

# CRANES SOFTWARE INTERNATIONAL LTD.

Still flying high...

Q2 FY 2007 update

## COMPANY DETAILS

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Website	<a href="http://www.cranessoftware.com">www.cranessoftware.com</a>

## SCRIP DETAILS

Market Capitalisation	Rs 11.3 bn.
Book Value per share	Rs 27
Equity Shares O/S (F.V. Rs 2)	114.6 mn.
Median Volumes (12 mths)	37,114
52 Week High/Low	Rs. 136 / 82
BSE Scrip Code	512093
NSE Scrip Code	CRANESSTOFT
Reuters Code	CRAS.BO
Bloomberg Code	EDC@IN

## SHAREHOLDING PATTERN (%)

Qtr. Ended	Mar-06	Jun-06	Sep-06
Promoters	38.0	38.0	37.6
MF's	3.8	3.4	2.6
Banks/FI's	0.9	0.8	0.9
FII's	34.7	36.2	37.0
PCB's	10.5	9.2	8.9
NRI/OCB's	1.7	1.3	1.3
Indian Public	10.2	10.8	10.5

## KEY FINANCIALS (CONSOLIDATED)

Rs. Mn	Quarter Ended			Year Ended		
	Mar-06	Jun-06	Sep-06	2005	2006	2007E
Net Sales	648	621	696	1,634	2,109	2,690
YoY Gr (%)	18.9	31.6	45.9	43.7	29.1	27.5
Op. Profits	274	319	398	929	1,151	1,393
Op. Marg (%)	42.2	51.4	57.2	56.9	54.6	51.8
Net Profits	205	190	211	461	626	781
Eq. Capital	227	227	229	102	227	229

## KEY RATIOS

Year Ended (March)	EPS (Rs.)	ROCE (%)	RONW (%)	P/E (x)	EV/Sales (x)	EV/EBDIT (x)
2005	9.1	28.2	33.7	10.3	3.3	5.9
2006	5.5	20.5	26.6	16.9	5.2	9.2
2007E	6.8	16.7	22.5	13.7	4.5	8.3

## SUMMARY

- Cranes Software International Ltd. (CSIL) reported a 46% YoY increase in net sales and 54% increase in net profit at Rs 696 mn and Rs 211 mn respectively in Q2FY07. Sequentially, net sales and net profit increased by 12% and 11% respectively.
- Exports in the quarter increased by 63% YoY and 8.4% QoQ to Rs 577 mn. Domestic sales, while seeing a slight decrease of 4% YoY, witnessed a sharp upsurge on a sequential basis, growing by 35% to Rs 119 mn. The overseas: domestic sales-mix for the period improved to 83:17, from 74:26 in Q2FY06.
- Proprietary products continue to drive revenue growth showing a 53% YoY and 7% QoQ increase to Rs 563 mn. Third party software revenues grew sequentially by 15% YoY to Rs 91 mn.
- Continued momentum in sales of high margin proprietary products along with lower material costs and SG&A expenses (as a % of sales) led to margin expansion of 580 bps QoQ to 57%.
- During the quarter, CSIL completed the integration of its acquisitions i.e. *InventX* and *Capella*. During the quarter, it also issued 1 mn equity shares towards InventX acquisition.
- *With five acquisitions undertaken over the past 18 months and CSIL's proven capability in enhancing acquired IP's, the company should be able to exceed our FY07 earnings estimates. Due to the high scalability potential from the acquired IP's i.e. SIGMA, SYSTAT and others due to constant upgradation of versions, there is high revenues visibility and safety of margins. However, we plan to revisit our estimates, once the impact of its newer acquisition as well as expansion of geographical reach becomes clearer. Hence, we maintain our BUY recommendation with a price target of Rs 135 on an investment perspective of six months.*

Nov 06, 2006

Sensex : 13187

Nifty : 3809

CMP : Rs 93

Recomm : BUY

CSIL results were in line with our expectations as it reported net sales of Rs 696 mn and net profit of Rs 211 mn, translating into a YoY growth 45.9% and 54% respectively. Sequentially, net sales and net profit increased by 12% and 11% respectively.

