

November 4, 2008

Rating	BUY
Price	Rs68
Target Price	Rs163
Implied Upside	141.2%
Sensex	10,631

(Prices as on November 3, 2008)

### Trading Data

Market Cap. (Rs bn)	1.3
Shares o/s (m)	18.8
Free Float	71.9%
Avg. Daily Vol ('000)	120.7
Avg. Daily Value (Rs m)	21.7

### Major Shareholders

Promoters	28.1%
Foreign	11.7%
Domestic Inst.	13.5%
Public & Others	46.7%

### Stock Performance

(%)	1M	6M	12M
Absolute	(47.1)	(75.9)	(72.0)
Relative	(32.0)	(36.3)	(25.2)

### Price Performance (RIC: XLTL.BO, BB: XLE IN)



Source: Bloomberg

- **Results:** XL Telecom & Energy's (XLS) reported revenues of Rs2.5bn were above our expectations. However, margins slid in the quarter to 8.4% vis-à-vis 11.2% in the previous quarter. Higher cost of raw material in the solar segment and currency fluctuation loss of Rs54m, resulted in lower margins for Q1FY09. However, management has hinted at easing of the raw material costs in the subsequent quarters.
- **Solar shipments picking up from last two quarters:** XL has shipped ~13.5MW of solar modules worth ~Rs2.5bn to Spain, as compared to ~6.5MW shipped during the last quarter. It has ramped-up its module making capacity to 180MW and expects around 10-12MW despatches every quarter for FY09.
- **Visibility in order book weakening:** Currently, XL has an order book for ~15MW of solar modules (valued at about Rs2.6bn) to be shipped to Spain. In the subsequent months, management expects the order book to pick up from Europe.
- **Solar cell plant expected to go on-stream by January-February 2009:** XL is setting up a 120MW solar cell plant, which is expected to start commercial productions from January-February 2009. This backward integration project shall improve margins for the energy segment.
- **Outlook & Valuation:** XL is setting up a solar cell facility of 120MW and ramping-up its module making capacity to ~200MW by December 2008. At the CMP of Rs68, the stock trades at a PER of 1.7x and at an EV/EBITDA of 3.1x FY10E earnings. We maintain our **BUY** rating on the stock.

Key financials (Y/e June)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	5,232	6,541	9,360	11,101
Growth (%)	32.3	25.0	43.1	18.6
EBITDA (Rs m)	391	722	1,416	1,853
PAT (Rs m)	201	401	782	1,063
EPS (Rs)	13.9	21.3	30.0	40.8
Growth (%)	37.1	53.7	40.5	36.0
Net DPS (Rs)	1.0	1.5	3.0	5.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	7.5	11.0	15.1	16.7
RoE (%)	17.6	18.0	20.6	20.2
RoCE (%)	22.2	16.2	15.8	17.0
EV / sales (x)	0.3	0.7	0.6	0.5
EV / EBITDA (x)	3.9	6.8	3.9	3.1
PE (x)	4.9	3.2	2.3	1.7
P / BV (x)	0.6	0.4	0.4	0.3
Net dividend yield (%)	1.5	2.2	4.4	7.4

Source: Company Data; PL Research

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## Q1FY09 Result Overview

(Rs m)

Y/e June	Q1FY09	Q1FY08	YoY gr. (%)	Q4FY08	QoQ gr. (%)
<b>Segmental break-up</b>					
Telecom	39	1,107	(96.5)	550	(92.9)
<i>% of Net Sales</i>	<i>1.5</i>	<i>73.5</i>		<i>30.5</i>	
Ethanol	18	245	(92.7)	245	(92.7)
<i>% of Net Sales</i>	<i>0.7</i>	<i>16.3</i>		<i>13.6</i>	
Solar	2,515	154	-	1,011	148.7
<i>% of Net Sales</i>	<i>97.8</i>	<i>10.2</i>		<i>56.0</i>	
<b>Net Revenues</b>	<b>2,572</b>	<b>1,506</b>	<b>70.8</b>	<b>1,807</b>	<b>42.4</b>
<b>Expenditure</b>					
Raw Material	2,083	1,331	56.5	1,561	33.4
<i>% of Sales</i>	<i>81.0</i>	<i>88.4</i>		<i>86.4</i>	
Other Expenditure*	273	414	(34.0)	43	537.6
<i>% of Sales</i>	<i>10.6</i>	<i>4.2</i>		<i>2.4</i>	
Total Expenditure	2,356	1,395	69.0	1,604	46.9
<i>QoQ gr. (%)</i>	<i>91.6</i>	<i>92.6</i>		<i>88.8</i>	
<b>Operating Profit</b>	<b>216</b>	<b>111</b>	<b>94.0</b>	<b>203</b>	<b>6.5</b>
<i>% of Sales</i>	<i>8.4</i>	<i>7.4</i>		<i>11.2</i>	
Depreciation	6	5	20.9	6	5.1
Other Income	9	11	(18.9)	7	28.7
Prior period items	-	-	-	0	-
<b>EBIT</b>	<b>219</b>	<b>117</b>	<b>86.5</b>	<b>204</b>	<b>7.2</b>
Interest	68	36	91.4	79	(13.5)
<b>PBT</b>	<b>150</b>	<b>82</b>	<b>84.4</b>	<b>125</b>	<b>20.3</b>
Prov. For Taxation	0.5	21	(97.7)	11	(95.6)
<i>ETR %</i>	<i>0.3</i>	<i>26.1</i>		<i>9.1</i>	
<b>PAT</b>	<b>150</b>	<b>60</b>	<b>148.8</b>	<b>114</b>	<b>31.8</b>

