

November 11, 2011

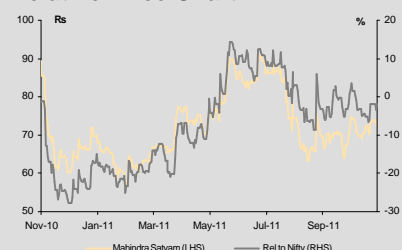
Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 73	Rs 80
EPS change FY12E/13E (%)	15 / 17
Target Price change (%)	7
Nifty	5,221
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	3	(5)	(18)
Rel. to Nifty	(0)	(0)	1	(1)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	SCS@IN
Equity Capital (Rs mn)	2353
Face Value(Rs)	2
No of shares o/s (mn)	1177
52 Week H/L	94/54
Market Cap (Rs bn/USD mn)	86/1,738
Daily Avg Volume (No of sh)	5677614
Daily Avg Turnover (US\$m)	8.2

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	42.7	42.7	42.7
FII/NRI	24.2	23.9	20.2
Institutions	3.4	3.5	3.4
Private Corp	6.1	6.0	7.1
Public	23.6	24.0	26.7

Source: Capitaline

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- **MSat's Q2FY12 profits beat estimates aided by higher other income despite a relatively anemic revenue growth at ~3.1% QoQ (INR rev bolstered by lower US\$/INR conversion rate)**
- **Revenues at US\$ 330 mn(+3.1% QoQ) missed estimates while EBITDA margins improved by ~50 bps QoQ to 15.3% (V/s est of ~60 bps increase). HC increased by ~654 QoQ to 32,092**
- **Growth within top clients impressive(top 5/10 client revenues up by 8%/4% QoQ) while US/BFSI/TIME drive growth with a 8%/16%/9% sequential increase**
- **FY12/13E earnings raised by 15/17% to Rs 7.3/7.5 driven by lower currency resets despite moderation in our US\$ revenue assumptions. Retain HOLD with a revised TP of Rs 80**

Revenue growth below expectations

Mahindra Satyam reported a relatively anemic revenue growth at ~3.1% QoQ (V/s est of ~5% sequential increase) with EBITDA margins improving by ~50 bps QoQ to 15.3% (note that margins have continued to improve over the past 4 quarters) aided largely by lower US\$/INR conversion rate at Rs 47.8/\$ V/s >Rs 46.5/\$ for peers. Profits at Rs 2.4 bn were higher than estimates aided by higher other income (company reported translation gains of Rs 340 mn during the qtr). Operating metrics performance was mixed. While revenues from top 1/5/10 clients grew by ~4/8/4% sequentially, no of US\$ 1 mn+ clients declined for the 2nd quarter in a row. We note that margins improved by ~50 bps sequentially despite favourable exchange rate (Rs 47.8/\$ for Sep'11 qtr V/s ~Rs 44.8/\$ for June'11 qtr) and 400 bps QoQ offshore shift (offshore % of revenues at 48% in Sep'11 qtr) negated by sharp jump in SG&A expenses (up 28% QoQ).

Salary hikes to be effective from Q3FY12 onwards, co highlights delays in deal decision making

Although a weak currency should provide tailwind to MSat's margin performance ahead, MSat's operating margins are expected to get impacted by ~250-300 bps per management in Dec'11 qtr on account of wage increments. Further the company management highlighted delays in decision making in some certain cases and thus intends to go slow on fresher hiring over the next few quarters (we note that a wider employee bulge has been cited as a margin lever by the company in the recent past).

FY12/13E earnings raised by ~15/17% driven by lower currency resets

While we cut our FY12/13E US\$ revenues by ~2/2.3% (we build in a 19/16% YoY growth V/s 21/16% earlier) our FY12/13E earnings are raised by ~15/17% to Rs 7.3/7.5 driven largely by lower currency resets to Rs 48/\$ for H2FY12/FY13 respectively. We retain HOLD with a revised TP of RS 80 (V/s Rs 75 earlier). After the strong operating performance over the past few quarters, we find little cheer in the Sep'11 quarter performance.

