IT Services / Result Update

India Research

Mahindra Satyam

DOLAT CAPITAL

CMP: ₹ 109 TP: ₹ 135 Buy

View: Satyam has been delivering improved performance quarter after quarter. It has made commendable progress in its financial performance with 8 quarter Revenue CQGR of 4% and 1300bps improvement in the operating profitability. The pipeline continues to be robust with improved deal participation and success ratio both on the RTB and discretionary side. We maintain our positive stance on MSAT/TechM in view of impending merger and likely rerating on the stock.

Revenue Inline: Mahindra Satyam reported Q4 FY13 numbers broadly inline with our estimates with a 1% growth in USD revenues at USD 356mn inline with DE of USD 358mn. Volumes grew by 2% QoQ, however the realizations were soft owing to adverse cross currency movement.

Traction intact: IT services revenues were up by 1.2% in QQ in ₹ terms owing to sustained new deal addition. BPO degrew by 27% QQ as the revenues boosted by Holiday weekend revenues in Q3 were absent during the quarter. It has set up its large deals focus group to ensure better success ratio in the deal wins. It is confident of benefiting from likely pent up demand in the discretionary spending based on its strong positioning and expect to exceed NASSCOM 14% revenue growth outlook for FY14.

Exceptional item flares reported PAT: Operating profits degrew by 14% QQ (280bps decline QQ to 16.9%) owing to smoothening of BPO revenues during the quarter and on account of one time charge on change in policy on providing for leaves/gratuity contingencies. It has gained from a reversal of impairment provision of subsidiary of about ₹ 135bn as against outgo on Aberdeen settlement in Q3 leading to a growth of 468% in reported PAT. PAT for the quarter stood at ₹ 4.5bn. Adjusted PAT down 7% QQ and was below DE.

High Points

- **Operating Results broadly inline**
- **OPM declines by 280bps to 17%**
- **Impairment reversals of ₹ 1.3bn lifts reported PAT**
- **Adjusted PAT below expectation**
- **Maintain BUY with a Target of ₹ 135**

Scrip Details

Equity	₹ 1354mn
Face Value	₹ 2/-
Market Cap	₹ 129bn
	USD 2.4bn
52 week High / Low	₹ 131 / 66
Avg. Volume (no)	2,910,761
BSE Sensex	20,247
NSE Nifty	6,170
Bloomberg Code	SCS IN
Reuters Code	SATY.BO

Q4FY13 Result (₹ mn)

Particulars	Q4FY13	Q3FY13	QoQ(%)	Q4FY13	YoY(%)	FY13	FY12	YOY(%)
Revenues (USD Mn)	**359**	**356**	**1**	**337**	**7**	**1412**	**1311**	**8**
Revenues	**19357**	**19395**	**0**	**16658**	**16**	**76935**	**63956**	**20**
Cost of services	11611	11040	5	10204	**14**	45156	39436	15
Other expenses	3854	4171	-8	**3539**	**9**	15454	14280	8
EBIDTA	**3893**	**4184**	**-7**	**2916**	**34**	**16325**	**10240**	**59**
Depreciation	613	361	70	415	**48**	1896	1577	20
EBIT	**3280**	**3823**	**-14**	**2500**	**31**	**14429**	**8663**	**67**
Other Income	723	1111	-35	727	**0**	3176	4189	-24
Interest Cost	40	33	24	25	**59**	133	118	13
Exceptional Item	-1340	2940	-	-1094		1601	-1094	-
PBT	**5302**	**1961**	**170**	**4296**	**23**	**15871**	**13828**	**15**
Income tax expense	749	1123	-33	-943	**-179**	4123	852	384
PAT bfr MI	**4553**	**838**	**443**	**5238**	**-13**	**11748**	**12976**	**-9**
Minority Interest	12	38	-68	-104	**-112**	105	-84	-224
PAT	**4541**	**800**	**468**	**5342**	**-15**	**11643**	**13061**	**-11**
Equity Capital	2355	2353		2353		2355	2353	
EPS (Diluted)	3.85	0.68		4.53		9.87	11.10	
EBIT Margins(%)	16.9	19.7		24.5		18.8	13.5	
Net Margins (%)	23.5	4.1		52.4		15.1	20.4	
Tax Rate (%)	14.1	57.3		-21.9		26.0	6.2	

Financials

Year	Net Sales	growth(%)	EBIT	OPM(%)	PAT	PAT Mg	EPS(₹)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY11	51,450	-6	2,704	5.3	-1,473	-2.9	-1.3	18.2	-87.1	-8	30
FY12	63,956	24	8,636	13.5	13,061	20.4	11.1	986.5	9.8	55	54
FY13	76,935	20	14,429	18.8	11,644	15.1	9.9	-10.8	11.0	33	50
FY14E	88,066	14	16,829	19.1	14,663	16.7	12.5	25.9	8.7	31	42

Figures in ₹ mn

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Merger update: It has extended the validity of the scheme of amalgamation by a further period of six months i.e. upto 30th September 2013. It has reached penultimate stage of completing the merger and has been able to largely centralized its efforts to juice out most of the synergetic opportunity available.

Key Highlights

- In segmental terms, information technology revenues grew by 1.2% QQ in reported terms whereas BPO revenues (3% of total revenues) degrew sharply by 27% QQ owing to absence of one time revenues reported in Q3 (driven by holiday seasons).
- Volume grew by 2% however 1% cross currency impact led to 1% growth in the USD revenues.
- Deal momentum remains intact with 5 major wins during the quarter (across geographies and verticals). It added 60 new clients (gross) in the quarter, taking the total count to 385.
- It has witnessed better success ratio in the deal pipeline and expects sustained new deal flows in CY13. Current win ratio is one of the lowest among peers.
- Employee count reached 36,067 by end of Q4 FY13, with a net decline of about 900 employees over Q3. It would hire fresher's about - 2000 offers for the year and may add more based on the business needs.
- Attrition increased from 13.1% in Q3 FY13 to 14.3% in Q4 (15.5% in FY12).
- PAT grew by 468% QQ to ₹ 4.5bn largely on accounting for exceptional gains of impairment reversal on subsidiary of about ₹ 1.3bn and absence on one items payment that was paid for Aberdeen settlement of about ₹ 2940mn in the previous quarter.

Valuation

We believe that the settlement of the various claims (Post Aberdeen only claims of Indian Income Tax authority are due) and strong recovery in the financial performance would lead to re-rating on the stock. We believe that post merger with Tech Mahindra (swap of 8.5 : 1) the combined entity will overcome most of the hangovers of the two constituents and will lead to a strong re-rating of the stock. We maintain our positive view with an BUY rating on the stock with a target price of ₹ 135, valued at 11x of its FY14E earnings of ₹ 12.5 per share (TechM TP: ₹ 1280).

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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside of upto 5% or downside of upto 15%
SELL	Downside of more than 15%

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