced headcount addition target

Satyam saw a decent net headcount addition of 1,814 in IT services (gross adds 3,323; with 221 freshers). However, the company reduced its FY09 gross headcount addition guidance to 8,000-10,000 people (from 14,000-15,000 earlier). Management cited weak outlook of flattish growth for the next couple of quarters as the primary reason for the cut. Satyam will honor all campus offers made so far, but is unsure of timeframe of on-boarding people given the weak environment.

Satyam plans gross addition of 8,000-10,000 people in IT services

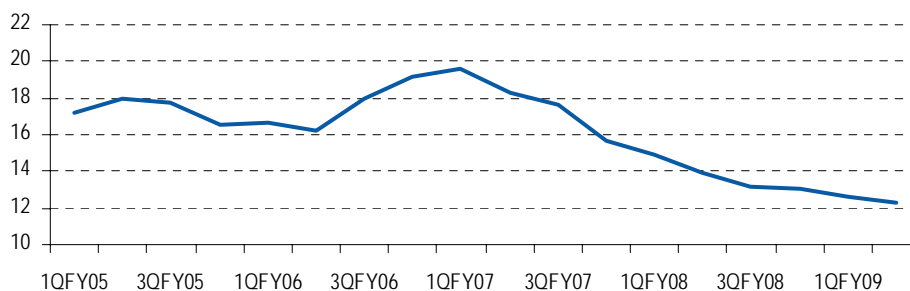
Figure 2: Satyam net headcount additions



Source: Company data.

Attrition has come down significantly and is now largely in line with larger companies

Figure 3: TTM Attrition



Source: Company data

The performance of subsidiaries and JVs improved in 2Q FY09

Subsidiaries – BPO recovers partially

Satyam BPO revenues have recovered from the sharp decline in 1QFY09 due to run-off in certain animation projects. Subsidiary performance has improved from previous quarter.

Table 4: Satyam BPO

Rs in millions	1Q FY07	2Q FY07	3Q FY07	4Q FY07	1Q FY08	2Q FY08	3Q FY08	4Q FY08	1QFY09	2QFY09
Revenues	363.6	416.0	433.8	503.3	486.5	608.9	602.5	729.6	489.7	556.2
Profit	-61.5	-47.7	-53.4	-10	-83	-47.8	(93.5)	15.5	(219.0)	(200.5)
Net Margin	-16.9%	-11.5%	-12.3%	-2.0%	-17%	-7.9%	-15.5%	2.1%	-44.7%	-36.0%

Source: Company data, J.P. Morgan estimates.

Table 5: Effect of subsidiaries and JV

Rs in millions	2QFY09		1QFY09		Variance in profit
Subs	Revenue	Profit	Revenue	Profit	
Nipuna	556.2	-200.5	489.7	-219.0	18.5
Satyam Tech	240.8	13.9	4.2	-6.9	20.8
Satyam China	185.6	-49.8	148.3	-59.5	9.7
Citisoft	230.5	7.6	230.2	-37.1	44.7
Bridge Strategy	285.9	21.2	331.9	48.4	-27.2
Subsidiaries Total	1,499.0	-207.6	1,204.3	-274.1	66.5
JV					
CA Satyam	15.3	-5.0	11.0	-5.8	0.8
Satyam Venture	200.4	14.8	237.2	16.8	-2.0
Total	1,714.7	-197.8	1,452.5	-263.1	65.3

Source: Company data, J.P. Morgan estimates.

Decrease in debtor days

Debtor days stood at 88 days, much lower than the previous quarter's level of 93 days – which is a good sign in current uncertain environment.

FY09 guidance cut in US\$-terms, revised upwards in Rupee

In US\$-terms, Satyam reduced its FY09 guidance of revenue growth to 19-21% from 24-26% earlier. This is partially due to cross-currency headwinds (depreciation of GBP, Euro and A\$ against US\$) and partially due to weak economy. However, EPS guidance was revised upwards to 18-20% growth from 16-18.4%.

In Re-terms, Satyam increased its guidance to revenues of Rs 112,730-114,750 up 33.0-35.4% Y/Y. On EPS, Satyam guided to Rs 33.57-34.10 up 33-35.1% Y/Y. Revenue/EPS guidance is increased by 1%/5% as management has now used Rs 47/US\$ in giving guidance.

The increase in EPS guidance is due to expected margin expansion of 100-150 bps over FY08 (previous guidance of 50 bps improvement) due to the sharp rupee depreciation during the quarter.

3QFY09 Guidance

In US\$ terms Satyam has guided to revenue of \$634-652.2 million up down 2.8 to flat Q/Q. Rupee revenue guidance is Rs 29,450-30,340 million up 4.4-7.6% Q/Q and EPS of Rs 8.39-8.65 down 2.8% to up 0.2% Q/Q.

Table 6: Indian GAAP guidance

Rs M

	1QFY09	2QFY09	3QFY09 E	4QFY09E	Old guidance	New guidance	Change (%)
Revenue	26,208	28,193	30,340	30,009	113,630	114,750	1.0
Seq. growth (%)		7.6	7.6	-1.1	34.1%	35.4%	
EPS	8.2	8.6	8.7	8.7	32.4	34.1	5.4
Q/Q growth (%)		5.8	0.2	0.1	28.2%	35.1%	

Source: J.P. Morgan estimates, Company data.

