

Onmobile Global

Telefonica deal – icing on the cake

Pact with Telefonica for deploying VAS in Latin America: Onmobile has signed a business agreement with Telefonica Spain for exclusive long-term market rights to deploy a wide range of mobile value added services (VAS) in 13 countries of Latin America. The deal is a significant positive for Onmobile as it offers unparalleled access to the Telefonica Group's ~130mn-strong subscriber base in Latin America, which delivers high ARPUs (€10 in Latin America against €4 in India).

Notches up two major wins in four months: The Telefonica deal follows Onmobile's tie-up with Vodafone for emerging markets in April, which opened the door to ~80mn subscribers (excluding India). Vodafone's emerging market ARPUs are in the range of €27. Globally, Vodafone and Telefonica are ranked number 2 and 3 respectively in terms of subscriber market share, only behind China Mobile.

Latin America difficult to penetrate – finally a breakthrough: Following its product and technology-based acquisitions (Voxmobili in September '07 and Telsima in June '08), Onmobile has been scouting for acquisitions for close to a year now in the difficult to penetrate markets of Latin America, Eastern Europe and China. The Telefonica deal gives the company access to one of the tougher markets.

Potential attractions of Telefonica deal: In addition to providing geographical access, the business agreement with Telefonica offers the following benefits: a) The deal is an exclusive arrangement for most VAS. b) It clearly outlines a potential outlay of US\$ 50mn over the period of the agreement for building out the VAS business, which is quite aggressive (Onmobile's capex excluding acquisitions over the last four years totals ~US\$ 40mn). Funding would not be a constraint with US\$ 60mn of net cash on hand. c) A de-risked business model with an increasing international presence and entry into new geographies. d) The agreement is in line with Onmobile's existing revenue share model, which has fuelled its growth over the years in the domestic market.

Revise estimates and target price, upgrade to Buy: We are maintaining our estimates for FY10 as we believe it would take at least 6–9 months for Onmobile to deploy and launch its services in Latin America. However, we are increasing our FY11 revenue and earnings estimates by 6.4% and 8.2% respectively to factor in incremental growth from the Telefonica deal. We are assuming that ~3% of Telefonica's existing 130mn customers subscribe to Onmobile's services in FY11 with an incremental VAS ARPU of € 0.5 and 35% revenue share. We are upgrading the stock from Hold to Buy with target price of Rs594 based on a P/E multiple of 18x FY11E earnings (two year PEG ratio of 0.37).

Financial highlights

(Rs mn)	FY08	FY09E	FY10E	FY11E
Revenue	2,618	4,063	5,720	8,647
Growth (%)	96.9	55.2	40.8	51.2
Adj net income	603	852	1,169	1,868
Growth (%)	75.8	41.2	37.2	59.8
FDEPS (Rs)	10.5	14.7	20.2	32.3
Growth (%)	75.8	41.1	37.2	59.8

Profitability and return ratios

(%)	FY08	FY09E	FY10E	FY11E
EBITDA margin	40.0	31.3	35.4	38.8
EBIT margin	30.3	20.5	25.0	29.2
Adj PAT margin	23.0	21.0	20.4	21.6
ROE	14.8	13.0	15.4	20.5
ROIC	28.7	17.7	21.6	30.5
ROCE	14.8	12.7	15.2	20.5

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 457	Rs 594	BUY	HIGH

BSE	NSE	BLOOMBERG
532944	ONMOBILE	ONMB IN

Company data

Market cap (Rs mn / US\$ mn)	26,467 / 543
Outstanding equity shares (mn)	58
Free float (%)	42
Dividend yield (%)	-
52-week high/low (Rs)	571/185
2-month average daily volume	220,304

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Onmobile	457	9.0	42.4	115.4
Sensex	13,854	(4.0)	26.6	57.9

Valuation matrix

(x)	FY08	FY09E	FY10E	FY11E
P/E @ CMP	43.7	31.0	22.6	14.1
P/E @ Target	56.8	40.3	29.4	18.4
EV/EBITDA @ CMP	22.1	18.2	11.4	6.9





Fig 1 - Revised estimates – FY11E

Particulars	Earlier	Revised	Change
Revenue (Rs mn)	8,130	8,647	6.4
EBITDA (Rs mn)	3,130	3,352	7.1
EBITDA margin (%)	38.5	38.8	26 bps
PAT (Rs mn)	1,726	1,868	8.2
PAT margin (%)	21.2	21.6	37 bps
EPS (Rs)	29.9	32.3	8.2