Financials

Rs MN

Y/E	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	EV/ EBITDA	P/B (x)	Div Yield (%)	P/E(x)
March										
FY10	54,810	4,569	8.3	3,917	2.5	58.4	14.2	4.6	0.0	29.5
FY11	51,450	4,551	8.8	4,318	4.2	27.4	12.9	5.0	0.0	17.4
FY12E	63,462	9,384	14.8	8,051	7.3	40.1	6.1	3.3	0.0	9.9
FY13E	74,779	11,365	15.2	8,879	7.5	29.2	4.3	2.5	0.0	9.7

Quarterly performance

Rs mn	Q1 FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	QoQ (%)	YoY %	YTD '12	YTD '11	YoY %
Revenue	12,480	12,424	12,793	13,753	14,339	15,777	10.0	27.0	30,116	24,904	20.9
Operating Expenditure	11,266	11,689	11,974	11,970	12,213	13,360	9.4	14.3	25,573	22,955	11.4
Cost of revenues	8,677	9,136	9,089	9,041	9,301	9,620	3.4	5.3	18,922	17,813	6.2
as % of sales	69.5	73.5	71.0	65.7	64.9	61.0			62.8	71.5	
SG&A expenses	2,589.0	2,553.0	2,885.0	2,929.0	2,911.7	3,739.9	28.4	46.5	6,652	5,142	29.4
as % of sales	20.7	20.5	22.6	21.3	20.3	23.7			22.1	20.6	
EBITDA	1,214	735	819	1,783	2,126	2,417	13.7	228.8	4,543	1,949	133.1
Depreciation	594	429	381	443	380	396			776	1,023	(24.1)
EBIT	620	306	438	1,340	1,746	2,021	15.8	560.4	3,767	926	306.8
Other Income	707	909	850	1,000	937	947			1,884	1,616	16.6
PBT	1,327	1,215	1,288	2,340	2,683	2,968	10.6	144.3	5,651	2,542	122.3
Total Tax	264	270	159	(115)	426	578			1,004	534	88.0
Adjusted PAT	1,063	945	1,129	2,455	2,257	2,390	5.9	152.9	4,647	2,008	131.4
(Profit)/loss from JV's/Ass/MI	9.0	7.0	7.0	10.0	5.5	7.1			13	16	
APAT after MI	1,054	938	1,122	2,445	2,252	2,382	5.8	154.0	4,634	1,992	132.6
Extra ordinary items	-79	-84	-533	-5715	0	0			0	-163	
Reported PAT	975	854	589	(3,270)	2,252	2,382	5.8	179.0	4,634	1,829	153.4
Reported EPS	0.8	0.7	0.5	(2.8)	1.9	2.0	5.8	179.0	3.9	1.6	153.4

Margins (%)							(bps)	(bps)			(bps)
EBIDTA	9.7	5.9	6.4	13.0	14.8	15.3	186	510	15.1	7.8	726
EBIT	5.0	2.5	3.4	9.7	12.2	12.8	243	721	12.5	3.7	879
EBT	10.6	9.8	10.1	17.0	18.7	18.8	169	808	18.8	10.2	856
PAT	7.8	6.9	4.6	(23.8)	15.7	15.1	3,948	789	15.4	8.0	739
Effective Tax rate	19.9	22.2	12.3	(4.9)	15.9	19.5	2,077.5	(403.4)	17.8	21.0	(324.1)

Source: Company, Emkay Research

We moderate our revenue growth expectations however FY12/13E earnings raised by 15/17% to Rs 7.3/7.5 driven primarily by lower currency resets

(All fig in Rs mn except EPS)	FY12E			FY13E		
	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	1,370	1,345	-1.8%	1,594	1,558	-2.3%
Revenues	61,605	63,462	3.0%	71,723	74,779	4.3%
EBITDA	8,558	9,384	9.6%	10,011	11,365	13.5%
Net profits	7,545	8,661	14.8%	7,578	8,865	17.0%
EPS	6.4	7.3	14.8%	6.4	7.5	17.0%

Source: Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	54,810	51,450	63,462	74,779
Growth (%)		(6)	23	18
Total Expenditure	(50,241)	(46,899)	(54,078)	(63,414)
Growth (%)		(7)	15	17
EBIDTA	4,569	4,551	9,384	11,365
Growth (%)		(0)	106	21
EBIDTA %	8.3	8.8	14.8	15.2
Other Income	2,043	2,289	2,281	2,326
Depreciation	(2,144)	(1,847)	(1,650)	(1,833)
EBIT	4,468	4,993	10,015	11,858
Interest	(329)	(97)	(73)	(14)
EBT	4,139	4,896	9,942	11,843
Tax	(222)	(578)	(1,891)	(2,964)
EAT	3,917	4,318	8,051	8,879
Growth (%)		10	86	10
EAT (%)	7.1	8.4	12.7	11.9

