

FIRST GLOBAL

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India Research



Sector: Technology (Software Services)

Reinitiating Coverage

Satyam Computer Services Ltd.
(SCS.IN/SATY.BO)

Buy

(CMP: Rs.66.80, Mkt.Cap: Rs.66.4 bn, \$1.39bn June 9,'09)

Relevant Index: S&P CNX Nifty: 4550.9 (June 9,'09)

[Target Price: Rs. 100 - Rs. 120]

This is a real company with real business – February EBIDTA margin is back to 17.5%...

...with the management change and some restructuring further improvement in numbers is likely

Current valuation leaves huge room for an upside...

June 10, 2009

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Price and Rating History Chart

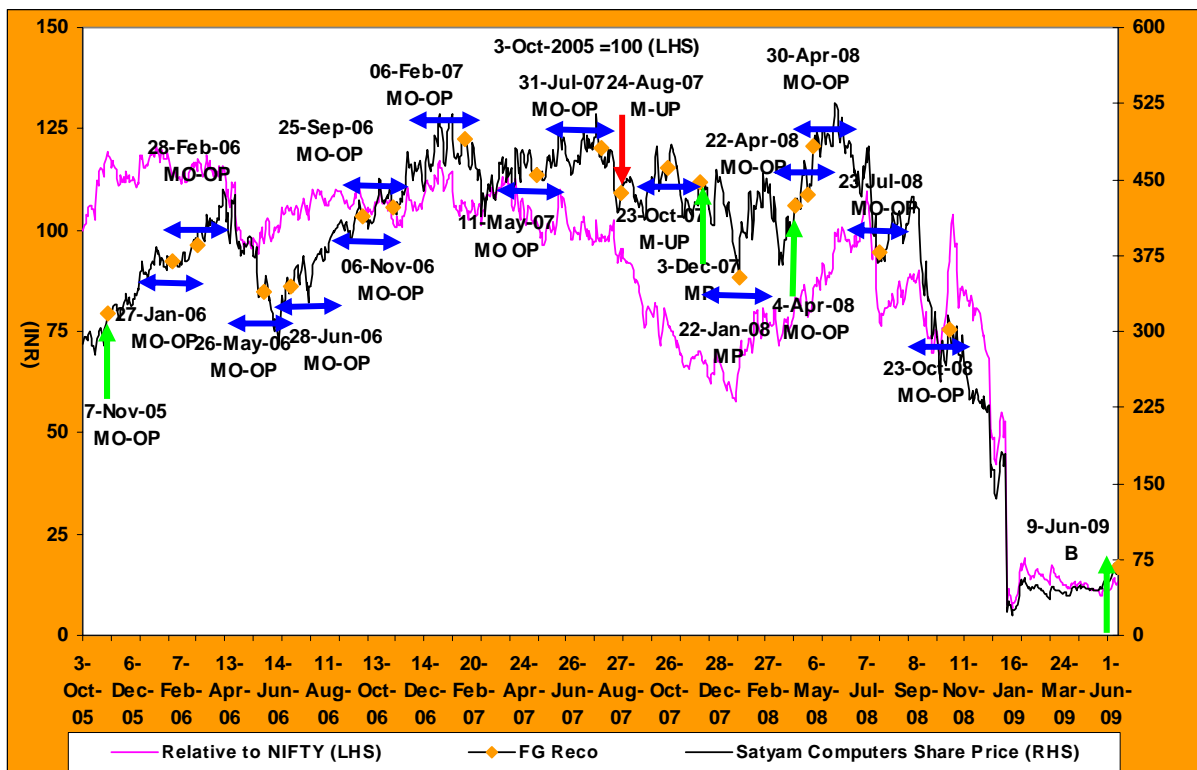
Ratings Key

Positive Ratings	B = Buy	BD = Buy at Declines	OP = Outperform
	S-OP = Sector Outperform	M-OP = Market Outperform	MO-OP = Moderate Outperform
Neutral Ratings	H = Hold	MP = Market Perform	SP = Sector Perform
Negative Ratings	S = Sell	SS = Sell into Strength	UP = Underperform
	A = Avoid	MO-UP = Moderate Underperform	S-UP = Sector Underperform

ST: Short Term MT: Medium Term LT: Long Term

Satyam Computer Services Ltd (SCS.IN / SATY.BO)

