

Satyam Computer Services Ltd.**Rs 76****Deal wins – Key to watch out for in the coming quarters****HOLD****Volume in line with expectation; however higher realized rate led better than expected revenue growth in INR terms**

Revenue increased by 3.1% QoQ (in USD terms) to USD 330 million in Q2FY12 in line with our expectation. The revenue growth was primarily led by increase in volume by 4.5% QoQ in Q2FY12. The volume growth continued to be led by strong traction in top 20 clients. Whereas, in INR terms revenue grew by 10% QoQ to Rs. 1,577.7 crore supported by increase in realization to Rs.47.8/USD in Q2FY12 (against our expectation of Rs.46/USD) from Rs.44.8/USD in Q1FY12.

Experiencing slower decision making in large transformational projects

The company is experiencing slowdown in decision making in large transformational deals especially in case of projects having longer gestation period. Taking the same into consideration and fact that the company has relatively higher exposure to discretionary spend (ERP contributes around 40%-50% of the company's total revenue); we believe it will find difficult to grow in line or outpace the industry's average growth rate in coming quarters.

Change in hiring strategy to just-in-time indicates lower growth visibility in coming quarters

The company has hired only 390 employees in Q2FY12 taking technical staff (including sub-contractors) to 25,405 employees; whereas peer sets has increased their employee base by around 5%-6% on QoQ basis in Q2FY12. Besides, low hiring the company has indicated that in coming quarters hiring will be based on just-in-time basis because of the ongoing macro concern. This indicates that the company has relatively lower growth visibility in coming quarters.

EBITDA marginally lower than expectation led by increase in bad-debt provision

EBITDA margin increased by 49 bps QoQ to 15.3% in Q2FY12 against our expectation of increase by 58 QoQ; despite higher than expected realization rate and increase in offshore revenue mix by 400 bps QoQ to 48% in Q2FY12. The margin was adversely impacted due to significant increase in bad debt provision and booking of license fee or pass through hardware cost of Rs.25 crore in Q2FY12.

Higher than expected forex gain supported higher than assumed net profit margin

Net profit margin in Q2FY12 came higher than expectation i.e. 15.1% supported by better than expected forex gain of Rs.33.7 crore in Q2FY12 against Rs.22.6 crore in Q1FY12.

Valuation and view

Considering, slower growth than peers in coming quarter due to higher dependence on discretionary spend and lack of clarity on share swap ratio with Tech Mahindra till mid CY12, we maintain our 'HOLD' recommendation on the stock with a price target of Rs. 79 by assigning multiple of 10 times to its FY13E EPS of Rs. 7.9.

Exhibit 1: Key Financial**(Rs. Crore)**

Particulars	FY10	FY11E	FY12E	FY13E
Sales	5,481	5,145	6,222	6,934
EBITDA margin (%)	8.3%	8.8%	15.8%	15.5%
Adjusted net profit margin (%)	5.3%	9.6%	14.7%	13.5%
*Adjusted EPS (In Rs.)	2.5	4.2	7.8	7.9
P/E	30.6	18.1	9.8	9.6
EV/EBITDA	15.6	15.8	7.3	6.6

Source: Company data, KRChoksey Research

KRChoksey
INTEGRATED FINANCIAL SOLUTIONS**Target Price (Rs): 79**

Potential Upside : 4%

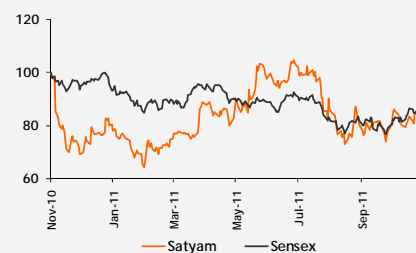
Previous TP (Rs): 90

Market Data

Shares outs (Cr)	117.6
Equity Cap (Rs. Cr)	235.2
Mkt Cap (Rs. Cr)	8,984
52 Wk H/L (Rs.)	94/54
Avg Vol (1yr avg)	234,784
Face Value (Rs.)	2
Bloomberg Code	SCS IN

Market data as on 11th November, 2011**Market Info:**

SENSEX	17,193
NIFTY	5,169

Price Performance**Share Holding pattern (%)**

Particulars	Sep-11	Jun-11	% Chg
Promoter	42.7	42.7	0.0
FII	15.2	13.0	2.2
DII	3.7	3.8	-0.1
Others	38.4	40.5	-2.1
Total	100	100	