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	2,352	2,353	2,353	2,353
Reserves & surplus	43,947	43,860	52,521	61,386
Networth	46,299	46,213	54,874	63,739
Minority Interest	201	234	234	234
Secured Loans	422	315	286	-
Unsecured Loans	-	-	-	-
Loan Funds	422	315	286	-
Total Liabilities	46,923	46,762	55,394	63,973
Goodwill				
Gross Block	25,635	30,847	33,847	37,347
Less: Depreciation	(19,501)	(21,348)	(22,998)	(24,831)
Net block	6,134	9,499	10,849	12,516
Capital WIP	3,731	-	-	-
Investment	6,268	4,348	4,153	4,153
Current Assets	39,799	47,286	53,245	65,427
Inventories	-	592	-	-
Sundry debtors	9,230	11,588	13,910	16,390
Cash & bank balance	21,768	27,538	28,903	36,745
Loans & advances	3,845	3,782	5,216	6,146
Other current assets	4,956	3,786	5,216	6,146
Current Liab & Prov	24,222	31,044	29,558	34,829
Current liabilities	8,818	15,463	13,910	16,390
Provisions	15,404	15,581	15,648	18,439
Net current assets	15,577	16,242	23,687	30,599
Misc exps	15,187	16,660	16,660	16,660
Deferred Tax	26	13	45	45
Total Assets	46,923	46,762	55,395	63,973

Cash Flow

	FY10	FY11	FY12E	FY13E
Net Profit after Tax	(1,246)	(1,473)	8,661	8,865
Add : Depreciation	2,144	1,847	1,650	1,833
Add : Misc exp w/off				
Net changes in WC	(990)	5,484	(5,584)	(1,860)
Operational Cash Flows	914	5,525	4,226	11,657
Capital expenditure	379	(1,481)	(3,000)	(3,500)
Investments	(5,994)	-	-	-
Investing Cash Flows	(5,615)	(1,481)	(3,000)	(3,500)
Borrowings	(7,720)	(107)	(29)	(286)
dividend paid	-	-	-	-
Issue of shares	29,180	-	(92)	(92)
Share Premium				
Financing Cash Flows	21,460	(107)	(121)	(378)
changes in cash	16,759	3,937	1,105	7,778
Opening balance	5,009	21,768	27,538	28,903
Closing balance	21,768	27,538	28,903	36,745

Key Ratios

	FY10	FY11	FY12E	FY13E
EPS (Rs)	2.5	4.2	7.3	7.5
CEPS (Rs)	4.3	5.8	8.7	9.1
Book Value Per Share (Rs)	15.9	14.6	22.0	29.5
Dividend Per Share (Rs)	-	-	-	-
Valuations Ratios (x)				
PER	29.5	17.4	9.9	9.7
P/CEPS	17.2	12.9	8.5	8.2
P/BV	4.6	5.0	3.3	2.5
EV/EBIDTA	14.2	12.9	6.1	4.3
EV/Sales	1.2	1.1	0.9	0.7
M-Cap/sales	1.8	2.0	1.6	1.4
Profitability Ratios (%)				
RoCE	25.5	14.5	35.1	31.1
RoNW	58.4	27.4	40.1	29.2
EBITDA Margin	8.3	8.8	14.8	15.2
EBIT Margins	4.4	5.3	12.2	12.7
Net Profit Margin	7.1	8.4	12.7	11.9

Recommendation History: Mahindra Satyam – SCS IN

Date	Reports	Reco	CMP	Target
10/08/2011	Mahindra Satyam Q1FY12 Result Update	Hold	71	80
23/05/2011	Mahindra Satyam Q4FY11 Result Update	Hold	74	76
14/02/2011	Mahindra Satyam Q3FY11 Result Update	Reduce	65	65
16/11/2010	Mahindra Satyam Q2FY11 Result Update	Reduce	85	70

Recent Research Reports

Date	Reports	Reco	CMP	Target
09/11/2011	Infinite Computer Q2FY12 Result Update	Buy	91	120
31/10/2011	Wipro Q2FY12 Result Update	Reduce	368	360
20/10/2011	Hexaware Technologies Q3CY11 Result Update	Accumulate	89	100
19/10/2011	eClerx Q2FY12 Result Update	Accumulate	732	800

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