This stock was not under active coverage from January 07, 2009 to June 08, 2009



↑ Represents an Upgrade

↓ Represents a Downgrade

↔ Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report



Financial Snapshot (Consolidated)

Key Financials

(YE Mar 31 st) (Rs. Mn)	FY09E	FY10E
Total Revenue	98,691	85,953
<i>Revenue Growth (Y-o-Y)%</i>	16.5%	-12.9%
EBIDTA from Operations (Incl Income from Associates)	17,817	13,753
<i>EBIDTA Growth (Y-o-Y)%</i>	-2.9%	-25.9%
Net Profit (Ex. Extraordinary)	14,586	9,462
<i>Net Profit Growth (Y-o-Y)%</i>	-13.6%	-37.9%
Shareholders Equity	37,591	44,870
Number of Diluted shares (mn)*	995	995

Key Operating Ratios

(YE Mar 31 st)	FY09E	FY10E
EPS (Basic) (Ex- Extraordinary)	14.7	9.5
<i>EPS Growth (Y-o-Y)</i>	-41.9%	-37.9%
EBIDTA (%)	18.1%	16.0%
NPM (%)	14.9%	11.0%
RoE (%)	36.1%	21.1%
RoCE (%)	33.0%	19.0%
Tax/PBT (%)	12.0%	12.0%
Book Value per share (Rs.)	38.4	45.9
Debt/Equity (x)	0.2	0.1

Valuation Ratios

(YE Mar 31 st)	FY09E	FY10E
P/E (x)	4.6	7.0
P/BV (x)	1.8	1.5
EV/EBIDTA (x)	3.7	4.8
Market Cap. / Sales (x)	0.7	0.8
EV/Sales (x)	0.4	0.7
Dividend Yield (%)	9.3%	9.3%

Market Cap. And Enterprise Value Data as on June 09, 2009

Current Market Price (Rs.)	66.8
No. Of Basic Shares (mn)	995
Market Cap. (US\$ bn)	1.39
Total Debt (US\$ bn)* *	0.17
Cash & Cash Equivalents (US\$ bn)* *	0.28
Enterprise Value (US\$ bn)	1.28

* Includes 328 mn fresh shares issued

* * Debt & Cash & Cash Equivalents as on Dec. 08; Ex. Rate: INR 47.59



DuPont Model		
(YE Mar 31st)	FY09E	FY10E
EBIDTA/Sales (%)	18.1%	16.0%
Sales/Operating Assets (x)	5.2	4.0
EBIDTA/Operating Assets (%)	70.0%	55.5%
Operating Assets/ Net Assets (x)	0.6	0.5
Net Earnings/ EBIDTA (%)	75%	65%
Net Assets/ Equity (x)	1.3	1.2
Return on Equity (%)	36.1%	21.1%

