Syntel, Inc. (SYNT) – Quality Compounder With 30% Upside

Target Price Analysis
Seven Corners' Syntel Target Price = $54.30 (or $39.30 plus $15 Special Dividend)
Expected Return from $41.50 PPS (as of 9/29/16) = 30%
(See Section III.B herein for calculations)

Syntel, Inc. (Ticker: SYNT) is an IT services provider operating mainly out of India. Prior to market opening on September 12, 2016, the company announced that it would repatriate approximately $1.24 billion of its overseas cash in order to pay a special dividend of $15/share on October 3rd to holders of record on September 22nd. Normally, such an occurrence would not be especially remarkable, since the applicable company's stock price would appreciate by an amount approximately equal to the dividend (either after the announcement or in anticipation thereof, if foreseen by the market). What is unusual about Syntel, however, is that the company's stock price is just above its level immediately prior to the dividend announcement just two weeks ago (the stock closed at $40.69 on September 9th), despite (i) there being no additional material news regarding the company and (ii) the broader stock market being basically flat, in each case since that date.

Yet Syntel is not a company in decline; far from it. From 2002 to 2015, earnings per share increased at a 16.7% CAGR, while revenues increased at a 14.8% CAGR. The company is led by its founder, billionaire Bharat Desai, 63, who owns over 31 million Syntel shares, or 37% of the outstanding shares. (In addition, Desai's wife and co-founder, Neerja Sethi owns an additional 29% of the outstanding equity, although due to a trust for which both are overlapping trustees, the combined holdings of Desai and Sethi come to 51.5 million shares, or 61% of the total outstanding.)

Based on price-to-earnings and enterprise value-to-EBITDA valuations further described in Section II.B herein, we believe that Syntel's current intrinsic value is approximately $54.30, representing upside of 30% from the current stock price. In essence, after backing out the special dividend, an investor in SYNT will own a high quality company at a bargain basement price of just 10X forward earnings (far below the market's ~18 forward earnings multiple).

We thus initiate coverage of Syntel with a buy rating and a target price of $54.30 (or $39.30 after the special dividend is paid on October 3rd).

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I. Investment Highlights

A. Introduction to Syntel

As mentioned above, Syntel is an international IT services provider. The company's most recent Form 10-K filing (pages 1-2) lays out the particulars:

> Syntel, incorporated under Michigan law on April 15, 1980, is a global provider of digital transformation, information technology (IT) and knowledge process outsourcing (KPO) services to Global 2000 companies. Effective the first quarter of 2014, as a result of the completion of organizational changes, the Company changed its basis of segmentation to industry segments as follows
>
> - Banking and Financial Services
> - Healthcare and Life Sciences
> - Insurance
> - Manufacturing
> - Retail, Logistics and Telecom
>
> In each of our business segments, we help our customers adapt to market change by providing a broad array of technology-based, industry-specific solutions. These solutions leverage the strong understanding we have of key underlying trends in each industry segment that we focus on. These solutions are complemented by strong capabilities in Digital Modernization, Social, Mobile, Analytics and Cloud (SMAC) technologies Business Intelligence (BI), Knowledge Process Outsourcing (KPO), application services, testing, Enterprise Resource Planning (ERP), IT Infrastructure Management Services (IMS), and business and technology consulting.

Syntel aims to maintain "customers for life" with respect to its various services.[1] Syntel's largest customers include American Express, representing 21% of the company's 2015 revenues, State Street Bank, which contributed 15% of 2015 revenues, and Federal Express Corporation, which was responsible for 12% of 2015 revenues. The company maintains offices around the world, although the majority of its employees are based in India.

B. $15 Per Share Special Dividend

The company recently decided to distribute most of its balance sheet cash as a special dividend. The company will accomplish this by repatriating its overseas cash

[1] Per page 6 of the 2015 10-K: "**Customers for Life**: [Syntel] recognizes that its best source for new business opportunities comes from existing customers and believes its superior customer service is a differentiating factor resulting in Syntel's high rate of repeat business. At engagement initiation, Syntel's services are based on expertise in the software lifecycle and underlying technologies. Over time, however, as Syntel develops an in-depth knowledge of a customer's business processes, applications and industry, Syntel gains a competitive advantage to perform additional higher-value services for that customer."

balances, incurring taxes of approximately $264 million. Below is the entire press release announcing the dividend:

Syntel Announces Special Dividend

TROY, Mich., September 12, 2016 — Syntel, Inc. (Nasdaq:SYNT), a global provider of digital transformation, information technology and knowledge process services to Global 2000 companies, today announced that its Board of Directors has declared a special cash dividend of $15 per share.

The special cash dividend, is payable on October 3, 2016, to shareholders of record at the close of business on September 22, 2016. Due to the size of the dividend, it is anticipated that the Company's common stock will begin trading ex-dividend (without the dividend), the first business day following the dividend payable date, or October 4, 2016.

The special cash dividend will be funded through dividends to the Company by U.S. subsidiaries, the one-time repatriation of approximately $1.24 billion of cash held by the Company's foreign subsidiaries and a portion of borrowings under a new senior credit facility. The Company has expanded its borrowing capacity to $500 million under the new senior credit facility while paying in full and terminating the $200 million prior existing senior credit facility.

In connection with the one-time repatriation, the Company expects to recognize a one-time tax expense of about $264 million (net of foreign tax credits) in the third quarter of 2016. As a result of the additional tax expense and anticipated changes to "other income" which will result from the issuance of the special cash dividend, the Company is revising its outlook for 2016 EPS from the previously announced $2.55 to $2.70 earnings per share to a loss of $0.60 to $0.75 per share. There is no update at this time to the outlook for 2016 revenue or margins.

Additional details can be found in the Company's Form 8-K filed with the Securities and Exchange Commission on September 12, 2016.

About Syntel

Syntel (Nasdaq:SYNT) is the global leader in digital modernization services, with a core suite of automation-driven IT and knowledge process services. Syntel helps global enterprises thrive in the Two-Speed World™ by building agile, efficient technology infrastructures that blend legacy business models with disruptive digital innovations. Syntel's recursive automation platform, SyntBots®, enables clients to manage, migrate, and modernize their business and technology ecosystems. Syntel believes in a "Customer for Life" philosophy to build collaborative partnerships and creates long-term business value for its clients by investing in IP, solutions and industry-focused delivery teams with deep domain knowledge. To learn more, visit us at: www.syntelinc.com

Special rules apply to this type of dividend due to its size. Any dividend in an amount equal to or greater than 25% of a company's market capitalization will have an ex-dividend date the business day immediately *following* the payment date for the dividend, instead of two business days prior to the record date[2]. It is possible that some market participants are overlooking the special rules that apply to Syntel's special dividend, perhaps believing incorrectly that the ex-dividend date has already occurred. While this would seem unlikely, since the company clearly spelled out the unusual ex-dividend date in its press release, perhaps those who rely on third party information providers may not realize the dividend falls within the 25% exception. In any event, it seems currently that Syntel trades at approximately the same level as it did prior to the special dividend announcement.

[2] Nasdaq Rule 1140(b)(2) states as follows: "In respect to cash dividends or distributions, stock dividends and/or splits, and the distribution of warrants, which are 25% or greater of the value of the subject security, the ex-dividend date shall be the first business day following the payable date."