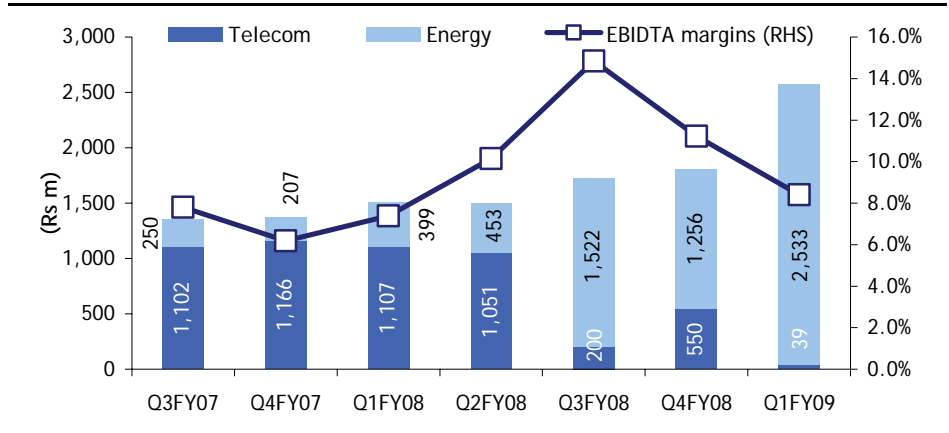
\* Other expenditure includes Rs 54m on account of foreign exchange fluctuation

## Highlights

### Energy segment contributed 98% to overall revenue

Revenues from solar sales formed close to 98% of the overall revenues. Despatches picked up at a fast pace for the quarter, resulting in Rs2.5bn of revenues. However, increase in the raw material costs and absence of hedging done on both raw material and finished goods, cost the company Rs54m for the quarter. XL was adversely affected on both these fronts due to currency fluctuations (revenues are Euro-denominated whereas raw material is dollar-denominated). Due to this, EBIDTA margin contracted to 8.4% in the quarter, as against 11.2% QoQ.

#### Segmental revenue break-up



Source: Company Data, PL Research

### Shipment of ~13.5MW solar panels

XL shipped ~13.5MW solar modules during the quarter, resulting in higher solar sales revenues. Net realisation per watt stood at €2.85, aggregating approximately Rs2.5bn from this segment.

### Solar cell plant to start commercial production by January-February 2009

XL is setting up a 120MW solar cell plant, which is expected to start commercial productions from January-February 2009. The company had raised US\$40m FCCB convertible at Rs260. This facility is under the SEZ located at FAB city, Hyderabad.



## Estimates revised

We have revised our revenue estimates for FY09 and FY10, factoring in higher raw material cost and delay in the solar cell plant. However, our solar sales in MW for FY09 and FY10 remain unchanged at 42MW and 60MW, respectively. We have factored in lower sales from the telecom segment at around Rs1bn for FY09 and FY10, which has largely changed our revenue estimates.

### Estimates revised

	Revised estimates		Earlier estimates		% revision	
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
Net sales (Rs m)	9,360	11,101	10,332	11,262	-9.4%	-1.4%
Adj. PAT (Rs m)	782	1,063	1,278	1,628	-38.8%	-34.7%
EPS (Rs)	30.0	40.8	49.0	62.4	-38.8%	-34.7%

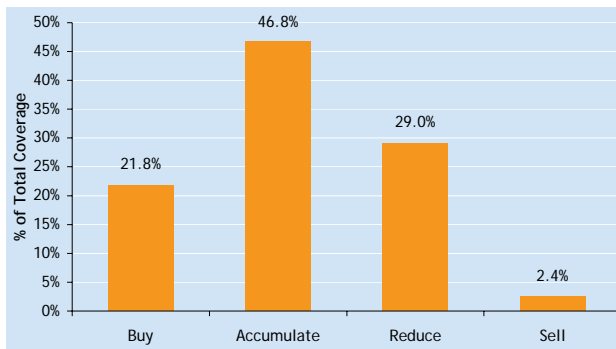
Source: PL Research

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#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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