

# R Systems International

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**Shareholding (%)**

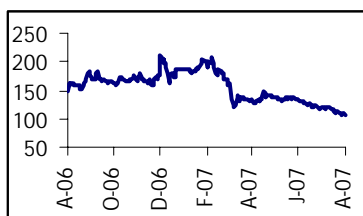
Promoters	40.7
MFs	8.9
Others	50.4

**Share price performance**

52-week high/low (Rs)	221/105		
	-1m	-3m	-12m
Abs (%)	-12.2	-24.0	-29.1
Rel* (%)	-13.0	-28.7	-67.1

\*to Nifty

**Stock chart**



**Results in line; maintain 'Accumulate'**

R Systems International Ltd's Q2CY07 results were in line with estimates; sequentially revenue decreased 0.7% to Rs 589 mn. The company reported net profit of Rs 32 mn in Q2CY07 as against a profit of Rs 21 mn in Q1CY07, a sequential increase of 53.4%.

We are increasing our CY07E and CY08E EPS estimates by 7.7% and 2% to Rs 11.2 and Rs 14 respectively, a two-year EPS CAGR of 56.2%. The company is currently quoting at CY07E and CY08E PER of 9.5x and 7.6x respectively. This is at 24% and 21% discount to its peers. We believe that it should quote at a discount on account of its lower margin. We maintain 'Accumulate' rating on the stock with a price target of Rs 119. At our target price, the stock would be quoting at CY07E and CY08E PER of 10.7x and 8.5x respectively.

**Key highlights of Q2CY07 results are:**

▲ **Revenue grew 5.9% sequentially in dollar terms:** The company's revenue increased 5.9% sequentially in dollar terms in Q2CY07. However, due to more than 6% rupee appreciation, revenue in terms of rupee fell 0.7% sequentially to Rs 589 mn.

▲ **EBITDA margin expands by 94 bps:** Despite rupee appreciation impacting EBITDA margin by 340 bps, the company's EBITDA margin expanded by 100 bps on account of:

- a) Lower salary cost, as the company added employees at the entry level
- b) Higher price realisation

The EBITDA margin was also impacted negatively by higher visa costs in Q2CY07.

We expect margin to expand further going forward, from 9.2% in CY07E to 10.6% in CY08E. This is likely on account of:

- a) Lower losses in ECnet
- b) Higher offshore/onsite mix
- c) Benefits from economies of scale

**Accumulate**  
**Rs106**

August 2, 2007

**Market cap**

Rs bn 1

US\$ mn 35

**Avg 3m daily volume**

31,538

**Avg 3m daily value**

Rs mn 4

**Shares outstanding (mn)**

14

**Reuters**

RSYS.BO/RSYSTEMS.NS

**Bloomberg**

RSYS IN

**Sensex**

14,936

**Nifty**

4,346

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- ▲ **Losses in ECnet declines:** Losses in ECnet declined from Rs 11.1 mn in Q1CY07 to Rs 4 mn in Q2CY07. The company increased the prices of its offerings and now expects ECnet to break-even in Q3CY07 and contribute positively to the bottomline from Q4CY07.
- ▲ **Financials:** We have increased our CY07E and CY08E EPS expectations by 7.7% and 2% respectively to take into account higher margin improvement. We expect R Systems to post an EPS of Rs 11.2 and Rs 14 in CY07E and CY08E respectively, a two-year EPS CAGR of 56.2%. Though the company's margin is expected to increase; rupee appreciation is expected to impact the company most on account of higher offshore/onsite revenue mix. We have estimated Rs/USD rate of Rs 41.6 in CY07E and Rs 40.1 in CY08E.
- ▲ **Valuation:** The stock is currently quoting at CY07E and CY08E PER of 9.5x and 7.6x respectively, which is at 24% and 21% discount to its peers. We believe that the company should be quoting at a discount to its peers due to lower margin and its vulnerability to the appreciating rupee. Therefore, we maintain 'Accumulate' rating on the stock with a one year price target of Rs 119. We have valued the company at 8.5x CY08E.

*Table 1. Peer comparison*

Company	Price	EPS			PE		
		FY07	FY08E	FY09E	FY07	FY08E	FY09E
Aztec*	93.2	8.7	7.5	8.1	8.6	10.0	9.2
Zensar*	289.3	23.8	35.1	48.5	10.9	7.4	5.4
Geometric*	117.9	6.3	7.8	10.3	15.9	12.8	9.7
Infotech*	360.0	17.6	17.9	23.6	18.5	18.2	13.8
KPIT	136.5	6.7	8.5	12.0	18.0	14.2	10.0
R Systems	132.4	5.7	11.2	14.0	18.5	9.5	7.6
<b>Average</b>					<b>18.5</b>	<b>12.5</b>	<b>9.6</b>

\* - Consensus estimates

Source: IISL research, company, Bloomberg

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**Table 2. Quarterly result table**

Rs mn	Q2CY07	Q1CY07	QoQ (%)	Q2CY06	YoY (%)
Revenue	589	594	-0.7%	495	19.0%
Software development expenses	381	387	-1.5%	288	32.2%
Gross profit	208	207	0.8%	207	0.7%
GPM	35.4%	34.9%		41.8%	
Selling and marketing expenses	164	167	-2.2%	139	18.0%
EBITDA	45	39	13.3%	68	-34.6%
EBITDA margin	7.6%	6.6%		13.8%	
Depreciation	17	18	-6.1%	12	33.0%
Other income	14	7	95.9%	5	166.0%
Interest	1	0	140.9%	1	-5.9%
Restructuring/Non-recurring	-	-		-	
PBT	41	28	44.1%	60	-31.6%
Tax	9	7	17.8%	7	19.9%
Tax rate	21.4%	26.2%		12.2%	
PAT before exceptional items	32	21	53.4%	53	-38.8%

Source: IISL research, company

**Table 3. Forecasts**

YE December	CY06	CY07E	CY08E
Net sales	2,039	2,437	2,840
% change	29.6	19.5	16.5
Net income	78	152	190
% change	-37.7	95.0	25.1
EPS (Rs.)	5.7	11.2	14.0
% change	-37.7	95.0	25.1
P/E (x)	18.5	9.5	7.6
ROE (%)	8.2	11.2	12.7
ROCE (%)	16.5	11.2	14.5

Source: IISL research, company

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