Table 7: US GAAP guidance

US\$ M

	1QFY09	2QFY09	3QFY09 E	4QFY09E	Old guidance	New guidance	Change (%)
Revenue	637	652	652	645	2,694	2,587	-4.0%
Seq. growth (%)		2.3	0.0	-1.1	26.0	21.0	
EPS	0.19	0.20	0.18	0.19	0.74	0.75	1.4%
Q/Q growth (%)		2.6	-7.7	2.8	18.4	20.0	

Source: J.P. Morgan estimates, Company data.

Estimate changes

We are reducing our FY09 revenues by about 1% due to lower than expected 2Q performance but our EPS estimates remain unchanged due to Rupee/US\$ depreciation. Our FY10/11 estimates remain largely unchanged.

Table 8: Estimate changes

Rs in millions, year-end March

We now expect 27% revenue CAGR and a 23% EPS CAGR over FY08-10E

	New			Old			Change (%)		
	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E
Revenue	115,568	136,542	164,425	116,581	136,937	164,207	(0.9)	(0.3)	0.1
Gross Profit	42,858	48,511	57,474	43,680	48,566	57,094	(1.9)	(0.1)	0.7
EBIT	24,101	27,226	32,619	24,607	27,169	32,232	(2.1)	0.2	1.2
EBITDA	26,562	30,123	35,834	26,606	29,436	34,729	(0.2)	2.3	3.2
Pre Tax Profit	26,126	30,535	37,340	26,359	30,416	36,340	(0.9)	0.4	2.8
Net Profit	22,770	25,796	28,208	22,754	25,995	29,029	0.1	(0.8)	(2.8)
EPS (Rs)	33.8	38.2	41.8	33.7	38.3	42.8	0.3	(0.3)	(2.4)
Margins (%)									
Gross Margin	37.1	35.5	35.0	37.5	35.5	34.8			
EBIT Margin	20.9	19.9	19.8	21.1	19.8	19.6			
EBITDA Margin	23.0	22.1	21.8	22.8	21.5	21.1			
Net margin	19.7	18.9	17.2	19.5	19.0	17.7			

Source: Company data, J.P. Morgan estimates.

Table 9: Satyam P&L

Rs in millions, year-end March

	FY09				FY10E				2006	2007	2008	2009E	2010E	2011E
	1Q	2Q	3QE	4QE	1QE	2QE	3QE	4QE						
Revenue	26,208	28,193	30,131	31,036	31,688	33,143	35,220	36,491	47,926	64,851	84,735	115,568	136,542	164,425
Gross Profit	10,327	10,333	10,951	11,248	11,429	11,691	12,486	12,905	18,489	24,764	30,481	42,858	48,511	57,474
EBIT	5,856	5,864	6,040	6,341	6,492	6,526	6,995	7,213	10,289	13,893	16,712	24,101	27,226	32,619
EBITDA	6,323	6,509	6,698	7,032	7,199	7,240	7,714	7,970	11,662	15,377	18,348	26,562	30,123	35,834
Pre Tax Profit	6,130	6,528	6,568	6,900	7,218	7,325	7,854	8,137	11,401	15,566	19,183	26,126	30,535	37,340
Net Profit	5,477	5,809	5,595	5,890	6,083	6,177	6,643	6,894	9,892	14,046	16,879	22,770	25,796	28,208
EPS (Rs)	8.1	8.6	8.3	8.7	9.0	9.1	9.8	10.2	15.2	21.3	25.2	33.8	38.2	41.8
Margins (%)														
Gross Margin	39.4	36.7	36.3	36.2	36.1	35.3	35.5	35.4	38.6	38.2	36.0	37.1	35.5	35.0
Operating Margin	22.3	20.8	20.0	20.4	20.5	19.7	19.9	19.8	21.5	21.4	19.7	20.9	19.9	19.8
EBITDA Margin	24.1	23.1	22.2	22.7	22.7	21.8	21.9	21.8	24.3	23.7	21.7	23.0	22.1	21.8
Net Margin	20.9	20.6	18.6	19.0	19.2	18.6	18.9	18.9	20.5	21.7	19.9	19.7	18.9	17.2
Seq'l Growth (%)														
Revenue	8.5	7.6	6.9	3.0	2.1	4.6	6.3	3.6	36.1	35.3	30.7	36.4	18.1	20.4
Gross Profit	14.5	0.1	6.0	2.7	1.6	2.3	6.8	3.4	33.9	33.9	23.1	40.6	13.2	18.5
EBIT	15.5	0.1	3.0	5.0	2.4	0.5	7.2	3.1	36.3	35.0	20.3	44.2	13.0	19.8
EBITDA	14.8	2.9	2.9	5.0	2.4	0.6	6.6	3.3	34.3	31.9	19.3	44.8	13.4	19.0
Net Profit	17.3	6.1	(3.7)	5.3	3.3	1.6	7.6	3.8	38.0	43.1	20.2	34.9	13.3	9.3
EPS	17.0	5.9	(3.8)	5.1	3.3	1.6	7.6	3.8	36.0	40.3	18.2	33.9	13.0	9.3

Source: Company data, J.P. Morgan estimates.

