



XL Telecom & Energy Ringing Loud

Face Value: Rs 10
Market Price: Rs 172
Target Price: Rs 225
BSE Group/Code: B1/532788
52-Week High/Low: Rs 216/94
Market Cap: Rs 249.4 cr.

Highlights

XLTEL is the business of CDMA handsets and fixed wireless phones (FWPs) and ethanol

It focuses export market for solar panels

The company tapped the capital market for expansion and repayment of debt

Its shifting focus to high-margin businesses is likely to have a positive impact on the bottomline.

IPO:

XLTEL had entered the capital market in December 2006 with an IPO of 39, 56,808 equity shares of Rs 10 each at Rs 150, mopping up Rs 59.35 crore.

Objects of IPO:

The main objectives were for expanding the module making capacity of solar photo voltaic (SPV) division (around Rs 8 crore), setting up facilities for surface mounting technology (SMT) lines to produce motherboards used in mobile phones (Rs 20.5 crore), repayment of term loans to IDBI (Rs 9 crore) and to fund the long-term working capital requirement for fixed wireless phone business (Rs 20 crore).

expansion of capacity to make SPV (Solar Photo Voltaic) modules from the existing 1 MW per annum to 24 MW per annum, Rs 20.40 crore for creation of SMT line to produce PCBs for CDMA mobile and FWP (fixed wireless phones), repayment of Rs 9-crore IDBI term loan, Rs 20 crore for long-term working capital requirement for FWP business and for issue expenses.



Background:

Promoted in 1985 by Dinesh Kumar, a commerce graduate, XLTEL assembles CDMA mobile handsets and manufactures switch mode power systems (SMPS) and solar photovoltaic systems (SPV).

Established in 1985, it has strategic partnership with international technology companies including Corning (for cable jointing kits and accessories), Kyocera Wireless Corporation (for CDMA handsets) and Axesstel (for CDMA fixed wireless phones). XLTEL has sold almost two million handsets in the past four years, with sales of almost one million pieces last year itself. In terms of handsets, Kyocera has a market share of 6%, while Axesstel has a market share of 28%. XL's agreement with Kyocera and Axesstel is till '08-09.

XLTL International:

XLTL International is 100% owned subsidiary of XL Telecom & Energy Ltd, India. The primary focus of XLTL INTL is to support its parent company on key activities relating to its international business, enabling smooth and timely execution of projects in different time zones and geographical areas.

Products

CDMA Mobile Phones:

XL Telecom manufactures the top-flight, high quality Kyocera CDMA 2000 1X, RTT mobile phones for sale in India at their state-of-the-art facility located at picturesque Cherlapally on the outskirts of Hyderabad. The plant is equipped with the latest CDMA mobile phone testing machinery which is capable of simulating all the phones' functionality. The environment within the plant is completely controlled and static free.

Fixed Wireless Desktop Phones & Terminals:

XL has active technical collaboration with a leading multinational company Axesstel Inc. for the assembly, manufacture & sale of fixed wireless handsets. XL Telecom will assemble these kits, load the required software into phones, test the products and distribute to various BSNL depots. XL is a dedicated supplier of telecom products to telecom operators and service providers like TATA, Reliance, BSNL, MTNL and international clients like MTML and Telelinks as well as network integrators like Nortel and Ericsson.

Switch Mode Power Systems (SMPS):

XL Telecom & Energy Ltd., Leaders in manufacturing of Telephone Jointing Kits is bringing its expertise to manufacture Switch Mode Power supply systems in 48V in modules of 25A & 100A for powering the telecommunications networks. In technical collaboration with SMPS DE, Austria, XL Telecom produces 25 - 200 AMPS SMPS power plants including power electronic accessories like AC-DC-AC Converters/ Invertors.



Fusion Splicing Machines:

Fusion splicing machines made by Corning Cable Systems are sold and serviced by XL Telecom in India. Fully qualified engineers, trained by Corning Cable Systems, Inc., USA, and service and maintain all types of optical fusion splicing machines and fibre optic cable accessories and closures.

Cable Jointing Kits:

XLTEL's heat shrink wrap-around sleeves are an effective and quick way of joining cables. With merely the even application of a soft propane based flame around the sleeve, the spliced cable can be joined and insulated smoothly and quickly. XLTEL's plant at Hyderabad, India, has been installed in technical collaboration with Corning Cable Systems, Inc of USA. The plant is capable of producing 500,000 cable jointing kits annually.

