

**Patni Computer Systems Ltd.**CMP Rs. 461.0  
HOLDResult Update  
Q2CY10

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Patni delivered a sub par quarter showing a YoY revenue decline of 2.5% but a PAT growth of ~7.5% over the same period. Margins have suffered on account of a wage increase exercise.

Attrition rate, which is one of the biggest concerns in the industry, have been stabilized at 16% so far. Patni plans to hire 1000 to 1100 more employees over the course of the coming quarters. This number is significantly less than what the competition plans to recruit, which might be a sign of stunted order flow or delayed engagements. There is a delay in some engagements on the BPO side. Since BPO revenues is just ~6.7% of total revenue, it won't show a drastic effect on the overall revenue of the business.

They intended to maintain a utilization rate at 75% which is usually the industry standard. Like most of the old IT companies, revenue certainty over a year's time is usually attained due to 94% business being annuity based. But the growth rates which IT companies have been used to will be harder to get without acquiring new (niche) expertise or new market segments.

With some, \$470 Mn in cash, Patni, like other IT companies is in a favourable position to acquire the requisite talent/skills. The management plans to acquire assets nearly 1/3rd of its current revenue profile. This can add a lot of scale, but which vertical / segment they strengthen remains to be seen.

#### Valuation

Patni trades at around 11 times earnings. This is probably in line with the expectations embedded within the company's growth. Fundamentally there has been no substantial change in the business, although speculation about promoter selling is still ripe. It might unlock some value that way for shareholders.

We recommend a HOLD for Patni.

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## Quarterly Financials

Earnings Statement					
YE December (Rs. Mn.)	Q2CY10	Q1CY10	Q-Q(%)	Q2CY09	Y-Y(%)
Net Revenues	7,628.8	7,816.3	-2.40%	7,796.5	-2.15%
Personnel Cost	4,538.9	4,562.0	-0.51%	4,440.3	2.22%
SG&A	1,939.3	1,834.1	5.74%	2,102.4	-7.76%
Total Expenditure	6,478.2	6,396.1	1.28%	6,542.7	-0.99%
Operating Profit	1,150.6	1,420.2	-18.98%	1,253.8	-8.22%
OPM (%)	15.08%	18.17%		16.08%	
Other Income	525.7	501.6	4.80%	402.9	30.50%
EBITDA	1,676.4	1,921.8	-12.77%	1,656.6	1.19%
Depreciation	0.0	0.0		0.0	
EBIT	1,676.4	1,921.8	-12.77%	1,656.6	1.19%
Interest	2.8	21.9	-87.03%	19.7	-85.58%
PBT	1,673.5	1,899.9	-11.92%	1,636.9	2.24%
Tax	206.1	329.6		277.2	
PAT	1,467.4	1,570.4	-6.55%	1,359.7	7.92%
Equity Capital	268.6	257.2	4.43%	256.2	4.84%
EPS	10.9	12.2	-10.52%	10.6	2.94%
Ratio Analysis					
Profitability					
YE December	Q2CY10	Q1CY10	Q-Q(bps)	Q2CY09	Y-Y(bps)
OPM (%)	15.08%	18.17%	(308.7)	16.08%	(99.8)
EBITDA (%)	21.97%	24.59%	(261.4)	21.25%	72.6
EBIT (%)	21.97%	24.59%	(261.4)	21.25%	72.6
PAT (%)	19.24%	20.09%	(85.6)	17.44%	179.6

## Financials

Earnings Statement					
Particulars (Rs Mn)	CY05	CY06	CY07	CY08	CY09
Total Revenues	19,869.3	26,080.3	26,911.5	31,172.7	34,290.0
- Growth (%)		31.3%	3.2%	15.8%	10.0%
Total Expenditure	16,129.0	20,368.0	21,625.0	26,471.2	29,016.5
Operating Profit	3,740.3	5,712.3	5,286.5	4,701.5	5,273.5
Other Income	381.9	556.7	1,690.1	1,303.4	690.6
EBITDA	4,122.3	6,269.0	6,976.6	6,004.9	5,964.0
Depreciation	678.2	842.8	984.8	1,141.5	1,187.1
EBIT	3,444.1	5,426.2	5,991.8	4,863.5	4,776.9
Interest	81.2	189.6	147.2	79.0	70.0
PBT	3,362.9	5,015.4	5,844.6	4,784.5	4,706.9
Tax	466.2	2,567.7	1,008.4	404.4	955.4
Reported PAT	1,987.7	2,447.7	4,836.2	4,380.1	3,751.5
- Growth (%)		23.1%	97.6%	-9.4%	-14.4%

