

Mahindra Satyam

Performance highlights

Y/E March (₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)
Net revenue	1,578	1,434	10.0	1,242	27.0
EBITDA	242	213	13.7	73	228.8
EBITDA margin (%)	15.3	14.8	49bp	5.9	940bp
Adj. PAT*	238	225	5.8	32	651.5

Source: Company, Angel Research; Note: * excluding exceptional items

Mahindra Satyam (Satyam) reported its 2QFY2012 results, which were lower than our expectations on the operating front, but stood modest on the net profit front. The major highlight of the result was 4.5% qoq volume growth with the addition of 36 new customers during the quarter. The company is back on the growth track after two years of metamorphosis undertaken by TechMahindra's management post its acquisition in June 2009. **We continue to maintain our Accumulate rating on the stock.**

Quarterly highlights: For 2QFY2012, Satyam reported USD revenue growth of 3.2% qoq to US\$330mn, led by volume growth. In INR terms, revenue came in at ₹1,578cr, up by whopping 10.0% qoq. The company's EBITDA and EBIT margin increased by 49bp and 63p qoq to 15.3% and 12.8%, respectively, negatively impacted by higher operational expenses. PAT came in at ₹238cr, up 5.8% qoq, aided by higher other income.

Outlook and valuation: The company expects the enterprise business solutions (EBS) service and the manufacturing vertical to bolster its growth and help it to track the industry's growth rate. This is coherent with the demand color given by managements of most other tier-I companies as well. We expect the company's core competence in EBS to supplement growth and post a 15.3% and 15.9% CAGR in USD and INR revenue, respectively, over FY2011-13E. Also, with adequate margin levers such as 1) employee pyramid rationalization; 2) improving utilizations and 3) rationalizing SGA expenses, we expect the company's EBITDA margin to improve to 14.6% and 15.0% for FY2012 and FY2013, respectively, from 8.8% in FY2011. At the CMP of ₹73, the stock is trading at 10.0x FY2013 EPS of ₹7.3 i.e., at a PEG of 0.32x. **We value the stock at 40% discount to Infosys' target FY2013 PE i.e., 11.0x and maintain our Accumulate rating on the stock with a target price of ₹80.**

Key financials (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	5,481	5,145	6,329	6,912
% chg	(37.8)	(6.1)	23.0	9.2
Net profit*	292	494	854	858
% chg	(258.2)	68.9	72.9	0.5
EBITDA margin (%)	8.3	8.8	14.6	15.0
EPS (₹)*	2.5	4.2	7.3	7.3
P/E (x)	29.2	17.4	10.1	10.0
P/BV (x)	1.9	1.9	1.6	1.4
RoE (%)	6.3	10.7	15.6	13.5
RoCE (%)	4.1	4.6	11.2	11.3
EV/Sales (x)	1.2	1.1	1.0	0.9
EV/EBITDA (x)	14.1	12.9	7.0	5.7

Source: Company, Angel Research; Note: *Excluding exceptional items

ACCUMULATE

CMP	₹73
Target Price	₹80

Investment Period	12 Months
-------------------	-----------

Stock Info

Sector	IT
Market Cap (₹ cr)	8,592
Beta	1.0
52 Week High / Low	94/54
Avg. Daily Volume	2,132,187
Face Value (₹)	2
BSE Sensex	17,362
Nifty	5,221
Reuters Code	SATY.BO
Bloomberg Code	SCS@IN

Shareholding Pattern (%)

Promoters	42.7
MF / Banks / Indian Fls	3.7
FII / NRIs / OCBs	15.2
Indian Public / Others	38.5

Abs. (%)	3m	1yr	3yr
Sensex	3.0	(17.1)	74.2
Mahindra Satyam	2.7	(17.7)	(73.7)

Srishti Anand

+91 22 39357800 Ext: 6820
 srishti.anand@angelbroking.com

Ankita Somani

+91 22 39387800 Ext: 6819
 ankita.somani@angelbroking.com

Exhibit 1: 2QFY2012 performance (Consolidated, Indian GAAP)

