

# Untapped Wealth

June 2010 Edition

For the month of June, we'll be headed back to an old position that worked very well for us in the past. This month, I'm reaching out to India's Patni Computer Systems. Let's get right to it.

## Introduction to Patni Computer Systems

Patni Computer Systems (PTI: \$25.77\*) is one of the leading Indian Company providing global information technology and business solutions.

The company's global footprint spreads to 27 sales offices across America, Europe and Asia-Pacific. The company's global delivery centers are located in strategic locations around the world and it opened its 22nd Global Delivery Center in Mexico in June 2009.

Patni employs around 14,500 professionals to service more than 400 Fortune 1000 companies, and has been in business for almost thirty two years since its inception in 1978.

Patni has been consistently rated as one of the Best Indian IT Company delivering high quality, reliable and cost-effective IT services. They are known for constantly exploring and implementing innovative solutions providing long-term value to their customers. The company delivers significant ROI through end-to-end solutions leveraging decades of outsourcing experience, deep domain knowledge and a mature Global Delivery Model.

Over the years, their client relationships with world leaders in major industries have evolved into partnerships focused on delivering business value. They have integrated Six Sigma techniques to focus on continuous, measurable process improvement, with powerful analytical tools and sophisticated review processes.

Patni's service offerings include application development and maintenance, enterprise application solutions, business and technology consulting, product engineering services, infrastructure management services, customer interaction services & business process outsourcing, quality assurance and engineering services. The 32-year-old IT firm filed for its first technology patent about a few months ago which goes to show its emphasis on IP (intellectual property) and IP-led services.

## Areas of Operation

Patni areas of operations include the following business segments:

1. IT services - Patni has years of experience and technical expertise in delivering end to end IT services and solutions. It has always focused on developing domain knowledge in all the verticals of Insurance, Financial Services, Manufacturing, Retail, Logistics and Transportation, Life sciences, Telecom, Media & Entertainment, Energy & utilities, ISVs etc.
2. Product Engineering Services - Patni offers end-to-end Product Engineering Services for almost all industry domains. Their service offerings cover the full range of Product Engineering disciplines. Patni's engineering services and innovative solutions have helped customers reduce time to market while keeping product costs lower.
3. Customer Interaction Services (CIS) & Business Process Outsourcing (BPO) - Patni offers excellent solutions in delivering CIS & BPO solutions. They provide clients with a clear roadmap that is designed to enhance productivity and reduce costs through process assessment, process standardization and process re-engineering.
4. Infrastructure Management Services - Patni's comprehensive, industry leading portfolio of infrastructure management services guarantees high reliability, round-the-clock availability, remote manageability and optimum scalability. Their domain expertise covers diverse set of systems and technologies. Patni enables its clients to leverage it's offshore service delivery centers to avail proactive and cost-effective solutions and gain quick return on IT infrastructure investments.

## Alliances

Patni has carefully chosen world class partner for strategic alliances with leading vendors.

- Alliance with Microsoft for Custom Development Solutions., Patni is a Microsoft Gold Certified Partner for Custom Development Solutions.
- Tie ups with Microsoft Corporation, Texas Instruments, Cadence design Systems, MontaVista software, QNX software systems etc. for Product Engineering services and Embedded software .
- Alliances with SAP, Oracle and i2. For Enterprise Applications Solutions.
- For IT Governance Solutions, it's alliance partners include Computer Associated and HP software.
- For Infrastructure Management Services it is yet again Microsoft.
- Alliance with BEA systems and OASIS for web solutions.

- Alliance with EPC Global, OAT systems, Shipcom and Lowry for implementing RFID technology.
- Alliances with SAP Business Objects, Informatica, SAS, Netezza, Pentaho, Microsoft and Kognitio for Business Intelligence and data warehousing.

### Competitive Strengths

The company enjoys significant competitive strengths over its peers in the Industry. These include:

- Ability to Manage Large Client Relationships.
- Delivery Excellence
- Engagement Models.
- Industry Specific Knowledge and Experience
- Broad Range of IT Services.
- Investment in Sales Organization.
- Scalable Organizational Structure.