Balance Sheet					
Particulars (Rs Mn)	CY05	CY06	CY07	CY08	CY09
Equity Capital	275.6	276.6	278.0	256.2	256.2
Share Application money pending allotment	0.0	2.7	1.8	1.7	0.0
Reserves	20,971.7	23,044.9	27,081.7	28,143.2	31,512.1
Shareholders Funds	21,247.3	23,324.2	27,361.5	28,401.1	31,768.3
Borrowed Funds	31.8	30.6	23.8	17.5	15.0
Deferred Tax Liability	59.8	35.6	12.8	133.7	59.2
<b>Total Liabilities</b>	<b>21,338.9</b>	<b>23,390.4</b>	<b>27,398.0</b>	<b>28,552.4</b>	<b>31,842.5</b>
Goodwill	2,921.3	3,400.7	4,278.4	4,907.3	4,907.3
Fixed Assets	4,173.1	5,869.1	8,317.4	8,985.6	8,948.6
Investments	6,331.3	10,697.8	11,516.8	11,771.3	2,088.6
Current Assets					
Sundry Debtors	3,230.1	5,122.8	5,316.5	5,450.9	8,193.3
Loans & Advances	652.8	846.2	1,648.9	1,420.7	1,704.9
Cash & Bank Balance	6,707.3	2,060.6	1,285.9	2,931.8	13,682.8
Other Current Assets	1,176.1	1,011.3	1,277.6	1,494.8	1,614.4
Current Liabilities					
Liabilities	3,091.8	3,719.0	4,295.0	6,327.8	6,897.3
Provisions	1,400.7	2,449.5	2,532.4	3,027.5	3,300.0
Net Current Assets	7,273.8	2,872.3	2,701.4	1,942.9	14,998.0
Deferred Tax Assets	639.3	550.5	584.0	945.2	900.0
<b>Total Assets</b>	<b>21,338.9</b>	<b>23,390.4</b>	<b>27,398.0</b>	<b>28,552.4</b>	<b>31,842.5</b>

## Financials

Ratio Analysis					
Particulars	CY05	CY06	CY07	CY08	CY09
OPM (%)	18.8%	21.9%	19.6%	15.1%	15.4%
EBITDA (%)	20.7%	24.0%	25.9%	19.3%	17.4%
PBIT (%)	17.3%	20.8%	22.3%	15.6%	13.9%
PAT (%)	10.0%	9.4%	18.0%	14.1%	10.9%
Interest Cover (x)	42.4	28.6	40.7	61.6	68.2
EPS (Rs.)	14.4	17.7	34.8	34.2	29.3
P/E (x)	31.9	26.0	13.2	13.5	15.7
P/BV (x)	3.0	2.7	2.3	2.1	1.9
BVPS (Rs.)	154.2	168.7	196.8	221.7	248.0
Cash per Share (Rs.)	94.6	92.3	92.1	114.8	123.1
FCF per Share (Rs.)		34.1	78.7	125.0	240.3
Market Cap (Rs. Mn.)	63,387.3	63,609.7	63,944.4	58,928.3	58,926.0
M Cap/Sales (x)	3.2	2.4	2.4	1.9	1.7
EV (Rs. Mn.)	56,711.8	61,579.8	62,682.3	46,597.0	43,587.4
EV/EBITDA (x)	13.8	9.8	9.0	7.8	7.3
EV/Sales (x)	2.9	2.4	2.3	1.5	1.3
ROCE (%)	16.1%	23.2%	21.9%	17.0%	15.0%
RONW (%)	9.4%	10.5%	17.7%	15.4%	11.8%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0
Debtors T/o Days	58.5	70.7	71.1	63.0	86.0
Advances T/o Days	11.8	11.7	22.1	16.4	17.9
Creditors T/o Days	56.0	51.3	57.5	73.1	72.4
Working Cap T/o Days	131.8	39.6	36.1	22.4	157.5
Fixed Assets T/o (Gross)	3.7	3.8	2.6	2.7	2.7
DPS (Rs.)	2.9	3.4	3.6	3.5	3.0
Dividend Payout (%)	19.9%	19.3%	10.4%	10.3%	10.2%
Dividend Yield (%)	0.6%	0.7%	0.8%	0.8%	0.6%

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1. Analyst Ownership of the scrip	NO
2. PPFAS ownership of the scrip	NO
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