Y/E March (₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)	1HFY12	1HFY11	% chg (yoy)
Net revenue	1,578	1,434	10.0	1,242	27.0	3,012	2,490	20.9
Direct costs	962	930	3.4	914	5.3	1,892	1,781	6.2
Gross profit	616	504	22.2	329	87.3	1,120	709	57.9
SG&A expenses	374	291	28.4	255	46.5	665	514	29.4
EBITDA	242	213	13.7	73	228.8	454	195	133.1
Dep. and amortisation	40	38	4.2	43	(7.7)	78	102	(24.1)
EBIT	202	175	15.7	31	560.4	377	93	306.8
Interest charges	2	5	(55.0)	3	(18.4)	7	5	31.4
Other income	97	98		31		195	105	
PBT	297	268	10.6	59	399.6	565	192	194.2
Tax	58	43	35.9	27	114.2	100	53	88.0
PAT	239	226	5.8	32	637.5	465	139	235.1
Exceptional item	-	-		8		-	16	
Minority interest	1	1	29.1	1	1.4	1	2	(21.3)
Final PAT	238	225	5.8	23	922.5	463	121	283.7
Adj. PAT*	238	225	5.8	32	651.5	463	137	238.0
EPS* (₹)	2.0	1.9	5.8	0.3	650.5	3.9	1.2	237.6
Gross margin (%)	39.0	35.1	389bp	26.5	1256bp	37.2	28.5	870bp
EBITDA margin (%)	15.3	14.8	49bp	5.9	940bp	15.1	7.8	726bp
EBIT margin (%)	12.8	12.2	63bp	2.5	1035bp	12.5	3.7	879bp
PAT margin (%)	14.2	14.7	(47)bp	2.5	1174bp	14.5	5.3	917bp

Source: Company, Angel Research; Note: *Excluding exceptional items

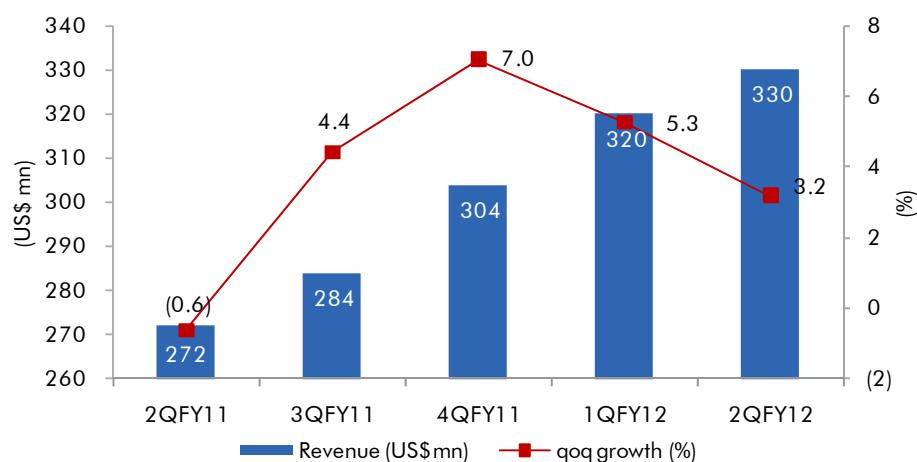
Exhibit 2: Actual vs. Angel estimates

(₹ cr)	Actual	Estimate	% Var
Net revenue	1,578	1,541	(2.3)
EBITDA margin (%)	15.3	16.0	(72)bp
PAT	238	207	(13.0)

Source: Company, Angel Research

Revenue momentum continues, albeit at a slower pace

For 2QFY2012, Satyam reported USD revenue growth of 3.2% qoq to US\$330mn on the back of 4.5% qoq volume growth. USD revenue was negatively impacted by ~0.8% qoq growth because of unfavorable cross-currency movement derived due to USD appreciation qoq as against the GBP, Euro and AUD, respectively. In INR terms, revenue came in at ₹1,578cr, up by whopping 10.0% qoq, aided by higher USD/INR rate realized of ₹47.8 vis-à-vis ~₹46.5 realized by other Indian IT players.

