

1QFY09 Result Update

CMP: INR 383

Target: INR 525

ACCUMULATE

BSE Sensex	13,635
S&P Nifty	3,588
BSE IT	4,092
BSE Code	500376
NSE Code	SATYAMCOM
Bloomberg Code	SCS@IN
Reuters	SATY.BO
52 Week High (INR)	544
52 Week Low (INR)	305
Equity (INR Mn)	1,345
Market Cap. (INR Mn)	257,683

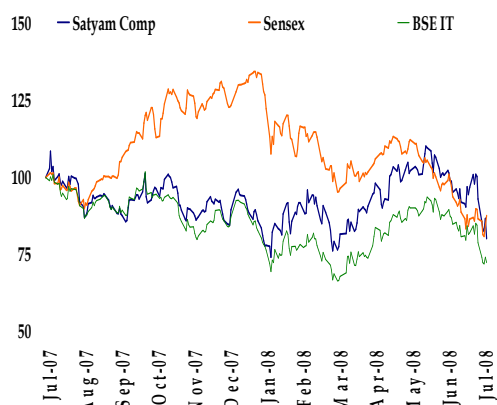
Shareholding Pattern (%):

Foreign	68.92
Institutions	13.00
Corporate	0.59
Promoters	8.74
Public & Others	8.75
Total:	100.00

Returns (%):

1 Month	-20.23
3 Months	-20.91
1 Year	-24.03

Relative Price Performance



Source: Comline Products

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Consolidated Results for the quarter ended June 30, 2008

- ✓ Revenue at Rs 26,208 mn; an increase of 43.2% YoY and sequential increase of 8.5%.
- ✓ Profit after tax at Rs 5,477 mn; grew 44.8% YoY and sequential increase of 17.3%.
- ✓ EPS at Rs 8.1, YoY increase of 43.7%; sequential increase of 17%.

Result Highlights

- ✓ **Revenue Growth:** USD revenue grew 3.9% sequentially to USD 637.3 mn. However, revenue growth in economic sense was only 1.7% to USD 623.8 mn, adjusted for foreign exchange rate fluctuation out of prevailing US GAAP standards, lower than Q1 guidance. Due to volatility of INR/USD during the quarter - realized average exchange rate of Rs 42.46/USD was materially different from accounting rate (US Fed reserve noon buying rate) of Rs 41.55/USD resulting in higher reporting revenues (by USD 13.5 mn) for the quarter. There has been no change in accounting method, but in the past that difference remained small.
- ✓ **Billing Rate:** Offshore and onsite billing rates declined sequentially by 23 bps and 15 bps respectively. Still, offshore and onsite billing rates were up 3.9% and 5.1% respectively over same quarter last year. The management indicated hike in prices till end of FY08 would result into inbuilt price hike of ~2% for FY09.
- ✓ **Margin:** Favorable rupee helped company improve operating margins by ~130 bps to 24.1% QoQ.
- ✓ **Employees:** The company has added 115 employees in IT business excluding domestic business, much lower than past few quarters. The number of associates including in the subsidiaries and joint ventures increased by 516 to 51,643. The management is targeting to add 14,000-15,000 employees and 18,000 employees (gross addition) in parent company and consolidated levels respectively in FY09.
- ✓ **Salary hike:** The management indicated 12-14% hike for offshore employees and 3-4% for onsite employees. The salary hike will be effective from 1st July.

Financial Summary

(INR Mn)	FY06	FY07	FY08	FY09E	FY10E
Income	47,926	64,851	84,735	115,842	134,754
Op. Profit	11,662	15,377	18,348	25,455	27,894
PAT	11,491	14,046	16,879	22,129	25,142
EPS (INR)	17.7	21.1	25.2	33.0	37.5

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Please read the Important Disclosure at the end of this report.

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- ✓ **Attrition:** Attrition on a trailing twelve months declined by 51 bps to ~12.6%. Annualized quarterly attrition for the quarter stood at ~10.9%.
- ✓ **Clients:** Satyam added 34 customers in Q1. Top client grew by 7.5% sequentially and contributed ~4.5% of standalone rupee revenues. Top 10 clients reported sequential growth of 8.1% for the quarter.
- ✓ **Satyam BPO (Nipuna) Performance:** Satyam BPO had a loss of animation business and some voice business during the quarter which led to ~33% sequential decline in revenues. It reported revenues of Rs 489.7 mn with a net loss of Rs 219 mn.
- ✓ **Foreign exchange loss:** Other income in Q1FY09 declined by ~48% yoy due to a MTM (mark-to-market) loss of Rs 363 mn booked on the outstanding foreign exchange forward and options contracts.
- ✓ **Hedging position:** The company has outstanding foreign exchange forward and options contracts of USD 312 mn and 363 mn respectively, totaling to 675 mn (~1.1 bn end of Mar 08). The outstanding foreign exchange forward and options contracts as of June 30, 2008 mature between one to twenty one months.
- ✓ **FY09 Guidance Assumptions:** In-built higher price realization, weaker rupee, change in offshore-onsite mix, subsidiaries performance improvement, and employee pyramid would act as positive margin levers in FY09. The management has guided ~50 bps improvement in FY09 margin (against 50 bps decline guided at the end of FY08) from FY08 levels of 21.7%.