Solar Photovoltaic Systems (SPV):

SPV modules of various capacities ranging from 5Wp to 280Wp catering to domestic and international customer requirements.

In response to rapid growth of the solar industry, XLTEL has successfully ramped up its manufacturing capacity to enable production of 24MW of crystalline modules per annum. It has plans to ramp up to 60MW a year in the future.

Ethanol:

XLTEL also has ethanol fuel facility at Nanded in Maharashtra with a production capacity of 1.5 lakh litres per day.

Quality:

XL Telecom has established a quality management system that is in compliance with the International Quality system standard ISO 9001-2000 for the manufacture of Solar Photovoltaic Modules and other products.

XL Telecom Solar Photovoltaic Modules for Indian Market have the approvals of Solar Energy Centre (SEC), Ministry of Non-Conventional Energy Sources (MNES), New Delhi, Department of Telecom (DOT), Ministry of Railway and Ministry of Defence. The testing of Solar Modules for DOT/BSNL is similar to IEC specification. XL Telecom has applied for certification as per IEC 61215 and Safety Class II at TUV Rheinland. XLTEL has also applied for UL Listing of solar panels.

Capacity:

It has a capacity to assemble 10,000 CDMA mobile and fixed wireless sets per day, 600 amps per day of SMPS, 1,667 jointing kits and accessories per day, 1,50,000 liters of ethanol per day, and 3.3 KW of SPV systems per day.

**Clients:**

- Bharat Sanchar Nigam Limited (Department of Telecommunications), Government of India
- Mahanagar Telephone Nigam Limited
- Indian Railways
- Departments of Defence
- Telecommunications Consultants of India Limited
- State Nodal Agencies of the Ministry of Non-Conventional Energy Sources
- Private sector companies

Financial Performance:

Rs in crore	Q4FY07	FY07	FY06	%
		June	June	
Sales	137.23	523.14	395.41	32.3
Other Income	0.75	1.42	0.54	163
PBIDT	9.23	41.16	27.18	51.4
Interest	3.75	13.94	11.82	17.9
PBDT	5.48	27.22	15.36	77.2
Depreciation	0.45	1.62	1.55	4.5
PBT	5.03	25.6	13.81	85.4
Tax	0.16	5.2	3.23	61
Deferred Tax	0.22	0.22	-0.09	LP
PAT	4.65	20.18	10.67	89.1
Equity		14.5	10.5	
Reserves		138.7	68.1	
Book Value (Rs)		106	74.9	
EPS (Rs)		13.9	10	
OP Margin (%)	6.7	7.9	6.9	
NP Margin (%)	3.4	3.9	2.7	

Financial:

Equity capital is Rs 14.5 crore. With reserves of Rs 139 crore, the book value of the share works out to Rs 106. The capital employed as on FY07 in the telecom division is Rs 146 crore and in energy division Rs 65 crore.

**Equity Holding:**

Promoters -31.7 %
Foreign -7.4 %
Institutions- 12.7%
PCBs Holding -26 %
Public-22.2 %

Expansion:

The company has chalked out major expansion of about Rs 1100 crore over 6 years in increasing solar module capacity. The immediate expansion includes setting up of 120 MW SPV cell facility at a cost of Rs 305 crore and Rs 40 crore for a new SPV modules-making facility of 41 MW taking total to 65 MW. It is also in the process of increasing its ethanol capacity at Nanded in Maharashtra and also will set up distillery to manufacture special denatured spirit, which is used for making ethanol.

FCCB Issue:

To fund its expansion plans in the first phase, XLTEL is proposes to raise Rs 160 crore through FCCB and the balance Rs 140 crore by way of debt.

Prospects**CDMA Handsets:**

In the past year, the CDMA subscriber base has grown by around 90%. Within telecom, the company also assembles switch mode power systems, which are installed in exchanges and base terminal stations. In the CDMA segment, the growth in India is robust next only to China. During FY08, CDMA segment is likely to be 41 million pieces, which reflects a growth of 30%.

SPV Systems:

A couple of countries in Europe has made 160 watt to 200 watt solar power generation for every home mandatory. Thus, there is export potential for SPV systems. To tap this opportunity, the company has established an MOU with a Spanish supplier of SPV systems Forta Im Ex SL in Europe with an immediate US 13-million order for 3 MW SPV systems. The minimum commitment by European customers is for 12 MW over three years, which works out to Rs 220 crore at current prices. The global demand for SPV products, which stood at more than \$ 16 billion in FY07 is expected to grow to \$ 40 billion by 2010 and \$ 65 billion by 2015.