Exhibit 3: Trend in revenue growth (qoq)


Source: Company, Angel Research

Industry wise, growth was led by the BFSI and technology, media and entertainment (TME) segments, revenue of which grew by 15.3% and 8.3% qoq, respectively. In the TME segment, the company is witnessing robust traction from technology and hi-tech clients. Revenue traction from manufacturing, its anchor industry segment, continued and posted decent 3.1% qoq growth. In the manufacturing industry segment, aerospace and defense are gaining modest traction. Healthcare and lifesciences reported revenue qoq growth of 3.2%; however, revenue from retail and logistics declined by 5.4% qoq.

Exhibit 4: Growth in industry segments

Particulars	% to revenue	% growth (qoq)
Manufacturing	32.0	3.1
TME (includes telecom also)	21.0	8.3
BFSI	19.0	15.3
Retail and logistics	11.0	(5.4)
Healthcare and lifesciences	7.0	3.2
Others	10.0	(6.2)

Source: Company, Angel Research

Geography wise, growth was led by developed economies – America and Europe reported 7.2% and 3.2% qoq growth, respectively. Revenue from emerging markets (RoW), which reported 14.0% qoq growth in 1QFY2012, posted a 4.8% qoq decline in 2QFY2012.

Exhibit 5: Growth trend in geographies

Particulars	% to revenue	% growth (qoq)
Americas	52.0	7.2
Europe	24.0	3.2
RoW	24.0	(4.8)

Source: Company, Angel Research

Muted hiring

During the quarter, the company added merely 654 net employees, taking its total employee base to 32,092. Attrition rate of the company declined significantly to 15.6% in 2QFY2012 from 17.0% in 1QFY2012.

Going ahead, management indicated that it will remain cautious on fresher hiring and will wait for signs from the macroeconomic environment to decide upon its further hiring plans.

Exhibit 6: Employee metrics

Particulars	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Net employee addition	346	764	434	2,172	654
Total employees	28,068	28,832	29,266	31,438	32,092
Attrition (%)	25	25	22	17	16

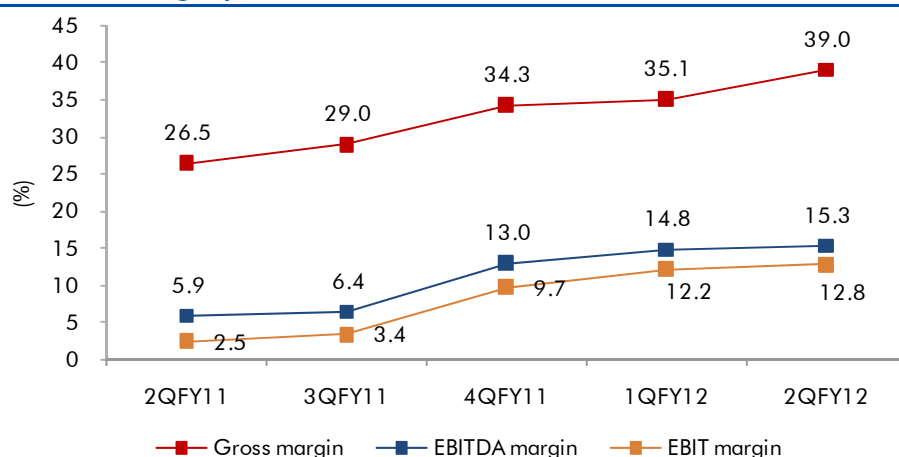
Source: Company, Angel Research

Margin profile

During the quarter, the company's EBITDA and EBIT margin increased by merely 49bp and 63bp qoq 15.3% and 12.8% (lower than our expectations), respectively, despite higher USD/INR rate realization. This was because of higher operating expenditure because of 1) one-time expense of ₹25cr-30cr incurred due to deployment of hardware and software for couple of projects and 2) provisions made for debt.

The company has announced wage hike of 12.5% for offshore employees and 2.5% for onsite employees effective from October 2011 (wage hikes are postponed by one quarter for FY2012). This will negatively affect the company's EBITDA margin by 250–300bp in 3QFY2012.

