

Patni Computer Systems Ltd.

CMP Rs. 361.55

Result Update
Q1FY10

Raunak Onkar | raunak@ppfas.com

Overall the Q2CY09 seems to be eventful for Patni, but not prophetic yet for the times to come. On a QoQ basis, the revenues rose just 0.4% whereas the PAT grew 77.7%. This jump in net profit can be attributed to the more favourable dollar rate compared to the recent quarters gone by. But with Patni spring does seem to be around the corner since it has also posted a growth YoY in both topline & the bottomline. But historically the second quarter has always been a bit lumpy where as the subsequent quarters seem to even out by the end of the year. As the company has reported, the revenue growth can be attributed to a ramp up in volume of 2.2% & a currency tail wind of 1.1% but, owing to client's pricing pressure the revenues suffered by 2.5% this quarter. There has also been an improvement in the operating margin by ~2.5% which is a good sign.

On the business front, the company has been able to add 7 new clients which brings the total number of active clients to 294. The overall reduction in number of active clients is mainly due to completed engagements but no client loss. Many new deals have been gained & lost in this quarter some of which are also expected to close as early as Q4CY09. According to the management, the deal pipeline looks good for the year, but the demand scenario still looks shallow going ahead. As all the companies' key executives have been telling us, uncertainty prevails, which gives an added advantage to those who are capable & / or lucky to stay ahead of the competition to get as much unique & new business as possible.

Incidentally, Patni has also seen a rise in demand from the FTO (First Time Offshorer) segment, which mainly includes SME's. This is a unique opportunity for many companies catering to the FTO's since new efficiencies can be brought in from prior experiences & at the same time the company can also introduce new service offerings. This opportunity needs to be looked upon closely.

With \$350mn cash on the books, the company is looking forward for acquisitions both geographically & strategically to improve their portfolio of service offerings. One area of interest revealed was the KPO segment purely to balance their portfolio of end-to-end services, it seems.

On the organizational front, there has been a rampant need for cost rationalization measures whereby the company has converted most of their fixed components of salary to variable with no added benefits being given out to the employees. However the management has taken a one-time bonus for the year, which includes only the top 20% of the executives. Performance based reductions have been managed & no significant shift is expected. Total number of employees rests at 13,780 from 14,540 last quarter. Utilization has improved to 74.4% from 70% last quarter which might be due to the impact of net headcount reduction. The repeat business which the company enjoys remains at 94%.

A lot of changes are to be expected in the top management, wherein the company appointed a new COO, Mr. Manish Soman (formerly from Genpact). Also the management announced that there would be a change in the leadership for the APAC vertical as well as the US vertical. The company also intends to make some changes in allocation of geographical locations in their verticals mix so as to get more clarity.

Patni had also announced a few non-linear initiatives since the new CEO took over. One of them is the cloud computing business where the company has won 5 customers, but this business, at the moment, pertains mainly to migration & not end-to-end cloud services. Another initiative, Patni Labs remains in the pipeline & will see some action by the month of September.

Valuation

Patni trades at a PE of 10 which still looks attractive owing to the fact that it has good opportunity to scale up, huge amount of cash, plans for inorganic growth, non-linear initiatives in the pipeline & excellent free cash flows. Other opportunities regardless of good growth prospects seem to be more attractive. NIIT Tech trades at 5 times earnings which has an earnings yield of 19% compared to Patni's 11%. The difference might be observed as a difference in size, but both businesses have comparatively good outlook for the coming years. The only question remains, would we want to buy more growth for less money for less growth for more money, since Patni offers less margin of safety compared to NIIT Tech?

