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On-line Share Trading

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Satyam Computers (SATCOM)

RESULT UPDATE √

Current price	Target price
Rs 350	Rs 550
Potential upside	Time Frame
57%	12 months

OUTPERFORMER

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WHAT'S CHANGED…

PRICE TARGET……Unchanged (Rs 550)
EPS (FY08E)……Unchanged (Rs 24.3)
EPS (FY09E)……Unchanged (Rs 30.5)
RATING……Performer to Outperformer

Outperformance continues

Satyam Computers continued its streak of outperforming during Q3FY08 recording its second consecutive q-o-q growth in excess of 8% in rupee terms and 10% in dollar terms (top line: Rs 2,196 crore; bottom line: Rs 433.87 crore). The growth in top line was aided by a 9.42% increase in volume growth. The results were ahead of our estimates (top line: Rs 2166 crore and bottom line: Rs 418 crore). The company bagged four large deals (>$50 million) and kept offshore utilisations levels high at 83.7%, which we believe are unsustainable as the company continues to see strong volume growth. EBIDTA margin increased 165 bps during the quarter. However, it is expected to be lower by 175-200bps for the year. We continue to be concerned about the company's exposure in the enterprise and consulting segments which are prone to sharper cuts in spending in the event of a full-blown recession. However, current valuations are extremely attractive with the stock available at 11.6x our estimated FY09 EPS of Rs 30. We re-rate the stock from performer to outperformer.

Acquisition to help scale-up the value chain

Satyam acquired Chicago-based Bridge Strategy Group during the quarter for a consideration of $35 million. The acquisition gives the company 35 consultants with a strong domain expertise across various industry domains. The acquisition would help drive downstream revenues going forward.

Highest ever increase in billing rates

The company recorded its highest ever increase in billing rates during the quarter (onsite: 2.3% and offshore: 2.4% q-o-q). Satyam continues garner billing rates that are lower than peers and we believe there is room for further upsides in billing rates.

Valuation

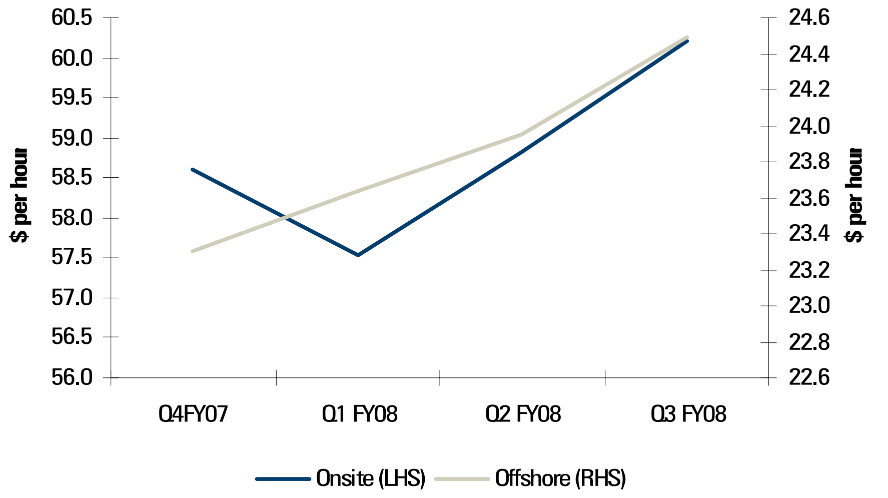
Satyam has exhibited robust growth during the quarter and has also projected a robust outlook going forward. We re-rate the stock from performer to outperformer with a price target of Rs 550.

Key Financials *(Rs crore)*

Year to March	Q3FY08	Q2FY08	% chg (q-o-q)	Q3 FY07	% chg (y-o-y)
Revenues	2,196	2,032	8	1,661	32.19
Direct costs	1,381	1,303	6	967	42.79
Gross profit	814	729	12	694	17.40
SG&A	343	326	5	284	20.88
EBIDTA	471	403	17	410	14.99
EBIDTA margin (%)	21.5	19.8	-1.6	24.7	-3.2
Other income	70	110	-36	10	593.12
Depreciation	42	39	8	39	7.47
Interest	8	4	102	3	151.39
PBT	491	470	5	378	30.18
Tax	58	61	-5	40	42.87
PAT	434	409	6.2	337	28.66

Source:Company, ICICIdirect Research

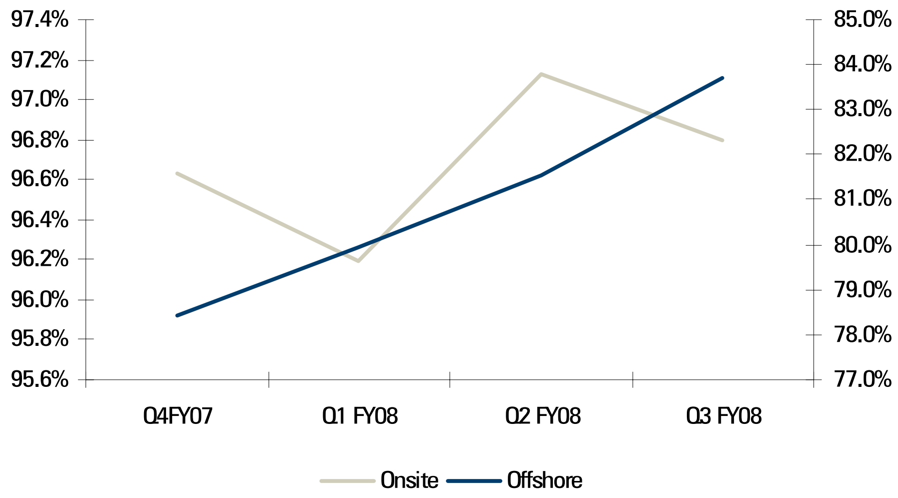
Exhibit 1: Billing rates on an up-tick



Source:Company, ICICIdirect Research

More room for billing rate up-ticks

Exhibit 2 : Higher utilisation aids margin increase



Source:Company, ICICIdirect Research

Offshore utilisation expected to decline

Exhibit 3: Revenue growth by verticals

Vertical	Q4FY07	Q1 FY08	Q2 FY08	Q3 FY08
BFSI	4%	3%	11%	2%
Manufacturing	7%	2%	2%	6%
Times	13%	8%	19%	6%
Healthcare	13%	7%	10%	9%
Retail & transportation	15%	15%	20%	32%
Others	-2%	22%	11%	13%

Source:Company, ICICIdirect Research

BFSI growth lower than peers. Management terms it as a quarterly aberration

RATING RATIONALE

ICICIDirect endeavours to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more
Performer: Between 10% and 20%
Hold: ±10% return
Underperformer: -10% or more

Source: Company, ICICIdirect Research

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