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## **Satyam Computer Services Ltd—Buy—460—INR**

Sector — IT (Software)  
Regd.Off. — 1-8-303/6, Mayfair Centre, Secunderabad, A.P. - 500003.  
Listed — NSE, BSE.

### **Company Overview—**

The Company was incorporated on June 24, 1987 in Hyderabad, Andhra Pradesh, India. Satyam is one of the leading players in the software services space in the country. Satyam Computer Services Ltd. is global consulting and IT services company that offers a wide range of solutions. Starting from the strategy consulting right through to implementing IT solutions for clients, Satyam straddles this entire space. Company have around 15,000 dedicated and highly skilled IT professionals to provide the entire gamut of solutions that begin from Strategy consulting to implementing customized solutions for a wide range of verticals and horizontals. Company's consulting and IT solutions have resulted in technology intensive transformations that have met the most stringent of international quality standards. e<sup>SCM</sup>, is a unique quality hallmark developed in collaboration with the Carnegie Mellon University and Accenture for IT Enabled service companies. Company's development centers in India, the USA, the UK, the UAE, Canada, Singapore, Malaysia, China, Japan and Australia is set to provide services over 325 global companies, including over 100 Fortune 500 corporations. Company is an information technology ("IT") services provider that uses a global infrastructure to deliver value-added services to its customers, to address IT needs in specific industries and to facilitate electronic business, or e Business, initiatives. Satyam's "Subsidiaries and Joint Ventures" that provide solutions in various areas are as follows- In Subsidiaries it have (1) Vision Compass Inc - Related to Vision Compass product & (2) Nipuna Services Ltd - A BPO enterprise. In Joint Ventures - (1) Satyam Venture Engineering Services Private Limited & (2) CA Satyam ASP Ltd.

### **Products & Services –**

Company has excellent domain competencies in verticals such as Automotive, Banking & Financial Service, Insurance & Healthcare, Energy & Utility, process industry, Real Estate & construction, travel & transportation, Manufacturing, Telecom, Infrastructure, Media, Entertainment, and Semiconductors. Company is end to end IT solutions provider, offers a range of expertise aimed at helping customers re-engineer and re-invent their businesses to compete successfully in an ever-changing marketplace, with the final objective of giving clients the competitive edge in the marketplace. Satyam offers and manages groundbreaking software solutions spanning a range of technology platforms. Company is involved into business process outsourcing, consulting & enterprise solutions, embedded systems, engineering solutions, managed IT services, GIS, silicon design services & Quality consulting etc. Company's marketing network spans 45 countries across 6 continents worldwide. Satyam has strategic technology and marketing alliances with over 50 top one companies. This need driven deployment of domain and technology expertise brings to customers a range of solutions and products that enhance performance and competitiveness.

It's BPO subsidiary Nipuna provides a host of Business Process Outsourcing services. It's range of consulting and IT skills have helped businesses re-engineer and re-invent their

products, services and processes to compete successfully in an ever-changing marketplace. Company's state-of-the-art software development centers in India, the United States, the UK, the UAE, Singapore, Malaysia, China, Japan and Australia work with a variety of business and technology partners to design and implement projects onsite, offshore and offsite. Company emphasizes on acquiring an in-depth knowledge of the customer's context and needs, and designs solutions tuned to these needs. Company's ideas and products have resulted in technology-intensive transformations that have met the most stringent international quality standards. Company's SEI CMM<sup>®</sup> Level 5 assessment shows its commitment towards the Quality processes and products.

## Financials—

01-oct-2006 to 31-dec-2006 (Third Quarter)

Financial Results	Rs. Lakhs
Net Sales	159487.00
Other Income	973.00
Gross Income	160460.00
Staff Cost	92934.00
Total Expenditure Excluding Other Expenditure	92934.00
Other Expenditure	25659.00
Total Expenditure	118593.00
Interest	135.00
Profit Before Depreciation & Taxes	41732.00
Depreciation	3432.00
Profit Before Tax	38300.00
Provision for Taxation	3970.00
Adjusted Net Profit	34330.00
Face Value of Share (in Rs.)	2.00
Paid-up Equity Share Capital	13142.00
Reserves Excluding Revaluation Reserves	526531.00
Basic EPS (in Rs.)	5.24
Diluted EPS (in Rs.)	5.09

## Recent Developments—

Company is looking an acquisition in India or overseas and aims to hire more staff to expand service offerings. Nipuna Services involved in payroll processing, financial accounting and animation plans to increase its staff to 5,000 by the end of March 2008 from about 3,000 now. It is eyeing an USD 40-50 million acquisition in the IT consulting and telecom space in the US and Europe. Company has plans to go for small buyouts with a "string of pearls" acquisition strategy rather than a transformational merger and acquisition that involve large buyouts.

Satyam Computers has forged an alliance with US based global defence and technology company Northrop Grumman for expanding its footprint in the global aerospace and defence

market place. Both companies will jointly bid and provide high-end engineering services to global players in the aerospace and defence space. MoU will enable it to deepen its presence in the domain while Northrop will benefit from the Hyderabad-based company's strength in providing engineering, development and consulting support as an offshoring partner. Both companies are working on the Hawkeye surveillance aircraft technology. Satyam and Northrop are exploring the Indian defence market and would be looking at possibilities of developing and customizing the Hawkeye to suit the requirements of the Indian Navy.

Company has implemented an organization-wide, virtual learning environment called "Satyam Learning World". The holistic approach to learning considers the entire life cycle of human capital management, and includes critical elements such as induction, entry-level training, continuous competency development, performance evaluation, and career-path development.

Company entered into a partnership with 7Hills Business Solutions, an international IT solutions firm assisting clients in developing world-class supply chain strategies and solutions, for services and technology collaboration, to offer one-stop-shop supply chain solutions. The alliance of both the companies will cover strategy, process and technology to customers across industry sectors in Asia / Pacific.

Company introduced a 4,500 square-foot development center, its largest facility in South America. The Satyam Latam Center provides services for several Brazilian, other South American, and global customers. Professionals at the center provide application outsourcing and development, enterprise resource planning software implementation and outsourcing, and infrastructure management services and consulting.

#### **Valuation—**

Satyam bagged four large deals of over USD 100 million last year. It had won a contract from the North American division of Nissan Motor to maintain, support and enhance the application software portfolio. Satyam has also received sub-contracts for large orders from General Motors from principal vendors HP and Cap Gemini. These orders are worth up to USD 150 million over a five-year period. The company has also bagged a contract from Qantas Airways, worth USD 55 million. Long-term contracts are always looked out in the IT industry for benefits derived from a large contract like steady revenue stream, better margins and improved visibility on future earnings. Company's, recent client win of Applied Materials is one such deal, wherein the deal size is expected to be at around USD 200 million, spread over five years. Company's revenue expected to grow at a CAGR of around 25-30% for coming years. At CMP, stock is trading at 18.1 X multiple of its FY2008 Estimated EPS. We recommend investors to "BUY" "Satyam Computer Services Ltd." for medium to long-term investment horizon.

**We invite Readers to send Feedback, stock and subscription queries at E-mail [investment\\_guru1@yahoo.com](mailto:investment_guru1@yahoo.com)**

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