

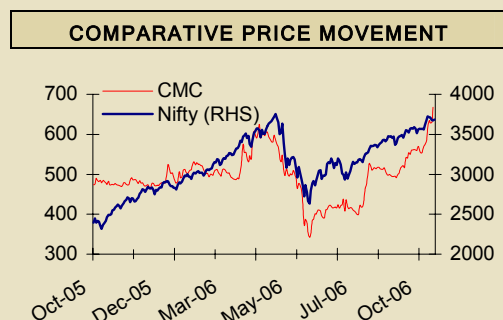
CMC
Rs 681

23rd Oct 2006

Displaying good numbers
Accumulate

SCRIP DETAILS	
Market Cap (Rs crores)	1032.0
P/E (x)-FY07E	16.2
Market Cap/Sales (x) FY07E	1.0
EV/EBIDTA (x) FY07 E	11.1
Dividend (Rs.)/ Yield (%)	5/0.7
Equity Capital (Rs crores)	15.2
Face Value (Rs)	10.0
52 Week High/Low (Rs)	700/ 337
Website: www.cmcltd.com	
NSE Code	CMC
Sensex	12623
Nifty	3657

SHARE HOLDING PATTERN (As on 30 th June 2006)	
Promoters	51.1
Mutual Funds/ Banks/ Fis	25.0
FIIIs	10.7
Others	10.4
Public	2.8



Analyst: Siddharth Purohit
Email: siddharthp@way2wealth.com
Telephone: 022 - 4019 2900

CMC has reported impressive results for the Quarter. The Company's continued efforts to increase the share of services and international revenues in the total business have resulted in accelerated growth, together with improved margins. Increase in manpower productivity and improvement in margins, excluding the one-time provisions, were the key developments during the Quarter. The Company's focus on more value-added services like embedded systems, together with private sector projects, which have higher margins, with better payment cycle, would improve the overall profitability, going ahead, and we remain positive about the Company's long-term prospects.

Revenue growth likely to accelerate further: The customer service segment of CMC remained flat, with revenues of Rs 124 crores against Rs 121 crores in the same period last year. The system integration business had a robust growth of 35.7% YoY, to Rs 89.3 crores vs. Rs 65.8 crores in Q2FY06, while the revenues from the ITES segment went up significantly, to Rs 17 crores from Rs 6 crores, which propelled the overall revenue growth up 19.6% YoY, to Rs 240.8 crores. Though the customer services segment, which forms the major part of the total revenue, reported subdued numbers for the Quarter, new verticals like infrastructure management services and digitisations would drive the revenue growth in the long run. Further, its synergy with TCS is likely to benefit CMC's customer services business, going ahead.

One-time provision impact margins: On a YoY basis, the operating profit doubled to Rs 17 crores, from Rs 8.5 crores in Q2FY06 and the OPM went up by 290 bps. During the quarter, the Company had to take one-time provisions of Rs 12.5 crores, on account of dispute with one of its legacy projects, with a particular client. Due to this provision, the OPM, on a QoQ basis, was down 170 bps, to 7%. However, the Management has reaffirmed its stand on growth without compromising on margins and expects a steady expansion in EBIDTA margins. Further, employee productivity is a prime area of focus for the Company and further improvement on this front would also add to the EBIDTA margin.

CMC's revenues from the international business experienced strong growth during the quarter, up 62% YoY and 7% QoQ, and now form 38% of the total revenues as compared to 28% in Q2FY06 and 34% in Q1FY07. The Company is seeing strong business growth in the Middle-East market. The increasing share of the high-margin international business is likely to add to margin expansions, going ahead.

Favourable change in revenue mix: Over the last few quarters, CMC's revenue mix has changed favourably towards more profitable business (services). Services revenues were up by 37% (YoY) and 3%(QoQ) and share of services in total revenue has gone up to 68% from 58% in Q2FY06 and 63% in Q1FY07. The Management intends to take the share to ~70% by FY07. However, it maintains that the hardware business would continue, but its share in the total revenue would come down

In the BFSI segment, CMC is focusing on small and mid-sized banks, both in India as well as Middle East and Africa. Almost all the major players in the country use the insurance products of CMC. CMC has 40+ products to its name and a good number of IPRs, which are likely to start contributing in a sizeable way, in coming two years. Within the product segment, the Company has a good number of reputed clients in the area of Ports and Cargo.