Operating margins, at 57%, expanded by 580 bps sequentially to Rs 398 mn. This was attributed to the 270 bps and 330 bps fall in material cost and SG&A expenses respectively as a percentage of sales.

However, on a YoY basis, OPM saw a decline of 260 bps due to the sharp upsurge in SG&A. As a percentage of sales it increased by 420 bps YoY as CSIL focussed on aggressively marketing its new offerings which came into its fold due to acquisitions last year.

Operating profit growth continues to be led by the high margin proprietary product revenues, which increased by 53% YoY and 7% QoQ to Rs 563 mn.

Exports continue to be the main driver of growth for CSIL, reporting an increase of 63% YoY and 8% QoQ to Rs 577 mn. Though domestic sales witnessed a 4% decline YoY to Rs 119 mn, sequentially they saw a 35% increase, led primarily by a 200% increase in training revenue at Rs 42 mn.

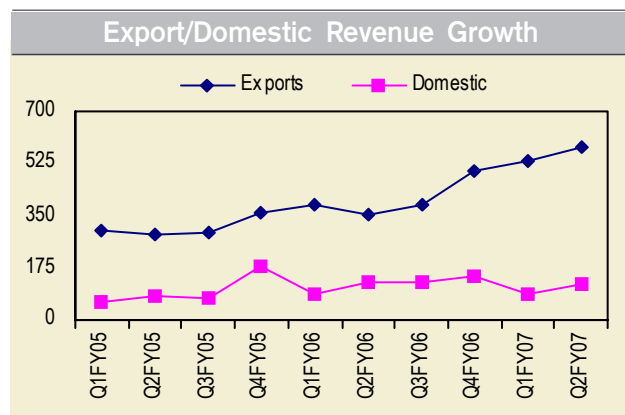
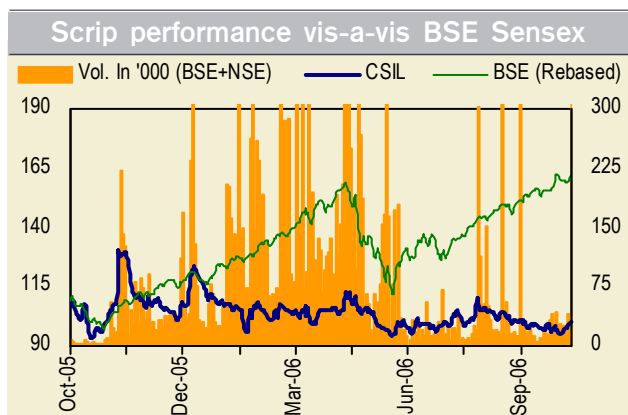
We believe CSIL will continue to deliver sustained growth as we have seen over the past two quarters, due to its emphasis on developing and releasing newer versions of its existing products as well as enhancing the products it has acquired in the past 18 months. This should lead to higher revenues from proprietary products as well as export revenues in the next two quarters and in FY08.

Ample liquidity on the balance sheet should facilitate CSIL to effect further acquisitions in the future and the same could enable it to tap the scalability of its business model.

While the H1FY07 sales and profits prima facie convey that the company is set to surpass our earlier FY07 earnings estimates, we are not revising the same. The reason for this is that there could be substantial capital expenditure towards enhancement of acquired products and the release of newer versions of existing products as well as enhanced versions of acquired products should result in an upward movement in its SG&A. The increase in the geographical spread of its marketing reach could also accentuate the upward pressure.

While there is possibility that operating margins could dip in the coming quarter if these expenses get lumped in a particular time frame, the same could also be alleviated by the ramp up in the acquired operations. We plan to revisit our estimates after a few months when a clearer picture emerges on the above front.

