

Patni Computer Systems Ltd.CMP Rs. 476.0
HOLDResult Update
Q4CY09

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Patni reported a really good quarter and year ended CY09. Annually net profit was up ~33% although the flat topline indicates that there might be room for more growth going ahead.

To get an overview of the industry and the standing of this company within it, Patni follows the Indian IT trend. There are some initiatives which might change the dynamics of the business slightly (Cloud computing, Patni Labs, etc), but overall the bread and butter business of the company shows good visibility. The company is adding to its employee count slowly and steadily and the only reason this is seen on the back drop of the year before, might be because of a steady flow of deals going ahead.

As of this quarter, the insurance vertical is the biggest vertical for the company and that portion of revenues will show the effect of how the insurance industry will allocate its IT spends. Also the utilization for CY2009 is 75% which is impressive, but must also be looked at in conjunction with how employees were deployed throughout the year. There seems to be a very tight leash on how expenses were made, which is clearly seen from the increase in operating margins this year by ~3%.

Two things to note are the offshore revenues & fixed price contracts as a percentage of revenues compared YoY. Offshore revenues have increased by ~4% which indicates a significant reduction in cost from last year. Also the fixed price contracts have increased by almost 4% which is a good sign if cost overruns are avoided. This will lead to better cost management if new clients agree to such an arrangement.

There is almost \$400mn of cash at hand & the company clearly has stated of a possibility of a strategic acquisition. This is a recurrent theme throughout the Indian IT industry that a very cautious approach is taken towards acquisitions. It's indeed commendable to notice the restraint on making hasty decisions and also suitable valuation criteria must also be met. No significant capex plans appear on the horizon, which will give Patni the advantage to grow faster. There is still concern about the tax sops being withdrawn during the next financial year, but isn't much of a concern since it will affect the whole industry.

As a business Patni is still robust and growing, with a good management team in place to help the company take its due course.

Valuation

Patni trades at a P/E of 10 (TTM), but must be looked at from a base of last year's earnings. We believe that it wouldn't be a good time to buy Patni since the visibility for at least the next 3-4 years is already factored in the current price.

It is important to note that where other IT companies are struggling to enter the continental European market, Sonata software, a smaller company by size has breached this barrier and clearly growing in that geography. So if one wishes to add to their IT portfolio at the moment, Sonata Software is definitely one of the usual suspects.

Note: Balance sheet for the Year CY2009 is ad hoc and may not convey all the relevant data. It is as presented by the company.

Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)	12M09	12M08	Y-Y(%)
Net Revenues	7,883.3	8,017.2	-1.67%	8,570.0	-8.01%	31,461.5	31,172.7	0.93%
Personnel Cost	4,503.3	4,734.2	-4.88%	5,140.7	-12.40%	18,357.3	18,328.7	0.16%
SG&A	1,923.1	1,993.3	-3.52%	2,370.7	-18.88%	8,333.8	9,269.0	-10.09%
Total Expenditure	6,426.5	6,727.5	-4.47%	7,511.4	-14.44%	26,691.1	27,597.6	-3.28%
Operating Profit	1,456.8	1,289.7	12.96%	1,058.6	37.62%	4,770.3	3,575.0	33.43%
OPM (%)	18.48%	16.09%		12.35%		15.16%	11.47%	
Other Income	365.2	320.4	13.99%	98.0	272.80%	1,294.2	1,288.4	0.45%
EBITDA	1,822.1	1,610.1	13.16%	1,156.5	57.54%	6,064.5	4,863.5	24.70%
Depreciation	0.0	0.0		294.4				
EBIT	1,822.1	1,610.1	13.16%	862.2	111.34%	6,064.5	4,863.5	24.70%
Interest	13.5	15.5	-12.99%	79.0	-82.88%	77.2	79.0	-2.23%
PBT	1,808.6	1,594.6	13.42%	783.2	130.92%	5,987.3	4,784.5	25.14%
Tax	(247.0)	(91.2)		50.3		121.2	404.4	
PAT	2,055.5	1,685.8	21.93%	732.9	180.48%	5,866.2	4,380.1	33.93%
Equity Capital	257.2	256.3	0.35%	256.2	0.39%			
EPS	16.0	13.2	21.51%	5.7	179.40%			
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q4CY09	Q3CY09	Q-Q(bps)	Q4CY08	Y-Y(bps)	12M09	12M08	Y-Y(bps)
OPM (%)	18.48%	16.09%	239.3	12.35%	612.8	15.16%	11.47%	369.4
EBITDA (%)	23.11%	20.08%	303.0	13.50%	961.8	19.28%	15.60%	367.4
EBIT (%)	23.11%	20.08%	303.0	10.06%	1,305.3	19.28%	15.60%	367.4
PAT (%)	26.07%	21.03%	504.8	8.55%	1,752.3	18.65%	14.05%	459.4