Patni : Quarterly Financials

| Earnings Statement | | | | | | | | |
|--------------------|---------|---------|----------|---------|----------|----------|----------|----------|
| YE March (Rs. Mn.) | Q2CY09 | Q1CY09 | Q-Q(%) | Q1CY08 | Y-Y(%) | H109 | H108 | Y-Y(%) |
| Net Revenues | 7,796.5 | 7,764.4 | 0.41% | 7,673.1 | 1.61% | 15,560.9 | 14,606.6 | 6.53% |
| Personnel Cost | 4,440.3 | 4,679.4 | -5.11% | 4,488.8 | -1.08% | 9,119.7 | 8,561.5 | 6.52% |
| SG&A | 2,090.0 | 2,009.8 | 3.99% | 2,117.6 | -1.30% | 4,099.8 | 3,914.8 | 4.73% |
| Total Expenditure | 6,530.3 | 6,689.2 | -2.38% | 6,606.4 | -1.15% | 13,219.5 | 12,476.3 | 5.96% |
| Operating Profit | 1,266.2 | 1,075.2 | 17.76% | 1,066.6 | 18.71% | 2,341.4 | 2,130.3 | 9.91% |
| OPM (%) | 16.24% | 13.85% | | 13.90% | | 15.05% | 14.58% | |
| Other Income | 583.4 | 195.3 | 198.80% | 493.2 | 18.30% | 778.7 | 673.6 | 15.61% |
| EBITDA | 1,849.6 | 1,270.5 | 45.58% | 1,559.8 | 18.58% | 3,120.1 | 2,803.8 | 11.28% |
| Depreciation | 193.0 | 284.1 | -32.07% | 279.8 | -31.01% | 477.1 | 557.9 | -14.48% |
| EBIT | 1,656.6 | 986.4 | 67.95% | 1,280.1 | 29.41% | 2,643.0 | 2,246.0 | 17.68% |
| Interest | 19.7 | 39.1 | -49.62% | 32.4 | -39.23% | 58.8 | 66.4 | -11.45% |
| PBT | 1,636.9 | 947.3 | 72.80% | 1,247.7 | 31.20% | 2,584.2 | 2,179.6 | 18.56% |
| Tax | 277.2 | 182.1 | | 56.4 | | 459.3 | 187.2 | |
| PAT | 1,359.7 | 765.2 | 77.69% | 1,191.3 | 14.14% | 2,124.9 | 1,992.4 | 6.65% |
| Equity Capital | 256.2 | 256.2 | 0.00% | 278.1 | -7.88% | | | |
| EPS | 10.6 | 6.0 | 77.69% | 8.6 | 23.91% | | | |
| Ratio Analysis | | | | | | | | |
| Profitability | | | | | | | | |
| YE March (Rs. Mn.) | Q2CY09 | Q1CY09 | Q-Q(bps) | Q1CY08 | Y-Y(bps) | H109 | H108 | Y-Y(bps) |
| OPM (%) | 16.24% | 13.85% | 239.2 | 13.90% | 233.9 | 15.05% | 14.58% | 46.2 |
| EBITDA (%) | 23.72% | 16.36% | 736.1 | 20.33% | 339.5 | 20.05% | 19.20% | 85.5 |
| EBIT (%) | 21.25% | 12.70% | 854.4 | 16.68% | 456.5 | 16.98% | 15.38% | 160.8 |
| PAT (%) | 17.44% | 9.85% | 758.5 | 15.53% | 191.5 | 13.66% | 13.64% | 1.5 |

Patni : Financials

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

| Ratio Analysis | | | | |
|--------------------------|----------|----------|----------|----------|
| Particulars | CY05 | CY06 | CY07 | CY08 |
| OPM (%) | 18.8% | 21.9% | 19.6% | 15.1% |
| EBITDA (%) | 20.7% | 24.0% | 25.9% | 19.3% |
| PBIT (%) | 17.3% | 20.8% | 22.3% | 15.6% |
| PAT (%) | 10.0% | 9.4% | 18.0% | 14.1% |
| Interest Cover (x) | 42.4 | 28.6 | 40.7 | 61.6 |
| EPS (Rs.) | 14.4 | 17.7 | 34.8 | 34.2 |
| P/E (x) | 20.8 | 16.9 | 8.6 | 8.8 |
| P/BV (x) | 1.9 | 1.8 | 1.5 | 1.4 |
| BVPS (Rs.) | 154.2 | 168.7 | 196.8 | 221.7 |
| Cash per Share (Rs.) | 94.6 | 92.3 | 92.1 | 114.8 |
| FCF per Share (Rs.) | | 34.1 | 78.7 | 125.0 |
| Market Cap (Rs. Mn.) | 41,339.6 | 41,484.6 | 41,702.9 | 38,431.5 |
| M Cap/Sales (x) | 2.1 | 1.6 | 1.5 | 1.2 |
| EV (Rs. Mn.) | 34,664.0 | 39,454.6 | 40,440.8 | 26,100.2 |
| EV/EBITDA (x) | 8.4 | 6.3 | 5.8 | 4.3 |
| EV/Sales (x) | 1.7 | 1.5 | 1.5 | 0.8 |
| ROCE (%) | 16.1% | 23.2% | 21.9% | 17.0% |
| RONW (%) | 9.4% | 10.5% | 17.7% | 15.4% |
| Debt/Equity Ratio (x) | 0.0 | 0.0 | 0.0 | 0.0 |
| Debtors T/o Days | 58.5 | 70.7 | 71.1 | 63.0 |
| Advances T/o Days | 11.8 | 11.7 | 22.1 | 16.4 |
| Creditors T/o Days | 56.0 | 51.3 | 57.5 | 73.1 |
| Working Cap T/o Days | 131.8 | 39.6 | 36.1 | 22.4 |
| Fixed Assets T/o (Gross) | 3.7 | 3.8 | 2.6 | 2.7 |
| DPS (Rs.) | 2.9 | 3.4 | 3.6 | 3.5 |
| Dividend Payout (%) | 19.9% | 19.3% | 10.4% | 10.3% |

