

## Satyam Computer Services

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Under Performer

Rs242 P/E (FY03E) - 17x

### Revenue and Profit numbers below Company's Guidance

- Revenues for Q3 FY03 were Rs5173mn as against our estimate of Rs5273mn (the company's guidance was Rs5250 - 5400mn)
  - The company has said that the new clients acquired in the current and last quarter were taking longer than anticipated to ramp-up.
  - Satyam was negotiating for a multi-million dollar deal with one of the clients, which was put on hold.
  - Onsite contribution has been increasing due to new project starts.
  - Major incremental revenues came from the Insurance vertical.
  - Collaborative revenues (revenues from contracts won with other IT services majors like EDS and CSC) increased from 8.85% (Q2 FY03) to 9.75% of revenues in Q3.
  - Top-5 and Top-10 clients' contribution remained stable at Q2 FY03 levels
  - The company hired around 350 technical personnel during the quarter yet it managed to increase utilisation levels only marginally.
  - Satyam has indicated that it would be contacting the 800 candidates that were selected, but never recruited on account of the slowdown.
- The company clocked Net Profit of Rs1167mn for the quarter as against our estimate of Rs1228mn (company's guidance was Rs1258-1321mn).
  - The Company had to hire 30 to 40 Onsite subcontractors for specific assignments, which resulted in incremental costs of around Rs30mn.
  - Satyam strengthened its sales-marketing and management team by adding around 30 personnel at senior positions from leading consulting and IT services companies. According to the company, such recruitments will allow it to interact at the CIO and CEO levels with its clients.

### 67% of Cash and equivalents brought to India

- In anticipation of further appreciation of the Indian Rupee, Rs9,000 (\$187mn) out of the total Cash and Equivalents of Rs14,000mn (\$292mn) have been converted to Indian Rupee.

### Q3 FY03 Capex stood at Rs160mn; for FY04, significant capex plans on the anvil

- Capital expenditure for Q4 FY03 is expected to remain at Q3 levels
- In FY04, Satyam plans to construct and develop its new facilities in Bangalore and Pune. Hence, Capital expenditure in FY04 would be higher.

### Sify losses will continue to reflect in Satyam's US GAAP Books

- Following Satyam Infoway (Sify) shareholders approval, on 16 December 2002 Softbank Asia Infrastructure Fund (SAIF) invested US\$13mn and VentureTech invested US\$3.5mn in Satyam Infoway (Sify). Consequently, Satyam Computer Services Limited's holding in Sify has reduced from 52.50% to 37.15%.
- Satyam had earlier indicated that post the above-mentioned investment by SAIF and VentureTech, its stake in Sify would be below 50%, and that it would no longer be necessary to include Sify's financials with its US GAAP consolidated results
- However, after consulting their Auditors (Price Waterhouse), Satyam has clarified that Sify's numbers will still need to be consolidated with Satyam's US GAAP results, till Satyam is holding Sify shares (no matter how high or low).
- We feel that this may be due to the level of management control Satyam continues to have in the company, despite its lower shareholding.

### **Recent trends in hiring Onsite subcontractors for specific assignments**

- From Mphasis to Infosys to Satyam, recently we have seen an increasing trend in hiring of onsite subcontractors for specific assignments. Satyam explained that is due to shortage of technical staff with a specific skill set required for certain projects.
- As Indian IT companies are moving from providing project-based IT services to providing complete solutions, they are called upon to provide certain services where they don't have technical staff readily available in sufficient numbers. As IT services companies would like to start of the projects as soon as possible, they need to hire onsite subcontractors.
- These subcontractors are hired locally, and thus, come at a comparatively higher cost.
- As these requirements are better understood by the Indian IT services companies, the company will hiring more technical employees with the required skill set, and gradually their dependence on onsite subcontractors would reduce.

### **Change in Management / Board of Directors**

- C Srinivasa Raju (promoter-director) has decided to step down from the Board in view of his other commitments.
- Prof. Krishna Palepu (Harvard Business School) and Vinod Dham (ex-Intel) have been inducted to the Satyam Board.

### **Progress on Nipuna (BPO) front**

- Ram Ramasundar (earlier worked with Hindustan Lever, Unilever Plc. and Pepsico) has joined as Chief Operating Officer.
- Projects / Pilots Initiated or on the way
  - Back-office process
    - Related to assembly line for the engine division of a large US construction equipment manufacturer.
  - Helpdesk services
    - For world's largest providers of telecommunications information networking software company
    - For the world's largest provider of products and services to the global semiconductor industry.
  - Data capture and Validation
    - One of the largest mutual life insurance companies in United States

### **View and Valuation**

The stock is up 10% from our call of Market Performer on 24 October 2002. During the quarter, the stock touched a high of Rs293 (up 33% from October levels). We have revised our estimates for Q4 FY03 to reflect the slower than expected business pick-up. The company has reduced its revenue and EPS guidance for Q4 FY03.