II. Valuation

A. Recent Financial Performance

Below please find a summary of Syntel's financial performance for the period from 2011-2015 (from the 2015 10-K, p. 38):

Year Ended December 31,	2015	2014	2013	2012	2011
STATEMENT OF INCOME DATA					
Net revenues	$ 968,612	$ 911,429	$ 824,765	$ 723,903	$ 642,404
Cost of revenues	584,611	533,862	460,576	408,919	395,455
Gross profit	384,001	377,567	364,189	314,984	246,949
Selling, general and administrative expenses	100,256	109,217	96,587	103,044	108,721
Income from operations	283,745	268,350	267,602	211,940	138,228
Other income, net	43,456	50,523	18,220	27,988	16,208
Income before income taxes	$ 327,201	$ 318,873	$ 285,822	239,928	154,436
Income tax expense	74,675	69,133	66,164	54,385	31,580
Net income	$ 252,526	$ 249,740	$ 219,658	$ 185,543	$ 122,856
Earnings per share, diluted	$ 3.00	$ 2.97	$ 2.62	$ 2.22	$ 1.47
Weighted average shares outstanding, diluted	84,149	83,971	83,764	83,586	83,434
Cash dividends declared per common share	$ 0.00	$ 0.00	$ 0.00	$ 1.25	$ 0.12

Over the past five fiscal years, Syntel was able to grow its revenues at a 10.8% CAGR and its EPS at a 19.5% CAGR, both outstanding numbers. Gross margin increased from 38.5% in 2011 to 39.6% in 2015. Dividends were irregular, however this was mainly due to the fact that most of Syntel's free cash was held overseas and the company had intended (until recently) not to repatriate it.

According to Yahoo Finance [*source*], Syntel's financial metrics are outstanding across the board. For example, the company has a profit margin of over 26% based on its trailing 12 months (TTM) financials, and an operating margin of nearly 28%. In addition, the company's return on assets is 12.4%, while its return on equity is an impressive 23%, in each case on a TTM basis. Finally, it should be noted that Syntel's enterprise value to EBITDA is a mere 8.4 times. This is well below the EV/ EBITDA ratios for the company's main competitors, Infosys and Wipro, who sport ratios of 11.7 times and 13 times, respectively. At an EV/EBITDA ratio of the average of these two competitors (12.4 times), Syntel's stock price would be over $55.[3]

[3] $293MM TTM EBITDA multiplied by 12.4, plus $1 billion net cash, divided by 84 million outstanding shares.

Below please find the statement of cash flows for the past three fiscal years:

	2015	2014	2013
Cash flows from operating activities:			
Net income	$ 252,526	$ 249,740	$ 219,658
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,567	16,142	14,474
Provision for doubtful debts / advances(recoveries)	494	(357)	272
Realized gains on sales of short-term investments	(18,796)	(14,619)	(3,600)
Deferred income taxes	(4,083)	(5,625)	(5,827)
Compensation expense related to restricted stock	7,197	6,457	4,732
Unrealized foreign exchange gain	(207)	—	—
Gain on sale of property and equipment	(25)	(44)	—
Changes in assets and liabilities:			
Accounts receivable and revenue earned in excess of billings	(39,470)	(25,677)	(41,783)
Other current assets	(2,422)	(7,392)	(16,834)
Accounts payable, accrued payroll and other liabilities	8,198	16,289	28,698
Deferred revenues	4542	(1,514)	176
Net cash provided by operating activities	223,521	233,400	199,966
Cash flows from investing activities:			
Property and equipment expenditures	(17,013)	(19,218)	(20,495)
Proceeds from sale of property and equipment	191	66	46
Purchases of mutual funds	(221,097)	(349,791)	(294,010)
Purchases of term deposits with banks	(446,768)	(583,341)	(395,589)
Proceeds from sales of mutual funds	304,083	305,298	200,836
Maturities of term deposits with banks	486,651	445,717	288,719
Net cash provided by (used) in investing activities	106,047	(201,269)	(220,493)
Cash flows from financing activities:			
Excess tax benefits on stock-based compensation plans	257	1,028	656
Repayment of loans and borrowings	(8,625)	(7,125)	(54,500)
Proceeds from loans and borrowings	—	—	150,000
Net cash provided by (used in) financing activities	(8,368)	(6,097)	96,156
Effect of foreign currency exchange rate changes on cash	(18,409)	(7,083)	8,506

Cash from operating activities remained consistent over the past three years, evidence of Syntel's stable client base (remember, the top 3 customer's in 2015 were responsible for almost half of the company's revenues). Due to the business being primarily people-intensive, capital expenditures remain quite low at less than $20 million per year. Thus, free cash flow came in at $214 million in 2013, $247 million in 2014 and $251 million in 2015 (in each case ex-working capital changes). Based on the 2015 FCF amount, the company currently trades at a trailing FCF yield of 7% ($251 million divided by $3.5 billion market cap), or a FCF yield of 11% if the $15 special dividend is deducted from the market capitalization ($251 million divided by $2.24 billion). Note the foregoing amounts are based on 84 million outstanding shares, as disclosed in the company's most recent Form 10-Q filing.

Finally, below please find Syntel's financials for the 3-month and 6-month periods ending June 30, 2016, starting with the income statement:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2016	2015	2016	2015
Net revenues	$ 246,018	$ 239,797	$487,408	$460,396
Cost of revenues	155,033	148,704	306,699	290,489
Gross profit	90,985	91,093	180,709	169,907
Selling, general and administrative expenses	18,265	21,728	47,942	57,110
Income from operations	72,720	69,365	132,767	112,797
Other income, net	4,875	9,887	8,971	19,225
Income before provision for income taxes	77,595	79,252	141,738	132,022
Income tax expense	18,804	18,673	29,890	31,422
Net income	$ 58,791	$ 60,579	$111,848	$100,600
Other comprehensive income (loss)				
Foreign currency translation adjustments	$ (16,094)	$ (16,546)	$(17,334)	$ (5,920)
Unrealized gains on securities:				
Unrealized holding gains arising during period	970	2,413	1,803	5,178
Reclassification adjustment for gains included in net income	(1,130)	(1,712)	(69)	(2,905)
	(160)	701	1,734	2,273
Defined benefit pension plans:				
Net profit (loss) arising during period	—	—	—	—
Amortization of prior service cost included in net periodic pension cost	19	34	35	59
	19	34	35	59
Other comprehensive loss, before tax	(16,235)	(15,811)	(15,565)	(3,588)
Income tax benefit (expenses) related to other comprehensive loss	22	(547)	(713)	(1,033)
Other comprehensive loss, net of tax	(16,213)	(16,358)	(16,278)	(4,621)
Comprehensive income	$ 42,578	$ 44,221	$ 95,570	$ 95,979

The income statement reflects continued consistent financial performance in 2016 thus far, with revenues increasing at a relatively healthy clip (2.6% for Q2 year-over-year and 5.9% for 1H 2016 versus 1H 2015), although net income stagnated at approximately 2015 levels. While it would appear that the business is experience a pause, in light of historical performance dating back 20+ years this should be temporary, with growth resuming in coming years (barring a recession or a significant appreciation of the rupee against the dollar).

Below is the balance sheet as of June 30, 2016:

SYNTEL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	(Unaudited) June 30, 2016	(Audited) December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 702,446	$ 500,499
Short-term investments	395,385	540,045
Accounts receivable, net of allowance for doubtful accounts of $619 at June 30, 2016 and $622 at December 31, 2015 respectively.	127,605	136,926
Revenue earned in excess of billings	37,240	30,448
Deferred income taxes and other current assets	50,977	44,575
Total current assets	1,313,653	1,252,493
Property and equipment	224,036	217,922
Less accumulated depreciation and amortization	116,553	112,146
Property and equipment, net	107,483	105,776
Goodwill	906	906
Non-current term deposits with banks	227	77
Deferred income taxes and other non-current assets	63,867	64,018
TOTAL ASSETS	$ 1,486,136	$ 1,423,270

LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	$ 14,241	$ 14,678
Accrued payroll and related costs	51,689	60,339
Income taxes payable	16,235	11,305
Accrued liabilities	26,742	23,214
Deferred revenue	4,050	7,716
Loans and borrowings	12,725	129,981
Total current liabilities	125,682	247,233
Other non-current liabilities	18,359	17,592
Non-current loans and borrowings	84,375	—
TOTAL LIABILITIES	228,416	264,825
Commitments and contingencies (See Note 15)		
SHAREHOLDERS' EQUITY		
Total shareholders' equity	1,257,720	1,158,445
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 1,486,136**	**$ 1,423,270**

