

Patni Computer Systems Ltd.CMP Rs. 533.0
HOLDResult Update
Q1CY10

Raunak Onkar | raunak@ppfas.com

Patni posted a flat first quarter for the year 2010 with an YoY topline growth of ~1%. The bottomline however shows a spike of 104% over the same quarter last year, due to some additional other income items having kicked back this quarter. But the bottomline growth, adjusting the one time income is still at a respectable ~40 – 50%. This is on account of margin improvement over the year.

Patni has been rebalancing its portfolio of services over the past few quarters and has finally plugged a gap in the healthcare vertical. The company won a 5 year \$ 175 Mn deal from Universal American and also acquired a subsidiary of Universal American, CHCS Services Inc. This deal win and acquisition puts the company in a favourable position to win many more third party contracts from the same vertical especially in the US.

The company has been facing attrition of around 18% (LTM) level since this quarter. The attrition is alarming and it isn't observed at the same level in the industry. It might be a quarterly aberration but it needs to be looked into over the forthcoming quarters. On account of the high attrition, the utilization levels have been reported at 79%, which should be sustained at 70-75%.

Valuation

Patni at CMP Rs 533, is trading at 11 times TTM earnings. In our opinion Patni has reached it's fair value. Patni has been a candidate for promoter selling since a long time. The new management structure at Patni might indicate a probability that it is being streamlined for a sale. Although no official release is made about it. The company being in the top 6 IT companies in India, does have its advantages of scale. With \$450 Mn in cash it also seeks to grow inorganically.

Our first estimate of fair value was around 2 times market cap to sales. At the moment Patni trades at around 2 times sales. But with the new acquisitions & new management, this fair value estimate can be 2.5 to 3 times MCap to sales. It isn't grossly overvalued in the view of current valuations. Judging by the fact that there aren't many opportunities to buy in the IT sector, we recommend a HOLD for Patni. The downside of owning Patni is less than buying into other top 5 IT companies at these valuations.

Financials >>

Quarterly Financials

Earnings Statement								
YE December (Rs. Mn.)	Q1CY10	Q4CY09	Q-Q(%)	Q1CY09	Y-Y(%)	12M09	12M08	Y-Y(%)
Net Revenues	7,816.3	7,883.3	-0.85%	7,764.4	0.67%	31,461.5	31,172.7	0.93%
Personnel Cost	4,562.0	4,503.3	1.30%	4,679.4	-2.51%	18,357.3	18,328.7	0.16%
SG&A	1,861.3	1,923.1	-3.22%	2,009.8	-7.39%	8,333.8	9,269.0	-10.09%
Total Expenditure	6,423.3	6,426.5	-0.05%	6,689.2	-3.98%	26,691.1	27,597.6	-3.28%
Operating Profit	1,393.0	1,456.8	-4.38%	1,075.2	29.56%	4,770.3	3,575.0	33.43%
OPM (%)	17.82%	18.48%		13.85%		15.16%	11.47%	
Other Income	528.8	365.2	44.79%	195.3	170.83%	1,294.2	1,288.4	0.45%
EBITDA	1,921.8	1,822.1	5.48%	1,270.5	51.27%	6,064.5	4,863.5	24.70%
Depreciation	0.0	0.0		284.1				
EBIT	1,921.8	1,822.1	5.48%	986.4	94.84%	6,064.5	4,863.5	24.70%
Interest	21.9	13.5	62.10%	39.1	-43.97%	77.2	79.0	-2.23%
PBT	1,899.9	1,808.6	5.05%	947.3	100.57%	5,987.3	4,784.5	25.14%
Tax	329.6	(247.0)		182.1		121.2	404.4	
PAT	1,570.4	2,055.5	-23.60%	765.2	105.23%	5,866.2	4,380.1	33.93%
Equity Capital	257.2	257.2	0.00%	256.2	0.39%			
EPS	12.2	16.0	-23.60%	6.0	104.43%			
Ratio Analysis								
Profitability								
YE December	Q1CY10	Q4CY09	Q-Q(bps)	Q1CY09	Y-Y(bps)	12M09	12M08	Y-Y(bps)
OPM (%)	17.82%	18.48%	(65.8)	13.85%	397.4	15.16%	11.47%	369.4
EBITDA (%)	24.59%	23.11%	147.5	16.36%	822.5	19.28%	15.60%	367.4
EBIT (%)	24.59%	23.11%	147.5	12.70%	1,188.4	19.28%	15.60%	367.4
PAT (%)	20.09%	26.07%	(598.3)	9.85%	1,023.6	18.65%	14.05%	459.4

Financials

Earnings Statement				
Particulars (Rs. Mn)	CY06	CY07	CY08	CY09
Total Revenues	26,080.3	26,911.5	31,172.7	31,461.5
- Growth (%)	31.3%	3.2%	15.8%	0.9%
Total Expenditure	20,368.0	21,625.0	26,471.2	26,691.1
Operating Profit	5,712.3	5,286.5	4,701.5	4,770.3
Other Income	556.7	1,690.1	1,303.4	1,294.2
EBITDA	6,269.0	6,976.6	6,004.9	6,064.5
Depreciation	842.8	984.8	1,141.5	
EBIT	5,426.2	5,991.8	4,863.5	6,064.5
Interest	189.6	147.2	79.0	77.2
PBT	5,015.4	5,844.6	4,784.5	5,987.3
Tax	2,567.7	1,008.4	404.4	121.2
Reported PAT	2,447.7	4,836.2	4,380.1	5,866.2
- Growth (%)	23.1%	97.6%	-9.4%	33.9%