Exhibit 7: Margin profile



Source: Company, Angel Research

Client pyramid

The client pyramid of the company witnessed slight qualitative improvement, with few clients being added to higher revenue brackets. Three clients moved from the US\$10mn-20mn bracket, out of which two clients were added in the US\$20mn-50mn bracket and one in the US\$5mn-20mn revenue bracket. Active client base of the company increased to 228 in 2QFY2012 from 220 in 1QFY2012. Overall, the company added 36 new clients during the quarter, out of which three are from Fortune 500 list of companies.

Exhibit 8: Client metrics

Particulars	3QFY11	4QFY11	1QFY12	2QFY12
Total active clients	217	230	220	228
US\$1mn-5mn	76	96	83	77
US\$5mn-10mn	14	15	11	12
US\$10mn-20mn	21	21	22	19
US\$20mn-50mn	7	9	11	13
US\$50mn+	3	3	3	3

Source: Company, Angel Research

Outlook and valuations

The new management has proved its ability of turning around the company in two years' time by putting it back to comparable industry-level growth and improving its margin from 3% in FY2010 to 15.3% in 2QFY2012. Satyam's EBS service (~40% of its revenue) and manufacturing vertical (~32% of its revenue) are showing strong traction. The company expects this service and vertical, respectively, to bolster growth and help it to track the industry's growth rate. This is coherent with the demand color given by managements of most other tier-I companies as well. We expect the company's core competence in EBS to supplement growth and post a 15.3% and 15.9% CAGR in USD and INR revenue, respectively, over FY2011-13E.

Also, Satyam has adequate margin levers such as 1) employee pyramid rationalization (number of employees < 3 years are very less at ~24% vis-à-vis industry at ~40 to 45%); 2) strong volume growth expected on the back of a strengthening deal pipeline improving utilizations to ~77% by FY2013; and 3) current SGA at ~20.5% to sales, which is on the higher side and can be bought down to 19.0% by FY2013. This will aid the company's EBITDA margin to improve to 14.6% and 15.0% for FY2012 and FY2013, respectively, from 8.8% in FY2011.

Strong margin improvement along with 1) ITM hedges of US\$221mn covering the next six months with INR/USD rate of 48.5 and 2) lower tax rates (~MAT rate) due to the tax shield related to losses booked in FY2010 and earlier are expected to bolster the company's earnings by a 31.5% CAGR over FY2011-13. At the CMP of ₹73, the stock is trading at a 10.0x FY2013 EPS of ₹7.3 i.e., at a PEG of 0.32x. **We value the stock at 40% discount to Infosys' target FY2013 PE i.e., 11.0x and maintain our Accumulate rating on the stock with a target price of ₹80.**

Exhibit 9: Key assumptions

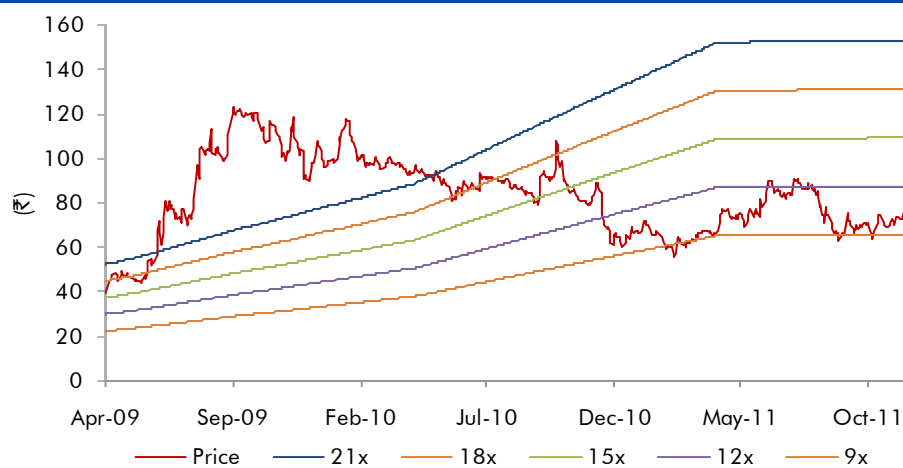
Particulars	FY2012	FY2013
Revenue growth - USD terms (%)	18.2	12.5
Revenue growth - INR terms (%)	23.0	9.2
EBITDA margin (%)	14.6	15.0
EBIT margin (%)	12.0	12.5
Tax rate (%)	17.9	21.8
EPS growth (%)	72.7	0.5