As mentioned above, the company's balance sheet as of June 30, 2016 remains pristine, with nearly $1.1 billion in cash and just around $100 million of long-term liabilities. Since the company will need to pay approximately $264 million in taxes with respect to the repatriation of its overseas cash, we estimate that it will need to incur approximately $285 million of new long-term debt to pay the special dividend. This amount of debt should be manageable, however, given the company's ongoing strong cash generation.[4]

Below is the cash flow statement for the first half of 2016:

	SIX MONTHS ENDED JUNE 30, 2016	SIX MONTHS ENDED JUNE 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	111,848	100,600
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	7,362	7,749
Provision (benefit) for doubtful accounts / advances	38	(68)
Realized gains on sales of short term investments	(2,477)	(6,226)
Deferred income taxes	(2,517)	(805)
Compensation expense related to restricted stock	3,682	3,414
Unrealized foreign exchange loss	406	916
Changes in assets and liabilities:		
Accounts receivable and revenue earned in excess of billings	1,259	(15,117)
Other current assets	(5,261)	(20,664)
Accounts payable, accrued payroll and other liabilities	(1,004)	4,012
Deferred revenue	(3,686)	(336)
Net cash provided by operating activities	109,650	73,475
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment expenditures	(9,133)	(10,131)
Proceeds from sale of property and equipment	157	83
Purchase of mutual funds	(92,702)	(53,272)
Purchase of term deposits with banks	(219,235)	(134,809)
Proceeds from sales of mutual funds	135,179	118,265
Maturities of term deposits with banks	314,845	303,923
Net cash provided by investing activities	129,111	224,059
CASH FLOWS FROM FINANCING ACTIVITIES:		
Excess tax benefits on stock-based compensation plans	23	295
Proceeds from loans and borrowings	60,250	—
Repayment of loans and borrowings	(93,125)	(4,125)
Net cash used in financing activities	(32,852)	(3,830)
Effect of foreign currency exchange rate changes on cash	(3,962)	(1,529)

Syntel's cash flows from operating activities in the first half of 2016 remain strong. The company was able to generate approximately $118 million of cash flow prior to changes in working capital. This compares favorably to the first six months of 2015,

[4] We estimate that the pro forma leverage ratio would be approximately 1.00X, or $300 million of term debt versus $300 million in TTM EBITDA.

during which cash flows from operations excluding working capital changes amounted to approximately $106 million. As can be seen from the cash flow from investing activities section, the company has minimal capital expenditure needs. Thus, virtually all of the operating cash flows represent free cash that the company is able to either invest to expand its business or return to shareholders.

B. Pro Forma Financials and Valuation Following Special Dividend

Below is a pro forma balance sheet showing our estimates for each line item as of October 4, 2016 (immediately following payment of the dividend[5]), as well as actual balance sheet items as of June 30, 2016 (the last quarterly data available):

	(Unaudited) June 30, 2016	SEVEN CORNERS ESTIMATES October 4, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$702,446	$50,000
Short-term investments	395,385	20,000
Accounts receivable, net of allowance for doubtful accounts of $619 at June 30, 2016 and $622 at December 31, 2015 respectively.	127,605	125,000
Revenue earned in excess of billings	37,240	35,000
Deferred income taxes and other current assets	50,977	50,000
Total current assets	1,313,653	280,000
Property and equipment	224,036	230,000
Less accumulated depreciation and amortization	116,553	120,000
Property and equipment, net	107,483	110,000
Goodwill	906	1,000
Non-current term deposits with banks	227	250
Deferred income taxes and other non-current assets	63,867	65,000
TOTAL ASSETS	**$1,486,136**	**$456,250**

LIABILITIES AND SHAREHOLDERS' EQUITY	(Unaudited)	SEVEN CORNERS ESTIMATES
LIABILITIES	June 30, 2016	October 4, 2016
Current liabilities:		
Accounts payable	$14,241	$15,000
Accrued payroll and related costs	51,689	55,000
Income taxes payable	16,235	20,000
Accrued liabilities	26,742	25,000
Deferred revenue	4,050	4,000
Loans and borrowings	12,725	10,000
Total current liabilities	125,682	129,000
Other non-current liabilities	18,359	20,000
Non-current loans and borrowings	84,375	370,000

[5] Note that, for the sake of simplicity, the pro forma balance sheet assumes that the taxes owing with respect to the repatriation are paid immediately.

TOTAL LIABILITIES	228,416	519,000
Commitments and contingencies (See Note 15)		
SHAREHOLDERS' EQUITY		
Total shareholders' equity	1,257,720	-62,750
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$1,486,136**	**$456,250**

Once the company has distributed its $15 special dividend, we estimate that Syntel will have approximately $300 million of net debt[6]. To arrive at a valuation for the stock ex-dividend, we use an EBITDA run rate of $300 million, which is slightly above the company's TTM run rate of $293 million. We further apply a conservative EBITDA multiple of 12 times (i.e., less than the average of the EV/EBITDA multiples of Infosys and Wipro[7]). This produces a pro forma enterprise value for the company of $3.60 billion. Subtracting the net debt figure leaves a $3.30 billion market capitalization. If we divide this amount by 84 million existing shares outstanding, we obtain a stock price of $39.30/share. Therefore we appear to be getting the $15 special dividend at a huge discount, since the company's stock price is now just $2.20 above this EV/EBITDA target price.

In addition, we can confirm that this 12 times EV/EBITDA multiple is reasonable based on a separate price to earnings calculation. If we assume that the current $2.62 forward earnings estimate of Syntel's analysts is accurate, assigning a 15X P/E multiple to this figure results in a stock price of $39.30/share, the same as the EV/EBITDA target in the paragraph immediately above. Note that Wipro has a 16X forward P/E ratio, while Infosys has a 15X forward P/E ratio.[8]

Taking the two valuations above, we arrive at a price target of $39.30, or just $2.20 below the current $41.50 trading price (which, unlike our pro forma valuation, includes receipt of the $15 special dividend). Therefore, we appear to be receiving the $15 dividend for just $2.20[9].

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[6] Note that we assume that Syntel will need to incur around $285 million in new debt under its $500 million in debt facilities in order to pay the special dividend. The math is (A) $1.26 billion dividend payment ($15 multiplied by 84 million outstanding shares) plus (B) $264 million in taxes owing due to the repatriation equals (C) a total of $1.524 billion in uses of cash, minus (D) $1.240 billion of overseas cash repatriated. (C) minus (D) equals the shortfall of $284 million to be funded with new debt (we round this up to $285 million). Pro forma net debt thus equals (1) $85 million of existing debt, plus (2) $285 million of new debt minus (3) $70 million of cash and cash equivalents as working capital, or $300 million altogether.

[7] The current EV/EBITDA multiples of Infosys and Wipro are 11.7 times and 13 times, respectively.

[8] Wipro (stock price $9.78) is estimated to earn $0.61 in 2017 and Infosys (stock price $15.87) is estimated to earn $1.05 in 2017.

[9] Note that a retail investor could obtain all $12.80 of the upside with respect to the special dividend by purchasing Syntel stock in a tax-advantaged account, such as an IRA or 401K.

III. Miscellaneous Investment Considerations

A. IT Outsourcing Outlook and the United States Presidential Election

Companies are constantly in search for greater cost savings and efficiencies in their operations, especially in the banking and insurance verticals where Syntel mainly operates (and where the players have been increasingly squeezed by historically low interest rates). This would seem to be bullish for Syntel's long-term prospects. One third-party research organization recently predicted that IT outsourcing will grow at nearly a 6% annual rate in the coming years:

Global IT Outsourcing Market CAGR Growth of 5.84% by 2019 - Trends, Technologies & Opportunities Report 2015-2019 - Key Vendors: HP, IBM, Infosys

Mar 10, 2016, 10:00 ET from Research and Markets

Research and Markets (http://www.researchandmarkets.com/research/82qv2m/global_it) has announced the addition of the "Global IT Outsourcing Market 2015-2019" report to their offering.

