Market Performer

# Satyam Computer Services Ltd (Q4 FY08)

**April 22, 2008**

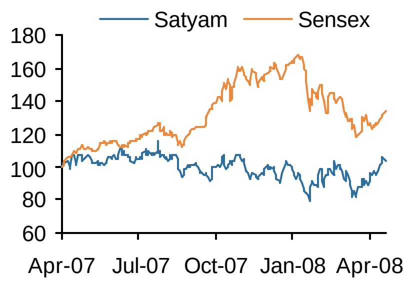
## Stock data

| | |
|---|---|
| Sensex: | 16,739 |
| CMP (Rs): | 459 |
| Target price (Rs): | 457 |
| Downside (%): | (0.4) |
| 52 Week h/l (Rs): | 522/305 |
| Market cap (Rs cr) | 30,969 |
| 6m Avg vol BSE&NSE ('000 nos): | 3,301 |
| No of o/s shares (mn): | 675 |
| FV (Rs): | 2 |
| Bloomberg code: | SCS IN |
| Reuters code: | SATY.BO |
| BSE code: | 500736 |
| NSE code: | SATYAMCOMP |

## Shareholding pattern

| December 2008 | (%) |
|---|---|
| Promoters | 8.8 |
| FIIs | 68.5 |
| India institutions | 11.7 |
| Public | 11.1 |

## Share price trend

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- Sector-leading revenue growth continues with 10% qoq growth in Q4 FY08
- EBITDA margin improve by 130 bps qoq driven by higher utilization, improved pricing, offshore shift and break-even in BPO
- Lower other income due to forex losses restricts net profit growth to 7.7% qoq
- Q1 FY09 guidance strong for EPS growth but modest on revenue growth
- FY09 guidance above expectations; but still room for outperformance
- Remain positive (relative to the sector) on Satyam with a target price of Rs457

**Result table**

| Period | Q3 FY08 | Q4 FY08 | QoQ | YoY |
|---|---|---|---|---|
| (Rs mn) | (3) | (3) | (%) | (%) |
| Net sales | 21,956 | 24,160 | 10.0 | 35.8 |
| Total Expenditure | (17,244) | (18,654) | 8.2 | 36.3 |
| EBITDA | 4,712 | 5,507 | 16.9 | 34.2 |
| EBITDA margin (%) | 21.5 | 22.8 | - | - |
| Depreciation | (423) | (435) | 2.9 | 23.0 |
| Interest | (81) | (46) | - | - |
| Other income | 705 | 230 | (67.4) | (67.4) |
| PBT | 4,913 | 5,255 | 7.0 | 20.0 |
| Tax | (576) | (587) | 1.8 | 32.6 |
| Pre-Exceptional PAT | 4,336 | 4,669 | 7.7 | 18.6 |
| Extraordinary items | - | - | - | - |
| PAT | 4,336 | 4,669 | 7.7 | 18.6 |
| Number of shares (Mn) | 674.7 | 674.7 | - | - |
| EPS (Rs) - quarterly | 6.4 | 6.9 | 7.7 | 17.3 |

*Source: Company, India Infoline Research*

### Sector-leading revenue growth continues

Satyam reported a strong 10% qoq growth in revenues in Q4 FY08. The revenue growth is far superior to peers for the third consecutive quarter and has come on the back of robust 11% and 8% sequential growth recorded in Q2 FY08 and Q3 FY08 respectively. The parent (stand-alone) company growth stood at 9.9% qoq made-up of 8.8% volume growth and 0.6% pricing improvement. Further, the revenue growth was positively impacted by the rupee depreciation and negatively impacted by the offshore shift. Pricing increases though continued were materially lower than previous two quarters both onsite and offshore. For the full-year FY08, dollar revenue growth was the best in the industry at 46% yoy.

### Effective client mining and broad-based growth across verticals, services and geographies.

The strong growth in the quarter was driven by the non Top-10 clients. There was significant addition of customers to US$1mn+ pa and US$5mn+ pa client brackets at 30 and 6 respectively over the previous quarter. Amongst offerings, ADM, consulting and ERP and extended engineering services continued to drive revenues with 8%+ qoq growth. Strong growth was witnessed in manufacturing (11.4% qoq) and retail (15.4% qoq) while the growth in BFSI was healthy at 7% qoq. US as well as Europe grew by 11% qoq during the quarter.