Performance gap to Tier 1 companies still exists

Despite closing the revenue gap somewhat, Satyam continues to have a pretty high gap to TCS and Infosys on EBIT that has remained through the years. Better performance in FY09 could help to reduce the gap.

Table 10: Gap with Tier 1 companies

Satyam	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
Revenues	25,605	35,208	47,926	64,851	84,735	115,568	136,542	164,425
Gap to Infosys	90%	102%	99%	114%	97%	85%	78%	75%
Gap to TCS	178%	176%	176%	187%	170%	142%	135%	127%
EBIT	5,622	7,549	10,289	13,893	16,712	24,101	27,226	32,619
Gap to Infosys	139%	171%	158%	176%	175%	154%	153%	146%
Gap to TCS	222%	243%	232%	234%	221%	169%	174%	167%

Source: Company data, J.P. Morgan estimates.

Table 11: Revenue, EBIT growth gap with larger peers

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
Infosys										
Revenue growth	37.0	40.3	33.1	46.7	33.7	45.9	20.1	27.9	13.8	18.6
EBIT growth	33.9	23.2	24.6	52.3	29.7	44.4	19.9	33.2	12.4	16.9
EBIT margins	33.7	29.6	27.7	28.8	27.9	27.6	27.5	28.7	28.3	27.9
Net profit growth	28.8	21.5	27.0	46.8	34.1	50.2	21.8	28.4	15.0	11.0
TCS										
Revenue growth	43.0	26.2	29.1	36.6	36.2	40.7	22.7	22.3	14.7	16.1
EBIT growth	40.7	-0.9	45.7	43.1	31.8	36.1	15.5	21.0	15.0	16.5
EBIT margins	28.7	22.5	25.4	26.6	25.8	24.9	23.5	23.2	23.3	23.3
Net profit growth	41.9	-0.9	47.4	39.8	27.9	43.3	21.5	12.3	17.5	10.8
Satyam										
Revenue growth	42.0	16.8	25.6	37.5	36.1	35.3	30.7	36.4	18.1	20.4
EBIT growth	32.9	6.4	17.7	34.3	36.3	35.0	20.3	44.2	13.0	19.8
EBIT margins	26.8	24.4	22.9	21.4	21.5	21.4	19.7	20.9	19.9	19.8
Net profit growth	55.0	-6.3	18.0	38.6	38.0	43.1	20.2	34.9	13.3	9.3

Source: Company data, J.P. Morgan estimates.

Valuation – June-09 price target remains Rs 475/share

We maintain our June-09 price target of Rs 475/share based on a combination of P/E multiples and DCF fair values. Our price target assumes a one-year forward/trailing P/E multiples of 12x/14x, a 20% discount to our target forward multiple for Infosys.

Risks to our price target

Macro slowdown in IT spending environment, appreciation of the rupee against the US\$ and continued losses at subsidiaries are key risks to our price target.

Table 12: Satyam P/E multiples

	1 year forward	1 year Trailing
Average P/E multiple for 1 year	12.5	16.0
June-09E EPS	39.0	34.6
Multiple used in Target price (x)	12.2	13.7

Source: Company data, J.P. Morgan estimates.

DCF valuation

Our DCF based June-09 is Rs 390/share. Our target price assumes a premium of 22% to this fair value. Our long-term assumptions include FY08-18E 10-year revenue CAGR assumption of 14%, long-term EBIT margins of 20%, long-term ROIC of 31% and cost of capital at 15.6%.

Figure 4: Trailing P/E multiple discount to Infosys



Source: Company data, J.P. Morgan estimates.

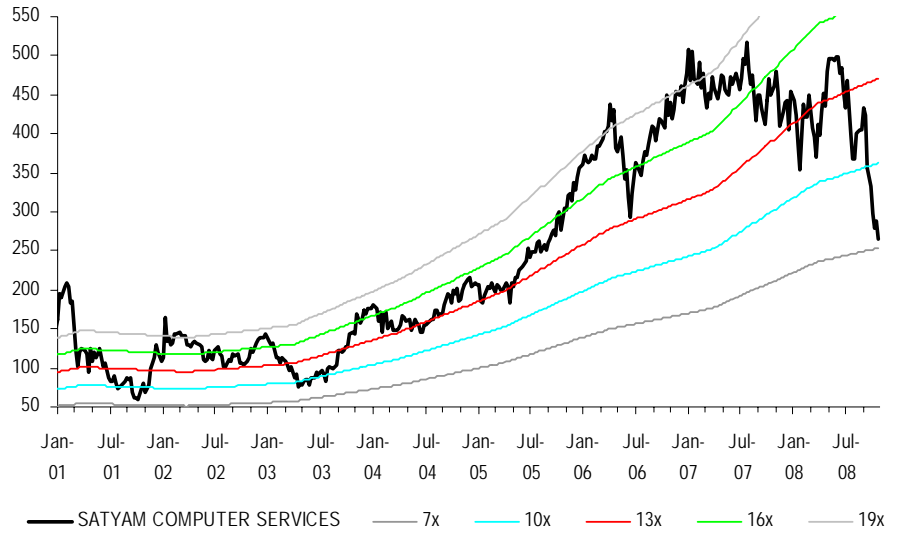
Figure 5: Forward multiple discount to Infosys



Source: Company data, J.P. Morgan estimates.