(Logo: http://photos.prnewswire.com/prnh/20130307/600769)

This comprehensive report predicts that the global IT outsourcing market will grow at a CAGR of 5.84% over the 2015-2019 period.

Commenting on the report, an analyst from Technavios team said: The new digital era in the IT business is changing market behavior rapidly and it requires IT solutions that can quickly attuned with business requirements. Companies are realizing the benefits of implementing digital technologies that help them to improve their business performance and deliver superior services to their customers.

According to the report, many firms have outsourced their IT function to tackle market uncertainties and witness tangible improvements in their business performance. Improvement in the quality of products and services is the prime objective of any organization and one of the major concerns that determines long-term sustainability in the market. Therefore companies are outsourcing quality assurance and testing services for application and infrastructure development.

Another recent report on the state of the IT outsourcing market, by KPMG, may be found here.

One factor likely weighing on Syntel's stock price recently is the upcoming US presidential election. Immigration has obviously been one of the key topics of discussion of the candidates. The number of H-1B visas could be cut back in the event of a Trump victory. Trump has made conflicting statements regarding his stance on these visas:

Donald Trump flip-flops, then flips and flops more on H-1B visas

For someone who has strong words about the current state of immigration, Donald Trump certainly has inconsistent ideas about what to do about it. Immigration has been the Republican front-runner's signature issue since he entered the race. He has stuck to his early idea of building a wall along the U.S.-Mexico border, but has shifted several times about the H-1B program, which grants temporary visas to non-immigrant workers. We took a look at his major public statements about his view on the H-1B program, and unpacked his flip-floppery.

"The influx of foreign workers holds down salaries, keeps unemployment high, and makes it difficult for poor and working class Americans — including immigrants themselves and their children — to earn a middle class wage. … We need companies to hire from the domestic pool of unemployed. Petitions for workers should be mailed to the unemployment office not USCIS [U.S. Citizenship and Immigration Services]."

Trump released his immigration proposal early in his campaign, arguing that foreign workers are holding down American salaries and hurting employment rates. Trump proposed restricting the program, and criticized it for giving away coveted entry-level IT jobs to workers flown in cheaper from overseas.

He proposed increasing the prevailing wage for H-1B visas and adding a recruitment requirement to find American workers before hiring foreign ones. Raising the prevailing wage for H-1B workers will force companies to give entry-level jobs to U.S. workers instead of flying in cheaper labor, according to the proposal. This would help diversity in Silicon Valley, the proposal says, so that black, Hispanic and female workers will be hired from the existing pool.

Trump correctly noted there is no requirement for employers to recruit American workers first, and called for this to be required. These proposed changes are consistent with proposals from those who believe the H-1B program is being widely abused to the detriment of American workers.

Per page 44 of Syntel's 2015 10-K filing, approximately 13.9% of Syntel's worldwide workforce provided services under work permits / visas. Furthermore, Syntel's 2015 10-K (p. 22) filing includes the following Risk Factor regarding this issue:

Government regulation of immigration and work permits/visas could impact the Company's ability to effectively utilize the Company's Global Delivery Model.

The Company recruits professionals on a global basis and, therefore, must comply with the immigration and work permit/visa laws and regulations of the countries in which the Company operates or plans to operate. As of December 31, 2015, 3,399 IT professionals representing approximately 13.9% of the Company's worldwide workforce provided services under work permits/visas. The Company's inability to obtain sufficient work permits/visas due to the impact of these regulations, including any changes to immigration and work permit/visa regulations in particular jurisdictions, could have a material adverse effect on the Company's business, results of operations and financial condition.

B. Analyst Opinion

Syntel has recently been the subject of several negative actions by analysts, which perhaps further explains the downward trend in the stock price since the announcement of the special dividend *[source]*:

Syntel Inc. (SYNT) Downgraded to Market Perform at Barrington Research

September 23rd, 2016 - By Amy Steele - 0 comments

Barrington Research cut shares of Syntel Inc. (NASDAQ:SYNT) from an outperform rating to a market perform rating in a research report released on Thursday morning.

SYNT has been the topic of a number of other reports. William Blair downgraded shares of Syntel from a market perform rating to an underperform rating in a research report on Thursday, September 15th. Robert W. Baird boosted their price target on shares of Syntel from $46.00 to $52.00 and gave the stock a neutral rating in a research report on Tuesday, September 13th. Needham & Company LLC restated a buy rating and set a $48.00 price target on shares of Syntel in a research report on Monday, September 12th. Zacks Investment Research downgraded shares of Syntel from a hold rating to a sell rating in a research report on Saturday, July 23rd. Finally, Cantor Fitzgerald restated a hold rating on shares of Syntel in a research report on Monday, August 8th. Two analysts have rated the stock with a sell rating, seven have given a hold rating and one has assigned a buy rating to the stock. The stock presently has a consensus rating of Hold and an average price target of $47.83.

Shares of Syntel (NASDAQ:SYNT) traded down 1.87% during trading on Thursday, hitting $42.02. 139,374 shares of the company traded hands. The stock has a market cap of $3.53 billion, a price-to-earnings ratio of 13.42 and a beta of 1.07. The firm has a 50 day moving average price of $44.65 and a 200-day moving average price of $45.32. Syntel has a one year low of $40.68 and a one year high of $50.92.

C. Analysis of SYNT's Management and Compensation System

SYNT's founder, Bharat Desai, age 63, serves as Chairman of the Board, and Nitin Rakesh, age 44, serves as Chief Executive Officer. According to the company's 2016 proxy statement, Desai beneficially owns 31,142,777 shares of SYNT stock, or about 37% of the total diluted outstanding shares, while Desai's wife and co-founder, Neerja Sethi, beneficially owns 24,260,177 shares, or about 29% of the total diluted outstanding shares[10]. The large shareholders are listed below:

Security Ownership of Certain Beneficial Owners and Management

The following table provides information about the beneficial ownership of Syntel's Common Stock by (i) any person or entity known by the management of Syntel to have been the beneficial owner of more than five percent of Syntel's outstanding Common Stock as of April 11, 2016, (ii) the nominees, present directors, and named executive officers of Syntel, and (iii) by all directors and executive officers of Syntel as a group. There were 83,952,151 shares of Syntel Common Stock outstanding on April 11, 2016.

NAME AND ADDRESS	NUMBER OF SHARES BENEFICIALLY OWNED (1)	PERCENT OF CLASS
Bharat Desai 525 East Big Beaver Road, Suite 300 Troy, Michigan 48083	31,142,777(2)	37.1%
Neerja Sethi 525 East Big Beaver Road, Suite 300 Troy, Michigan 48083	24,260,177(3)	28.9%
Rakesh Vij 5607 Hartsdale Dr. Houston, Texas 77036	19,237,384(4)	22.9%
NS Trust dated February 28, 1997 I 1001 Brickell Bay Dr., Suite 3102/8 Miami, Florida 33131	9,318,692(5)	11.1%
NS Trust dated February 28, 1997 II 1001 Brickell Bay Dr., Suite 3102/8 Miami, Florida 33131	9,318,692(5)	11.1%
Capital Research Global Investors 333 South Hope Street Los Angeles, California 90071	4,688,043(6)	5.6%

* Less than 1%.

(1) For the purpose of this table, a person or group is deemed to have "beneficial ownership" of any shares as of a given date over which such person has voting power, investment power, or has the right to acquire such power within 60 days after such date. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on a given date, any security which such person or persons has the right to acquire within 60 days after such date is deemed to be outstanding, but is not deemed to be outstanding for the purpose of computing the percentage of ownership of any other person. Except as otherwise noted, each beneficial owner of more than five percent of Syntel's Common Stock and each director and executive officer has sole voting and investment power over the shares reported. With respect to the restricted Common Stock of Syntel shown as owned by certain executive officers and directors, the executive officers have voting power but no investment power.

