RESULTS REVIEW

Share Data

Market Cap	Rs. 301.8 bn
Price	451.40
BSE Sensex	20,216.72
Reuters	SATY.BO
Bloomberg	SCS IN
Avg. Volume (52 Week)	0.66 mn
52-Week High/Low	Rs. 524.9 / 401.0
Shares Outstanding	668.5 mn

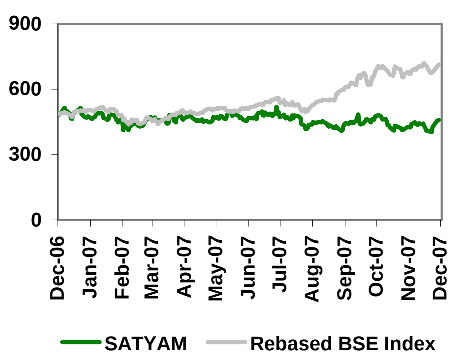
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	25.6	30.6
+/- (%)	22.2%	19.3%
PER (x)	17.6x	14.8x
EV/ Sales (x)	3.2x	2.5x
EV/ EBITDA (x)	14.5x	11.6x

Shareholding Pattern (%)

Promoters	9
FIIs	47
Institutions	13
Public & Others	32

Relative Performance



Satyam Computer Services Limited — Buy

FASTER, HIGHER, STRONGER

Satyam Computer Services Limited (SATY) beat expectations to post revenue growth of 11.0% qoq, primarily on account of volume growth of 9.1% qoq and enhancement in the billing rate. However, EBITDA went down by 1.9% qoq to Rs. 4.0 bn due to wage hike and rupee appreciation. Better pricing and reduction in SG&A as a percentage of total revenue helped minimize the dip in EBITDA. Nonetheless, PAT went up by 8.2% qoq to stand at Rs. 4.1 bn, backed by a rise in the non-operational income to the tune of 74.9% qoq. Reported EPS on a diluted basis also increased from Rs. 5.5 in Q1'08 to Rs. 6.0 in Q2'08.

With effective client mining and healthy volume growth, Satyam is acquiring a larger pie of the IT industry. Going forward, a robust demand environment is indicated by the fact that SATY has revised the gross employee figure upwards for FY08. Lower than industry average attrition rate puts the Company in a better position when compared with its peers. However, declining operating margins continue to trouble SATY. We believe that the Company needs to focus on improving the operating margins in the coming quarters.

The stock is trading at a forward P/E of 17.6x for FY08E and at 14.8x for FY09E. Predominantly, on account of the robust revenue growth experienced by the Company - exhibiting a strong demand environment and considering the current valuations, we believe that this is a good time to enter into the stock. Hence, we upgrade our rating from Hold to Buy, with a target price of Rs. 554 over a period of 9-12 months.

Key Figures (Consolidated)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	16,019	18,302	20,317	26.8%	11.0%	30,448	38,618	26.8%
EBITDA	3,624	4,102	4,026	11.1%	(1.9)%	7,174	8,128	13.3%
Net Profit	3,197	3,783	4,091	27.9%	8.2%	6,738	7,873	16.8%
Margins(%)								
EBITDA	22.6%	22.4%	19.8%			23.6%	21.0%	
NPM	20.0%	20.7%	20.1%			22.1%	20.4%	
Per Share Data (Rs.)								
EPS	4.7	5.5	6.0	25.9%	8.1%	10.0	11.5	14.9%

Result Highlights

Revenue growth powered by volume increase and price hike

The Company witnessed topline growth of 11.0% qoq led by volume growth of 9.1% qoq and increase in the offshore and onsite billing rate by 1.3% and 2.2%, respectively. Revenues from the Company's key segments viz Consulting & Enterprise Business Solutions and Application Development and Maintainence Services shot up by 13.1% and 11.5% qoq, respectively. In terms of business verticals, mainstay segments such as TIMES (Telecom, Infrastructure, Media, Entertainment and Semiconductor) and BFSI (Banking, Financial & Insurance services) grew by 19.0% and 11.3%, respectively. Nascent verticals which include Retail, Transportation & Logistics and Healthcare & Pharma also put up a good show growing by 20.3% and 9.8%, respectively.

With strong traction in Europe and Rest of the World, the Company has increased revenue contribution from these geographies by 85 and 243 bps qoq, respectively. This resulted in a decline in the US's share to the total revenue from 61.7% in the last quarter to 58.4% in Q2'08.