Source: RHH

Fig 2 - Onmobile's revenue break-up

(Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
Domestic	1,302	2,248	3,075	4,010	5,228
% growth YoY		72.7	36.8	30.4	30.4
% of Total	97.9	85.9	75.7	70.1	60.5
International					
Vodafone			-	126	756
Telefonica			-	-	573
Voxmobili		331	646	839	1,049
Telsima			146	254	304
Other*	28	39	196	491	736
Subtotal	28	370	988	1,710	3,419
% growth YoY		1,221.4	167.1	73.0	100.0
% of Total	2.1	14.1	24.3	29.9	39.5
Total	1,330	2,618	4,063	5,720	8,647
% growth YoY		96.9	55.2	40.8	51.2

Source: RHH, Company *Others primarily comprises Onmobile's operations in other international countries like Indonesia, Bangladesh, Australia and South Africa

Fig 3 - Telefonica's Latin America wireless market landscape

Country	Population (mn)	Ind subs (mn)	Pent. (%)	Tele subs (mn)	Subs mkt share (%)	ARPU (€)	Revenue mkt share position
Brazil	190	150	79	45	30	11.2	1
Mexico	110	78	71	15	20	8.2	2
Venezuela	28	28	100	11	38	16.9	1
Colombia	45	41	91	10	24	6.8	2
Peru	28	17	61	11	63	6.0	1
Ecuador	15	12	81	3	27	6.7	
Argentina	40	44	110	15	34	8.7	1
Chile	16	16	97	7	43	12.3	1
Central America*	32	25	80	6	23	7.4	
Total / Average	502	410	82	122	30	10.0	

Source: RHH, Company *Central America includes operations of five countries (Panama, Nicaragua, Guatemala, El Salvador and Uruguay)

International revenue contribution to increase from 24% to 40% by FY11

International revenue to mitigate country risk for Onmobile

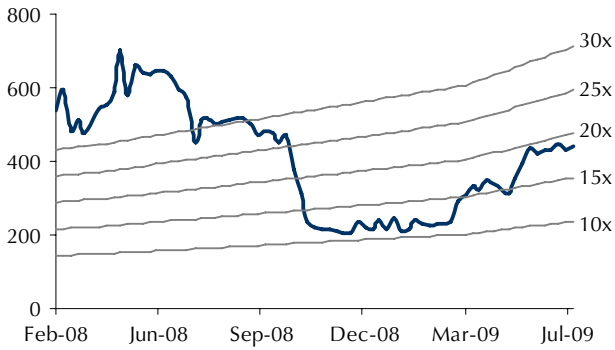
Telefonica is the No 3 player globally in terms of subscriber base behind China Mobile and Vodafone

Telefonica generates 93% of its revenues in geographies where it holds No 1 or No 2 market share position



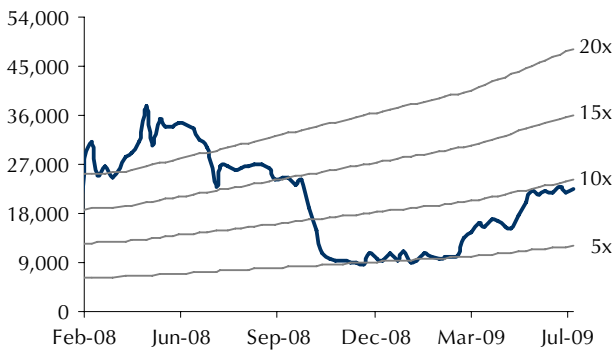
Valuation band analysis

1-year fwd P/E

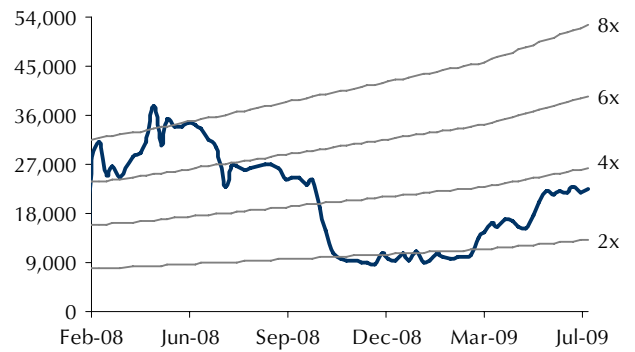


- ❖ It is difficult to assign a trading band to Onmobile given its limited trading history. For a short period of time, the company has traded in a P/E band of 40–50x, but this has declined subsequently due to the overall market slowdown and subdued H1FY09 results.
- ❖ With the Vodafone and Telefonica deals, Onmobile has significantly increased its geographical footprint in emerging markets besides India, covering Eastern Europe, Latin America, Indonesia, etc.
- ❖ With a two-year revenue and earnings CAGR of 46% and 48% respectively between FY09-FY11 and a growing international presence with leading global telecom operators, we expect a significant re-rating for the stock.