Satyam is trading at 7.3x one-year forward multiple, a 33% discount to Infosys

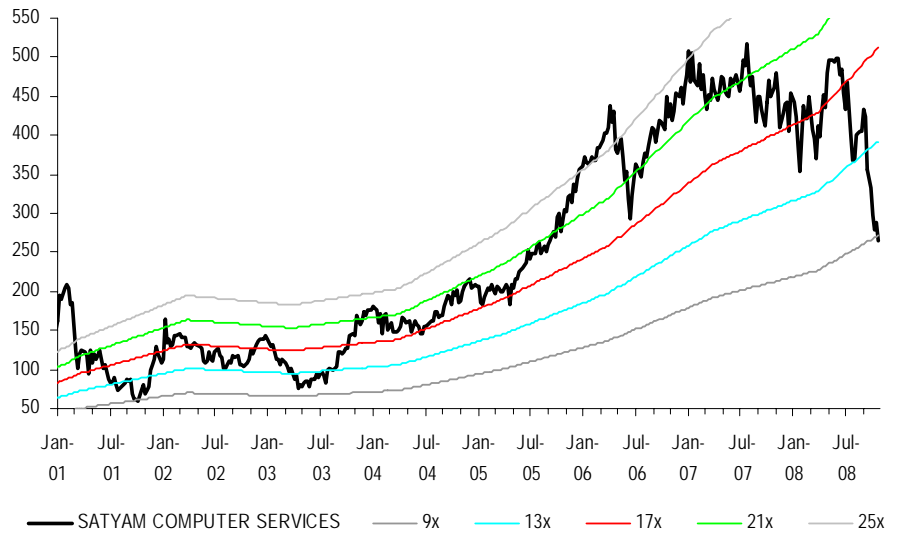
Figure 6: One-year forward P/E



Source: Company data, J.P. Morgan estimates.

Satyam is trading at 8.8x one-year trailing P/E, a 33% discount to Infosys

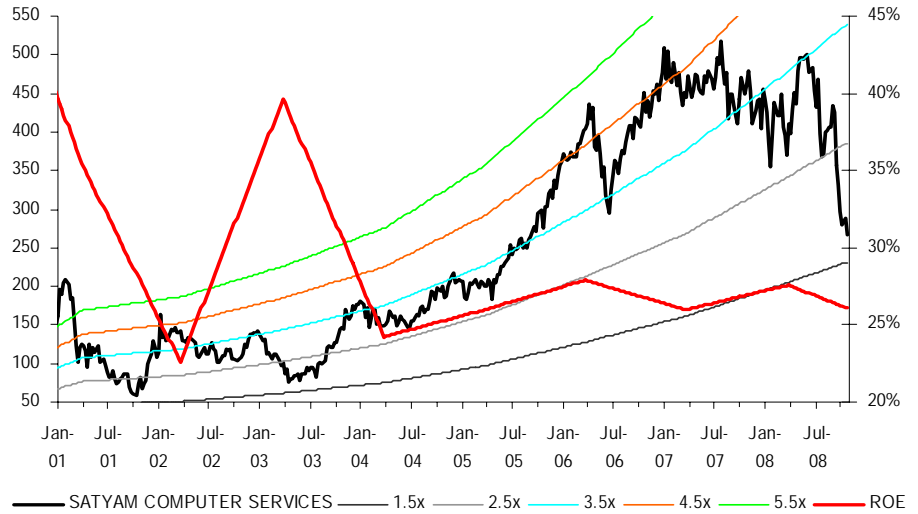
Figure 7: One-year trailing P/E



Source: Company data, J.P. Morgan estimates.

Satyam is trading at 1.7x one-year forward book

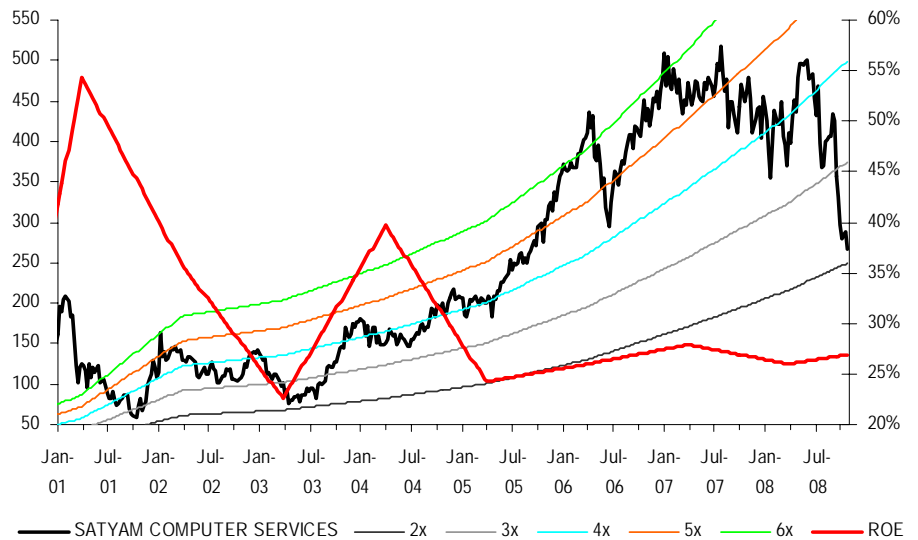
Figure 8: One-year forward P/B



Source: Company data, J.P. Morgan estimates.