Financials

CMC Ltd	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY06	FY07(E)	Chg (%)
	YoY			YoY			YoY		
Total Revenue	240.8	201.3	19.6	492.1	401.9	22.4	887.2	1,046.9	18.0
Staff Cost	56.5	47.6	18.6	109.7	92.8	18.2	195.2	246.0	26.1
Other Exp.	151	133	13.6	315	265	19.0	591	638.6	8.1
Total expenditure	223.7	192.9	16.0	452.8	380.8	18.9	837.4	952.7	13.8
Operating Profit	17.1	8.5	102.7	39.2	21.1	85.5	49.8	94.2	89.2
Non-Op. Income	1.4	2.3		2.2	3.0	-24.9	8.6	4.0	-53.7
PBT	15.4	7.7	98.6	35.6	18.2	95.5	45.7	84.5	85.0
PAT	11.9	5.7	107.9	28.1	13.3	110.9	35.4	63.5	73.1
Extraordinary Income		4.8		0.0	13.2		13.2		0.0
Reported PAT	11.9	10.6	13.2	28.1	26.5	6.1	48.5	63.5	
Equity Share capital	15.2	15.2	0.0	15.2	15.2		15.2	15.2	
Adj. EPS (Rs.)	7.9	3.8	107.9	18.5	8.8	110.9	23.4	42.0	73.1
OPM (%)	7.1	4.2		8.0	5.3		5.6	8.4	
PBT Margin (%)	6.4	3.8		7.2	4.5		5.1	7.5	
NPM (%)	5.0	2.9		5.7	3.3		4.0	6.0	

Segment Revenue	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY06
Customer Service	124.1	120.6	2.9	260.6	247.3	5.4	528.47
Systems Integration	89.3	65.8	35.7	179.8	128.2	40.2	290.14
ITES	17.1	6.0	186.1	35.1	11.1	214.8	31.481
Education & Training	10.5	10.5	0.0	17.1	16.8	1.7	38.244
Total	241.0	202.8	18.8	492.5	403.5	22.1	888.33
Segment results (PBIT)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY06
Customer Service	10.9	6.3	75.0	19.8	14.6	35.9	33.0
Systems Integration	8.7	8.9	-1.9	28.9	18.7	54.5	50.0
ITES	5.6	-0.3		11.5	0.2		1.5
Education & Training	2.7	2.4	11.1	2.0	3.3		7.3
Total	28.0	17.3	61.5	62.2	36.8	69.0	91.8
Segment Margins (%)	Q2FY07	Q2FY06		H1FY07	H1FY06		FY06
Customer Service	8.8	5.2		7.6	5.9		6.2
Systems Integration	9.8	13.6		16.1	14.6		17.2
ITES	32.9	-4.3		32.7	1.5		4.8
Education & Training	25.6	23.0		11.7	19.9		19.1
Total	11.6	8.5		12.6	9.1		10.3

Valuation and Conclusion

CMC has demonstrated encouraging results for the Quarter. Improving share of international business and high margin business has helped in expansions in EBIDTA margin, during the quarter. However, due to a one-time provisioning, relating to one of the legacy projects, the sequential EBIDTA margins, as well as net profit, is down. Going ahead, the Management plans to focus on the growth on volume, but without compromising on the profitability. The Company is strategically broadening its customer profile, which has helped in reducing the debtor recovery cycle to 92 days, from 107 days in Q1FY07. With encouraging results during the quarter, we believe, the results in the quarters to come would further improve. On account of encouraging results during the quarter, we are raising our FY07 revenue-estimates by 2%, implying an 18% YoY-growth, while, with further scope for margin expansions, we are raising the EPS estimates by 5%, implying a YoY-growth of 79.5%. At the CMP of Rs 681, the stock is trading at 16.2x its FY07 (E) EPS of Rs 42 and 11.1x EV/EBITDA. We remain positive about the Company's long-term term prospects and maintain our accumulate rating on the stock.

WAY2WEALTH Research

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