Source: BSE

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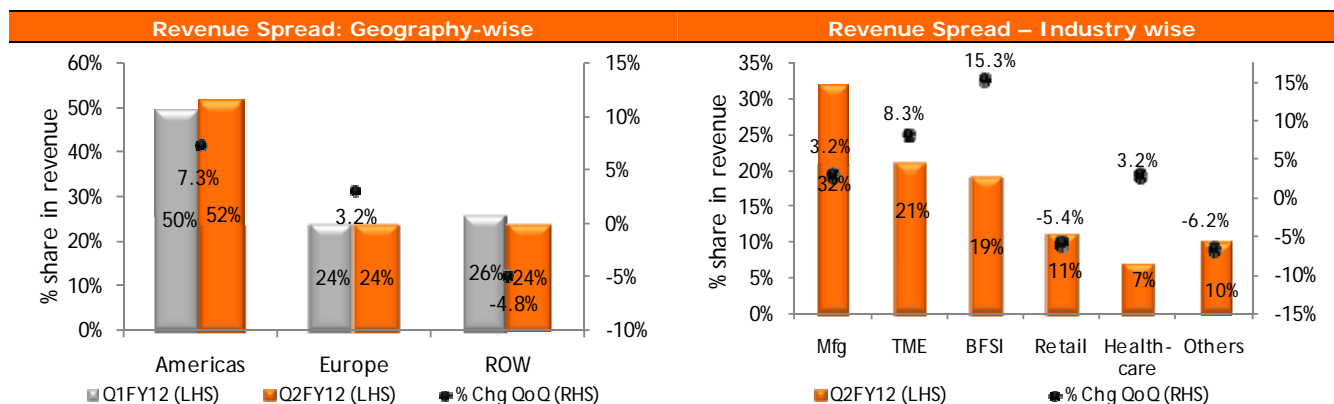
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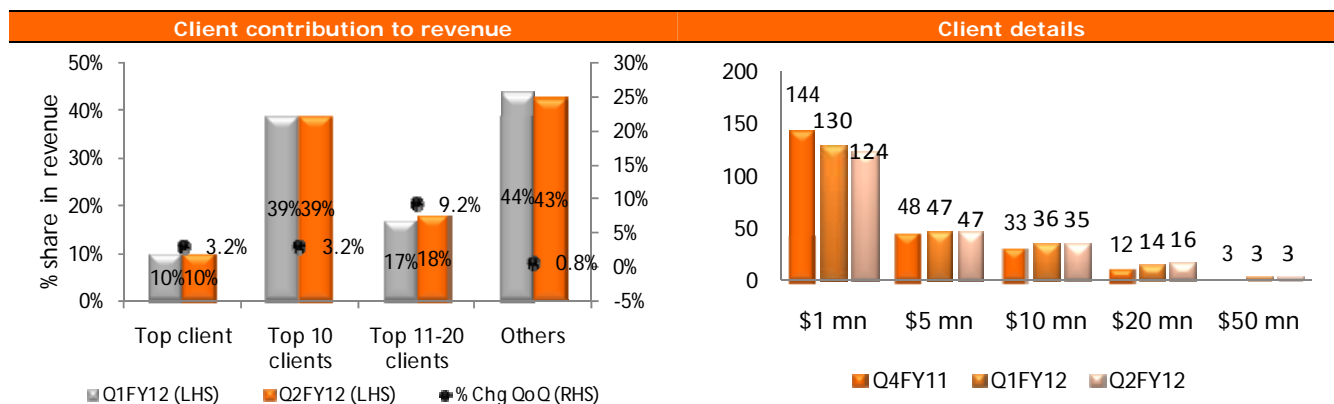
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Other key highlights



The growth was led by developed economies after registering subdued growth in Q1FY12; whereas emerging economies witnessed slowdown after clocking double digit growth in the previous quarter.

The incremental revenue growth was primarily contributed by BFSI and TME (technology, media and entertainment); whereas retail registered de-growth on back of the strong revenue booking in Q1FY12.



The growth was led by top 20 clients; whereas non-top 20 clients continue to register subdued growth.

The number of clients contributing \$1 mn plus revenue has been under pressure for the second consecutive quarter. We believe unless the company is able to mine its clients across baskets it will continue to underperform peer sets.

Exhibit 2: Change in Estimates

(Rs. Crore)

Particulars	FY12E		FY13E		Comments
	Old	New	Old	New	
Sales	6,107	6,222	7,108	6,934	Considering, in line volume growth in Q2FY12 maintain our USD forecast; however increasing our realization rate assumption
EBITDA	885	984	1,031	1,076	Increasing margin assumption due to change in realization rate assumption
Net Profit	820	915	881	933	
EPS (in Rs.)	7.0	7.8	7.5	7.9	

Source: KRChoksey Research

Exhibit 3: Q2FY12: Result Key Financials

(Rs. Crore)