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

| Cash Flow | | | | |
|---------------------------|-----------|-----------|-----------|------------|
| Particulars (Rs Mn) | CY05 | CY06 | CY07 | CY08 |
| Opening Cash & Bank | 3,364.2 | 6,707.3 | 2,060.6 | 1,285.9 |
| Profit After Tax | 1,987.7 | 2,447.7 | 4,836.2 | 4,380.1 |
| Invnt Income | (381.9) | (556.7) | (1,690.1) | (1,303.4) |
| Interest Paid | 81.2 | 189.6 | 147.2 | 79.0 |
| Depreciation | 678.2 | 842.8 | 984.8 | 1,141.5 |
| Deferred Taxation | (62.5) | 59.9 | (63.9) | (24.6) |
| Others | 2,660.8 | 2,288.3 | 6,873.3 | 13,384.0 |
| Change in Working Cap | (2,053.8) | (3,036.5) | (8,419.0) | (11,897.2) |
| CF - Operating Activities | 2,909.7 | 2,235.1 | 2,668.5 | 5,759.4 |
| Change in Fixed Assets | (2,297.6) | (2,510.3) | (3,361.4) | (1,736.7) |
| Change in Investments | (2,616.5) | (4,366.5) | (818.9) | (254.6) |
| Investment Income | 381.9 | 556.7 | 1,690.1 | 1,303.4 |
| CF - Investing Activities | (4,532.2) | (6,320.2) | (2,490.3) | (687.8) |
| Increase in Equity | 5,439.1 | 102.1 | (297.3) | (2,890.7) |
| Changes in Borrowings | 3.2 | (1.2) | (6.9) | (6.2) |
| Interest Paid | (81.2) | (189.6) | (147.2) | (79.0) |
| Dividend Paid | (395.4) | (473.0) | (501.6) | (449.8) |
| CF - Financing Activities | 4,965.6 | (561.7) | (952.9) | (3,425.7) |
| Net Change in Cash | 3,343.1 | (4,646.7) | (774.7) | 1,645.9 |

Disclaimer

| | |
|-----------------------------------|-------|
| 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 |

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Parag Parikh Financial Services Ltd. (PPFAS). PPFAS is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities is available on request.

PPFAS is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI. This report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.

If 'Buy', 'Sell', or 'Hold' recommendation is made in this report such recommendation or view or opinion expressed on investments in this report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this report are those of the analyst which are subject to change and do not represent to be an authority on the subject. PPFAS may or may not subscribe to any and/ or all the views expressed herein.

PPFAS makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by PPFAS or the analyst(s).

The information, opinions and views contained within this report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. reports may be updated anytime without any prior notice to any and/ or all client(s).

PPFAS makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this report.

Please note that past performance is not necessarily a guide to evaluate future performance.

PPFAS and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).

This report should be read and relied upon at the sole discretion and risk of the client.

The value of any investment made at your discretion based on this report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.

This report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other countries or to any resident thereof. The distribution of this report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.

Neither PPFAS nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or inability to use or access our service or this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this report or inability to use or access our service or this report.

Contact

| | | | |
|---------------|-------------------------------|------------------|--------------------------|
| Ridhim Thapar | Institutional Sales | ridhim@ppfas.com | 91 22 2284 6555 Extn 312 |
| Raunak Onkar | Analyst - Investment Research | raunak@ppfas.com | 91 22 2284 6555 Extn 323 |

Now access PPFAS Reports on Bloomberg

<PPFS> <Go>

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