

3rd August 2007**BUY**

Price	Target Price
Rs316	358

Sensex	14,986
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(10)	8	28	23
Rel. to Sensex	(11)	(0)	22	(11)

Source: Bloomberg

Stock Details

Sector	Telecom
Reuters	AVYA.BO
Bloomberg	AGC@IN
Equity Capital (Rs)	142mn
Face Value (Rs)	10
52 Week H/L (Rs)	414/204
Market Cap (Rs bn)	4.5
Daily Avg Vol (No of shares)	151583
Daily Avg Turnover (US\$ mn)	1.3

Shareholding Pattern (%)(30th Jun.'07)

Promoters	59.1
FII/NRI	1.6
Institutions	14.7
Private Corp.	5.7
Public	18.9

Source: Capitaline

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Avaya Global ConnectResult
Update**Moving on right track**

Avaya Global Connect reported good set of results for the quarter ended June 2007. The net sales for the quarter increased by 25% yoy to Rs1522mn. The EBIDTA for the quarter stood at Rs168mn as against an operating loss of Rs3mn in the same quarter last year. The EBIDTA margins for the quarter stood at a healthy 11%, the highest in the last 7 quarters. The increase in the EBIDTA margins is on account of higher proportion of services revenues (21%) in the overall revenue mix of the company. The PAT for the quarter stood at Rs91mn as against a net loss of Rs22mn in the same quarter last year. As estimated, the Australian operations have broken even at the EBIDTA level. We maintain our EPS estimates of Rs27.4 and Rs35.8 for FY08E and FY09E respectively. We maintain BUY recommendation with a price target of Rs358 based.

Margins expand

The consolidated net sales for the quarter increased by 25% yoy to Rs1522mn. The Australian operations reported revenues of Rs130mn during the quarter. The consolidated EBIDTA margins stood at a healthy 11% as compared to our estimates of 9% for FY08E. The PAT for the quarter stood at Rs91mn while the net margins were 6% for the quarter. During the quarter the services contributed to 21% of the revenues as against 18-19% in the last few quarters. This coupled with the cost control measures led to the margin expansion during the quarter. The EPS for the quarter stood at Rs6.4.

Rupee appreciation to increase margins further

While rupee appreciation has hit the IT industry, it is beneficial to Avaya as the company is a net importer of the raw materials. As the rupee has appreciated significantly over the last quarter, it is yet to reflect in the performance of the company because the company recognizes revenues on a project completion basis and much of the projects undertaken during the last quarter would get completed in the coming quarters. With the benefit of rupee appreciation, the margins are expected to increase further.

Short-term pressure seen by user industry

During the quarter Avaya has witnessed an order booking of Rs1349mn as against Rs1331 in the same quarter last year and Rs1661mn in the preceding quarter. The order book at the end of the quarter stood at Rs1667mn as against Rs1630mn in the same quarter last year and Rs1876mn during the preceding quarter. The order bookings during the quarter were lower as the user industry (IT & BPO) is facing pressures due to the appreciating rupee. However, the management believes that, inspite of the rupee appreciation, the Indian IT and BPO industry still provides enough cost advantage to the customers globally.

Valuation & Outlook

During the quarter, Avaya has shown a healthy improvement in the margins and with the increase in the services revenues and the benefits of rupee appreciation, a further improvement is likely over the next few quarters. The take over of the parent Avaya Inc by private equity players is likely to trigger an open offer on closure of the transaction, which is likely to be completed by October 2007. We maintain our estimates and BUY recommendation on the stock with a price target of Rs358.

Key Financials

Rs mn

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	ROCE (%)	EV/ EBITDA	P/BV	Div Yld (%)	EPS (Rs)	P/E
FY06	4,715	444	9.4	309	19.4	8.0	2.6	1.4	21.7	14.6
FY07	6,093	439	7.2	244	17.1	8.1	2.4	1.4	17.2	18.4
FY08E	7,394	657	8.9	390	23.8	5.2	2.0	1.4	27.4	11.5
FY09E	8,725	954	9.8	510	26.9	3.4	1.7	1.4	35.8	8.6

Quarterly Result Update

	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q5FY07	% YoY
Gross sales	1,225.1	1,635.6	1,555.5	1,742.0	1,534.8	25.3%
Excise duty	2.4	21.5	15.9	27.2	13.2	440.2%
Net sales	1,222.6	1,614.1	1,539.6	1,714.8	1,521.6	24.5%
Cost of goods sold	797.2	1,009.8	932.3	1,123.6	896.4	12.4%
Personnel cost	222.1	213.9	231.4	220.1	218.3	-1.7%
Admin & other expense	206.6	232.9	230.7	233.4	239.0	15.7%
Total expenditure	1,225.9	1,456.6	1,394.4	1,577.1	1,353.7	10.4%
EBITDA	(3.3)	157.5	145.2	137.7	167.9	-
Depreciation	25.8	27.2	31.3	30.2	29.4	13.8%
EBIT	(29.1)	130.3	113.9	107.5	138.5	-
Interest charges	(8.3)	(7.7)	(10.9)	(3.1)	(11.9)	43.2%
Other income	0.3	42.2	4.4	3.4	6.8	-
PBT	(20.5)	180.2	129.1	114.0	157.2	-
Taxes	1.2	70.6	44.9	42.0	65.8	-
PAT	(21.6)	109.5	84.2	72.0	91.4	-
EPS	(1.5)	7.7	5.9	5.1	6.4	-

	% of Net Sales					Chg bps
Cost of goods sold	65.2	62.6	60.6	65.5	58.9	629
Personnel cost	18.2	13.3	15.0	12.8	14.3	382
Admin & other expense	16.9	14.4	15.0	13.6	15.7	119
EBITDA	(0.3)	9.8	9.4	8.0	11.0	1130
EBIT	(2.4)	8.1	7.4	6.3	9.1	1148
PAT	(1.8)	6.8	5.5	4.2	6.0	778

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