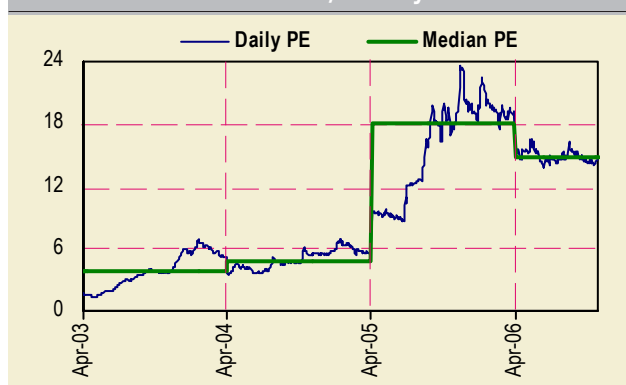
*At the CMP of Rs 93, CSIL is trading at a P/E of 13.7x, EV/EBIDTA of 8.3x and EV/Sales of 4.5x, discounting its FY07 numbers. We believe, that on important parameters such as operating margins and EBIDTA/Headcount, it outshines other mid cap IT companies. These parameters combined with the earnings growth which would come about due to the enhanced product releases as well as future inorganic growth should ensure a re rating in the stock in the coming quarters. Hence, we maintain our BUY recommendation on the stock with a price target of 135 on a six month investment perspective.*



## Financial results for the quarter &amp; half year ended Sep 30, 2006 (Consolidated)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
<b>Net Sales</b>	<b>696</b>	<b>477</b>	<b>45.9</b>	<b>1,317</b>	<b>949</b>	<b>38.8</b>	<b>2,109</b>
<b>Expenditure</b>	<b>(298)</b>	<b>(192)</b>	<b>55.4</b>	<b>(600)</b>	<b>(379)</b>	<b>58.3</b>	<b>(958)</b>
Inventory (Increase)/Decrease	2	(30)	<b>(107.6)</b>	4	(3)	<b>(228.8)</b>	37
Material Cost	92	95	<b>(3.4)</b>	190	138	<b>37.5</b>	363
Personnel Expenses	99	75	<b>31.2</b>	186	141	<b>32.0</b>	263
SG&A Expenses	105	52	<b>102.9</b>	219	103	<b>112.4</b>	295
<b>Operating profit</b>	<b>398</b>	<b>285</b>	<b>39.6</b>	<b>717</b>	<b>570</b>	<b>25.8</b>	<b>1,151</b>
Other Income	(29)	22		(13)	22		30
<b>PBDIT</b>	<b>369</b>	<b>307</b>	<b>20.2</b>	<b>704</b>	<b>591</b>	<b>19.0</b>	<b>1,181</b>
Interest	13	37	(63.7)	25	57	(56.5)	82
Depreciation	107	65	64.2	203	132	53.8	283
<b>PBT</b>	<b>249</b>	<b>205</b>	<b>21.3</b>	<b>476</b>	<b>402</b>	<b>18.2</b>	<b>816</b>
Provision for current tax	38	68	<b>(43.8)</b>	75	135	<b>(44.8)</b>	188
Fringe benefit tax	0	1		0	1		2
<b>Net Profits</b>	<b>211</b>	<b>137</b>	<b>54.0</b>	<b>401</b>	<b>266</b>	<b>50.5</b>	<b>626</b>
Equity Capital	229	102		229	102		227
Reserves (excl. rev. res.)	-	-		-	-		2,897
<b>EPS for the period (Rs)</b>	<b>1.8</b>	<b>2.7</b>		<b>3.5</b>	<b>5.2</b>		<b>5.5</b>
Book Value							
<b>OPM (%)</b>	<b>57.2</b>	<b>59.8</b>		<b>54.5</b>	<b>60.1</b>		<b>54.6</b>
NPM (%)	30.3	28.7		30.4	28.1		29.7
<b>Exp. (% of Net SI.)</b>	<b>42.8</b>	<b>40.2</b>		<b>28.5</b>	<b>29.4</b>		<b>45.4</b>
Material Cost	13.2	19.9		14.4	14.6		17.2
Personnel Expenses	14.2	15.8		14.1	14.8		12.5
SG&A Expenses	15.1	10.9		16.7	10.9		14.0

Median PE v/s Daily PE



PE Band



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