

RESULTS REVIEW
Share Data

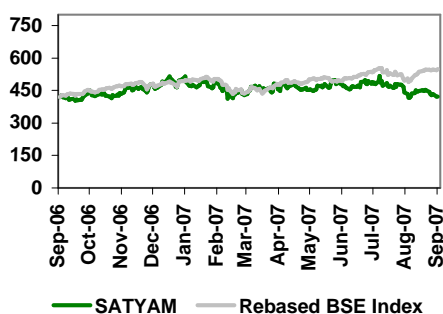
| | |
|-----------------------|--------------|
| Market Cap | Rs. 281.3 bn |
| Price | Rs. 421.3 |
| BSE Sensex | 16,348.0 |
| Reuters | SATY.BO |
| Bloomberg | SCS IN |
| Avg. Volume (52 Week) | 0.71 mn |
| 52-Week High/Low | Rs. 864/396 |
| Shares Outstanding | 667.7 mn |

Valuation Ratios (Consolidated)

| Year to 31 March | 2008E | 2009E |
|------------------|-------|-------|
| EPS (Rs.) | 25.4 | 30.2 |
| +/- (%) | 21.0% | 19.0% |
| PER (x) | 16.6x | 13.9x |
| EV/ Sales (x) | 3.0x | 2.3x |
| EV/ EBITDA (x) | 13.4x | 11.1x |

Shareholding Pattern (%)

| | |
|-----------------|----|
| Promoters | 9 |
| FII's | 48 |
| Institutions | 12 |
| Public & Others | 31 |

Relative Performance

Satyam Computer Services Limited
Hold
Improved operating performance limits currency impact

Satyam Computer came up with a good set of numbers for Q1FY08. With a revenue growth just shy of 3% qoq in rupee terms, the Company outperformed top IT companies that have witnessed a flat growth in the topline.

Rupee appreciation was to blame as EBITDA and EBIT margins declined by 65 bps qoq and 76 bps qoq respectively but better utilisation, improved pricing, and operational efficiencies kept the margins in check. EPS was lower by 5.2% sequentially, as the Company adopted a conservative hedging policy.

Based on our analysis, we believe that the stock is fairly valued at the current market price. The stock is currently trading at a P/E of 20.1x and at a forward FY08E PE of 16.6x. Historically, the stock has traded at a discount to the industry P/E, which currently lies in the range of 23x - 24x. At the CMP, it offers limited room for upside. We, therefore, recommend a **Hold** rating on the stock.

Result Highlights

Satyam reported revenues at Rs. 18,301.9 mn, led by a 9.5% volume growth. Key segments such as Consulting and Enterprise business solutions constituted 44.2% of total revenues, up from 42.6% last quarter; Infrastructure management services grew by 36.4% to 4.9% of total revenues; and share of Extended Engineering Services rose by 20 bps to 7.2%. Increased emphasis and significant investments in prior periods helped in accelerating the growth in these services.

Key Figures (Consolidated)

| Quarterly Data | 1Q'07 | 4Q'07 | 1Q'08 | YoY% | QoQ% |
|---|--------|--------|--------|-------|--------|
| (Figures in Rs mn, except per share data) | | | | | |
| Net Sales | 14,429 | 17,792 | 18,302 | 26.8% | 2.9% |
| EBITDA | 3,550 | 4,102 | 4,103 | 15.6% | 0.0% |
| Net Profit | 3,541 | 3,936 | 3,783 | 6.8% | (3.9%) |
| Margins(%) | | | | | |
| EBITDA | 24.6% | 23.1% | 22.4% | | |
| NPM | 24.5% | 22.1% | 20.7% | | |
| Per Share Data (Rs.) | | | | | |
| EPS | 5.2 | 5.8 | 5.5 | 5.5% | (5.2%) |

However, ADM's share saw a major decline of 2.7% to stand at 43.7% at the current levels, suggesting lower emphasis on this segment.

The share of top ten clients in the total revenue fell to 34.4% from 36.3% in the previous quarter. Repeat business remained stable. Satyam added 29 new clients including 2 Fortune US 500 corporations. The number of active clients increased from 538 in the prior quarter to 551. The Company expanded its presence in Asia-Pacific and Europe. However, contribution from America still accounts for more than 60% of revenues. Given the exchange rate environment and economic conditions in the US, the Company needs to significantly extend its reach to other parts of the world.

| Factors | Impact on EBITDA (bps) |
|--------------------------|------------------------|
| Rupee Appreciation | (230) |
| Operational Effeciencies | 145 |
| Losses of Subsidiaries | (30) |
| Better Utilisation | 45 |
| Increase in RSU charges | (40) |
| Improved Pricing | 85 |
| Offshore Contribution | 60 |
| Higher Visa Costs | (100) |
| Net Impact | (65) |