Particulars	Q2FY12	Q1FY12	Q2FY11	Q-o-Q	Y-o-Y
Revenues	1,577.7	1,433.9	1,242.4	10.0%	27.0%
Employee cost (including sub-contractor expenses)	1,050.0	1,013.5	954.6	3.6%	10.0%
Other operating expenses	286.0	207.8	218.2	37.6%	31.1%
EBITDA	241.7	212.6	69.6	13.7%	247.2%
EBITDA margin	15.3%	14.8%	5.6%	0.49%	9.72%
Depreciation	39.6	38.0	42.9	4.2%	-7.7%
Other income	96.7	98.2	35.2	-1.5%	174.9%
Interest and financing charges	2.0	4.5	2.5	-55.0%	-17.1%
Exceptional items	-	-	(8.4)	-	-100.0%
Profit before tax	296.8	268.3	51.0	10.6%	481.8%
Taxes	57.8	42.6	27.0	35.9%	114.2%
Profit after tax	239.0	225.7	24.0	5.9%	895.2%
Minority interest	0.7	0.6	0.7	29.1%	1.4%
Net profit	238.2	225.2	23.3	5.8%	922.1%
Net profit margin	15.1%	15.7%	1.9%	-0.60%	13.22%

Source: Company data, KRChoksey Research

Exhibit 4: Profit and Loss Statement

(Rs. Crore)

Particulars	FY10	FY11	FY12E	FY13E
Income from Operations	5,481.0	5,145.0	6,222.0	6,933.6
Employee Cost (including sub-contractor expenses)	3,981.1	3,823.3	4,304.1	4,913.6
SG&A expenses	1,043.0	870.5	934.4	943.6
EBITDA	456.9	451.2	983.6	1,076.4
Other Income	105.6	298.1	319.8	281.5
Interest and financing charges	32.9	9.7	10.7	8.2
Depreciation	214.4	184.7	160.5	179.4
Profit / (Loss) from Ordinary Activities before Tax	315.2	554.9	1,132.2	1,170.4
Exceptional Items	416.9	641.1	-	-
PBT	(101.7)	(86.2)	1,132.2	1,170.4
Tax Expense	22.2	57.8	213.8	234.1
PAT	(123.9)	(144.0)	918.4	936.3
Minority Interest	0.7	3.3	3.2	3.6
Net Profit / (Loss) after Minority Interest for the Year	(124.6)	(147.3)	915.2	932.7
Adjusted net profit (excluding exceptional items)	292.3	493.8	915.2	932.7
Adjusted net profit margin (%)	5.3%	9.6%	14.7%	13.5%

Source: Company data, KRChoksey Research

Exhibit 5: Balance Sheet

(Rs. Crore)

Particulars	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS				
Share capital	235	235	235	235
Share application money	0	-	-	-
Reserves and surplus	1,646	1,490	2,405	3,337
Total shareholders fund	1,881	1,725	2,640	3,573
Minority interest	20	23	27	30
Loan funds	42	32	32	32
Deferred tax liability	4	7	7	7
Suspense account (net)	1,230	1,230	1,230	1,230
TOTAL	3,178	3,017	3,935	4,872
APPLICATION OF FUNDS				
Fixed assets	987	950	1,189	1,410
Investments	627	435	435	435
Total Current Assets	3,980	4,729	6,057	7,202
Less : Current Liabilities & Prov	2,422	3,104	3,754	4,184
Net Current Assets	1,558	1,624	2,303	3,019
Profit and loss account			-	-
Deferred tax asset	7	8	8	8
TOTAL	3,178	3,017	3,935	4,872

Source: Company data, KRChoksey Research

Exhibit 6: Ratios

Particulars	FY10	FY11	FY12E	FY13E
Revenue growth (%)	-37.8%	-6.1%	20.9%	11.4%
EBITDA growth (%)	51.4%	-1.2%	118.0%	9.4%
Adjusted PAT growth (%)	-	68.9%	85.3%	1.9%
EBITDA margin (%)	8.3%	8.8%	15.8%	15.5%
Adjusted net profit margin (%)	5.3%	9.6%	14.7%	13.5%
*Adjusted EPS (In Rs.)	2.5	4.2	7.8	7.9
P/E	30.6	18.1	9.8	9.6
B.V. (In Rs.)	3	26	25	33
P/BV (adjusted)	2.9	3.0	2.3	1.9
*EV/EBITDA	15.6	15.8	7.3	6.6

Source: Company data, KRChoksey Research

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Wipro Ltd.			
	CMP (Rs)	TP (Rs)	Recommendation
12-Nov-11	76	79	HOLD
11-Aug-11	78	90	HOLD
27-June-11	84	85	HOLD
24-May-11	74	80	HOLD

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Hold	5% - 15%
Reduce	0 – 5%
Sell	Less than 0%

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