



Patni Computers

11th May 2010

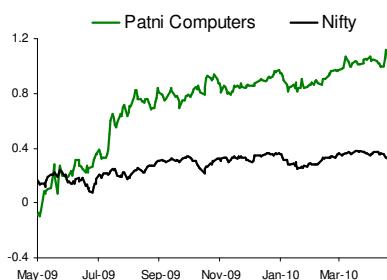
HOLD

Industry	IT/ITeS
CMP (INR)	560
52 week H/L (INR)	624/158
Market Cap (INR MN)	73214
1M Avg. Daily Volumes	451942

Shareholding Pattern (%)

Promoters	46.46
FII	12.98
FI/MFs	6.96
Others	33.60

Stock Performance (Last one year)



Performance (%)

	1M	3M	12M
Patni	2.90%	16.93%	182.28%
Nifty	-6.41%	1.75%	36.67%

* Source: NSE, Unicon Research

INR Mn	Unicon Estimates	Actual Results
Revenues	8176	7907
EBITDA	1926	1715
NPAT	1544	1366

Mixed Quarter but strong outlook

The revenues for Q1CY10 were below our expectations but were inline with the management guidance. The USD revenue growth was at 1.3% and the constant currency growth was at 1.9%. The INR revenue growth was at 0.3% mainly due to the INR appreciation. Though the revenue growth was muted in comparison with the other mid cap stocks, the deal pipeline continues to remain strong according to the management. Also, Patni computers bagged one of the largest deals (worth USD 250mn to be executed over the next 5 years) in the recent past and with this, we expect Patni computers to gain a sound footing in the fast growing Healthcare segment.

Supply side issues dent topline

Patni computers recorded a spike in attrition rates, which have trended up to 17.7% (on LTM basis) in Q1CY10 (also the reason for increased utilizations). This has hurt the revenues according to the management. Also, the company has already stepped up recruitments and is in the process of recruiting 3000 professionals in the next quarter, which we believe should address the supply side constraints. Also, the company has given out 12% wage hike for offshore and 2% wage hike for onsite which again should peg the compensation to the industry standards and help control the rising attrition.

Operating margins continue to be stable, execution impressive

The operating margins have held at 21.6% on the back of strong execution and managing the cost base. The management has indicated that the operating margins would likely hold in the same range going forward.

Deal with Universal America, key positive

Patni has struck a deal with Universal America (Healthcare Insurance industry, potentially USD 250mn over three years) which has given Patni computers good footing in the fast growing Healthcare segment. Also this is the first full platform (end to end deal) win for Patni with non linear pricing and this would enable the company to take advantage of any execution efficiencies it can drive into the implementation of the project.

PES & Manufacturing segments strong

The Product Engineering Services (16.3% of revenues from 14.8% of revenues qoq) and Manufacturing segments (50bps improvement in %revenue contribution) have reported

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strong growth in Q1CY10 which shows that the discretionary spends are clawing back. We expect the PES to ride both on the rising discretionary spends and the inhouse IP developed to implement these projects.

Valuation & Recommendation

At a CMP of INR 560, the stock trades at 12.76x its CY10E Eps. Recommend HOLD for a target price of INR 590, which is 13.4x the CY10E Eps and represents an upside of 5% from the current levels.



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Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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