

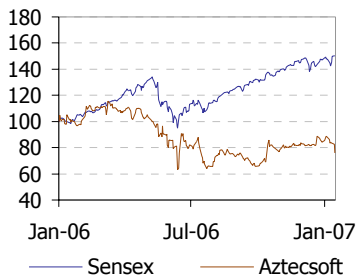
Aztecsoft

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 44mn
 Market cap : Rs.6.6bn
 52 week high/low : Rs.249/ Rs.121
 Avg. daily vol. (6mth) : 291,500 shares
 Bloomberg code : AZTEC IN
 Reuters code : AZTC.BO

Shareholding (%) Dec-06 QoQ chg

Category	Dec-06 (%)	QoQ chg
Promoters	38.7	(4.5)
FII's	24.2	5.7
MFs / UTI	3.9	0.1
Banks / FIs	0.3	(0.1)
Others	32.9	(1.1)

TAKING A BREATHER

Aztec's Q3FY07 performance was below our expectations. Topline growth was muted at 5% QoQ, while PAT was marginally down 2.7% QoQ. Apart from Rupee appreciation, a key factor affecting growth was the negligible incremental revenue from some of its biggest clients on account of year-end holidays. Margins also took a hit due to investments in S&M, increased effective tax rate and higher than anticipated training costs.

Thrust only after Q1FY08

Dendrite ODC transfer: Aztec's revenues will be impacted negatively by ~10% on account of transfer of Dendrite ODC (with effect from 1 Jan 2007). This ODC currently employs 325 people (12% of employees), has single digit NPM and is currently fully taxed. Management has indicated that Q4FY07 topline growth would thus be flat /marginally negative, but effective tax rate would come down to ~9-10% range v/s ~12.5% in Q3FY07.

Growth to resume in FY08: Excluding Dendrite, the remaining 4 big clients are expected to resume high single-digit growth from Q4FY07 onwards. The company is positive on realizing the potential of some key accounts added over the last 3-4 quarters. Aztec has indicated that it intends to grow ~35% in FY08 and NPM would typically move between 15-17% barring any significant currency impact. Employee addition is also expected to resume from Q1FY08, when campus recruits start joining.

Client Performance: Top 5 accounts, which grew double-digits in the previous quarters, were lackluster this time primarily due to year-end holidays in onsite as well as offshore business.

Financials and Valuations: We expect Aztec's FY08 topline and PAT to grow at 28.2% and 27.5% respectively. Aztec is currently trading at 15.3x FY07E and 12.0x FY08E earnings.

Financial summary

Y/E Mar	Sales (Rs. mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)
2005	981	179	-	4.9		18.0	16.5	17.1	14.0
2006	1,982	369	-	8.3	72	25.5	26.0	26.9	17.1
2007E	2,694	430	10.8	9.7	17	15.3	23.9	26.7	9.6
2008E	3,453	549	14.3	12.4	28	12.0	24.5	27.2	7.2

Source: *Consensus broker estimates, Company, ENAM estimates; FY07 and FY08 average INR / USD rate assumed at Rs.45.5 and Rs.44.1 respectively.

Results update

(Rs. mn)	Quarter ended					12 months ended		
	Dec-06	Dec-05	% Chg	Sep-06	% Chg	Mar-07E	Mar-06	% Chg
Net Sales	713	530	34.7	679	5.0	2,694	1,982	35.9
EBIDTA	145	134	8.4	159	(8.8)	576	472	22.1
Other income	11	-	-	(3)	-	21	9	137.9
PBIDT	156	133	16.8	156	(0.3)	597	481	24.2
Depreciation	28	27	4.8	30	(5.4)	117	98	18.9
PBT	127	106	19.8	126	1.0	480	382	25.6
Tax	16	7	137.3	12	37.1	50	14	272.9
Adjusted PAT	112	100	11.9	115	(2.7)	430	369	16.6
No. of shares (mn)	44	44	-	44	-	44	44	-
EBIDTA margins (%)	20.3	25.2	-	23.4	-	21.4	23.8	-
PBIDT margins (%)	21.8	25.2	-	23.0	-	22.2	24.2	-
EPS (Rs.)	2.5	2.3	11.8	2.6	(2.8)	9.7	8.3	16.6

Source: Company, ENAM Research

Q3FY07 Result Analysis

	Q3FY07	% change		Remarks
		QoQ	YoY	
Financials (Rs.mn)				
Topline	713	5.0	34.7	Driven mostly by volume growth of ~8%+, while currency appreciation negatively impacted topline by ~3.8%
Operating Profit	145	(8.8)	8.4	
PAT	112	(2.7)	11.9	
EPS (Rs.)	2.5	-	-	
OPM (%)	20.3	-	-	Margins mainly impacted by higher training costs
Employee base (nos)				
Total Employee base	2,682	1.5	41.9	Employee growth has been much lower than our expectations. Gross additions next quarter will also be very small and mostly focused at senior management level. Dendrite transfer will also have negative impact on net employee additions (Dendrite has 325 employees, ~12% of total employee base)
Revenue Mix (Rs.mn)				
Onsite	121	19.0	52.6	
Offshore	592	2.6	31.5	
Client Concentration (Rs.mn)				
Top 5	350	(2.9)	22.2	Only one of the Top 5 accounts has grown, due to Dec quarter seasonality (clients have seasonal holidays at the year-end which was not the case last year).
Top 10	442	3.4	24.6	
Remaining Clients	271	7.9	55.1	
Segment PBIT Margins (%)				
Aztec	10.6	-238bps	-756bps	Management has indicated that bench costs, senior personnel salaries, integration charges etc. have mostly been incurred under Aztec. However, not much should be read into PBIT margin movement as Aztec and Disha will be merged in the near future.
Disha	26.0	+151bps	+651bps	

Source: Company, ENAM Research

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