**We reduce our rating on the stock to Under Performer.** However, if the mentioned multi-million dollar contract were to be initiated and/or new clients ramp-up faster than they did in Q3, the outlook on Satyam for FY04 would improve.

## Projections

### Yearly Projections

Year Ended March 31	Rs Mn		
	2002	2003 Karvy Estimates	Change %
Exports	17,031	19,916	16.94%
Domestic	289	211	-26.92%
<b>Total Revenues</b>	<b>17,319</b>	<b>20,127</b>	<b>16.21%</b>
Net Profits	4,901	4,480	-8.60%
Net Profits after Extraordinary Items	4,494	4,618	2.76%
EPS (Rs.)	15.58	14.24	-8.60%
EPS after Extraordinary Items (Rs.)	14.29	14.68	2.76%
P/E x	16	17	

Year Ended March 31	2003 Company Guidance Given in Oct 2002	2003 Company Guidance Given in Jan 2003
Total Revenues	20,800 to 21,160	20,100 to 20,200
EPS after Extraordinary Items (Rs.)	16.06 to 16.26	14.57 to 14.66

### Quarterly Projections

#### Wipro Limited

Year Ended March 31	Rs Mn			
	Q4 2003 Karvy Estimates	Q4 2003 QoQ Growth %	Q4 2003 YoY Growth %	Q4 2003 Company Guidance
Revenues	5,225	1%	16%	5,250 to 5,350
Net Profits	1,184	1%	3%	
Net Profits (after Extraordinary items)	1,184	1%	59%	
EPS (Rs.)	3.77	1%	3%	
EPS (Rs.) (after Extraordinary items)	3.77	1%	59%	3.66 to 3.75

## Indian GAAP Results

Year Ended March 31	Rs Mn				
	Q3 2003	Q2 2003	QoQ %Chg	Q3 2002	YoY %Chg
<b>Sales</b>					
Exports	5,173	4,928	5.0%	4,316	19.9%
Domestic	49	64	-22.5%	42	16.8%
<b>Total</b>	<b>5,223</b>	<b>4,991</b>	<b>4.6%</b>	<b>4,358</b>	<b>19.8%</b>
<b>Expenditure</b>					
Personnel Expense	2,452	2,424	1.2%	2,019	21.4%
Operating & Administration expenses	1,176	1,009	16.6%	888	32.4%
Depreciation	304	311	-2.2%	306	-0.7%
<b>Total</b>	<b>3,933</b>	<b>3,744</b>	<b>5.0%</b>	<b>3,214</b>	<b>22.4%</b>
<b>Operating Profit</b>	<b>1,290</b>	<b>1,247</b>	<b>3.4%</b>	<b>1,144</b>	<b>12.8%</b>
Other Income	(8)	(117)	-93.5%	102	-107.4%
Interest	2	2	0.5%	5	-57.6%
<b>PBT</b>	<b>1,280</b>	<b>1,129</b>	<b>13.4%</b>	<b>1,241</b>	<b>3.2%</b>
Tax	113	85	32.8%	47	140.4%
<b>PAT</b>	<b>1,167</b>	<b>1,044</b>	<b>11.9%</b>	<b>1,194</b>	<b>-2.3%</b>
Extraordinary Income (net of Tax)		138	-100.0%	-	#DIV/0!
<b>PAT after Extraordinary item</b>	<b>1,167</b>	<b>1,182</b>	<b>-1.2%</b>	<b>1,194</b>	<b>-2.3%</b>
Equity	629	629	0.0%	629	0.0%
EPS (Rs.)	3.71	3.32	11.9%	3.80	-2.2%
EPS (Rs.) (after Extraordinary items)	3.71	3.76	-1.2%	3.80	-2.2%
<b>Operating Margins</b>	<b>24.7%</b>	<b>25.0%</b>		<b>26.2%</b>	
PBT Margins	24.5%	22.6%		28.5%	
Net Profit Margins	22.4%	20.9%		27.4%	
Net Profit Margins (after Extraordinary items)	22.4%	23.7%		27.4%	
Other Income/PBT	-0.6%	-10.3%		8.2%	
Tax / PBT	8.8%	7.5%		3.8%	

**Stock Ratings    Absolute Returns**

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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