



ENAM Securities
India Research

Rs 460

Target Price: Rs 583

Potential Upside: 27%

Sector avg. upside: 15% to 25%
(mkt cap wtd)

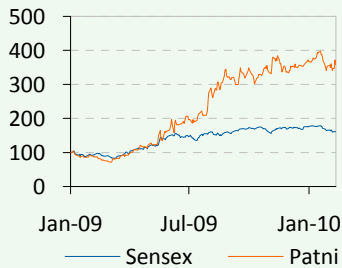
Patni Computers

Relative to sector: **Outperformer**

Analyst: **Priya Rohira**
Executive Director- IT & Telecom Sector
Email: priya@enam.com
Tel: 9122 6754 7611

Sujit Parab
Asst Vice President- IT Sector
Email: sujit.parab@enam.com

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 129 mn
Market cap : Rs 59.4 bn
52 week high/low : Rs 527/ Rs 94
Avg. daily vol. (6mth) : 917,600 shares
Bloomberg code : PATNI IB
Reuters code : PTNI.BO

Shareholding (%) Dec-09 QoQ chg

Category	Dec-09 (%)	QoQ chg
Promoters	46.5	(1.8)
FIs	12.0	2.1
MFs / UTI	5.9	(0.1)
Banks / FIs	1.1	0.0
Others	34.4	(0.2)

Financial summary

Y/E Dec	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2008	31,991	4,544	-	35.5	8	-	16.8	17.6	-
2009	31,620	4,665	-	36.4	3	-	15.5	19.8	-
2010E	34,107	5,220	39.5	40.8	12	12.6	15.1	18.7	5.2
2011E	38,323	5,334	41.0	41.7	2	11.3	13.5	18.8	4.5

Source: *Consensus broker estimates, Company, ENAM estimates

IMPROVING OPERATING PROFILE

2nd consecutive qtr of strong OPM, positive net employee additions after 5 straight qtrs of headcount cut (~9%), maintenance of 77%+ utilization rate & cost efficiencies summarize our key takeaways from Patni's Q4CY10 results. Patni reported rev of Rs 7.9 bn (↓ 2% QoQ & 8% YoY), EBITDA of Rs 1.94 bn (↓ 2% QoQ & ↑ 6% YoY), & adjusted PAT of Rs 1.4 bn (↑ by 17% QoQ & 75% YoY).

Key highlights

- **Sales:** Down 2% QoQ in INR terms but up 2% QoQ in USD terms. Lower billable days impacted volumes.
- **EBITDA:** Lower salary cost, better utilization (up 40 bps QoQ) & SG&A rationalization aided strong growth.
- **PAT:** Uptick in operating margins, forex gain (Rs 148 mn) & tax write-back (~Rs 510 mn) led PAT growth. However, despite adjusting for tax write-back in Q4 & Q3, PAT registered 17% QoQ.

Core offerings drive growth

- In USD terms, revenue growth was driven by core Manufacturing vertical (+8.6% QoQ; 30.3% revenue share), ADM (+3% QoQ; 65.8% revenue share) & Product Engineering (+3.2% QoQ). US & Europe grew 1.4% & 5.6% QoQ in USD terms.
- Q1CY10 topline guidance looks conservative due to recovery in BFSI (42.5% revenue share) & bottoming out of manufacturing & telecom verticals (aggregate revenue share of 42.6%).

Q1CY10 guidance appears conservative given good deal pipeline

Adjusting for tax write back in Q4, Q1CY10 PAT guidance at USD 28-29 mn implies ~3-6% QoQ growth. Almost flat revenue guidance at ~USD 170-174 mn has largely been due to lower current capacity. While the company is back to hiring & deal pipeline remains strong, we believe employee additions will be key to sustaining revenue growth as Patni is operating at peak utilization rate. With cash of ~USD 440 (~Rs 158/ share) organic growth can be supplemented by inorganic initiatives. Maintain sector **Outperformer** rating.

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-09	Dec-08	% Chg	Sep-09	% Chg	Dec-10E	Dec-09	% Chg
Net Sales	7,896	8,570	(7.9)	8,040	(1.8)	34,107	31,620	7.9
EBIDTA	1,940	1,837	5.6	1,980	(2.0)	7,964	7,439	7.1
Other income	346	(435)	(179.4)	175	97.8	803	657	22.2
PBIDT	2,286	1,402	63.0	2,155	6.1	8,767	8,096	8.3
Depreciation	543	505	7.6	568	(4.4)	2,302	2,131	8.0
PBT	1,743	897	94.2	1,587	9.9	6,465	5,965	8.4
Tax	375	117	219.6	419	(10.5)	1,244	1,300	(4.3)
Adjusted PAT	1,368	780	75.3	1,168	17.2	5,220	4,665	11.9
Extra ordinary income/ (exp.)	510	0	-	548	-	0	1,059	-
Reported PAT	1,878	780	140.8	1,716	9.5	5,220	5,723	(8.8)
No. of shares (mn)	128	128	-	128	-	128	128	-
EBIDTA margins (%)	24.6	21.4	313 bps	24.6	(5) bps	23.3	23.5	(18) bps
PBIDT margins (%)	28.9	16.4	1,259 bps	26.8	215 bps	25.7	25.6	10 bps
Adjusted EPS (Rs.)	10.7	6.1	75.3	9.1	17.2	40.8	36.4	11.9

Source: Company, ENAM Research

Patni Q4CY09: Operating Metrics

(Rs mn)	Dec-09	QoQ Chg (%)	YoY Chg (%)
GE Revenues	876	(8.4)	(7.0)
Non-GE Revenues	7,020	(0.9)	(8.0)
Top Client - GE	876	(8.4)	(7.0)
Top 2-5 Clients	2,045	(3.7)	1.1
Top 6-10 Clients	1,098	4.2	(9.2)
Top 10 Clients	4,019	(2.7)	(3.7)
Remaining Clients	3,877	(0.8)	(11.8)
USD1mn clients (nos)	92	-	-
Active Client Base (nos)	272	-	-
Performance across verticals (Rs mn)			
Insurance	2,408	(4.0)	3.7
Manufacturing	2,393	4.8	(3.1)
Financial Services	948	(4.2)	(14.3)
Telecommunications	971	(10.5)	(26.9)
Product Engineering Practice	1,169	(0.4)	(13.1)
Employee Base (nos)			
Total	13,995	388	(899)
Onsite effort	2,731	(33)	(235)
Offshore effort	11,264	421	(664)
Net Adds	388	-	-
Attrition (%)	13.7	240 bps	(490) bps
Utilization (%)	77.4	40 bps	430 bps

Source: Company, ENAM Research

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