

4th May, 2007

## BUY

Price	Target Price
<b>Rs259</b>	<b>Rs311</b>
<b>Sensex</b>	<b>13934</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	26	29	53	2
Rel. to Sensex	15	32	45	(9)

Source: Bloomberg

### Stock Details

Sector	Telecom
Reuters	SPTS.BO
Bloomberg	SPAN@IN
Equity Capital (Rs mn)	235
Face Value (Rs)	10
52 Week H/L	Rs291/113
Market Cap (Rs bn)	4.1
Daily Avg Vol. (No of shares)	229605
Daily Avg Turnover (US\$mn)	1.2

### Shareholding Pattern (%)

(31st Mar.'07)

Promoters	30.4
FII/NRI	18.5
Institutions	8.8
Private Corp.	27.6
Public	14.6

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# Spanco Telesystems

## Growth momentum continues

Result  
Update

Spanco Telesystems and Solutions Ltd announced robust set of numbers for Q4FY07, primarily driven by strong growth in the telecom integration business. The Net sales for the quarter grew by 129% yoy to Rs1118mn (excluding revenues from the hived off business, Sparsh) largely contributed by a robust 178% growth in the telecom integration business. The PAT for the quarter grew by 97% yoy to Rs112mn (not comparable). The revenues for the full year FY07 increased by 197% to Rs4.3bn (excluding Sparsh) with a 282% increase in the revenues from the telecom integration business. The PAT for the full year FY07 increased by 107% to Rs348mn (not comparable). Although the results were slightly below our expectations, we maintain our estimates for FY08 with revenues of Rs7.78bn and PAT of Rs673mn translating into a fully diluted EPS of Rs28.6 for FY08E. We maintain BUY with revised price target of Rs311 using SOTP approach (10x FY08E EPS of Rs28.6 and Rs25 for IRCTC contract).

### Telecom business – the prime driver

Spanco Telesystems reported a robust increase of 129% in the net sales (like to like basis) for Q407 to Rs1118mn primarily driven by 178% rise in telecom integration business to Rs1016mn. For FY07, the company posted a revenue growth of 197% contributed largely by 282% growth in the telecom business to Rs3947mn. The EBITDA margins for Q407 declined to 17.1% as against 19.8% during the same quarter last year. The margins for the full year FY07 stood at 14.8% as against 20.5% in FY06. The fall in the margins was due to the higher contribution from the telecom integration business, which is a low margin business. The PAT for Q407 stood at Rs112mn an increase of 97% yoy. The PAT for FY07 increased by 107% yoy to Rs348mn.

### Equity dilution to fund capex

During the quarter Spanco telesystems issued an aggregate 4.83mn equity shares on preferential basis to the promoters, Chrys Capital and UTI advisory. Apart from these, the company has also issued 1.35mn and 1.5mn warrants to the promoter and Chrys capital respectively, convertible within the next 18 months. After the issue, the fully diluted equity of the company would stand at Rs235mn. The equity dilution would take care of the capex requirements of the company for the IRCTC project. Our expected fully diluted EPS for FY08E would now stand at Rs28.6 as against the earlier Rs27.7.

### Outlook and Valuations

We believe that Spanco Telesystems is rightly positioned to take advantage of the robust growth in the telecom industry. Although the results for FY07 were slightly below our expectations, we strongly believe that the company would continue to maintain the robust growth and hence maintain our estimates for FY08E. We expect the revenues for FY08E to increase by 81% to Rs7772mn. We expect the company to report stable margins of 14.8% for FY08E. We expect the PAT for FY08E to increase by 93% to Rs673mn translating into an EPS (fully diluted) of Rs28.6. We maintain BUY recommendation on the stock with a price target of Rs311 based on the SOTP approach (10x FY08E EPS of Rs28.6 and Rs25 for IRCTC contract).

