

**Patni Computer Systems Ltd.**CMP Rs. 436.45  
HOLDResult Update  
Q3CY09

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Patni reported a muted third quarter, where revenues grew YoY by just ~1% where as they reported a PAT de-growth of ~6% YoY. Revenue grew sequentially by ~3% & PAT grew by ~24%. Patni reported an overall margin decline YoY as well.

Patni, like its peers has been caught in the same crunch where IT spends have shown steep decline & deal horizons have reduced to short term contracts. Although this uncertainty has been unveiled to some extent for many of its peers, Patni still faces some delay in contract acquisitions. Client addition has been sequentially slower for the company, where this quarter it added only 7 new clients. The total number of active clients becomes 283 this quarter, which is an overall decline of 9 clients sequentially. Although this client reduction isn't any loss of contracts but can be attributed to engagement completions.

Patni has also been cutting employees every quarter & desires to hire some 500 freshers going ahead, in the coming three quarters. Utilization on this account has shown a jump to 77%, but stabilized to 75% can be expected going ahead. The company has shown growth in their Infrastructure Management Services, which seems to be the calling card for many IT players in these times.

Patni is poised to enter the Cloud Computing space wherein they have developed a few solutions. Although the deal sizes are very small it is expected that the deals would give them more experience in this domain & eventually help them gain credibility. Margins for this business would necessarily be lower as compared to usual services business. Patni has gained a lot of business in their Insurance vertical since last year & also boast a good pipeline in the healthcare vertical.

The bottom line about Patni's 3rd Quarter result would be that there is a lot of uncertainty still in the demand environment, where clients are only looking at shorter term engagements with more of fixed price contracts & the discretionary spending by clients has still not opened for Patni.

**Valuation**

Patni trades at 12 times TTM which still looks cheaper relative to its peers. But the promise of growth from Patni might be sought from their acquisition strategy, which is still on the horizon. Patni has usually been shrouded in rumours of take overs by some global / Indian IT players. This has been a long standing point of contention. In spite of takeover talks, what sort of premium would Patni receive is still unclear. Usually acquisition of IT players has been in the range of 2 times their sales. Patni currently trades at ~1.8 times sales, which doesn't offer a great risk reward argument to Buy into it, nevertheless the business still doesn't trade at a ridiculous valuation to sell it off.

We recommend a HOLD for Patni.

## Quarterly Financials

Earnings Statement					
YE March (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)
Net Revenues	8,017.2	7,796.5	2.83%	7,996.1	0.26%
Personnel Cost	4,734.2	4,440.3	6.62%	4,626.5	2.33%
SG&A	1,993.3	2,090.0	-4.63%	1,857.0	7.34%
Total Expenditure	6,727.5	6,530.3	3.02%	6,483.5	3.76%
Operating Profit	1,289.7	1,266.2	1.86%	1,512.6	-14.74%
OPM (%)	16.09%	16.24%		18.92%	
Other Income	320.4	583.4	-45.08%	531.9	-39.76%
EBITDA	1,610.1	1,849.6	-12.95%	2,044.5	-21.25%
Depreciation	0.0	193.0	-100.00%	289.2	-100.00%
EBIT	1,610.1	1,656.6	-2.81%	1,755.3	-8.27%
Interest	15.5	19.7	-21.15%	26.8	-42.06%
PBT	1,594.6	1,636.9	-2.59%	1,728.5	-7.75%
Tax	(91.2)	277.2		(73.7)	
PAT	1,685.8	1,359.7	23.98%	1,802.3	-6.46%
Equity Capital	256.3	256.2	0.04%	260.6	-1.64%
EPS	13.2	10.6	23.93%	13.8	-4.91%
Ratio Analysis					
Profitability					
YE March (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(bps)	Q3CY08	Y-Y(bps)
OPM (%)	16.09%	16.24%	(15.4)	18.92%	(283.0)
EBITDA (%)	20.08%	23.72%	(364.1)	25.57%	(548.6)
EBIT (%)	20.08%	21.25%	(116.5)	21.95%	(186.9)
PAT (%)	21.03%	17.44%	358.7	22.54%	(151.3)

## 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)	30.7	25.0	12.7	13.0
P/BV (x)	2.9	2.6	2.3	2.0
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.)	61,044.7	61,258.9	61,581.2	56,750.5
M Cap/Sales (x)	3.1	2.3	2.3	1.8
EV (Rs. Mn.)	54,369.2	59,229.0	60,319.1	44,419.2
EV/EBITDA (x)	13.2	9.4	8.6	7.4
EV/Sales (x)	2.7	2.3	2.2	1.4
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%
Dividend Yield (%)	0.6%	0.8%	0.8%	0.8%

Balance Sheet				
Particulars (Rs. Mn.)	CY05	CY06	CY07	CY08
Equity Capital	275.6	276.6	278.0	256.2
Share App. 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
Closing Cash & Bank Bal	6,707.3	2,060.6	1,285.9	2,931.8

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