Satyam is trading at 2.1x one-year trailing book

Figure 9: One-year trailing P/B



Source: Company data, J.P. Morgan estimates.

Other result metrics

Cash balances were Rs53.6B (cash per share of Rs 79.6).

Satyam had hedges of ~US\$615m at end of Sep-09.

Offshore revenues increased to 53.65% from 52.7% in 1Q FY09.

Table 13: Satyam: Quarterly Metrics

Clients	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
New clients added	34	35	34	35	29	37	32	32	34	33
Active clients	504	504	523	538	551	577	598	617	631	649
>US \$ 10 m	33	32	32	35	36	40	49	50	52	53
>US \$ 5 m	51	54	54	57	65	75	79	85	93	93
>US\$ 1 m	142	154	164	180	190	213	220	230	237	230
Employees	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Tot employees	27634	31659	34405	35670	38386	41423	44947	45,969	46620	48434
Added	1,123	4,025	2,746	1,265	2,716	3,037	3,524	1,122	651	1,814
Attrition TTM	19.62	18.27	17.62	15.7	14.9	13.9	13.1	13.1	12.6	12.3
Offshore utilization incl trainees	71.2	71.1	68.5	71.3	79.9	81.5	83.7			
Debtor days	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Debtor (days)	77	80	82	87	90	92	89	86	93	88
Revenue concentration (%)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Top client	7.12	6.68	6.32	6.11	5.66	5.81	5.43	4.51	4.45	4.58
Top 5 clients	22.68	22.26	21.58	22.17	21.08	20.84	20.7	18.99	19.11	19.58
Top 10 clients	34.43	33.93	34.19	36.25	34.35	33.86	33.48	30.85	30.6	31.31
Domain-wise revenues (%)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
BFSI	29.65	28.59	25.61	24.74	23.75	23.81	22.4	21.84	21.38	20.5
Manufacturing	27.84	26.69	27.12	27.16	25.87	23.73	23.22	23.53	23.07	23.26
Telecom	19.12	20.36	20.69	21.79	21.95	23.52	23.07	21.5	21.9	23.60
Transportation and Retail	5.35	5.2	6	8.03	8.03	7.94	8.02	7.08	7.06	6.93
Healthcare	6.53	7.33	7.6	6.42	6.9	7.48	9.13	9.59	10.46	9.38
Others	11.51	11.83	12.98	11.86	13.5	13.52	14.16	16.45	16.13	16.32
Geographical spread (%)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
North America	65.91	65.87	64.27	62.56	61.71	58.43	60.02	60.62	60.32	62.03
Japan	1.13	1.65	1.66	1.48						
Europe	17.59	18	19	19.86	20.1	20.95	20.52	20.69	20.65	20.60
Rest of World	15.37	14.48	15.07	16.11	18.19	20.62	19.46	18.69	19.03	17.37
New business breakup (%)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Existing business	87.70	86.1	85.7	88.7	89.5	93.1	93.18	21,661	23,508	25,249
New business	12.30	13.9	14.3	11.3	10.5	6.9	6.82	1,533	1,761	2,148
Technology Revenues (%)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Software Development & Maintenance	48.5	48.0	47.3	46.4	43.7%	43.9%	44.0%	44.4%	44.6%	45.07%
Consulting and enterprise Business solutions	40.3	40.4	42.0	42.6	44.2%	45.0%	45.0%	45.1%	44.7%	44.46%
Extended Engg Sol	6.0	6.4	6.8	7.0	7.2%	6.5%	6.8%	6.7%	6.8%	6.71%
Infra Mgmt Services	5.2	5.2	3.9	4.0	4.9%	4.5%	4.1%	3.9%	3.9%	3.76%

Source: J.P. Morgan estimate, Company data.

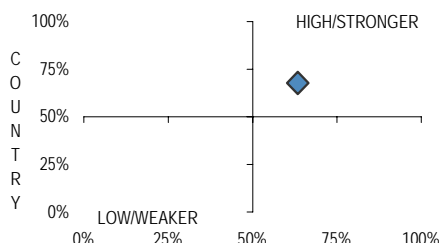
All Data As Of 17-Oct-08

Q-Snapshot: Satyam Computer Services Ltd.

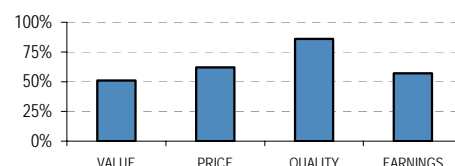
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country	vs Industry	Raw Value
Value			
P/E Vs Market (12mth fwd EPS)	53%	70%	0.9x
P/E Vs Sector (12mth fwd EPS)	57%	66%	0.9x
EPS Growth (forecast)	49%	56%	21.4%
Value Score	51%	67%	
Price Momentum			
12 Month Price Momentum	62%	55%	-38.8%
1 Month Price Reversion	43%	53%	-23.4%
Momentum Score	62%	55%	
Quality			
Return On Equity (forecast)	66%	73%	25.9%
Earnings Risk (Variation in Consensus)	98%	44%	0.04
Quality Score	86%	69%	
Earnings & Sentiment			
Earnings Momentum 3mth (risk adjusted)	91%	87%	77.7
1 Mth Change in Avg Recom.	39%	34%	-0.06
Net Revisions FY2 EPS	35%	39%	-64%
Earnings & Sentiment Score	57%	53%	
COMPOSITE Q-SCORE* (0% To 100%)	68%	63%	

