

Setpermber 7, 2007

Industry : IT/Telecom

Analyst:

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IPO Price : Rs.280-295
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Script Scan	Present issue (Mn)	Shareholding Pattern (%)
Face Value (INR)	10.0	(Pre Issue)
Premium (INR)	270-285	Promoters
Equity Capital (Rs.mn) (pre issue)	141.07	Public
Equity Capital (Rs.mn) (post issue)	179.43	(Post Issue)
Market Cap.(Rs.bn)	5.02-5.28	Promoters
		Public
	No of Shares to be issued (Mn)	
	17.94	
	Issue Opens on	
	Sept 10, 2007	
	Issue Closes on	
	Sept 12, 2007	
	Minimum Bid (No. of Shares)	
	20	
	Listing	
	BSE	
	NSE	

Company Profile

Dhanus Technologies Limited is a rapidly growing communications services company. The company offers Telecommunication Services and Unified Messaging and enhanced Logistics Services. The company has a BPO operation of telemarketing services to the US, UK and Australia markets.

The company is headquartered in Chennai, India. The existing business segments in which the company operates include:

- Telecards : World Calling Cards
- Teleservices / ITES/ BPO : Software and BPO Services and Development.
- Telematics : Fleetrac Services

Investor Rationale

- **Strong historical growth:** The company's topline has grown from Rs.47.7mn to Rs.315.26mn at CAGR of 119%. The net profit has shown a CAGR of 129% in the same period.
- **Favourable Macro Scenario for its V-Tel card:** There is a large diaspora of Indians who live and travel abroad and are the target customers for the V-Tel Calling Cards. It is estimated that the number of Indians traveling abroad will rise steadily to reach around 35mn passengers by 2010. The company has increased its customer base from 1.68 lakh global calling cards in FY05 to 4.68 lakh cards in FY07. The segment revenues have grown from Rs 231mn in FY06 to Rs503.2mn (that contributes 56% of the total income) in FY07.
- **Growth in Software Services and Development at a rapid pace:** The software segment has grown from Rs.85.4mn in FY06 to Rs.315.3mn in FY07 at 270%. The operating margin here is around 47% in FY07. The company's software team specializes in building software applications in IP Telephony, IVR applications, Custom CRM applications and Web based Business Process Applications.
- **Marketing Model:** The Company proposes setting up 30 regional offices across the country, in Metros, A class cities and B class cities. Each regional office will have a dedicated team of Sales and Support engineers. All the towns in the region will report to the regional office of that area.
- **Expansion in Fleetrac:** The company has developed a service, which would enable them in the growth of Logistic operators – a fleet and vehicle tracking and management service. The company plans to market it extensively.

Concerns

- **Increased competition in a cluttered market.**
- **Margins on a declining trend :** The operating margins of the company has decreased from 40% in FY06 to 33% in FY07.
- **Fleetrac :** The cost of the hardware used in Fleetrac is around Rs 6400. The initial cost of installation is Rs 3000 with a monthly charge of Rs 500 to the end user. It is assumed that the customers must find it healthy enough to be used for a year atleast to break even on the cost of the product. Failing to do so, will hamper the company's prospects in making this segment profitable.

Valuation

The company is valued at 21.5x (on diluted equity) its trailing twelve months EPS of Rs 13.7. The company has grown reasonably well on a small base. However, the company will have to maintain its high growth on an increasing base sustaining its margins (at 33%) to justify the price commanded. We recommend a subscribe on this issue with a **high risk, high return** status.

Financials

Rs mn)

Particulars	30.06.04	%age	30.06.05	%age	30.06.06	%age	30.06.07	%age
Income								
Software Products & Services	0	0.00	477.14	25.20	854.41	23.78	3152.63	34.85
Telecard Service	142.42	100.00	1415.97	74.80	2313.86	64.39	5031.62	55.62
BPO Services	0	0.00	0	0.00	425.29	11.83	841.63	9.30
FleeTrac Sales/Services	0	0.00	0	0.00	0	0.00	11.84	0.13
Other Income (Interest)	0	0.00	0	0.00	0	0.00	8.85	0.10
Total Income (A)	142.42	100.00	1893.11	100.00	3593.56	100.00	9046.57	100.00
Total Expenditure (B)	127.94	89.83	1408.10	74.38	2167.02	60.30	6096.89	67.39
Net Profit Before Tax & Extra Ordinary Items (A-B)	14.48	10.17	485.01	25.62	1426.54	39.70	2949.68	32.61
Provision for Income Tax	0	0.00	15.00	0.79	109	3.03	470.00	5.20
Deferred Tax (Asset)/Liability	3.27	2.30	2.86	0.15	7.75	0.22	18.63	0.21
Fringe Benefit Tax paid	0	0.00	0	0.00	0.48	0.01	1.83	0.02
Net Profit Before Extra Ordinary Items	11.21	7.87	467.15	24.68	1309.31	36.43	2459.22	27.18
Deferred Tax (Asset)/Liability	(0.84)	(0.59)	0	0.00	0	0.00	0.00	0.00
Net profit After Tax and Extra Ordinary Items	10.37	7.28	467.15	24.68	1309.31	36.43	2459.22	27.1+8

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