

Spice Communications

Rs57; Not Rated

Result Update

Sector: Telecommunications

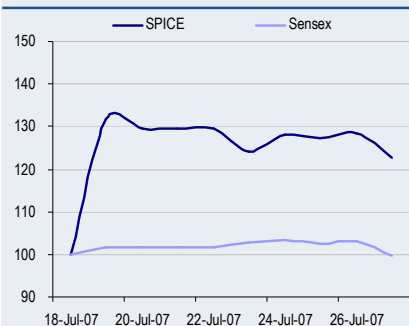
Market cap	Rs39 bn/US\$954 mn
52-week range	Rs67/46
Shares in issue (mn)	689.0
Bloomberg	SPCM IN
Reuters	SPCM.BO
BSE Sensex	15,431
Website	www.spiceindia.com

Shareholding Pattern (%)*

Promoters	40.8
FII/FVCs	2.7
Telekom Malaysia	39.2
Public	16.4
Others	0.9

(As of 31 March 2007)
*Note: *As per IPO document.*

Relative Performance


(As of 31 July 2007)

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Unsavoury

Spice Communications has posted net profit for the first time in Q2CY07, albeit on a lower base and aided by substantial other income of Rs 230 mn (rupee appreciation & surplus IPO funds). Going forward, as the company builds upon its network to enhance the richness of its mobility services across its two circles Punjab and Karnataka, we would see improvements at the operational level. However, the critical challenge in the medium to long term would be to move beyond the present two circles, scale up its operations so as to lend solidity to its business model in terms of lower concentration risk and economies of scale.

Highlights

- **Revenues grew by 31.4% (YoY) and by 8.4% (QoQ) to Rs 2.3 bn** led primarily by growth in subscriber numbers. Total subscriber base of the company, across the two circles (Punjab and Karnataka) (e.o.p) grew by 16.2% (QoQ) and 54.3% (YoY) to 3.17 mn. **In the Karnataka circle, Spice registered growth rates of 28.6% (QoQ) and 115.6% (YoY)** that were higher than the circle total (GSM only), growth of 11.76% QoQ and 69.6% YoY. **Similarly, in case of Punjab, Spice's subscriber base grew by 10.47% (QoQ) and 35.2% (YoY)**, which surpassed the total circle growth rate of 8.8% (QoQ), but fell short of the circles YoY growth rate of 57.4%. This was largely on account of the company's financial limitation on expanding its network capacity across the region.
- **Blended ARPUs (Rs/Sub/month) at Rs 244**, decreased by 6.6% (QoQ), and by 14.9% (YoY) in line with the industry trend.
- **Spice's market share (within Punjab and Karnataka circle-GSM only) increased by 115bps (QoQ) to 18.7% while it declined by 120bps (YoY). On the other hand, Spice's incremental market share increased by 731bps (QoQ) to 26.8%.**
- **EBITDA grew by 62.9% (YoY) and by 3.9% (QoQ)**

Exhibit 1: Financial summary

(Rs mn)

Y/E June	FY05	FY06	H1 CY06
Net Sales	6,065.7	6,614.9	4454.53
EBITDA	1,664.8	1,465.6	1346
EBITDA (%)	27.4	22.2	30.2
Adjusted PAT	73.9	(687.4)	(143.0)
EPS (Rs.)	0.1	(1.0)	(0.2)
EPS Growth (%)		(1,030.8)	
PE (x)	531.8	(57.1)	
EV/EBITDA (x)	24.2	28.2	

Source: Company data, ASK Securities. Note: Valuations as of 31 July 2007.

- **EBITDA margin increased by 570 bps (YoY) to 29.6% as benefits of scale economics played out**, in terms of lower employee, administrative and marketing expenses (as a % of revenues). However the margins declined by 130bps (QoQ) due to a sharp rise in sales and marketing expenses that increased by 357bps to 15.8% of overall revenues. We attribute this sharp increase in marketing budget to the pre-IPO costs and (June'25, 2007) advertising blitzkrieg.
- The other income component increased sharply by 121.7% (YoY) and by 215.8% (QoQ) to Rs 230.7 mn largely on account of windfall gains due to rupee appreciation as well as increased interest income on the undeployed IPO kitty. Of this total, Rs 171 mn was forex gain while interest income was to the tune of Rs 57 mn.
- **The lease rental charges for sharing passive infrastructure increased sharply by 869% (YoY) and 11% (QoQ) to Rs 202.8 mn** as a result of the company's rapidly expanding network to enhance richness and reach of coverage
- **On the tax front, the company continued to pay only fringe benefit taxes as it continued** to enjoy the benefit of carried forward losses of the prior period.
- **Spice posted net profit, for the first time in 2QCY07, at Rs 4.2 mn against net loss of Rs (115.6 mn) in Q2 CY06 and Rs (146.7 mn) in Q1CY07.**

Other developments

- The company has changed its accounting year-end from June to December beginning this quarter.

Exhibit 2: Quarterly result (Consolidated)**(Rs mn)**

	2Q CY07	2Q CY06	% chg	1Q CY07	% chg
Sales from service operations	2,317	1,764	31.4	2,137.1	8.4
Traded products	0.0	0.0			
Net Sales	2,317	1,764	31.4	2,137.1	8.4
Expenditure					
Network Operating cost	725	579	25.4	673	7.8
Administrative cost	194	171	12.9	179	8.2
Staff cost	120	114	5.3	140	(14.8)
Sales and Marketing	367	325	12.9	262	39.9
Cost of goods sold	18	0		34	(47.0)
License fee and WPC charges	208	154	35.1	188	10.4
Total Expenditure	1,632	1,343	21.5	1,477	10.5
EBITDA	685.7	421.0	62.9	659.8	3.9
EBITDA margin (%)	29.6	23.9		30.9	
Other income	230.7	104.1	121.7	73.1	215.8
Depreciation & Amortisation	382.8	309.9	23.6	364.7	5.0
Lease charges-Passive infrastructure	202.8	20.9	869.1	182.8	11.0
EBIT	330.7	194.3	70.2	185.4	78.4
Interest charges	324.1	300.1	8.0	328.3	(1.3)
EBT	6.6	(105.8)	(106.2)	(143.0)	(104.6)
Provision for taxes					
FBT	2.4	2.9		3.7	
	2.4	2.9	(16.2)	3.7	(34.7)
Effective tax rate (%)	36.9	(2.7)		(2.6)	
PAT	4.2	(108.7)	(103.8)	(146.7)	(102.8)
Extraordinary items	0.0	6.8	(100.0)		
Adjusted PAT	4.2	(115.6)	(103.6)	(146.7)	(102.8)
EPS (Rs)	0.0	(0.2)	(104)	(0.2)	
PE (x)					
No. of shares (mn) * post dilution	689.0	689.0		689.0	
CEPS (Rs)	0.6	0.3		0.3	

Source: Company data, ASK Securities.

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