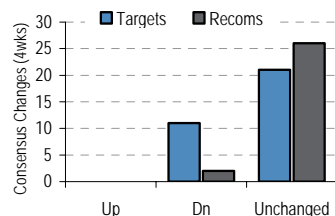
J.P. Morgan Composite Q-Score



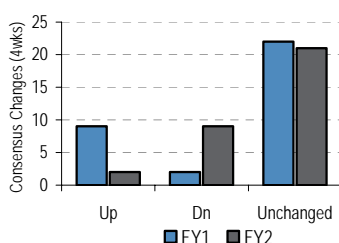
INDUSTRY Quant Return Drivers Summary (vs Country)



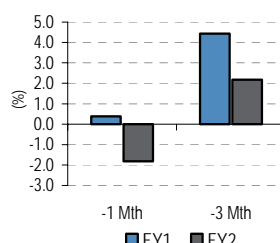
Targets & Recommendations**



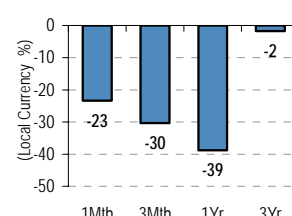
EPS Revisions**



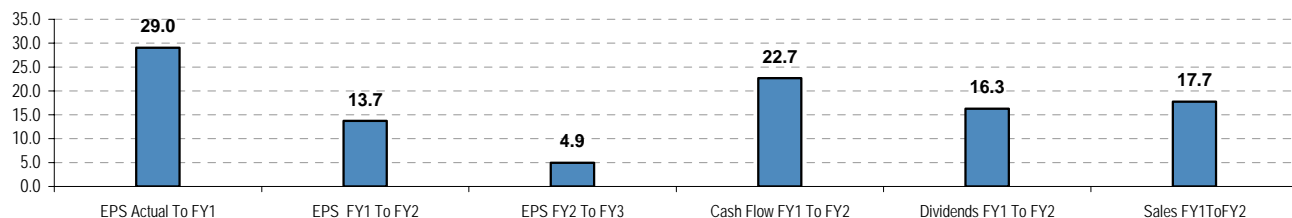
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score*
532234-IN	National Aluminium Co. Ltd.	Aluminum	4,447	1.29	9.5	28%
500900-IN	Sterilite Industries (India) Ltd.	Miscellaneous Manufacturing	4,305	7.57	5.0	25%
500470-IN	Tata Steel Ltd.	Steel	4,153	21.30	2.2	22%
532500-IN	Maruti Suzuki India Ltd.	Motor Vehicles	4,080	2.93	10.8	20%
532822-IN	Idea Cellular Ltd.	Wireless Telecommunications	3,996	4.01	NA	35%
500376-IN	Satyam Computer Services Ltd.	Information Technology Services	3,810	6.67	8.4	68%
500111-IN	Reliance Capital Ltd.	Finance/Rental/Leasing	3,670	65.43	16.1	4%
500400-IN	Tata Power Co. Ltd.	Electric Utilities	3,647	5.71	25.3	64%
500182-IN	Hero Honda Motors Ltd.	Motor Vehicles	3,429	1.43	14.3	91%
500247-IN	Kotak Mahindra Bank Ltd.	Financial Conglomerates	3,417	8.41	19.4	2%
532461-IN	Punjab National Bank	Regional Banks	3,200	2.12	7.2	90%

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>
 Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
 Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the J.P. Morgan analysts' recommendation.
 * The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe. ** The number of up, down and unchanged target prices, recommendations or EPS forecasts that make up consensus.