Source: Company, Angel Research

Exhibit 10: Change in estimates

Parameter (₹ cr)	FY2012E			FY2013E		
	Earlier estimates	Revised estimates	Variation (%)	Earlier estimates	Revised estimates	Variation (%)
Net revenue	6,138	6,329	3.1	6,891	6,912	0.3
EBITDA	867	924	6.6	1,005	1,040	3.4
Other income	273	301	10.2	277	253	(8.5)
PBT	957	1,042	8.9	1,078	1,099	2.0
Tax	167	186	11.9	235	239	1.9
PAT	788	854	8.3	841	858	2.1

Source: Company, Angel Research

Exhibit 11: One-year forward PE(x) chart


Source: Company, Angel Research

Exhibit 12: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	Target P/E (x)	FY2013 EBITDA (%)	FY2013E P/E (x)	FY2011-13E EPS CAGR (%)	FY2013E RoCE (%)	FY2013E RoE (%)
HCL Tech	Buy	427	545	27.8	14.0	17.7	11.0	26.1	20.6	22.4
Hexaware	Accumulate	86	92	7.3	11.0	16.8	10.5	68.7	18.1	18.8
Infosys	Neutral	2,832	-	-	18.0	30.6	18.0	14.8	24.0	22.5
Infotech Enterprises	Neutral	125	-	-	8.5	15.7	8.3	8.9	15.0	12.4
KPIT Cummins	Neutral	155	-	-	10.0	15.4	9.5	19.9	18.6	17.1
Mahindra Satyam	Accumulate	73	80	9.6	11.0	15.0	10.0	31.7	11.3	13.5
MindTree	Buy	395	462	16.8	10.0	14.4	8.6	35.6	18.6	16.5
Mphasis	Accumulate	334	382	14.3	11.5	15.5	8.4	0.4	13.4	14.5
NIIT ^	Buy	49	60	23.6	7.5	16.3	6.1	19.3	11.0	15.6
Persistent	Neutral	315	-	-	9.0	20.0	8.6	2.5	15.8	14.8
TCS	Accumulate	1,123	1,220	8.6	20.0	28.7	18.4	17.0	29.8	30.9
Tech Mahindra	Buy	602	734	22.0	9.0	16.3	7.4	28.5	13.6	20.2
Wipro	Neutral	377	-	-	15.3	18.8	15.4	6.1	13.6	18.6

Source: Company, Angel Research; Note: ^ Valued on SOTP basis

Profit and loss statement (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net revenues	5,481	5,145	6,329	6,912
Employee costs	3,981	3,594	4,063	4,560
Gross profit	1,500	1,551	2,266	2,353
% to net sales	27.4	30.1	35.8	34.0
SG&A expenses	1,043	1,096	1,342	1,313
% to net sales	19.0	21.3	21.2	19.0
EBITDA	457	455	924	1,040
% to net sales	8.3	8.8	14.6	15.0
Dep. and amortisation	214	185	167	176
% to net sales	3.9	3.6	2.6	2.5
EBIT	243	270	757	863
% to net sales	4.4	5.3	12.0	12.5
Interest charges	33	10	16	17
Other income	106	294	301	253
PBT	315	555	1,042	1,099
Tax	22	58	186	239
% of PBT	7.0	10.4	17.9	21.8
PAT	293	497	856	860
Exceptional item	417	641	-	-
Minority interest	1	3	2	2
Final PAT	(125)	(147)	854	858
Adj. PAT*	292	494	854	858
EPS (₹)*	2.5	4.2	7.3	7.3