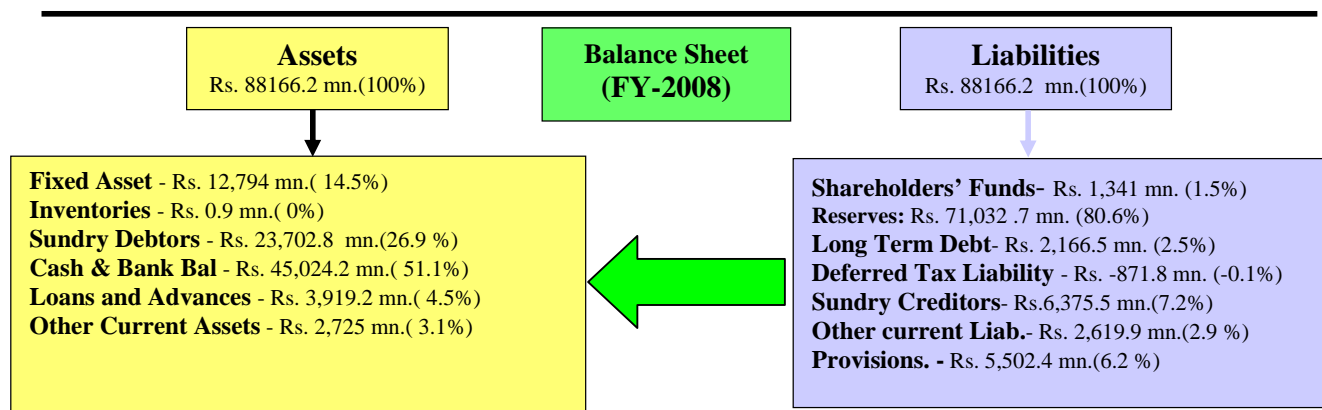
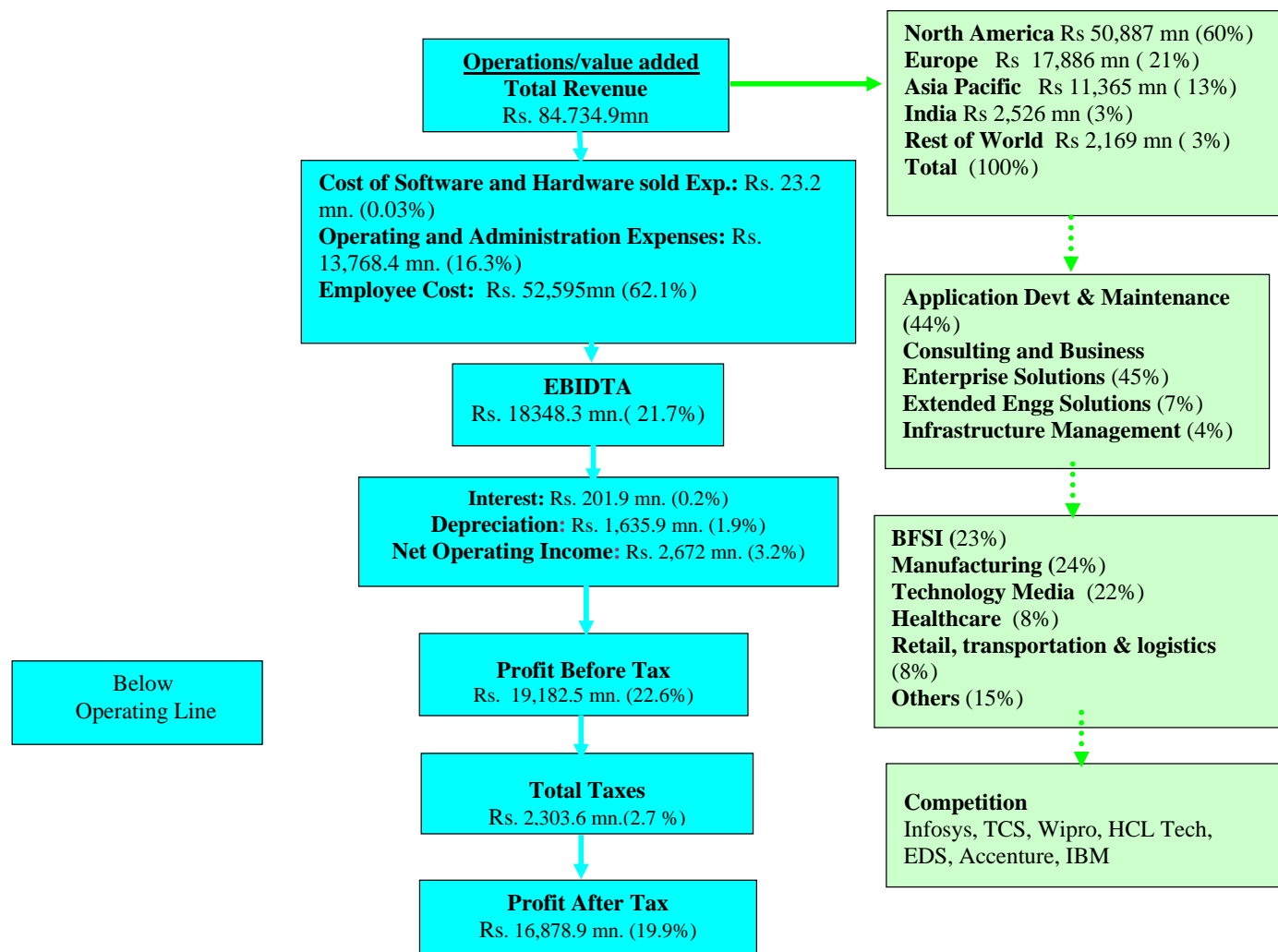
Common Sized Profit & Loss Account		
(YE Mar 31st)	FY09E	FY10E
Total Revenues	100%	100%
Personnel Expenses	65.0%	68.6%
Cost of Software and Hardware sold	0.02%	0.03%
Gross Profit	35.0%	31.4%
Operating and Administration Expenses	16.9%	15.4%
EBIDTA from Operations (Incl Inc from Associates)	18.1%	16.0%
Depreciation and Amortization	2.5%	3.3%
Interest Expenses	0.3%	0.6%
Other Income Net	1.1%	0.0%
Profit Before Tax	16.4%	12.1%
Total Tax	1.6%	1.1%
Profit after Tax	14.8%	11.0%
Profit after tax (excl extra-ordinaries)	14.8%	11.0%