(2) Mr. Desai holds shared voting and dispositive power for (a) 9,318,692 shares held by the NS Trust dated February 28, 1997 I, (b) 9,318,692 shares held by the NS Trust dated February 28, 1997 II, (c) 150,000 shares held by the NS Trust dated May 17, 1997 V, (d) 150,000 shares held by the NS Trust dated May 17, 1997 VI, of which trusts Mr. Desai is a co-trustee with Rakesh Vij, (e) 3,858,211 shares held by the DS Foundation, of which Mr. Desai is a member of the board of trustees along with Neerja Sethi and two other persons who are not affiliated with Syntel, and (f) 8,050 shares held in several educational trusts for the benefit of other individuals, of which trusts Mr. Desai is a trustee. Mr. Desai disclaims beneficial ownership of shares held by the foundation and the trusts.

(3) Ms. Sethi holds shared voting and dispositive power for (a) 150,000 shares held by the BD Trust dated May 17, 1997 III and (b) 150,000 shares held by the BD Trust dated May 17, 1997 IV, of which trusts Ms. Sethi is a co-trustee with Rakesh Vij, (c) 6,350 shares held in several educational trusts for the benefit of other individuals, of which trusts Ms. Sethi is a trustee, and (d) 3,858,211 shares held by the DS Foundation, of which Ms. Sethi is a member of the board of trustees along with Bharat Desai and two other persons who are not affiliated with Syntel. Ms. Sethi disclaims beneficial ownership of shares held by the foundation and the trusts.

(4) Rakesh Vij holds shared voting and dispositive power for (a) 9,318,692 shares held by the NS Trust dated February 28, 1997 I, (b) 9,318,692 shares held by the NS Trust dated February 28, 1997 II, (c) 150,000 shares held by the BD Trust dated May 17, 1997 III, (d) 150,000 shares held by the BD Trust dated May 17, 1997 IV, (e) 150,000 shares held by the NS Trust dated May 17, 1997 V, and (f) 150,000 shares held by the NS Trust dated May 17, 1997 VI, of which trusts Rakesh Vij is a co-trustee. Rakesh Vij disclaims beneficial ownership of shares held by the trusts.

(5) These shares are also included under both Mr. Desai's and Rakesh Vij's ownership as they are co-trustees for these trusts and share voting and dispositive power for these shares of Common Stock.

(6) Information based upon a Schedule 13G filed on February 12, 2016 by Capital Research Global Investors.

(7) The number of shares shown in the table includes the following number of shares of Common Stock which are represented by restricted stock units: Anil Agrawal, 5,850; Paritosh K. Choksi, 1,768; Thomas Doeke, 1,768; Arvind Godbole, 8,978; Rakesh Khanna, 26,100; Rajesh Mashruwala, 1,768; Daniel M. Moore, 8,700; George R. Mrkonic, Jr., 1,768; Nitin Rakesh, 47,600; Prashant Ranade, 105,000; Vinod K. Sahney 1,768; and all directors and executive officers as a group, 282,532.

Prospective shareholders should also review Syntel's Executive Compensation Discussion and Analysis on pages 17-33 of the 2016 Proxy Statement. Therein, management notes the following:

> At the Company's 2014 annual meeting of shareholders, the compensation of the named executive officers received advisory approval from 99.2% of the votes cast by the Company's shareholders. At the Company's 2011 annual meeting of

[10] Note that, per footnotes (2) and (3), there is some overlap in Desai and Sethi's respective share counts, as each is a trustee with respect to the 3,858,211 shares held by the DS Foundation.

shareholders, the shareholders voted in favor of holding the advisory vote on named executive officer compensation every three years. The next advisory vote on named executive officer compensation is scheduled to be held at the Company's 2017 annual meeting at which time the shareholders will also vote again whether to hold the advisory vote every year, every two years, or every three years..

Below is the summary compensation table from the proxy statement:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Non-Equity Incentive Plan Compensation ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (3)	All Other Compensation ($)	Total ($)
Bharat Desai	2015	250,000	—	—	—	—	20,405(4)	270,405
Chairman	2014	250,000	—	—	—	—	17,020	267,020
	2013	249,999	—	—	—	—	21,053	271,052
Nitin Rakesh	2015	311,488	26,495	379,647	298,039	7,612	34,677(6)	1,057,958
Chief Executive Officer and	2014	311,104	18,118	1,660,000	343,255	5,023	52,046	2,389,546
President (5)	2013	286,750	—	257,810	432,500	—	—	977,060
Arvind Godbole	2015	117,063	9,432	225,900	—	—	14,754(8)	367,149
Chief Financial Officer and Chief	2014	118,635	9,622	—	86,296	—	16,305	230,858
Information Security Officer (5)(7)	2013	112,992	9,186	191,516	87,230	—	16,608	417,532
Anil Agrawal	2015	57,644	4,465	160,445	31,195	—	8,842(9)	262,591
Acting Chief Financial Officer and	2014	56,446	4,440	44,900	32,678	1,383	11,596	151,443
Chief Information Security	2013	52,520	4,115	81,026	33,773	3,447	13,660	188,541
Officer (5)(7)								
Prashant Ranade	2015	399,066	31,562	281,220	357,739	—	10,247(10)	1,079,834
Executive Vice Chairman (5)	2014	832,702	35,307	4,150,000	429,047	—	91,726	5,538,782
	2013	725,518	42,900	1,178,560	552,176	—	24,187	2,523,341
Daniel M. Moore	2015	331,380	—	140,610	201,037	—	1,330(11)	674,357
Chief Administrative Officer,	2014	318,830	—	134,700	207,110	—	2,330	662,970
General Counsel and Secretary	2013	306,754	—	162,052	217,473	—	2,345	688,624
Rakesh Khanna	2015	219,343	17,703	215,602	163,512	—	5,867(12)	622,027
Chief Operating Officer (5)	2014	236,155	18,638	996,000	187,982	—	5,863	1,444,638
	2013	218,287	17,433	257,810	195,153	—	6,080	694,763

(1) These amounts represent the aggregate grant date fair value of awards granted during the year, computed in accordance with Accounting Standards Codification 718, *Compensation-Stock Compensation* ("ASC 718"). The assumptions used in this valuation are disclosed in Note 12 to Syntel's audited financial statements for the fiscal year ended December 31, 2015, included in Syntel's Annual Report on Form 10-K filed with the Securities and Exchange Commission. These amounts reflect Syntel's accounting expense for these awards and do not necessarily correspond to the actual value that will be realized by the named executive officers. These stock awards were made under the LTIP.

(2) The 2015 amount represents a STIP award for 2015 performance.

(3) The amount in this column represents the aggregate change in the actuarial present value during the fiscal year of the named executive officer's accumulated benefits under a pension fund for Syntel's India based employees.

(4) Represents perquisites of $20,405 that consist of $2,000 in payments for memberships in professional and social organizations and telephone expenses of $18,405.

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(5) Other than the calculation of stock awards and option awards, the amounts given for Messrs. Agrawal, Godbole, Khanna, Rakesh, and Ranade were converted from Indian rupees. For purposes of the disclosures throughout this proxy statement, Indian rupees were converted to U.S. dollars by using the quarterly income statement rate used for GAAP reporting for the applicable month.

(6) Represents perquisites of $34,677 that consist of the cost of providing a car and driver of $32,434, meal allowance of $373, telephone expense reimbursement of $747, a contribution to the Provident Fund on his behalf of $336, and $787 in premiums for medical, accidental death, and life insurance coverage.

(7) Mr. Godbole was Chief Financial Officer and Chief Information Security Officer until December 11, 2015, at which time Mr. Agrawal became Acting Chief Financial Officer and Chief Information Security Officer.

(8) Represents perquisites of $14,754 that consist of the cost of providing a car and driver of $12,540, telephone expense reimbursement of $885, a contribution to the Provident Fund on his behalf of $336, and $993 in premiums for medical, accidental death, and life insurance coverage.