Note: * excluding exceptional item

Balance sheet (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Liabilities				
Share capital	235	235	235	235
Share app. money pending allotment	0	-	-	-
Reserves and surplus	4,395	4,386	5,240	6,098
Total shareholders' funds	4,630	4,621	5,475	6,333
Minority interest	20	23	25	25
Loan funds	42	32	28	28
Deferred tax liability	4	7	5	5
Sub-total	4,696	4,683	5,533	6,391
Amount pending investigation suspense acc.	1,230	1,230	1,230	1,230
Total capital employed	5,927	5,913	6,763	7,621
Assets				
Fixed assets	987	950	1,108	1,181
Investments	627	435	357	439
Deferred tax asset	7	8	8	8
Current assets, loans and advances				
Inventories	-	59	60	60
Sundry debtors	923	1,159	1,405	1,534
Cash and bank balances	2,177	2,754	2,143	2,634
Other current assets	496	379	417	467
Loans and advances	385	378	633	684
Less: Current liabilities and provisions				
Liabilities	882	1,546	1,202	1,287
Provisions	1,540	1,558	1,614	1,659
Net current assets	1,558	1,624	1,841	2,433
Profit and loss account	2,749	2,896	3,449	3,560
Sub-total	5,927	5,913	6,763	7,621
Unexplained differences suspense account (net)	-	-	-	-
Total capital deployed	5,927	5,913	6,763	7,621

Cash flow statement (Consolidated, Indian GAAP)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Pre tax profit from operations	210	261	741	846
Depreciation	214	185	167	176
Pre tax cash from operations	424	445	909	1,023
Other income/prior period ad	106	294	301	253
Net cash from operations	530	740	1,210	1,276
Tax	22	58	186	239
Cash profits	507	679	1,021	1,034
(Inc)/dec in current assets	507	(172)	(539)	(231)
Inc/(dec) in current liabilities	(445)	682	(288)	129
Net trade working capital	62	510	(828)	(101)
Cash flow from operating activities	569	1,189	194	933
(Inc)/dec in fixed assets	38	(148)	(325)	(250)
(Inc)/dec in investments	(627)	192	78	(82)
(Inc)/dec in deferred tax	(1)	1	(2)	-
(Inc)/dec in other non current assets	(125)	(147)	(553)	(110)
Inc/(dec) in minority interest	1	3	2	-
Cash flow from investing activities	(714)	(99)	(801)	(442)
Inc/(dec) in debt	(772)	(11)	(4)	-
Inc/(dec) in equity/premium	2,593	(503)	-	-
Dividends	-	-	-	-
Cash flow from financing activities	1,821	(513)	(4)	-
Cash generated/(utilised)	1,676	577	(610)	491
Cash at start of the year	501	2,177	2,754	2,143
Cash at end of the year	2,177	2,754	2,143	2,634

Key ratios

Y/E March	FY2010	FY2011	FY2012E	FY2013E
Valuation ratio (x)				
P/E (on FDEPS)	29.2	17.4	10.1	10.0
P/CEPS	95.5	229.3	8.4	8.3
P/BVPS	1.9	1.9	1.6	1.4
Dividend yield (%)	-	-	-	-
EV/Sales	1.2	1.1	1.0	0.9
EV/EBITDA	14.1	12.9	7.0	5.7
EV/Total assets	1.1	1.0	1.0	0.8
Per share data (₹)				
EPS	2.5	4.2	7.3	7.3
Cash EPS	0.8	0.3	8.7	8.8
Dividend	-	-	-	-
Book value	39.4	39.3	46.6	53.9
Dupont analysis				
Tax retention ratio (PAT/PBT)	0.9	0.9	0.8	0.8
Cost of debt (PBT/EBIT)	1.3	2.1	1.4	1.3
EBIT margin (EBIT/Sales)	0.0	0.1	0.1	0.1
Asset turnover ratio (Sales/Assets)	0.9	0.9	0.9	0.9
Leverage ratio (Assets/Equity)	1.3	1.3	1.2	1.2
Operating ROE	6.3	10.8	15.6	13.6
Return ratios (%)				
RoCE (pre-tax)	4.1	4.6	11.2	11.3
Angel RoIC	6.5	8.6	16.4	17.3
RoE	6.3	10.7	15.6	13.5
Turnover ratios (x)				
Asset turnover (fixed assets)	5.6	5.4	5.7	5.9
Receivables days	61	82	81	81
Payable days	81	157	108	103

Research Team Tel: 022 - 3935 7800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

Mahindra Satyam

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)