Note: Previous year data is not given, as company is yet to announce re-stated financials.



Satyam's Business in Pictures... (FY08)

(All figures are in Rs. Mn except where stated otherwise) All percentages are percent of revenues, unless otherwise stated)





The Short Story...

Satyam Computer Services Ltd. (SCS.IN/SATY.BO) has been no WorldCom or Enron – where when the dust settled, there was nothing left, but for a pile of debris. Here, as the recently announced results have shown – regardless of whether or not Ramalinga Raju had been riding a tiger as he put it, he and his team did build a real company. That company continues to do business (FY10E revenues are Rs 86 bn or USD1.8 bn), remains reasonably profitable and is still available for something close to a song. By February 2009, EBIDTA margin has recovered to 17.5% (pre-extraordinaries). Cashflows are already back on track.

Now that the management issues are also behind us, valuation ratios – a P/Sales of 0.8x, EV/EBIDTA of 4.8x, P/E of 7.0x, all on conservative FY10 estimates - appear very attractive. We reinitiate with a ‘Buy’ rating and a Target Price of Rs.110-120.



The Slightly Longer Story...

Satyam announced its brief financials today in a disclosure to the stock exchanges, which was much better than the Street's expectations and painted a pretty bright picture for the company. In Q3 FY09,

In Q3 FY09, the company reported an EBIDTA margin of 16%, as against 3% stated by Mr. Ramalinga in a letter to the BSE, while the NPM for the quarter stood at 8%...

... In February 2009, the company's EBIDTA margin improved to 17.5% pre-extraordinary items (12.4% post these)

the company reported an EBIDTA margin of 16%, as against 3% stated by Mr. Ramalinga in a letter to the BSE, while the NPM for the quarter stood at 8%. However, Satyam had a slightly tougher time in Q4 FY09, as a few of its clients moved away, which was reflected in its numbers for the month of January 2009, when the company reported an EBIDTA margin of 4%. Nevertheless, the situation improved significantly in February 2009 and March 2009. In February 2009, the company's EBIDTA margin improved to 17.5% pre-extraordinary items (12.4% post these).

Currently, Satyam has an employee strength of approximately 41,000, which is also lower than the company's earlier announced figure of approximately 55,000 in a press conference held in January 2009. We believe that this will aid the company's margin improvement, going forward. According to the data provided by Satyam in the disclosure, the company's cash flows were well under control in the January-March 2009 period. Satyam lost business worth \$183 mn in the quarter, on account of loss of credibility, though it managed to win additional orders from existing client amounting to \$380 mn. This, to our mind, clearly indicates the strong faith and confidence that Satyam's clients continue to have in the company, which could well become its key future revenue growth driver. More importantly, Satyam's association with Tech Mahindra could provide some synergistic benefits, going forward.

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Satyam has not yet revised its earlier stated financials and we have, therefore, assumed no change in the company's financials for the first half of the fiscal FY09. We expect Satyam's EPS at Rs.14.7 and an EBIDTA margin of 18.1% in FY09.

For FY10, we expect the company to face some difficulty in retaining its volumes as well as pricing and, therefore, expect its margins to decline slightly*. We estimate an EBIDTA margin of 16% and an EPS of Rs 9.5 on revenues of Rs.86 bn for FY10. Thus, today's announcement made by Satyam has allayed concerns over its financial stability and provides a good outlook for the company. The stock currently trades at an EV/EBIDTA of 4.8x, P/Sales of 0.8 and P/E of 7.0x – all on FY10 estimates – all of which are extremely attractive. We reinstate coverage on Satyam with a rating of BUY.