Ethanol:

The demand for ethanol mainly depends on the consumption of petrol which rising every year. Demand for ethanol during FY07 was estimated at 667.62 million litres, which translates into a market value of Rs 1400 crore. The government is also thinking to increase ethanol content of 10% in petrol in the next 2 years.



Order Book:

XLTEL has order book of Rs 570 crore, which includes Rs 220 crore from SPV products Rs 330 crore from ethanol and Rs 50 crore from telecom products.

Outlook:

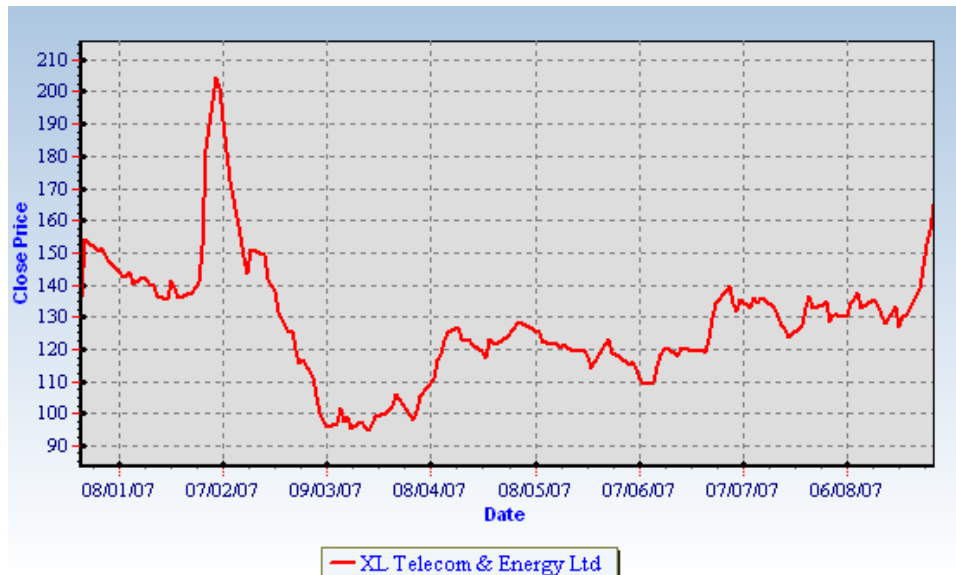
The SPV division is expected to be commissioned in Q2FY08 while revenues from the SMT line will be generated only from FY08 onwards.

XLTEL has been focusing in telecom for several years and is a leading supplier of CDMA phones to Bharat Sanchar Nigam Ltd (BSNL).

A major portion of revenues comes from assembling of handsets and FWP's. The company is shifting focus to high-margin businesses, which is likely to have a positive impact on its bottomline.

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Price Chart:



Concern:

The competitors like LG and Samsung have established their own units in India to manufacture CDMA handsets. These are the preferred original equipment suppliers of Reliance Communication and Tata Tele. XLTEL will face competition from these companies. The competitive nature of business leads to low margin.



Valuations & Recommendations:

XLTEL has planned to go directly to customers through a retail business model for high-end mobile phones to meet customer expectations for new and fancy phones. For low-end models, however, the telecom carriers/service providers will continue to source them in bulk from the company.

The telecommunications revolution has increased the need for high-quality back up products. XLTEL helps to keep the world connected through its range of world-class heat shrink wrap around cable jointing kits.

XLTEL's strong relation with collaborators, its retail initiatives along with new launches in the growing telecom sector, strong expected inflow in SPV segment coupled with doping of ethanol in petrol give strong earning visibility in the next few years.

EXTEL is likely to achieve sales of Rs 650 crore in FY08 and earn a net profit of Rs 30 crore, which would give an EPS of Rs 21.

Going forward in FY09, net profit is likely to move up to Rs 50 crore due to expansion and coming up of new projects on higher revenue of about Rs 1000 crore. EPS would go up to Rs 34.5.

The shares of XLTEL currently traded at Rs 172 at a P/E x of 8.2 on FY08E and 5 on FY09E are recommended with a price target price of Rs 225 in the medium term. This would translate into a gain of 30%.



Sunidhi

XL Telecom

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