Factors	Impact on EBITDA
Billing Rates	1.2%
Operational Efficiencies	1.1%
Improved Utilisation	0.6%
Salary Hike	(4.5)%
Rupee Appreciation	(1.0)%
Total	**(2.6%)**

Source: Company Data, Indiabulls research

EBITDA and EBIT slipped by 1.9% and 2.1% qoq to Rs. 4.0 bn and Rs. 3.6 bn, respectively. The decline was mainly due to wage hike, rupee appreciation and increased onsite contribution to total revenue, impacting margin by 450 bps, 40 bps, and 70 bps, respectively. Wage hike, 16% for offshore and 5% for onsite, given by the Company were higher than the industry average. The headwinds were mitigated to a large extent by improved onsite and offshore pricing and SG&A improvement.

PAT shot up by 8.2 % qoq to Rs. 4.1 bn due to an increase in the non-operating income from Rs. 632.0 mn in Q1'08 to Rs. 1.1 bn in Q2'08. However, PAT margin, at 20.1%, declined by 54 bps qoq on account of an increase in the effective tax rate from 12.3% in Q1'08 to 13.0% in Q2'08.

Client ramp up was a vital catalyst during the quarter which boosted revenue growth momentum. With addition of 37 new clients, eight of which were from Fortune 1000, the total number of active customers increased to

599. The Company won four clients worth USD 10 mn+ in Q2'08. Revenue contribution from top ten clients improved from 34.4% in Q1'08 to 33.9% in Q2'08.

Lower than industry average attrition rate

Satyam added 3,420 employees in Q2'08 to take the headcount to 45,767 at the end of Q2'08. The above industry salary hike given by the Company helped in reducing the attrition rate by 101 bps qoq to 13.9% in Q2'08 on TTM basis. SATY has done well in consistently decreasing the attrition rate for the last six quarters.

Key Events

- Satyam has entered into a definitive agreement to acquire 100% stake in the UK based NITOR, a niche consulting firm providing infrastructure management services, for up to USD 5.5 mn in cash.
- The Company has signed an agreement with Fujitsu Services to provide IT services to Reuters as part of a 10 year, USD 1.0 bn internal information systems transformation programme.
- The Company has acquired Singapore based Knowledge Dynamics Pte. Ltd, a high-end consulting solutions provider in Business Intelligence, through an all cash deal involving a consideration of USD 3.3 mn, out of which USD 1.8 mn is the initial payment and the balance would be paid over two years.

Key Risks

Any significant slowdown in the US economy, currency rate fluctuations, more than expected salary hike, and increased competition in the global off-shoring business are potential risks to our rating.

Guidance

Buoyed by a healthy growth momentum, Satyam has revised the FY08 revenue growth guidance from 21.1% - 22.5% in the last quarter to 26.3% - 26.7%. EPS for the year is expected to be between Rs. 25.0 - 25.1, as against Rs. 24.1 - 24.5 projected during the last quarter, implying a growth rate of 16.5 % - 17.0%. For Q3'08, revenue growth rate is expected to be between 3.6% - 4.1%. EPS for the quarter is projected to be between Rs. 6.18 - 6.21. The employee addition guidance for FY08 for the parent company has also been revised upwards to 16,000 - 17,000 from 15,000 - 16,000, given in Q1'08.

Outlook

Satyam continues to grow at an impressive rate powered by healthy volume growth and improved pricing. The Company is acquiring a larger pie of the IT industry through several large-sized deals. Going forward, a robust demand environment is indicated by the fact that SATY has revised the gross employee figure upwards for FY08. Lower than industry average attrition rate puts the Company in a better position when compared with its peers. However, declining operating margins continue to trouble SATY. We believe that the Company needs to focus on improving the operating margins in the coming quarters.

We expect revenue and net profit to grow at a CAGR of 27.7% and 20.6%, respectively over the period FY07-09E. The stock is trading at a forward P/E of 17.6x for FY08E and at 14.8x for FY09E. Predominantly, on account of the robust revenue growth experienced by the Company - exhibiting a strong demand environment and considering the current valuations, we believe that this is a good time to enter into the stock. Hence, we upgrade our rating from Hold to Buy, with a target price of Rs. 554 over a period of 9-12 months.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	35,208	47,926	64,851	82,907	105,709	27.7%
EBITDA	8,694	11,671	15,386	18,215	22,685	21.4%
Net Profit	7,145	9,641	14,055	17,145	20,450	20.6%
Margins(%)						
EBITDA	24.7%	24.4%	23.7%	22.0%	21.5%	
NPM	20.3%	20.1%	21.7%	20.7%	19.3%	
Per Share Data (Rs.)						
EPS	11.1	14.4	21.0	25.6	30.6	20.7%
PER (x)	36.7x	59.0x	21.5x	17.6x	14.8x	

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