Balance Sheet				
Particulars (Rs. Mn)	CY06	CY07	CY08	CY09
Equity Capital	276.6	278.0	256.2	258.3
Share App. money pending allotment		1.8	1.7	190.9
Reserves	23,044.9	27,081.7	28,143.2	35,060.2
Shareholders Funds	23,324.2	27,361.5	28,401.1	35,509.4
Borrowed Funds	30.6	23.8	17.5	9.4
Deferred Tax Liability	35.6	12.8	133.7	66.6
Total Liabilities	23,390.4	27,398.0	28,552.4	35,585.4
Goodwill	3,400.7	4,278.4	4,907.3	4,765.3
Fixed Assets	5,869.1	8,317.4	8,985.6	8,269.1
Investments	10,697.8	11,516.8	11,771.3	17,751.9
Current Assets				
Sundry Debtors	5,122.8	5,316.5	5,450.9	5,089.7
Loans & Advances	846.2	1,648.9	1,420.7	2,561.4
Cash & Bank Balance	2,060.6	1,285.9	2,931.8	2,952.6
Other Current Assets	1,011.3	1,277.6	1,494.8	918.2
Current Liabilities				
Liabilities	3,719.0	4,295.0	6,327.8	4,650.4
Provisions	2,449.5	2,532.4	3,027.5	2,965.8
Net Current Assets	2,872.3	2,701.4	1,942.9	3,905.8
Deferred Tax Assets	550.5	584.0	945.2	893.3
Total Assets	23,390.4	27,398.0	28,552.4	35,585.4

Ratio Analysis				
Particulars	CY06	CY07	CY08	CY09
OPM (%)	21.9%	19.6%	15.1%	15.2%
EBITDA (%)	24.0%	25.9%	19.3%	19.3%
PBIT (%)	20.8%	22.3%	15.6%	19.3%
PAT (%)	9.4%	18.0%	14.1%	18.6%
Interest Cover (x)	28.6	40.7	61.6	78.6
EPS (Rs.)	17.7	34.8	34.2	45.4
P/E (x)	30.1	15.3	15.6	11.7
P/BV (x)	3.2	2.7	2.4	1.9
BVPS (Rs.)	168.7	196.8	221.7	275.0
Cash per Share (Rs.)	92.3	92.1	114.8	160.3
FCF per Share (Rs.)	34.1	78.7	125.0	121.2
Market Cap (Rs. Mn.)	73,704.3	74,092.1	68,280.0	68,824.2
M Cap/Sales (x)	2.8	2.8	2.2	2.2
EV (Rs. Mn.)	71,674.3	72,830.0	55,948.7	51,679.4
EV/EBITDA (x)	11.4	10.4	9.3	8.5
EV/Sales (x)	2.7	2.7	1.8	1.6
ROCE (%)	23.2%	21.9%	17.0%	17.0%
RONW (%)	10.5%	17.7%	15.4%	16.5%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0
Debtors T/o Days	70.7	71.1	63.0	58.2
Advances T/o Days	11.7	22.1	16.4	29.3
Creditors T/o Days	51.3	57.5	73.1	53.2
Working Cap T/o Days	39.6	36.1	22.4	44.7
Fixed Assets T/o (Gross)	3.8	2.6	2.7	2.4
DPS (Rs.)	3.4	3.6	3.5	3.0
Dividend Payout (%)	19.3%	10.4%	10.3%	6.6%
Dividend Yield (%)	0.6%	0.7%	0.7%	0.6%

Cash Flow				
Particulars (Rs Mn)	CY06	CY07	CY08	CY09E
Opening Cash & Bank	6,707.3	2,060.6	1,285.9	2,931.8
Profit After Tax	2,447.7	4,836.2	4,380.1	5,866.2
Invnt Income	(556.7)	(1,690.1)	(1,303.4)	(1,294.2)
Interest Paid	189.6	147.2	79.0	77.2
Depreciation	842.8	984.8	1,141.5	0.0
Deferred Taxation	59.9	(63.9)	(24.6)	0.0
Others	2,288.3	6,873.3	13,384.0	10,474.7
Change in Working Cap	(3,036.5)	(8,419.0)	(11,897.2)	(11,263.6)
CF - Operating Activities	2,235.1	2,668.5	5,759.4	3,860.3
Change in Fixed Assets	(2,510.3)	(3,361.4)	(1,736.7)	(309.8)
Change in Investments	(4,366.5)	(818.9)	(254.6)	(5,980.6)
Investment Income	556.7	1,690.1	1,303.4	1,294.2
CF - Investing Activities	(6,320.2)	(2,490.3)	(687.8)	(4,996.2)
Increase in Equity	102.1	(297.3)	(2,890.7)	1,629.5
Changes in Borrowings	(1.2)	(6.9)	(6.2)	(8.1)
Interest Paid	(189.6)	(147.2)	(79.0)	(77.2)
Dividend Paid	(473.0)	(501.6)	(449.8)	(387.4)
CF - Financing Activities	(561.7)	(952.9)	(3,425.7)	1,156.8
Net Change in Cash	(4,646.7)	(774.7)	1,645.9	20.9
Closing Cash & Bank Bal	2,060.6	1,285.9	2,931.8	2,952.6

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Disclosure of Interest Statement	Patni
1. Analyst Ownership of the scrip	NO
2. PPFAS ownership of the scrip	NO
3. PMS ownership of the scrip	NO

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Contact

Raunak Onkar	Analyst - Investment Research	raunak@ppfas.com	91 22 2284 6555 Extn 323
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Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

www.ppfas.com