(9) Represents perquisites of $8,842 that consist of the cost of providing a car and driver of $6,398, meal allowance of $342, telephone expense reimbursement of $1,194, a contribution to the Provident Fund on his behalf of $336, and $572 in premiums for medical, accidental death, and life insurance coverage.

(10) Represents perquisites of $10,247 that consist of the cost of providing a car and driver of $8,073, club membership fees of $193, a contribution to the Provident Fund on his behalf of $336, and $1,645 in premiums for medical, accidental death, and life insurance coverage.

(11) Represents perquisites of $1,330 that consists of payments for memberships in professional organizations.

(12) Represents perquisites of $5,867 that consist of the cost of providing a car and driver of $3,264, meal allowance of $373, telephone expense reimbursement of $747, a contribution to the Provident Fund on his behalf of $336, and $1,147 in premiums for medical, accidental death, and life insurance coverage.

As can be seen from the above table, management is fairly frugal with respect to its compensation, at least by Fortune 500 standards. In only one instance in the past three years has a key executive received in excess of $2.523 million in total compensation for any particular year. This likely stems from the fact that the

Chairman of the Board, founder Bharat Desai, remains the largest shareholder with a 37% total stake in the company and will not tolerate waste of shareholder money.

Below are the biographies of the main Syntel executives and shareholders, taken from the proxy statement:

- Bharat Desai, age 63, is a co-founder of Syntel and serves as its Chairman of the Board. He has been a director of Syntel since its formation in 1980. Mr. Desai has served as the Chairman of Syntel's Board since February 1999 and also served as Syntel's Chief Executive Officer from its formation in April 1980 until February 2009 and as Syntel's President from its formation until December 2006. Mr. Desai is the spouse of Ms. Sethi.

- Neerja Sethi, age 61, is a co-founder of Syntel and has served as Vice President, Corporate Affairs and a director since Syntel's formation in 1980. Ms. Sethi is the spouse of Mr. Desai. In nominating Ms. Sethi, the Board considered her extensive experience in the information technology industry and, as a founder of Syntel, her involvement in and knowledge of Syntel's development since its formation in 1980. The Board believes that Ms. Sethi's experience enables her to provide strength in strategy, general management, and personnel and also a high degree of institutional knowledge.

- Nitin Rakesh, age 44, has served as the Chief Executive Officer and President of Syntel since April 2014. He previously served as Syntel's President—Americas, Business Development and Nearshoring Center from September 2012 to April 2014. Mr. Rakesh served as Managing Director and Chief Executive Officer of Motilal Oswal Asset Management Company, Ltd., a financial services company, from September 2008 to September 2012. Mr. Rakesh has served as a director of Syntel since July 2014. In nominating Mr. Rakesh, the Board considered his senior management and chief executive officer experience and his experience in the information technology and finance industries. The Board believes that Mr. Rakesh's experience enables him to provide strength in strategy, finance, sales and marketing, and operations management.

D. Insider Activity

Company Insiders have been fairly consistent sellers of shares in recent weeks, although in comparison with the same period in 2015, this selling does not appear too concerning. Here is the most recent insider activity [*source*]:

Acquistion or Disposition	Transaction Date	Deemed Execution Date	Reporting Owner	Form	Transaction Type	Direct or Indirect Ownership	Number of Securities Transacted	Number of Securities Owned	Line Number	Owner CIK	Security Name
D	2016-09-15		Garg Sanjay	4	S-Sale	--D	1375.0000	2750.0000	1	0001580962	Common Stock
D	2016-09-15		Ranade Prashant	4	S-Sale	--D	3200.0000	72100.0000	1	0001403531	Common Stock
D	2016-09-15		Rakesh Nitin	4	S-Sale	--D	1750.0000	49600.0000	1	0001411391	Common Stock
D	2016-09-13		Salelkar Avinash	4	S-Sale	--D	5000.0000	10021.0000	1	0001513464	Common Stock
D	2016-09-07		Ray Raja	4	S-Sale	--D	718.0000	13151.0000	1	0001491987	Common Stock
D	2016-09-06		Reddy Murlidhar	4	S-Sale	--D	267.0000	28253.0000	1	0001411392	Common Stock
D	2016-09-06		Raj V S	4	S-Sale	--D	267.0000	17786.0000	1	0001491983	Common Stock
D	2016-09-06		Jain Anil	4	S-Sale	--D	517.0000	11940.0000	2	0001422301	Common Stock
D	2016-09-06		Jain Anil	4	S-Sale	--D	233.0000	12457.0000	1	0001422301	Common Stock
D	2016-09-06		Save Rajesh	4	S-Sale	--D	1400.0000	5460.0000	2	0001511340	Common Stock
D	2016-09-06		Save Rajesh	4	S-Sale	--D	222.0000	6860.0000	1	0001511340	Common Stock
D	2016-08-30		Reddy Murlidhar	4	S-Sale	--D	356.0000	28520.0000	1	0001411392	Common Stock
D	2016-08-29		Save Rajesh	4	S-Sale	--D	320.0000	7082.0000	1	0001511340	Common Stock
D	2016-08-29		Jain Anil	4	S-Sale	--D	1250.0000	12690.0000	1	0001422301	Common Stock
D	2016-08-29		Raj V S	4	S-Sale	--D	355.0000	18053.0000	1	0001491983	Common Stock
D	2016-08-26		Ranade Prashant	4	S-Sale	--D	1500.0000	75300.0000	1	0001403531	Common Stock
D	2016-08-24		Reddy Murlidhar	4	S-Sale	--D	490.0000	28876.0000	1	0001411392	Common Stock
D	2016-08-22		Save Rajesh	4	S-Sale	--D	401.0000	7402.0000	1	0001511340	Common Stock
D	2016-08-22		Salelkar Avinash	4	S-Sale	--D	943.0000	15021.0000	1	0001513464	Common Stock
D	2016-08-22		Ranade Prashant	4	S-Sale	--D	3200.0000	76800.0000	1	0001403531	Common Stock
D	2016-08-22		Raj V S	4	S-Sale	--D	401.0000	18408.0000	1	0001491983	Common Stock
D	2016-08-22		TANDON RAJIV	4	S-Sale	--D	185.0000	4631.0000	1	0001256127	Common Stock

And here is the insider activity from a similar period from 2015:

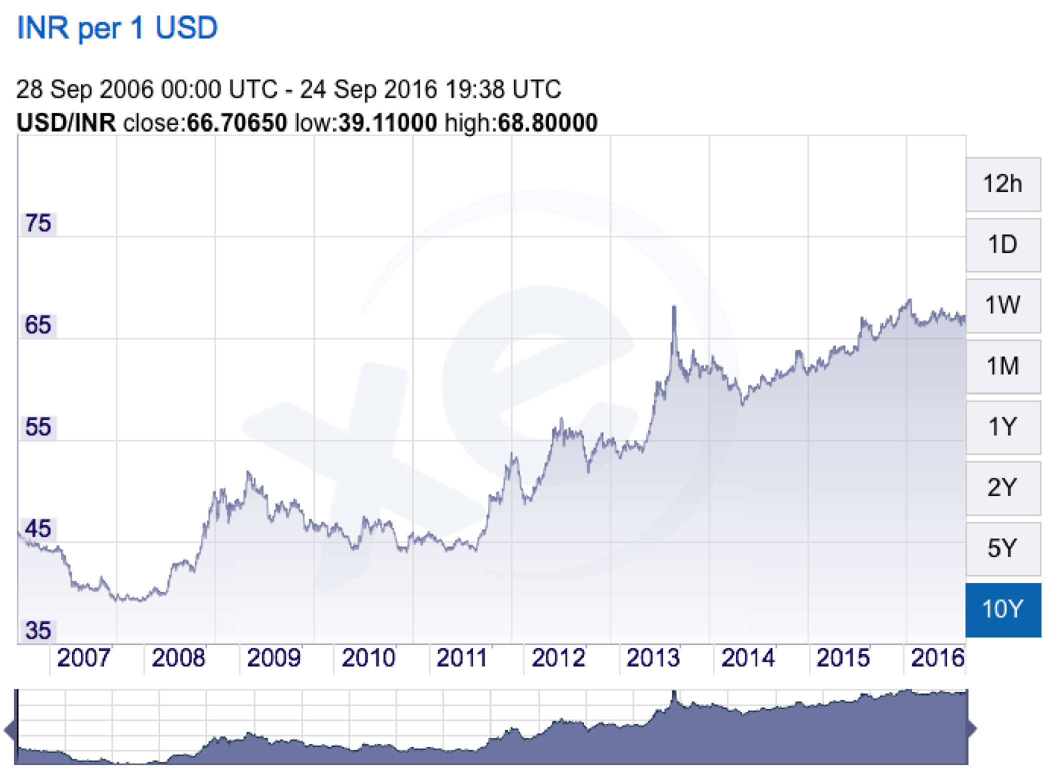
D	2015-09-03		Raj V S	4	S-Sale	--D	260.0000	14809.0000	1	0001491983	Common Stock
D	2015-09-03		Save Rajesh	4	S-Sale	--D	625.0000	4803.0000	1	0001511340	Common Stock
D	2015-09-03		Salelkar Avinash	4	S-Sale	--D	217.0000	13464.0000	1	0001513464	Common Stock
D	2015-09-03		Ray Raja	4	S-Sale	--D	205.0000	10869.0000	1	0001491987	Common Stock
D	2015-09-03		Jain Anil	4	S-Sale	--D	750.0000	15190.0000	1	0001422301	Common Stock
D	2015-09-02		Ray Raja	4	S-Sale	--D	1176.0000	11074.0000	1	0001491987	Common Stock
D	2015-08-31		Save Rajesh	4	S-Sale	--D	588.0000	5428.0000	2	0001511340	Common Stock
D	2015-08-31		Save Rajesh	4	S-Sale	--D	312.0000	6016.0000	1	0001511340	Common Stock
D	2015-08-31		Jain Anil	4	S-Sale	--D	1250.0000	15940.0000	1	0001422301	Common Stock
D	2015-08-31		Raj V S	4	S-Sale	--D	346.0000	15069.0000	1	0001491983	Common Stock
D	2015-08-31		Salelkar Avinash	4	S-Sale	--D	312.0000	13681.0000	1	0001513464	Common Stock
D	2015-08-24		Jain Anil	4	S-Sale	--D	2250.0000	17190.0000	1	0001422301	Common Stock
D	2015-08-24		Save Rajesh	4	S-Sale	--D	1874.0000	6328.0000	1	0001511340	Common Stock
D	2015-08-24		TANDON RAJIV	4	S-Sale	--D	184.0000	1816.0000	1	0001256127	Common Stock
D	2015-08-24		Raj V S	4	S-Sale	--D	995.0000	15415.0000	1	0001491983	Common Stock
D	2015-08-24		Salelkar Avinash	4	S-Sale	--D	607.0000	13993.0000	1	0001513464	Common Stock
D	2015-08-10		Raj V S	4	S-Sale	--D	1000.0000	16410.0000	1	0001491983	Common Stock

IV. Risk Factors

Below are some key risk factors involved in an investment in Syntel shares (investors should carefully review all of the risk factors set forth Syntel's SEC filings, for example here):

- Foreign currency risk: Because the main operations of Syntel are based in India, the company is subject to various foreign currency risks. For instance, due to the fact that revenues are denominated in U.S. dollars while employee salaries are paid in Indian rupees, the company's margins and profits would be adversely affected if the rupee were to appreciate against the dollar (conversely, they would be helped if the dollar appreciates against the rupee). In addition, the company is also subject to foreign currency translation risk, since assets and liabilities of foreign operating subsidiaries must be translated into U.S. dollars when tallying up Syntel's financial statements. These gains and losses appear in Accumulated Other Comprehensive Income (AOCI) in the financials; as of June 30, 2016, the company had racked up a $252 million historical loss under AOCI (as opposed to $1.4 billion in historical retained earnings).

  Below is a chart of the rupee against the dollar, showing that it has consistently weakened over the past ten years (if one goes back 20 years, the same trend exists) *[source]:*



For what it's worth, one website forecasts the rupee to continue to weaken against the dollar by in excess of 10% over the next two years *[source]*:

Table. USD to INR Forecast By Month.

Year	Month	Open	Max	Min	Close	Average	Month%Ch	Total%Ch
2016	September	66.93	68.65	65.95	67.30	67.21	0.55%	0.55%
2016	October	67.30	68.94	66.24	67.59	67.52	0.43%	0.99%
2016	November	67.59	69.76	67.02	68.39	68.19	1.18%	2.18%
2016	December	68.39	69.90	67.16	68.53	68.50	0.20%	2.39%
2017	January	68.53	68.53	65.48	66.82	67.34	-2.50%	-0.16%
2017	February	66.82	68.49	65.81	67.15	67.07	0.49%	0.33%
2017	March	67.15	70.21	67.15	68.83	68.34	2.50%	2.84%
2017	April	68.83	69.94	67.20	68.57	68.63	-0.38%	2.45%
2017	May	68.57	71.05	68.27	69.66	69.39	1.59%	4.08%
2017	June	69.66	70.95	68.17	69.56	69.59	-0.14%	3.93%
2017	July	69.56	69.99	67.25	68.62	68.86	-1.35%	2.53%
2017	August	68.62	71.75	68.62	70.34	69.83	2.51%	5.09%
2017	September	70.34	72.18	69.34	70.76	70.66	0.60%	5.72%
2017	October	70.76	72.02	69.20	70.61	70.65	-0.21%	5.50%
2017	November	70.61	72.27	69.43	70.85	70.79	0.34%	5.86%
2017	December	70.85	73.71	70.81	72.26	71.91	1.99%	7.96%
2018	January	72.26	74.46	71.54	73.00	72.82	1.02%	9.07%
2018	February	73.00	74.02	71.12	72.57	72.68	-0.59%	8.43%
2018	March	72.57	72.83	69.97	71.40	71.69	-1.61%	6.68%
2018	April	71.40	73.81	70.91	72.36	72.12	1.34%	8.11%
2018	May	72.36	74.78	71.84	73.31	73.07	1.31%	9.53%
2018	June	73.31	74.13	71.23	72.68	72.84	-0.86%	8.59%
2018	July	72.68	75.88	72.68	74.39	73.91	2.35%	11.15%
2018	August	74.39	75.82	72.84	74.33	74.35	-0.08%	11.06%

- Employee Turnover: The company has experienced increasing employee turnover over the past three years. As described in the 2015 10-K, page 22, "[f]or the years ended December 31, 2015, 2014 and 2013, annual voluntary attrition was 22.3%, 17.0% and 14.4%, respectively. For the same periods, the number of net hires was (16), 901 and 2,245 respectively." One the one hand, this could be bearish, indicating that competitors are poaching Syntel's employees at an increasing rate; conversely, it could be bullish, if Syntel is simply being more aggressive in cutting costs and eliminating superfluous employees from their workforce. (Note that for 2004-2012, employee attrition remained fairly stable in the low- to mid-teens percentages.)