### Business Strategy

The company aims to consolidate and enhance it's position as a leading Indian provider of integrated IT services through:

- Penetrating and Growing Strategic Accounts.
- Enhancing Industry Expertise.
- Strengthening and Effectively Leveraging Sales and Marketing Expertise.
- Enhancing Service Offerings.
- Focusing on Brand Building.
- Pursuing Selective Strategic Acquisitions.

### Earnings

As released from the company, the Q1 Earnings are as follows:

*“As stated in our earnings release of Q4 2009, based on reviews certain tax positions for previous years were written back which led to a one time increase in other income of US\$ 1.5 million and decrease in tax expense of US\$ 9.5 million. Consequently, profit after tax had increased by US\$ 11.0 million for Q4 2009. These Variations were referred to as **“Extra Ordinary Items”** in said press release. In this release these have been separately shown as exclusion for non-GAAP presentation in respective lines of gross profit, other income, tax expense and net income, for comparative purposes and should be read together with the reported US GAAP results.*

## Performance Highlights for the quarter ended March 31,2010

- **Revenues for the quarter at US\$ 172.3 million (Rs.7,745.4 million)**
  - Up 1.3% QoQ from US\$ 170.2 million (Rs.7,896.1 million)
  - Up 10.0% YoY from US\$ 156.7 million (Rs.7,969.1 million)
  - Constant currency Revenues up 1.9 % for the quarter
  - Revenue concentration of Top 10 customers reduced sequentially to 48.7% from 50.9% in previous quarter.
- **Operating Income for the quarter at US\$ 36.2 million (Rs.1,627.0 million)**
  - Up 8.7% QoQ from US\$ 33.3 million (Rs.1,545.6 million)
  - Up 126.6% YoY from US\$ 16.0 million (Rs.812.4 million)
  - Forex gain for the quarter US\$ 4.8 million, up 49% QoQ
- **Net Income for the quarter at US\$ 33.3 million (Rs.1,497.1 million)**
  - Down 17.7% QoQ from US\$ 40.5 million (Rs.1,878.4 million)
  - Up 13.1% QoQ from US\$ 29.4 million (Excluding extra ordinary items)
  - Up 122.7% YoY from US\$ 15.0 million (Rs.760.7 million)
- **EPS for the quarter at US\$ 0.26 per share (US\$ 0.52 per ADS).**

## Future Outlook:

- Q2 CY2010 Revenues are expected to be at US\$ 171 million to US\$ 172 million and Net Income (Excluding the hedging Gain/Loss) is expected to be in the range of US\$ 27 million to US\$ 28 million
  - *This guidance is based on constant Rupee -USD rate of Rs.45.5.*
  - *Mark to Market foreign exchange gain during Q2 2010 is expected to be in the range of US\$ 2.5 million based on current estimates. This may change depending on further currency movements during the quarter and will impact our Net Earnings accordingly. “*

## Recent Accolades

- Listed as a ‘NeoIT 2008 Global Services 100 Company’.
- Listed as a ‘IAOP 2008 Global Outsourcing 100 Company’.
- Listed among ‘India’s Top ITes & BPO Companies - 2008’, by Dun & Bradstreet.
- Listed among Top 10 in ‘F&A BPO Competitive Landscape of Up-and-Coming Players – 2008’, by Gartner.
- Ranked amongst the ‘Top 10 Insurance Technology Vendors’ and 35th amongst the ‘top technology providers for financial institutions’ in the ‘FinTech 100 - 2008’ list.
- Named a ‘Challenger’ in Gartner’s Magic Quadrant for Help Desk Outsourcing, North America, 2009 Report.
- Named the 2009 ‘IT Supplier of the Year’ by Weyerhaeuser, a leading provider of integrated forest products.

In the end

Patni Computer Systems has been at the forefront of the outsourcing industry since its inception over three decades ago. Patni is run by a professional management team with strong and independent board members of high professional and public repute ensuring the highest degree of ethical and corporate governance practices. The company is listed on two primary stock exchanges in India namely the Mumbai Stock Exchange and the National Stock Exchange.

\* Indicates Initial Recommended Price

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