Satyam: Summary of Financials

Income statement						Ratio Analysis					
INR in millions, year-end Mar	FY07A	FY08A	FY09E	FY10E	FY11E	% , year-end Mar	FY07A	FY08A	FY09E	FY10E	FY11E
Revenues	64,851	84,735	115,568	136,542	164,425	Gross Margin	38.2	36.0	37.1	35.5	35.0
Cost of Goods Sold	40,086	54,254	72,710	88,032	106,950	EBITDA margin	23.7	21.7	23.0	22.1	21.8
Gross Profit	24,764	30,481	42,858	48,511	57,474	Operating Margin	21.4	19.7	20.9	19.9	19.8
SG&A Expenses	10,872	13,768	18,757	21,285	24,855	Net Margin	21.7	19.9	19.7	18.9	17.2
						SG&A/Sales	16.8	16.2	16.2	15.6	15.1
Operating Profit (EBIT)	13,893	16,712	24,101	27,226	32,619						
EBITDA	15377	18348	26562	30123	35834	Sales growth	35.3	30.7	36.4	18.1	20.4
Other Income	1,832.8	2,672.0	2,458.5	3,796.8	5,208.7	Operating Profit Growth	35.0	20.3	44.2	13.0	19.8
Interest Expense	-159	-202	-433	-488	-488	Net profit growth	43.1	20.2	34.9	13.3	9.3
						EPS (Reported) growth	40.3	18.2	33.9	13.0	9.3
Earnings before tax	15,566	19,183	26,126	30,535	37,340						
Tax	-1,520	-2,304	-3,356	-4,738	-9,132	Interest coverage (x)	87.2	82.8	55.6	55.8	66.9
Net Income (Reported)	14047	16879	22770	25796	28208	Net debt to total capital	n.m.	n.m.	n.m.	n.m.	n.m.
						Net debt to equity	n.m.	n.m.	n.m.	n.m.	n.m.
INR											
EPS (Reported)	21.3	25.2	33.8	38.2	41.8	Asset Turnover	94.1	95.2	97.5	95.6	96.1
BPS	85.5	108.0	137.4	167.4	201.0	ROE	27.9	26.0	27.6	25.1	22.7
DPS	3.5	4.0	4.0	7.0	7.0	ROIC	59.6	48.0	48.2	43.7	40.8
Shares Outstanding (bn)	667	671	676	676	676	ROCE	25.1	22.9	24.9	21.9	19.4
Balance sheet						Cash flow statement					
INR in millions, year-end Mar	FY07A	FY08A	FY09E	FY10E	FY11E	INR in millions, year-end Mar	FY07A	FY08A	FY09E	FY10E	FY11E
Cash and cash equivalents	39,914	45,024	58,223	74,370	91,123	Net Income	14,047	16,879	22,770	25,796	28,208
Accounts receivable	17,432	23,703	30,611	35,991	43,814	Depr. & Amortisation	1,484	1,636	2,461	2,898	3,215
Inventories	0	0	0	0	0	Change in working capital	-2,925	-5,438	-2,754	-2,983	-4,438
Others	2,945	6,645	8,867	10,426	12,692	Other	-1	0	0	0	0
Current assets	60,291	75,372	97,701	120,787	147,630	Cash flow from operations	12,605	13,077	22,477	25,711	26,985
LT investments	437	872	1,163	1,163	1,163	Capex	-4,135	-6,207	-9,376	-4,031	-4,700
Net fixed assets	8,223	12,794	19,709	20,842	22,327	Disposal/ (purchase)	-391	-435	-291	0	0
Others	0	0	0	0	0	Cash flow from investing	-4,526	-6,642	-9,667	-4,031	-4,700
Total assets	68,951	89,038	118,572	142,792	171,120	Free cash flow	8,470	6,870	13,102	21,680	22,285
Liabilities						Equity raised/ (repaid)	291	-509	19	0	0
ST loans	1,479	2,167	0	0	0	Debt raised/ (repaid)	452	688	2,712	0	0
Payables	5,745	8,977	14,649	17,514	21,579	Other	2,299	1,176	357	-804	-804
Others	4,201	5,502	6,207	7,298	8,885	Dividends paid	-2,324	-2,680	-2,700	-4,729	-4,729
Total current liabilities	11,425	16,646	20,856	24,812	30,464	Cash flow from financing	718	-1,325	388	-5,532	-5,532
Long term debt	0	0	4,879	4,879	4,879						
Other liabilities	0	0	0	0	0	Net change in cash	8,797	5,110	13,199	16,148	16,753
Total liabilities	11,425	16,646	25,735	29,690	35,343	Beginning cash	31,117	39,914	45,024	58,223	74,370
Shareholders' equity	57,526	72,392	92,838	113,102	135,777	Ending cash	39,914	45,024	58,223	74,370	91,123

Source: J.P. Morgan estimates Company data.

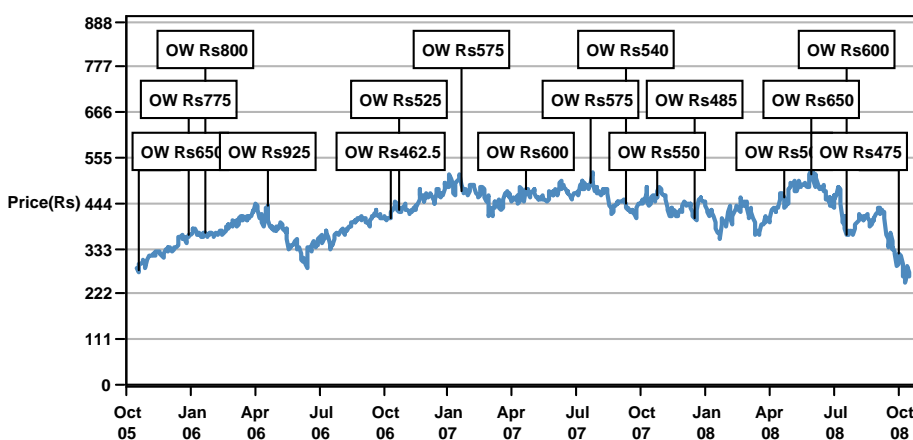
Analyst Certification:

The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst’s compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures

- **Client of the Firm:** Satyam Computers is or was in the past 12 months a client of JPMSI.
- **Investment Banking (next 3 months):** JPMSI or its affiliates expect to receive, or intend to seek, compensation for investment banking services in the next three months from Satyam Computers.

