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Q4 FY07  
Result Update

# Prithvi Information

BUY

Rs 285

April 23, 2007

## Fantastic revenue growth, disappointing margins

Company Details		Result Snapshot	
Market Cap:	Rs 5,157m		
52-Week High/Low:	Rs 503 / 244		
Bloomberg Code:	PRIS@IN		
Reuters Code:	PISL.BO / NS		
Shares O/s:	18m		
Average Volume (3 months):	0.4m		
Price Performance			
(%)	1m	3m	12m
Absolute	5.0	(24.6)	(21.0)
Relative to the Sensex	0.6	(22.6)	(36.5)

**Result Snapshot**

Prithvi Information's Q4 revenue, at Rs 2,592m, rose 30% qoq and beat our estimates. However, at the EBITDA and PAT level, the company has once again disappointed the street, as its margins slipped 130bp and 170bp respectively.

The EBITDA margin declined due to the hike in salaries whereas the lower PAT margins stemmed from the increase in loss on account of rupee appreciation.

Maintain a long-term **BUY**, with a price target of Rs 514 (6x FY08E earnings).

### Q4 FY07 Result Overview

(Rs m)

Y/e March	Q4 FY07	Q3 FY07	QoQ Gr. (%)	Q4 FY06	FY06	FY07E	YoY Gr. (%)
<b>Net Sales</b>	<b>2,592</b>	<b>1,993</b>	<b>30.0</b>	<b>1,370</b>	<b>4,527</b>	<b>7,683</b>	<b>69.7</b>
Total Expenses	2,238	1,694	32.1	1,198	3,991	6,609	65.6
<b>Operating Profits / EBITDA</b>	<b>354</b>	<b>300</b>	<b>18.2</b>	<b>172</b>	<b>536</b>	<b>1,074</b>	<b>100.2</b>
Depreciation	13.9	14.1		14.1	19.7	54.7	
<b>EBIT</b>	<b>340</b>	<b>285</b>	<b>19.2</b>	<b>158</b>	<b>517</b>	<b>1,019</b>	<b>97.3</b>
Interest	13.2	6.9		3.6	14.2	41.0	
<b>EBT before Other Income</b>	<b>327</b>	<b>279</b>	<b>17.4</b>	<b>154</b>	<b>502</b>	<b>978</b>	<b>94.7</b>
Other Income	(61)	(45)		23	33	(69)	(305.9)
<b>PBT</b>	<b>266</b>	<b>234</b>	<b>13.8</b>	<b>177</b>	<b>536</b>	<b>909</b>	<b>69.7</b>
Tax	6	0	-	2	2	5	112.0
<i>Tax Rate (%)</i>	<i>2.2</i>	<i>0.1</i>		<i>0.9</i>	<i>0.4</i>	<i>0.5</i>	
<b>PAT</b>	<b>260</b>	<b>234</b>	<b>11.3</b>	<b>175</b>	<b>533</b>	<b>904</b>	<b>69.5</b>
<b>Key Ratios</b>							
<i>GPM (%)</i>	<i>26.2</i>	<i>29.1</i>	<i>(2.9)</i>	<i>29.1</i>	<i>22.1</i>	<i>27.9</i>	<i>5.8</i>
<i>OPM (%)</i>	<i>13.7</i>	<i>15.0</i>	<i>(1.4)</i>	<i>12.5</i>	<i>11.8</i>	<i>14.0</i>	<i>2.1</i>
<i>EBITM (%)</i>	<i>13.1</i>	<i>14.3</i>	<i>(1.2)</i>	<i>11.5</i>	<i>11.4</i>	<i>13.3</i>	<i>1.9</i>
<i>NPM (%)</i>	<i>10.0</i>	<i>11.7</i>	<i>(1.7)</i>	<i>12.8</i>	<i>11.8</i>	<i>11.8</i>	<i>(0.0)</i>
<b>Adjusted EPS (Rs)</b>	<b>14.4</b>	<b>12.9</b>	<b>11.3</b>	<b>9.7</b>	<b>29.5</b>	<b>50.0</b>	<b>69.5</b>

(Stock price as on April 20, 2007)



## Result Highlights

### Good revenue growth, but margins disappointed yet again

Prithvi's revenue grew 30% qoq (and 89.3% yoy), its operating profits grew by 18.2% qoq while its net profit was up by 11.3% qoq. Its operating margin declined by 137bp mainly from the rise in onsite and offshore salaries as also due to a strong rupee. Its net margin further declined by 170bp because of a forex loss of Rs 610m.

### No improvement in onsite-offshore revenue mix

Prithvi's onsite-offshore revenue mix for Q4 FY07 was 90:10. It has not been able to improve this mix in FY07. Moreover, the company's ODC in Hyderabad is not complete as yet and the deadline has been postponed from June 2007 to December 2007.

We believe that the company will not see any margin expansion until and unless it shifts more work offshore -- and this remains one of the biggest concerns so far.

### Rupee appreciation has hit 'other income' badly

Due to a strong rupee, in Q4 Prithvi suffered a forex loss of Rs 61m on the back of Rs 45m in Q3. According to the management, almost 80% of the quarter's revenue is naturally hedged as its pays out salaries and incurs expenditure in dollars. The expenditure is as high as 80-82% of its revenue, and leaves just 18% un-hedged. However, we believe that the company should once again review its "hedging" policy, as this has reduced its earnings for the last two quarters by 18% and 19% respectively.

### Earnings outlook

We expect CAGRs of 22% and 31% in Prithvi's revenue and earnings, respectively, from FY07 to FY09. On the OPM front we are factoring in a 130-bp (FY07) and 100-bp (FY08) improvement in margins due to the shifting of work offshore.

Maintain a **BUY**, with a price target of Rs 514 (6x FY09 earnings).

## Financials and Valuations

For FY08 and FY09, we expect Prithvi to report, respectively, revenue of Rs 9,500m and Rs 11,500m; and net profit of Rs 1,214m and Rs 1,549m. At the CMP of Rs 285, the stock quotes at 4.2x FY08E and 3.3x FY09E earnings. We maintain our **BUY** rating, with a target price of Rs 514 (6x FY09E earnings).



## Key Figures

Y/e March	FY06	FY07E	FY08E	FY09E
Revenues (Rs m)	4,527	7,683	9,500	11,500
EBITDA (Rs m)	536	1,074	1,449	1,869
Margins (%)	11.8	14.0	15.3	16.3
PAT (Rs m)	533	904	1,214	1,549
EPS (Rs)	29.5	50.2	67.2	85.7
PER (x)	9.7	5.7	4.2	3.3
EV / EBITDA (x)	9.8	4.2	3.5	2.3
EV / Sales (x)	1.2	0.6	0.5	0.4
RoCE (%)	27.2	25.4	25.1	25.8
RoE (%)	26.8	27.1	28.5	28.3

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