Decreasing proportion of fixed bid work may have a dampening effect on the margins

EBITDA for the quarter remained stable at Rs. 4,103 mn. EBIT declined by 0.9% qoq to Rs. 3,716 mn. Sequential increase of 1.3% and 1.5% in billing rates for onsite and offsite, respectively and volume growth of 9.5% reined in to minimise the adverse impact of currency movements, higher visa costs, and losses of subsidiaries. Satyam has been gradually increasing the share of export revenues from offshore locations, which may prove margin-accretive in the long run. However, sustained decline in the proportion of fixed bid work may expose the margins and put pressure on pricing.

Bottom line slipped 3.9%, as the Company charged all of the translation loss to P/L account. EPS for the quarter was Rs. 5.7, down 5.2% qoq.

Receivable days still remain an area of concern. It increased from 87 days to 90 days. Large deals may only aggravate the problem until firm measures are taken by the Company.

Satyam added 2,795 employees during the quarter to bring its employee strength to 42,347 at an attrition rate (on TTM basis) of 14.9%. Utilisation level for offsite associates (including trainees) for the quarter increased from 71.3% to 76.5%. However, the utilisation rate is expected to decrease in the next quarter as hiring plans include 50-60% fresh recruits. The Company has decided a wage hike of 16% for offshore associates and 5% for onsite associates, effective from the next quarter.

Substantial wage hike of 16% for offshore associates and 5% for offsite associates

Key Events

Alliance with Oracle Asia Pacific, JDA Software group, and Temenos Group and extension of association with Nestle

- Satyam Computer Services Limited and Oracle Asia Pacific entered into a strategic alliance to aid companies in the APAC region to adopt business intelligence solutions.
- Nestle Corporation extended its association with Satyam for three years. The Company will earn cumulative revenues of about USD 75 mn in the next three years for providing a range of software services to Nestle.
- Satyam formed an alliance with JDA Software group of the US to offer retail and supply chain solutions in the Asia Pacific region.
- Temenos Group, provider of integrated core banking systems, formed a strategic alliance with Satyam to provide systems integration and implementation services for Temenos T24 and Temenos CoreBanking globally, with an initial focus in the Asia Pacific region.

Key Risks

Major risks are high receivable days, adverse currency movements, and slowdown in the US economy

Substantial salary hikes, downturn in the US economy, currency rate fluctuations, higher receivable days, issues involved with larger deals, and increased competition in the global off-shoring business are potential risks which may dampen the expected growth rate of the Company.

Guidance

Downward revision of EPS guidance by 4.6%- 4.9% for FY08

Satyam revised its revenue growth guidance. From an earlier guidance of 20% - 22%, the Company now expects the revenue growth to be between 21.1% and 22.5%.

EPS for the full year has also been downwardly revised. Investors are now guided towards an EPS between Rs. 24.14 and Rs. 24.46, down from Rs. 25.32 and Rs. 25.73.

For Q2FY08, revenue growth rate is expected to be between 4.7% and 5.2%. EPS for the Quarter is expected to be between Rs. 5.36 and Rs. 5.41.

Outlook and Valuation

Satyam has posted good results in an environment in which rupee appreciation and other margin headwinds had a major impact on the financial performance of its peers. Ramp up in large accounts, robust hiring, and increase in the number of active clients suggest a strong demand environment.

However, based on our analysis, we believe that the stock is fairly valued at the current market price. The stock is currently trading at a P/E of 20.1x and at a forward FY08E P/E of 16.6x. Historically, the stock has traded at a discount to the industry P/E, which currently lies in the range of 23x - 24x. At the CMP, it offers limited room for upside. We, therefore, recommend a **Hold** rating on the stock.

Key Figures (Consolidated)

| 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 | 82,056 | 105,437 | 27.5% |
| EBITDA | 8,694 | 11,671 | 15,386 | 18,024 | 21,878 | 19.2% |
| Net Profit | 7,145 | 9,654 | 14,055 | 16,944 | 20,158 | 19.8% |
| Margins(%) | | | | | | |
| EBITDA | 24.7% | 24.4% | 23.7% | 22.0% | 20.8% | |
| NPM | 20.3% | 20.1% | 21.7% | 20.6% | 19.1% | |
| Per Share Data (Rs.) | | | | | | |
| EPS | 11.1 | 14.4 | 21.0 | 25.4 | 30.2 | 20.0% |
| PER (x) | 36.7x | 58.9x | 20.1x | 16.6x | 13.9x | |

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.