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Satyam's Financials

Rs Mn	H1 FY09	Q3 FY09	Jan-09	Feb-09	FY09E	FY10E
Revenues	54,401	22,940	6,810	6,760	98,691	85,953
Other Income	938	-880	-340	-390	-750	500
Total revenues	55,339	22,060	6,470	6,370	97,941	86,453
Total Expenses	41,569	19,300	6,200	5,580	80,124	72,700
EBITDA	13,770	2,760	270	790	17,817	13,753
EBITDA Margin %	24.88%	12.51%	4.17%	12.40%	18.2%	16.0%
EBITDA excluding ex ordinaries %	12,832	3,640	610	1,180	1,8567	13,753
EBITDA Margin excluding ex ordinaries %	23.59%	15.87%	8.96%	17.46%	18.1%	16.0%
Financial expenses		80	20	40	100	200
Depreciation/amortization	1,112	660	210	210	2,451	2,800
PBT	12,658	2,020	40	540	16,016	10,753
Tax	1,372	210	0	20	1,772	1,290
PAT	11,286	1,810	40	520	14,586	9,462
NPM %	20.4%	8.2%	0.6%	8.2%	14.9%	11.0%
No of Shares (In Mn)	677	677	677	677	677	995
No of Shares Diluted (In Mn)	995	995	995	995	995	995
EPS (Rs)	16.67	2.67	0.06	0.77	14.7	9.5

*Assumption:

FY10 revenue is estimated assuming average employee strength of 42,500 and 6% price discount from current pricing levels. Exchange rate is assumed at 1\$ = INR 47.0. In our estimates, we have not factored in any contingent or legal liabilities (Upaid Litigation, U. S. Class Action law suit etc.)

Comparative Valuation

Company	YE	P/E(x)		P/S(x)		P/BV(x)		EV/EBITDA(x)		EV/Sales(x)		EBITDA %	ROE %	ROCE %	Annual EPS Growth	Annual Sales Growth
		FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	09E	09E	09E	(10E/09E)	(10E/09E)
SATYAM	Mar	4.4	7.0	0.7	0.8	1.8	1.5	3.7	4.8	0.4	0.7	18.1%	36.1%	33.0%	-37.9%	-12.9%
TCS	Mar	14.0	13.1	2.6	2.5	4.6	3.7	10.0	8.8	2.6	2.2	25.8%	34.9%	30.0%	8.2%	6.9%
INFOSYS	Mar	16.7	17.9	4.6	4.5	5.5	4.5	12.4	12.8	4.3	4.1	33.2%	39.7%	39.7%	-7.1%	1.6%
WIPRO	Mar	15.2	14.8	2.3	2.2	4.3	3.6	10.9	10.5	2.2	2.1	20.2%	30.8%	24.6%	2.8%	3.6%
HCL TECH	Jun	7.3	7.6	1.1	1.0	2.0	1.8	5.4	5.4	1.1	1.1	21.0%	28.3%	22.6%	-3.8%	6.4%

Source: FG Estimates



IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and nonfinancial data of the concerned company using a combination of P/E, P/Sales, earnings growth, discounted cash flow (DCF) and its stock price history.

The risks that may impede achievement of the price target/investment thesis are -

- **Change in the economic climate/legislation against Indian offshore development in the countries where the company provides its services**
- **Billing rate pressure from clients**
- **Fluctuation on US\$-Rupee exchange rate**
- **Salary and wage inflation & high employee attrition**
- **Availability of tax holidays and incentives from Government of India**
- **Unfavourable decision in legal cases (Caterpillar Inc., Bridge strategy group, S&V Management consultant, Venture Global, U.S. Class action Law Suit, Unpaid Litigation and Other unacknowledged claims)**



First Global's Rating System

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: S&P CNX Nifty

Positive Ratings

(i) Buy (B) – This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.

(ii) Buy at Declines (BD) – This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.

(ii) Outperform (OP) – This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.

Neutral Ratings

(i) Hold (H) – This rating means that we expect no substantial move in the stock price over the specified time period.

(ii) Marketperform (MP) – This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.

Negative Ratings

(i) Sell (S) – This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.

(ii) Sell into Strength (SS) – This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.

(iii) Underperform (UP) – This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.

(iv) Avoid (A) – This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.



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