### Key financials

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	RoCE (%)	EV/ EBITDA	P/BV	Div Yld (%)	AEPS (Rs)	P/E (Diluted)
FY05	1,044	221	21.2	98	28.3	21.2	7.2	0.2	5.8	34.5
FY06	2,001	410	20.5	168	27.7	11.1	2.9	0.7	10.6	24.3
FY07	4,297	635	14.8	348	10.6	8.7	1.9	0.8	16.9	15.3
FY08E	7,772	1,154	14.8	673	22.6	6.7	1.6	1.6	28.6	9.0

## Financials overview

Quarter ended March 07

(Rs mn)	Q4FY07	Q4FY06#	Change (%)	FY06	FY07	Change (%)
Telecom	1015.8	366.0	177.6	1033.1	3947.3	282.1
Sparsh#	0.0	140.0	-100.0	552.8	0.0	-100.0
Respondez	101.8	121.5	-16.2	415.3	350.1	-15.7
<b>Total Revenue</b>	<b>1117.6</b>	<b>627.5</b>	<b>78.1</b>	<b>2001.2</b>	<b>4297.3</b>	<b>114.7</b>
(Incr)/Dcr in stocks	-27.0	6.1	-543.5	-1.6	-69.5	4243.1
Consumption of RM	774.5	198.0	291.2	589.4	2908.5	393.4
Staff Cost	75.4	151.1	-50.1	515.7	313.1	-39.3
Others exp.	103.8	148.3	-30.0	488.1	510.3	4.5
Total Expenditure	<b>926.6</b>	<b>503.5</b>	<b>84.0</b>	<b>1591.6</b>	<b>3662.4</b>	<b>130.1</b>
% of revenue	82.9	80.2	3.3	79.5	85.2	7.2
EBIDTA	<b>191.0</b>	<b>124.0</b>	<b>54.0</b>	<b>409.5</b>	<b>634.9</b>	<b>55.0</b>
Margin, %	<b>17.1</b>	<b>19.8</b>		<b>20.5</b>	<b>14.8</b>	
Interest	30.6	21.5	41.9	75.2	100.4	33.5
Depreciation	25.0	40.5	-38.3	135.5	88.7	-34.5
PBT	<b>135.4</b>	<b>61.9</b>	<b>118.7</b>	<b>198.8</b>	<b>445.8</b>	<b>124.2</b>
Other Income	14.9	2.6	472.5	8.5	32.6	283.8
Tax	31.0	9.4	230.5	38.0	112.4	196.1
Deferred tax	7.7	-1.5		1.1	18.3	
Tax rate (%)	28.6	12.6		19.6	29.3	
PAT	<b>111.6</b>	<b>56.7</b>	<b>96.8</b>	<b>168.2</b>	<b>347.7</b>	<b>106.7</b>
Equity	235.0	235.0		235.0	235.0	
EPS, Rs	<b>4.7</b>	<b>2.4</b>	<b>96.8</b>	<b>7.2</b>	<b>14.8</b>	<b>106.7</b>
<b>Cost of sales (%)</b>						
Consumption of RM	66.9%	32.5%		29.4%	66.1%	
Staff Cost	6.7%	24.1%		25.8%	7.3%	
Others exp.	9.3%	23.6%		24.4%	11.9%	

Note - # - Including Sparsh

## Segmental performance

(Rs mn)	Q4FY07	Q4FY06#	Change (%)	FY06	FY07	Change (%)
<b>Telecom</b>	<b>1015.8</b>	<b>366.0</b>	177.6	<b>1033.1</b>	<b>3947.3</b>	282.1
PBIT	168.4	64.0	163.1	184.9	553.8	199.4
PBIT,%	16.6	17.5		17.9	14.0	
<b>BPO services</b>	<b>101.8</b>	<b>267.3</b>	-61.9	<b>968.1</b>	<b>350.1</b>	-63.8
PBIT	25.4	41.1	-38.2	162.9	77.0	-52.8
PBIT,%	25.0	15.4		16.8	22.0	
<b>Total Revenue</b>	<b>1117.6</b>	<b>633.2</b>	<b>76.5</b>	<b>2001.2</b>	<b>4297.3</b>	<b>114.7</b>
PBIT	193.8	105.1	84.4	347.9	630.7	81.3
PBIT,%	17.3	16.6		17.4	14.7	

