

### INITIATING COVERAGE

#### Share Data

Market Cap	Rs. 312.48 bn
Price	Rs. 468.35
BSE Sensex	14504.57
Reuters	SATY.BO
Bloomberg	SCS IN
Avg. Volume (52 Week)	0.99 mn
52-Week High/Low	Rs. 524.9/325.68
Shares Outstanding	667.2 mn

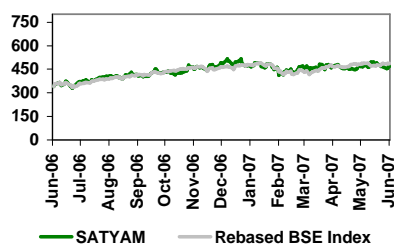
#### Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	25.4	32.0
+/- (%)	18.2%	26.2%
PER (x)	18.5x	14.6x
EV/ Sales (x)	3.4x	2.6x
EV/ EBITDA (x)	14.5x	11.4x

#### Shareholding Pattern (%)

Promoters	9
FII's	47
Institutions	12
Public & Others	32

#### Relative Performance



### Satyam Computer Services Limited

Buy

#### Prepared to grow

Satyam Computer Services Limited (Satyam) is a global consulting and IT services company and maintains a leadership position in this sector. The Company's revenues are expected to grow at a CAGR of 27% through FY09E, driven by increasing spends on outsourcing, expanding client base, and Company's global infrastructure. This growth however would be tempered by depreciating US Dollar. Margins would be under pressure because of wage rate hikes, but the impact would be offset by improving mix between offshore and onsite work and increasing operational efficiencies.

#### Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	35,208	47,926	64,851	81,712	104,591	27.0%
EBITDA	8,694	11,671	15,386	18,927	24,122	25.2%
Net Profit	7,127	9,654	14,055	16,926	21,355	23.3%
<b>Margins(%)</b>						
EBITDA	24.7%	24.4%	23.7%	23.2%	23.1%	
NPM	20.2%	20.1%	21.7%	20.7%	20.4%	
<b>Per Share Data (Rs.)</b>						
EPS	22.4	15.0	21.5	25.4	32.0	22.1%
PER (x)	20.9x	31.2x	21.8x	18.5x	14.6x	

- Global IT off-shoring spends are forecasted to grow at 28% through 2009. Satyam is well positioned to capitalise on this trend and consequently we expect the Company to beat its guidance of 22-24% revenue growth.
- EBITDA and Net Profit margins are likely to fall by 60bps and 130bps respectively over the period FY07-FY09E.
- At current market price of Rs. 468.35, the stock trades at a forward P/E of 18.5x for FY08E and 14.6x for FY09E. Our one year target price based on 21x P/E is Rs. 530 and we initiate the coverage with a **Buy** rating.

### Investment Rationale

*Off-shore spending to contribute to revenue growth*

#### *Increasing off-shore spending to boost revenues*

World-wide off-shore spending on IT and BPO services is estimated to grow to USD 65 bn by FY09 at a CAGR of 28%. Satyam's offshore business is showing similar trend, and has increased to 50% in FY07, up from 44% in FY06. In 2006, Satyam was ranked 1<sup>st</sup> among Indian IT companies and 2<sup>nd</sup> among global off-shore service providers by "Black Book of outsourcing". Satyam is well positioned to capitalize on this trend.

*Large client base for reduced risk*

#### *Wide network of clients and growing client base*

Satyam has an international presence, serving more than 558 global companies including over 163 Fortune 500 companies. Besides this, the client base of the company has also increased by 120 and 138 in FY06 and FY07 respectively. The Company's growing client base further de-risks the business model and provides more opportunities for continued growth.

*Increased operational efficiency to control margins*

#### *Global infrastructure to drive revenue growth*

Satyam's locations are spread across 55 countries in 6 continents with its development centres situated in India, the USA, the UK, Australia, Singapore, Hungary among others. Consequently, we believe that Satyam is in a better position to tap the global markets and capitalize on accelerating off-shoring trends.

#### *Improving operational efficiency to offset effect of wage hike*

According to a NASSCOM report, the wage hike last year was nearly 15% and is expected to rise further due to greater demand for skilled professionals. In the last two years, the improvement in operational efficiency has affected margins by 200bps. This would help the Company mitigate the effect of increasing wage rates.

*Wide range of verticals mitigate business risk*

#### *Deep domain expertise within a wide array of verticals*

Satyam provides a wide range of solutions for diverse and high growth verticals which include telecom, retail, manufacturing, banking & financial services,

insurance, automotive and healthcare. This wide range of verticals help Satyam mitigate its business risk.

### Key Risks

*Rupee appreciation may hurt revenues*

#### *Weakening Dollar*

North America accounts for 64% of Satyam's revenues. In the last four months, US Dollar has depreciated by 7% vis-à-vis Indian Rupee. We have factored INR/USD exchange rate of Rs. 41 for our FY08 estimates. Any further depreciation in US Dollar could be a risk to our rating.

*Wage hikes may affect margins*

#### *Unexpected Wage Hike*

We expect approximately 15% hike in wages for FY08 in the IT and ITeS sector. Any further increase in wage rates could adversely impact margins and would pose a risk to our Buy rating.

#### *Macro-economic environment*

Changes in the macro-economic environment like a slow down in the US economy or reduced IT spending may lead to a fall in revenues of the company.

#### *Competition*

Satyam operates in a highly competitive industry and its major competitors include big firms such as Accenture, HP, IBM, Cognizant, Infosys and TCS. Increase in competition or any unforeseen steps taken by its competitors may lead to pressure on the company's earnings thereby having an impact on our rating.

### Outlook

Satyam has a diversified set of services providing an array of solutions to a wide range of verticals including telecom, banking, insurance and manufacturing. After considering the leadership position of Satyam in outsourcing, its global presence and an increasing client base, the revenues are expected to grow at a CAGR of 27% for the period FY07-FY09E.

EBITDA and Net Profit Margins are expected to fall by 60bps and 130bps respectively for FY07-FY09E. Based on P/E valuation, our target price per share is Rs. 530. We initiate coverage with a **Buy**.

### Company Background

*Front-runner and one of the leaders in IT sector*

Satyam Computer Services Limited, headquartered at Hyderabad was founded in 1987. It is a leading global consulting and IT services company and has 4 subsidiaries and 2 joint ventures which includes Satyam Infoway (1<sup>st</sup> ISP in India) established in 1998. Satyam provides a wide array of customized solutions for various key verticals including automotive, banking & financial services, insurance & healthcare, manufacturing, telecom and media. The company also provides BPO services through its subsidiary named 'Nipuna'. Satyam's employee strength of nearly 40,000 work from 25 development centres across India, the USA, the UK, Canada, Hungary, Singapore and Malaysia. Satyam's network is spread across 55 countries in 6 continents, and serves over 558 global companies including over 163 Fortune 500 corporations.

### Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.