Valuation

The company posted ~3% volume growth in first quarter, after posting 8%+ growth rate in previous seven quarters. The company has maintained FY09 USD revenue guidance, however rupee guidance revised upwards primarily due to rupee depreciation. The company guided 3.5-4.5% USD revenue growth in Q2FY09, taking 1HFY09 revenues to ~47.5% of FY09 guidance. FY09 guidance implies ~5.1% CQGR in Q3 and Q4. We have revised FY09E EPS estimates by ~9% after factoring in change in assumptions of average Rupee/USD rate to 43 for FY09, 41 for FY10 and higher non-operating income as yields are moving higher. The company has cash equivalent of Rs ~72 per share at the end of quarter. The stock is currently trading at ~11.5x FY09E earnings and ~9.4x FY09E earnings on cash adjusted price. **We maintain Accumulate on the stock with a revised target price of Rs 525 at 14x FY10E earnings.**

Business Outlook

Descriptions	Guidance			
	Q2 2009	Q-o-Q Growth	FY 2009	Y-o-Y growth
Indian GAAP				
Revenue (Rs mn)	27,430 to 27,690	4.7% to 5.7%	111,810 to 113,630	23.9% to 25.9%
EPS (Rs per share)	7.71 to 7.78	-5.5% to -4.7%	31.83 to 32.35	26.1% to 28.2%
US GAAP				
Revenue (USD mn)	645.6 to 651.9	1.3% to 2.3% \$	2651.5 to 2694.0	24% to 26%
EPADS (USD per ADS)	0.35*	-7.9%	1.45 to 1.48*	16% to 18.4%

* excluding FBT on ESOPs

\$ Unadjusted growth rate. Growth rate after adjusting Q1 revenue for USD 13.5 mn, due to foreign exchange fluctuation arising out of prevailing US GAAP standard, is 3.5-4.5%.

Q2FY09 and FY09 Outlook is based on exchange rate of Rs 42.88 and Rs 42.78/ USD respectively



1QFY09 Financial Results

Descriptions (INR Mn)	Q1 FY09 Jun-08	Q4 FY08 Mar-08	Q-o-Q Gwth	Q1 FY08 Jun-07	Y-o-Y Gwth
Income					
Exports	25,428	23,506	8.2%	17,769	43.1%
Domestic	780	655	19.2%	533	46.5%
	26,208	24,160	8.5%	18,302	43.2%
Expenses					
Personnel Expenses	15,412	14,699	4.8%	11,062	39.3%
Cost of S/w and H/w sold	3	7	-63.4%	3	4.0%
Operating and Admin. Expenses	4,471	3,947	13.3%	3,135	42.6%
	19,886	18,654	6.6%	14,199	40.0%
Operating Profit	6,323	5,507	14.8%	4,103	54.1%
	<i>OPM</i>	<i>24.1%</i>		<i>22.8%</i>	<i>22.4%</i>
Depreciation	467	435	7.3%	387	20.7%
PBIT	5,856	5,071	15.5%	3,716	57.6%
	<i>PBITM</i>	<i>22.3%</i>		<i>21.0%</i>	<i>20.3%</i>
Financial Expenses	57	46	25.6%	33	72.9%
Other Income	331	230	44.2%	632	-47.6%
PBT	6,130	5,255	16.6%	4,315	42.1%
	<i>PBTM</i>	<i>23.4%</i>		<i>21.8%</i>	<i>23.6%</i>
Provision for Taxation	653	587	11.2%	532	22.7%
PAT	5,477	4,669	17.3%	3,783	44.8%
	<i>PATM</i>	<i>20.9%</i>		<i>19.3%</i>	<i>20.7%</i>
Face Value	2.0	2.0		2.0	
Equity	1,345	1,341		1,335	
EPS (INR)	8.1	7.0	17.0%	5.7	43.7%



Revenue by Line of Business

The Retail, Transportation & Logistics practice maintained its growth momentum during the quarter, contribution increased by ~90 bps to 10.5% of revenues. BFSI share of revenues declined by ~50 bps sequentially.

Line of Business	As %'age of Revenue			Q-o-Q	Y-o-Y
	Jun-08	Mar-08	Jun-07	Gwth	Gwth
Banking, Financial Services & Insurance	21.4%	21.8%	23.8%	6.7%	29.3%
Manufacturing	23.1%	23.5%	25.9%	6.8%	28.1%
TIMES	21.9%	21.5%	22.0%	11.0%	43.3%
Healthcare & Pharma	7.1%	7.1%	8.0%	8.6%	26.3%
Retail, Transportation & Logistics	10.5%	9.6%	6.9%	18.8%	117.8%
Others	16.1%	16.5%	13.5%	6.8%	71.6%
Total	100.0%	100.0%	100.0%	8.9%	43.6%

Revenue by Service Offerings

Extended engineering solutions and Consulting & Enterprise business solution drives growth during the quarter.

Revenue by Service Offerings (%)	As %'age of Revenue			Q-o-Q	Y-o-Y
	Jun-08	Mar-08	Jun-07	Gwth	Gwth
Software Development and Maintenance	44.6%	44.4%	43.7%	9.6%	46.7%
Consulting and Enterprise Business Solutions	44.7%	45.1%	44.2%	8.1%	45.3%
Extended Engineering Solutions	6.8%	6.7%	7.2%	10.4%	35.7%
Managed Infrastructure and Technology Services	3.9%	3.9%	4.9%	9.2%	13.5%
Total	100.0%	100.0%	100.0%	8.9%	43.6%

Revenue by Regions

Contribution from North America declined by 30 bps during the quarter.

Revenue by Region (%)	As %'age of Revenue			Q-o-Q	Y-o-Y
	Jun-08	Mar-08	Jun-07	Gwth	Gwth
North America	60.3%	60.6%	61.7%	8.4%	40.4%
Europe	20.7%	20.7%	20.1%	8.7%	47.6%
Rest of World	19.0%	18.7%	18.2%	10.9%	50.3%
Total	100.0%	100.0%	100.0%	8.9%	43.6%



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