

Geodesic Information System

Rs275
OUTPERFORMER**RESULT NOTE****Mkt Cap: Rs16.5bn; US\$405m**

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Result: Q4FY07

Comment: Margin expansion surprises

Last report: 23 May 2007 (Price Rs235; Recommendation: Outperformer)

Key financials

Year end 31 March (Rs m)	Revenue	% Change YoY	Net profit	EPS (Rs)	% Change YoY	PER (X)
2006	967	140	407	7.0	94	39.1
2007	1,680	74	910	15.2	116	18.1
2008E	2,434	45	1,115	18.6	22	14.8
2009E	3,677	51	1,507	25.1	35	10.9

Geodesic Information System (Geodesic) reported 8.3% qoq (+64.5% yoy) growth in revenues during Q4FY07. The revenues at Rs490m were lower than our expectation of Rs507m. EBITDA margins increased sharply by 826bp qoq to 63.4% on account of capitalization of software development expenses as advised by new auditors Ernst and Young. Accordingly, PAT increased 25.6% qoq to Rs305m against our expectation of Rs212m. Geodesic added five new clients in the quarter including BenQ, Gothenberg Post, Adeprimo etc. The company launched 4th generation of Mundu IM and 1st generation of Mundu internet radio during the quarter. We have lowered FY08 revenues and EBITDA by 11.7% and 7.7% respectively to account for our assumption of lower Rupee and delay in launch of paid version of radio product. FY09 revenues stand reduced by 4.7% to account for the lower Rupee assumption. We have left earnings estimates unchanged on account of higher margins, other income and lower depreciation expenses. At Rs275, the stock trades at 10.9x FY09E earnings. Given CAGR of 59% in revenue (\$ terms) 44% in EBITDA and 38% in PBT over FY07-09E, we reiterate Outperformer.

KEY HIGHLIGHTS OF Q4FY07 RESULTS

- Revenues grew 8.3% qoq (+64.5% yoy) in Q4FY07 to Rs490m on sales of Mundu IM applications and its variants to various segments.
- EBITDA margins increased to 63.4% from 55.2% in the last quarter on account capitalization of software development related expenses as advised by new auditors Ernst and Young. EBITDA increased 24.5% qoq to Rs311m (increased 112% yoy). Both EBITDA and EBITDA margin were higher than our estimate of Rs274m and 54%, respectively.
- Other income of Rs52.9m (Rs51.2m in last quarter) was inclusive of Rs28m of forex gains. Depreciation was lower at Rs41m (Rs57.9m in last quarter). Effective tax rate was 5.1% for the quarter. PAT grew 25.6% qoq in line with EBITDA growth of 24.5% qoq. PAT was Rs305m against our estimate of Rs212m.

- **FY07 full year consolidated results:** Revenues grew 73.6% yoy during FY07 to Rs1.68bn against its guidance of Rs1.60-1.70bn and our expectation of Rs1.74bn. EBITDA at Rs1.04bn (+96.3%) was higher than our estimate of Rs1.01bn (+89.9%). EBITDA margins were 62.2% against our expectation of 58.2%. PAT was Rs911m (+123% yoy) against our estimate of Rs818m (+101% yoy) and guidance of Rs650-700m.
- **Client addition:** Geodesic added five new clients in the new sectors including Portals and Publishers, Handset Manufacturers, ISPs and Telecom carriers. BenQ, Gothenberg Posten and Adeprimo were some of the names announced during the quarter.
- **New product launch:** Geodesic launched the 4th generation of Mundu Interoperable IM. Free version of 1st generation Mundu Internet Radio was launched to cater to the rising smart phone market. Paid version is likely to be launched by August 07.
- **Developments on Simputer related products:** Amida Simputers are being used to pilot projects such as Traffic Rule Enforcement in India and as Mobile Data Readers and Writers for the National Indian Identity Card. The pilot for traffic rule enforcement is going on in Delhi, Bangalore, Kolkata and Pune. The product is being distributed by BEL. The company is in talks with universities in US for marketing and development of "Olai".
- **Developments pertaining to Chandamama acquisition:** The work of digitization of content available with Chandamama is in progress. The content delivery through internet and mobile is expected by end August.
- **Standalone results audited by Ernst and Young:** FY07 standalone results were audited by Ernst and Young, the new auditor appointed last year. Consolidated results announced are provisional and the audited numbers are expected soon.
- **Bonus announced:** Geodesic announced 1:2 bonus and total 20% dividend (including interim) for the year FY07.

□ Valuations and view

Geodesic has reported strong net profit growth – topline growth was, however, lower than our expectations. Client wins continue to be decent with another five new clients added in the quarter. We have reduced FY08 revenues and EBITDA by 11.7% and 7.7% respectively to account for rupee appreciation and the delay in launch of paid version of radio product. FY09 revenues are lower by 4.7% due to our lower Rupee assumption. Earning estimates for both FY08 and FY09 are left unchanged on account of higher margins, other income and lower depreciation expenses. We have assumed a tax rate of 11% in FY08 and FY09 and hence the net profit growth appears lower in FY08. We expect CAGR in EBITDA of 44% over FY07-09E. At Rs275 the stock trades at 10.9x FY09E - Outperformer

Quarterly results (unaudited)

Years to 31 March (Rs m)	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	FY07	FY08E
Revenues	298.0	339.4	391.2	452.6	490.2	1,679.6	2,433.6
Trading purchases	0.48	0.1	0.0	0.0	-0.9	-0.8	2.4
Utilities	1.59	1.5	1.9	2.8	0.3	6.6	9.7
Staff cost	23.31	22.3	28.5	28.6	27.0	106.3	136.9
Other expenditure	125.97	142.4	73.9	171.4	152.8	523.4	848.7
Total Expenditure	151.4	166.3	104.3	202.8	179.2	635.5	997.8
EBIDTA	146.7	173.1	286.8	249.8	311.0	1,044.1	1,435.8
Interest	0.05	0.4	0.0	0.0	0.7	1.2	
Other Income	12.75	12.4	(43.2)	51.2	52.9	67.3	98.0
Depreciation	41.89	44.8	56.0	57.9	41.2	207.5	280.0
PBT	117.5	140.4	187.67	243.04	321.98	902.7	1253.8
Provision for Tax	8.1	9.5	(29.6)	0.0	16.5	(8.1)	137.9
Minority share			0.0	(0.1)	0.1	0.0	
PAT	109.4	130.9	217.29	243.2	305.4	910.8	1115.9
Sequential							
Revenue	11.5	13.9	15.3	15.7	8.3		
EBIDTA	(1.2)	18.0	65.7	(12.9)	24.5		
Profits	(9.5)	19.7	66.0	11.9	25.6		
YoY							
Revenue	121.1	102.6	89.5	69.4	64.5	73.6	44.9
EBIDTA	81.9	77.9	137.6	68.3	112.0	96.3	37.5
Profits	72.1	70.9	121.6	101.2	179.3	123.4	22.5
Tax Rate	6.9	6.8	(15.8)	0.0	5.1	(0.9)	11.0
EBITDA Margin	49.2	51.0	73.3	55.2	63.4	62.2	59.0
Net margin	36.7	38.6	55.5	53.7	62.3	54.2	45.9

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2. Neutral: Within 0-10% to Index
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