Financials

Earnings Statement					Balance Sheet				
Particulars (Rs Mn)	CY06	CY07	CY08	CY09	Particulars (Rs Mn)	CY06	CY07	CY08	CY09
Total Revenues	26,080.3	26,911.5	31,172.7	31,461.5	Equity Capital	276.6	278.0	256.2	257.2
- Growth (%)	31.3%	3.2%	15.8%	0.9%	Share Appl Money	2.7	1.8	1.7	0.0
Total Expenditure	20,368.0	21,625.0	26,471.2	26,691.1	Reserves	23,044.9	27,081.7	28,143.2	0.0
Operating Profit	5,712.3	5,286.5	4,701.5	4,770.3	Shareholders Funds	23,324.2	27,361.5	28,401.1	35,509.4
Other Income	556.7	1,690.1	1,303.4	1,294.2	Borrowed Funds	30.6	23.8	17.5	9.4
EBITDA	6,269.0	6,976.6	6,004.9	6,064.5	Deferred Tax Liability	35.6	12.8	133.7	66.6
Depreciation	842.8	984.8	1,141.5		Total Liabilities	23,390.4	27,398.0	28,552.4	35,585.4
EBIT	5,426.2	5,991.8	4,863.5	6,064.5	Goodwill	3,400.7	4,278.4	4,907.3	4,765.3
Interest	189.6	147.2	79.0	77.2	Fixed Assets	5,869.1	8,317.4	8,985.6	8,269.1
PBT	5,015.4	5,844.6	4,784.5	5,987.3	Investments	10,697.8	11,516.8	11,771.3	17,751.9
Tax	2,567.7	1,008.4	404.4	121.2	Current Assets				
Reported PAT	2,447.7	4,836.2	4,380.1	5,866.2	Sundry Debtors	5,122.8	5,316.5	5,450.9	0.0
- Growth (%)	23.1%	97.6%	-9.4%	33.9%	Loans & Advances	846.2	1,648.9	1,420.7	0.0
					Cash & Bank Balance	2,060.6	1,285.9	2,931.8	0.0
					Other Current Assets	1,011.3	1,277.6	1,494.8	11,521.9
					Current Liabilities				
					Liabilities	3,719.0	4,295.0	6,327.8	7,616.2
					Provisions	2,449.5	2,532.4	3,027.5	0.0
					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	45.6
P/E (x)	26.9	13.7	13.9	10.4
P/BV (x)	2.8	2.4	2.1	1.7
BVPS (Rs.)	168.7	196.8	221.7	276.1
Cash per Share (Rs.)	92.3	92.1	114.8	138.0
FCF per Share (Rs.)	34.1	78.7	125.0	171.5
Market Cap (Rs. Mn.)	65,884.5	66,231.1	61,035.6	61,271.5
M Cap/Sales (x)	2.5	2.5	2.0	1.9
EV (Rs. Mn.)	63,854.5	64,969.0	48,704.4	47,079.4
EV/EBITDA (x)	10.2	9.3	8.1	7.8
EV/Sales (x)	2.4	2.4	1.6	1.5
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	0.0
Advances T/o Days	11.7	22.1	16.4	0.0
Creditors T/o Days	51.3	57.5	73.1	87.1
Working Cap T/o Days	39.6	36.1	22.4	44.7
Fixed Assets T/o (Gross)	3.8	2.6	2.7	2.5
DPS (Rs.)	3.4	3.6	3.5	3.0
Dividend Payout (%)	19.3%	10.4%	10.3%	6.6%
Dividend Yield (%)	0.7%	0.8%	0.7%	0.6%

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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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