## Financial tables

## Income Statement

Y/E, Mar (Rs. mn)	FY05	FY06	FY07	FY08E
Telecom	555	1,033	3,947	7,025
Domestic Call Centre	258	553	-	-
Other (Rfid, Oman JV)				320
International Call Centre	231	415	350	369
Gross sales	1,044	2,001	4,297	7,772
Growth (%)	70.5	91.6	114.7	80.9
Expenses	823	1,592	3,662	6,619
Growth (%)	65.3	93.4	130.1	80.7
Raw Materials	362	588	2,839	5,237
% of sales	34.7	29.4	66.1	67.4
Employee Cost	261	516	313	540
% of sales	25.0	25.8	7.3	7.0
Selling/Admin Cost	199	488	510	841
% of sales	19.1	24.4	11.9	10.8
EBIDTA	221	410	635	1,154
Growth (%)	93.0	85.0	55.0	81.7
EBIDTA %	21.2	20.5	14.8	14.8
Other income	4	9	33	45
Interest	31	75	100	183
Depreciation	70	136	89	110
PBT	124	207	479	906
Current tax	11	38	116	233
Deferred tax	15	1	15	-
PAT	98	168	348	673
Growth (%)	56.1	71.0	106.9	93.4
Net Margin (%)	9.4	8.4	8.1	8.7

## Cash Flow

Y/E, Mar (Rs. mn)	FY05	FY06	FY07E	FY08E
Pre-tax profit	124	207	479	906
Depreciation	70	136	89	110
Interest Provided	31	75	100	183
Interest Paid	(31)	(75)	(100)	(183)
Others	11	19	2	(2)
Chg in working cap	(53)	(735)	(481)	(1,854)
Tax paid	(5)	(38)	(116)	(233)
Operating cash Inflow	147	(411)	(27)	(1,073)
Capital expenditure	(456)	(80)	(120)	(250)
Free Cash Flow	(309)	(492)	(147)	(1,323)
Investments	-	-	(610)	(650)
Equity Capital Raised	250	532	1,092	548
Loans Taken / (Repaid)	163	129	900	600
Dividend (incl tax)	(14)	(12)	(36)	(47)
Others	-	(195)	-	-
Net chg in cash	89	(37)	1,198	(872)
Opening cash position	18	107	70	1,268
Closing cash position	107	70	1,268	396

Source – Emkay research

## Balance Sheet

Y/E, Mar (Rs. mn)	FY05	FY06	FY07E	FY08E
Equity Share Capital	170	158	207	235
Reserves & surplus	440	1,230	2,556	3,641
Networth	610	1,388	2,763	3,876
Deferred tax liability	14	1	19	19
Loan Funds	413	542	1,482	2,082
<b>Total Liabilities</b>	<b>1,037</b>	<b>1,931</b>	<b>4,264</b>	<b>5,977</b>
Gross Block	732	567	933	1,183
Less: Depreciation	138	193	282	392
Net block	594	374	650	790
Capital work in progress	-	245	-	-
Investment	16	16	627	1,277
Inventories	7	91	118	213
Sundry debtors	360	959	1,472	2,875
Cash & bank balance	107	71	1,268	396
Loans & advances	264	670	1,177	2,236
Other assets	-	-	-	-
Current liabilities	(278)	(434)	(1,001)	(1,704)
Provisions	(34)	(61)	(51)	(107)
Net current assets	427	1,295	2,983	3,908
Misc exp.	-	-	-	-
<b>Total Assets</b>	<b>1,037</b>	<b>1,931</b>	<b>4,264</b>	<b>5,977</b>

## Valuations

Y/E, Mar (Rs. mn)	FY05	FY06	FY07E	FY08E
<b>Per Share Data (Rs)</b>				
EPS	5.8	10.6	16.9	28.6
Cash EPS	9.9	19.2	21.2	33.3
EBITDA / Share	13.0	25.9	30.7	49.1
Book Value	35.9	87.7	133.8	165.0
<b>Valuations</b>				
PER (x)	44.5	24.3	15.3	9.0
Price / CEPS (x)	26.0	13.4	12.2	7.7
Price / BV (x)	7.2	2.9	1.9	1.6
EV / Sales (x)	4.5	2.3	1.3	1.0
EV / EBITDA (x)	21.2	11.1	8.7	6.7
DPS (Rs)	0.5	1.8	2.0	4.0
Dividend Yield (%)	0.2	0.7	0.8	1.6
<b>Returns (%)</b>				
RoCE	28.3	27.7	20.6	22.6
RoNW	21.9	16.8	16.8	20.3
RoA	9.6	8.7	8.2	11.3
RoIC	16.5	14.9	23.0	24.2

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