Satyam Computers (SATY.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
20-Oct-05	OW	278.72	650.00
30-Dec-05	OW	365.70	775.00
20-Jan-06	OW	374.12	800.00
21-Apr-06	OW	435.78	925.00
10-Oct-06	OW	406.15	462.50
23-Oct-06	OW	428.35	525.00
21-Jan-07	OW	472.35	575.00
22-Apr-07	OW	476.20	600.00
23-Jul-07	OW	491.65	575.00
10-Sep-07	OW	442.25	540.00
24-Oct-07	OW	461.75	550.00
18-Dec-07	OW	405.90	485.00
22-Apr-08	OW	458.95	500.00
29-May-08	OW	514.40	650.00
21-Jul-08	OW	367.10	600.00
02-Oct-08	OW	318.75	475.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
 This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:

J.P. Morgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] The analyst or analyst’s team’s coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

Coverage Universe: **Manoj Singla, CFA:** Atos Origin (ATOS.PA), Autonomy (AUTN.L), Aveva (AVV.L), Bharti Airtel Limited (BRTI.BO), Capgemini (CAPP.PA), Dassault Systèmes (DAST.PA), HCL Infosystems (HCLI.BO), HCL-Technologies (HCLT.BO), Hexaware Technologies Ltd (HEXT.BO), Idea Cellular Limited (IDEA.BO), Indra (IDR.MC), Infosys Technologies (INFY.BO), Logica (LOG.L), MTNL (Mahanagar Telephone Nigam) (MTNL.BO), MindTree Consulting Ltd. (MINT.BO), Mphasis Ltd (MBFL.BO), Oracle Financial Services Software (ORCL.BO), Patni Computer (PTNI.BO), Playtech (PTEC.L), Polaris Software (POL.S.BO), Reliance Communications Limited (RLCM.BO), SAP (SAPG.DE), Sage Group (SGE.L), Satyam Computers (SATY.BO), Software AG (SOWG.DE), Tata Communications Ltd (TATA.BO), Tata Consultancy Services (TCS.BO), Tata Teleservices Maharashtra Ltd (TTML.BO), Tech Mahindra Ltd. (TEML.BO), Temenos (TEMN.S), TietoEnator (TIE1V.HE), Ubisoft (UBIP.PA), Wipro Ltd. (WIPR.BO), Wirecard (WDIG.DE)

J.P. Morgan Equity Research Ratings Distribution, as of September 30, 2008

	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	42%	44%	15%
IB clients*	53%	51%	43%
JPMSI Equity Research Coverage	40%	48%	12%
IB clients*	76%	70%	59%

*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

Valuation and Risks: Please see the most recent company-specific research report for an analysis of valuation methodology and risks on any securities recommended herein. Research is available at <http://www.morganmarkets.com>, or you can contact the analyst named on the front of this note or your J.P. Morgan representative.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

Registration of non-US Analysts: Unless otherwise noted, the non-US analysts listed on the front of this report are employees of non-US affiliates of JPMSI, are not registered/qualified as research analysts under NASD/NYSE rules, may not be associated persons of JPMSI, and may not be subject to NASD Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Other Disclosures

J.P. Morgan is the global brand name for J.P. Morgan Securities Inc. (JPMSI) and its non-US affiliates worldwide.

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your J.P. Morgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>.

Legal Entities Disclosures

U.S.: JPMSI is a member of NYSE, FINRA and SIPC. J.P. Morgan Futures Inc. is a member of the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. Registered in England & Wales No. 2711006. Registered Office 125 London Wall, London EC2Y 5AJ. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a Market Participant with the ASX and regulated by ASIC. **Taiwan:** J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Bureau. **India:** J.P. Morgan India Private Limited is a member of the National Stock Exchange of India Limited and The Stock Exchange, Mumbai and is regulated by the Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Indonesia Stock Exchange and is regulated by the BAPEPAM. **Philippines:** J.P. Morgan Securities Philippines Inc. is a member of the Philippine Stock Exchange and is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Mexico:** J.P. Morgan Casa de Bolsa, S.A. de C.V., J.P. Morgan Grupo Financiero is a member of the Mexican Stock Exchange and authorized to act as a broker dealer by the National Banking and Securities Exchange Commission. **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMSS) [mica (p) 207/01/2008 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-x) which is a Participating Organization of Bursa Malaysia Securities Bhd and is licensed as a dealer by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan.

Country and Region Specific Disclosures

U.K. and European Economic Area (EEA): Issued and approved for distribution in the U.K. and the EEA by JPMSL. Investment research issued by JPMSL has been prepared in accordance with JPMSL's Policies for Managing Conflicts of Interest in Connection with Investment Research which outline the effective organisational and administrative arrangements set up within JPMSL for the prevention and avoidance of

conflicts of interest with respect to research recommendations, including information barriers, and can be found at <http://www.jpmorgan.com/pdfdoc/research/ConflictManagementPolicy.pdf>. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction.

Germany: This material is distributed in Germany by J.P. Morgan Securities Ltd. Frankfurt Branch and JPMorgan Chase Bank, N.A., Frankfurt Branch who are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients." The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months' prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider for derivative warrants issued by J.P. Morgan International Derivatives Ltd and listed on The Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk/prod/dw/Lp.htm>. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. [82] Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. **Singapore:** JPMSI and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a J.P. Morgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

"Other Disclosures" last revised September 29, 2008.

Copyright 2008 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of J.P. Morgan.