**EBITDA margin improve by 130 bps qoq to 22.8%**
EBITDA margin expanded by 130 bps qoq to 22.8% driven by higher utilization, improved pricing, offshore shift and break-even in the BPO business (formerly Nipuna). This led to double-digit EBITDA growth of 16.9% qoq. For FY08, EBITDA margin declined by 200 bps to 21.7% with rupee appreciation and salary inflation being the major headwinds.

**Lower other income leads to 7.7% qoq profit growth**
Other income in Q4 FY08 declined 67% qoq due to a mark-to-market loss of US$11mn booked on the outstanding forward contracts. As a result, the net profit growth was restricted to 7.7% qoq. Net profit for the full year was Rs16.9bn representing a 20% growth yoy, which is higher than the guidance.

**Employee addition was modest while attrition was sustained at lower levels**
Satyam added net 1,122 employees during Q4 FY08, which is just 2.5% of Q3 FY08 base. LTM attrition was stable at a low level of 13.1%, which is commendable.

**Q1 FY09 revenue guidance is modest while EPS guidance is strong**
For Q1 FY09, company has guided for revenues of Rs25-25.1bn implying a modest growth of 3.5-4% qoq. However, EPS for the quarter is guided at Rs7.64-7.68 representing a strong growth of 9.7-10.2% qoq. We believe that company has built-in a decline in EBITDA margin due to higher visa charges and lower utilization and a significant increase in other income due to lower forex related losses.

**FY09 guidance is above expectations; better than Infosys for the first time**
For FY09, Satyam expects revenues to grow by 23.9-25.9% to Rs105-106.7bn and EPS to increase by 17-19% to Rs29.5-30. The revenue guidance calls for CQGR of 3.5-4% over Q2-Q4 FY09 while the EPS guidance requires profitability to be maintained at the Q1 FY08 level in other quarters. Management expects EBITDA margin to be lower by 50 bps yoy in the year. Company plans to implement above-industry salary hikes of 12-14% offshore and 3-4% onsite effective July 1st 2008. While wage increases will have a negative impact of 300-350 bps on EBITDA margin for the year, offshore shift, improvement in subsidiary profitability and higher pricing (higher 2% yoy even if assumed stable at Q4 FY08 levels) would act as key margin improvement levers. In FY09, Satyam plans to add 14,000-15,000 people on gross basis.

**Strong chance of company outperforming its guidance; remain positive**
Given the sheer revenue growth momentum faced by Satyam, we believe that the FY09 guidance is genuinely conservative especially for the EPS. There are strong chances that company would surpass the EPS guidance of Rs29.5-30 in FY09. We estimate FY09 EPS at Rs30.5 and FY10 EPS at Rs31.6 and expect Satyam to continue to lead industry revenue growth in these years. Remain positive (relative to the sector) on Satyam with a one-year target price of Rs457 based on 15x FY09E EPS.

**Projected financials**

| y/e Mar (Rs mm) | FY06 | FY07 | FY08E | FY09E | FY10E |
|---|---|---|---|---|---|
| Revenues | 47,926 | 64,851 | 84,735 | 107,869 | 130,785 |
| yoy growth (%) | 36.1 | 35.3 | 30.7 | 27.3 | 21.2 |
| EBITDA | 11,662 | 15,377 | 18,348 | 22,847 | 27,226 |
| EBITDA margin (%) | 24.3 | 23.7 | 21.7 | 21.2 | 20.8 |
| PAT | 9,820 | 14,046 | 16,879 | 20,575 | 21,314 |
| Pre-exceptional PAT | 9,820 | 14,046 | 16,879 | 20,575 | 21,314 |
| yoy growth (%) | 38.0 | 43.0 | 20.2 | 21.9 | 3.6 |
| | | | | | |
| EPS (Rs) | 15.1 | 21.1 | 25.0 | 30.5 | 31.6 |
| P/E (x) | 30.3 | 21.8 | 18.3 | 15.1 | 14.5 |
| P/BV (x) | 6.2 | 5.3 | 4.3 | 3.5 | 2.9 |
| EV/EBITDA (x) | 20.2 | 15.3 | 12.3 | 9.2 | 7.2 |
| ROE (%) | 25.8 | 27.9 | 26.1 | 25.6 | 21.7 |
| ROCE (%) | 29.7 | 30.6 | 30.0 | 29.6 | 29.1 |