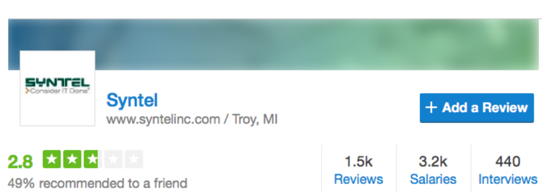
On the Q4 2015 earnings call, the company had the following to say about the uptick in the attrition rate:

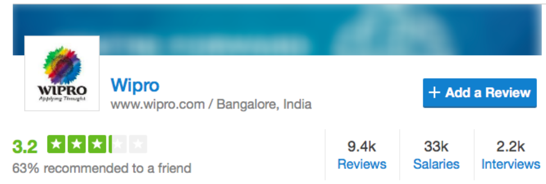
> **Anil Doradle**
>
> Hey guys. Couple of questions, I think you talked about elevated levels of attrition for the company going forward. And you talked about I think realignment of workforce. Can you dig a little bit deeper and share with us what that really means?
>
> **Zaineb Bokhari**
>
> Yes. Anil, the plan is to prepare our company for major shift in the industry and also for the changing the customer preferences due to their adoption. So as Nitin mentioned, investments in areas like managed services, digital modernization. These are all steps to ready ourselves with the future. And we have to be very focused on aligning the skill sets with the talent base, with these requirements and this is happening across each of the geographies that we operate in. The other thing is tied to some of the de-layering that we discussed earlier, leveraging our automation capabilities, as we are going through this transition, the pace of hiring has slowed from what we have seen in the past years. And this is definitely contributing to the rise in the current quarter annualized attrition metric that we are sharing. At the same time, we are not seeing impact by way of SLAs or anything like that.

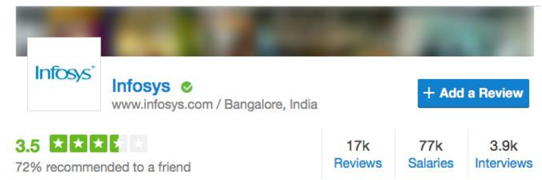
On the Q2 2016 earnings call, the company made the following additional remarks regarding the attrition rate:

> **Edward Caso**
>
> Could you talk a little bit about your attrition rate here in the low 20s, is that sort of why? Is some of that reflective of your retraining efforts as you shipped your offerings?
>
> **Zaineb Bokhari**
>
> I will take that. Certainly, Ed as we've talked about in the past, we've come through a period where we went through a workforce rebalancing strategy and now we are implementing much more of a focus on skills development. One thing to remember with respect to attrition is that the pace of hiring, our expectation is that for the foreseeable future it's going to trail revenue growth and it will be slower than it's been historically. So that's also contributing to some of the attrition level that you're seeing relative to historical.

Note also that, according to Glassdoor.com, the company is considered inferior to work for in comparison to Wipro and Infosys:







- Competition: The IT and KPO services industry is intensely competitive, highly fragmented and subject to rapid change and evolving industry standards. Syntel competes with a variety of other companies, depending on the client and scope of services. Syntel's primary competitors include system integrator firms, application software companies, professional services groups of computer equipment companies and contract programming companies. Syntel's most direct competitors in IT services include Tata Consultancy Services Cognizant Technology Solutions, Infosys Technologies, and Wipro Technologies, companies that utilize an integrated on-site/offshore business model comparable to that used by Syntel. Syntel also competes with large IT service providers with greater resources, such as Accenture and IBM Global Services. Syntel is also seeing increased competition from non-Indian sources such as Eastern Europe and the Philippines. In addition, Syntel competes with numerous smaller local companies in the various geographic markets in which the Company operates. In KPO services, Syntel primarily competes with other offshore KPO vendors including Genpact, HCL, Wipro Technologies, WNS and with offshore captive units established by client organizations. Many of Syntel's customers choose to work with more than one service provider and contract with an individual provider to work on specific engagements that best match that provider's expertise.

- Customer Concentration and Industry Risk: Syntel's business could be materially adversely affected if one of Syntel's significant clients terminates its engagement of Syntel or if there is a downturn in one of the industries Syntel serves. Syntel's ten largest clients generated approximately 74%, 74% and 77% of Syntel's total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Syntel's largest client for the years ended December 31, 2015, 2014 and 2013 was American Express, which generated approximately 21%, 22% and 25% of Syntel's total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Syntel's second largest client for the years ended December 31, 2015, 2014 and 2013 was State Street Bank, which generated approximately 15%, 14% and 16% of

Syntel's total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Syntel's third largest client for the years ended December 31, 2015, 2014 and 2013 was Federal Express Corporation, which generated approximately 12%, 12% and 8% of Syntel's total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Syntel expects to continue to derive a significant portion of Syntel's revenues from American Express, State Street Bank and Federal Express Corporation. Failure to meet a client's expectations could result in cancellation or non-renewal of Syntel's engagement and could damage Syntel's reputation and adversely affect its ability to attract new business. Many of Syntel's contracts, including all of Syntel's contracts with its ten largest clients, are terminable by the client with limited notice to Syntel and without compensation beyond payment for the professional services rendered through the date of termination. An unanticipated termination of a significant engagement could result in the loss of substantial anticipated revenues. The loss of any significant client or engagement could have a material adverse effect on Syntel's business, results of operations and financial condition. Syntel also derived, and expects to continue to derive, a significant portion of its revenues from clients in certain industries, including the financial services, insurance and healthcare industries. Clients in the financial services industry generated approximately 49%, 50% and 51% of Syntel's revenues for the years ended December 31, 2015, 2014 and 2013, respectively. A downturn in the financial services industry or other industries from which Syntel derives significant revenues could result in less revenue from current and potential clients in such industry and could have a material adverse effect on Syntel's business, results of operations and financial condition.

- Syntel's Fixed-Price Engagements May Commit Syntel to Unfavorable Terms: Syntel undertakes development and maintenance engagements, which are billed on a fixed-price basis, in addition to the engagements billed on a time-and-materials basis. Fixed-price revenues from development and maintenance activity represented approximately 42%, 40% and 38% of total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Any failure to estimate the resources and time required to complete a fixed-price engagement on time and to the required quality levels or any unexpected increase in the cost to Syntel of IT professionals, office space or materials could expose Syntel to risks associated with cost overruns and could have a material adverse effect on Syntel's business, results of operations and financial condition.

- Wage Pressures in India and Other Countries Where Syntel Does Business May Reduce Syntel's Profit Margins: Wage pressures in India and other countries where Syntel does business may prevent Syntel from sustaining Syntel's competitive advantage and may reduce Syntel's profit margins. As of December 31, 2015, approximately 75% of Syntel's billable workforce was in

India. Wage costs in India have historically been lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of Syntel's competitive strengths. However, wage increases in India may prevent Syntel from sustaining this competitive advantage and may negatively affect Syntel's profit margins. Wages in India are increasing at a faster rate than in the United States, which could result in increased costs for technology professionals. Compensation increases may result in a material adverse effect on Syntel's business, results of operations and financial condition.

- Syntel's Ability to Repatriate Earnings From its Foreign Operations: Syntel treats earnings from its operations in India and other foreign countries as permanently invested outside the United States. If Syntel repatriates any of such earnings, Syntel will incur a dividend distribution tax for distribution from India, currently 17.647% on gross distribution (including tax on dividend distribution tax) under Indian tax law, and be required to pay United States corporate income taxes on such earnings. If Syntel decided to repatriate all undistributed repatriable earnings of foreign subsidiaries as of December 31, 2015, Syntel would accrue taxes of approximately $306.0 million.

V. Conclusion

It is rare, indeed, in today's market environment to find a high-quality company that has a history of consistent revenues and earnings growth over time available at a multiple well below that of the overall market. If one backs out the $15 special dividend to be paid on October 3, 2016, Syntel now trades at just ~10 times forward earnings versus a market that trades at approximately 18 times forward earnings. Assuming that Syntel were valued at a reasonable multiple of 15 times forward earnings following payment of the dividend, we would expect the stock price to level out around the $39.30 level (per Section II.B above). Thus a buyer of Syntel today is basically receiving the $15 special dividend for just over $2. While most people think that there is no such thing as a free lunch, especially in the stock market (which, according to academics in our business schools remains "efficient"), it appears that in at least this one instance a *nearly* free lunch is indeed available.

As a consequence of the foregoing, we believe that Syntel is a compelling investment at its current trading price. Therefore, we are initiating our coverage of Syntel as a buy with a target price of $54.30.

VI. Disclaimer

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