1-year fwd EV/EBITDA



1-year fwd EV/Sales





Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Revenues	2,618	4,063	5,720	8,647
<i>Growth (%)</i>	96.9	55.2	40.8	51.2
EBITDA	1,048	1,274	2,027	3,352
<i>Growth (%)</i>	71.9	21.5	59.1	65.4
Depreciation & amortisation	256	440	597	828
EBIT	793	834	1,429	2,524
<i>Growth (%)</i>	69.7	5.2	71.4	76.6
Interest	17	1	-	-
Other income	75	318	240	264
EBT	850	1,151	1,669	2,788
Income taxes	247	299	501	920
Effective tax rate (%)	29.1	26.0	30.0	33.0
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	603	852	1,169	1,868
Adjustments	-	-	-	-
Adjusted net income	603	852	1,169	1,868
<i>Growth (%)</i>	75.8	41.2	37.2	59.8
Shares outstanding (mn)	57.7	57.8	57.8	57.8
FDEPS (Rs) (adj)	10.5	14.7	20.2	32.3
<i>Growth (%)</i>	75.8	41.1	37.2	59.8
DPS (Rs)	-	-	-	-

Cash flow statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Net income + Depreciation	859	1,292	1,766	2,696
Non-cash adjustments	65	27	-	-
Changes in working capital	(305)	(765)	(499)	(651)
Cash flow from operations	619	554	1,266	2,045
Capital expenditure	(830)	(634)	(937)	(1,412)
Change in investments	(3,223)	2,422	87	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(4,053)	1,788	(850)	(1,412)
Issue of equity	3,688	0	-	-
Issue/repay debt	993	(947)	(17)	(21)
Dividends paid	-	-	-	-
Other financing cash flow	-	-	-	-
Change in cash & cash eq	1,247	1,396	399	612
Closing cash & cash eq	1,459	2,855	3,254	3,866

Economic Value Added (EVA) analysis

Y/E March	FY08	FY09	FY10E	FY11E
WACC (%)	14.7	16.5	13.0	13.0
ROIC (%)	28.7	17.7	21.6	30.5
Invested capital (Rs mn)	2,631	4,340	4,934	6,169
EVA (Rs mn)	369	52	423	1,077
EVA spread (%)	14.0	1.2	8.6	17.5

Balance sheet

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and cash eq	1,459	2,855	3,254	3,866
Accounts receivable	991	1,446	2,035	3,075
Inventories	-	-	-	-
Other current assets	970	1,708	2,263	3,230
Investments	3,194	87	-	-
Gross fixed assets	1,134	2,536	3,451	4,413
Net fixed assets	740	975	1,293	1,848
CWIP	112	72	94	122
Intangible assets	1,423	2,108	2,108	2,108
Deferred tax assets, net	(39)	(67)	(89)	(115)
Other assets	-	-	-	-
Total assets	8,850	9,184	10,958	14,135
Accounts payable	648	845	1,154	1,491
Other current liabilities	1,092	177	79	103
Provisions	721	996	1,536	2,506
Debt funds	-	46	29	8
Other liabilities	279	129	-	-
Equity capital	574	578	578	578
Reserves & surplus	5,537	6,412	7,581	9,449
Shareholder's funds	6,111	6,991	8,159	10,027
Total liabilities	8,850	9,184	10,957	14,134
BVPS (Rs)	105.9	121.0	141.2	173.6

Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
Profitability & Return ratios (%)				
EBITDA margin	40.0	31.3	35.4	38.8
EBIT margin	30.3	20.5	25.0	29.2
Net profit margin	23.0	21.0	20.4	21.6
ROE	14.8	13.0	15.4	20.5
ROCE	14.8	12.7	15.2	20.5
Working Capital & Liquidity ratios				
Receivables (days)	107	109	111	108
Inventory (days)	-	-	-	-
Payables (days)	255	194	191	165
Current ratio (x)	2.0	5.9	6.1	6.4
Quick ratio (x)	1.4	4.2	4.3	4.4
Turnover & Leverage ratios (x)				
Gross asset turnover	3.4	2.2	1.9	2.2
Total asset turnover	0.5	0.5	0.6	0.7
Interest coverage ratio	46.4	1,667.8	-	-
Adjusted debt/equity	0.0	0.0	0.0	0.0
Valuation ratios (x)				
EV/Sales	8.9	5.7	4.1	2.7
EV/EBITDA	22.1	18.2	11.4	6.9
P/E	43.7	31.0	22.6	14.1
P/BV	4.3	3.8	3.2	2.6



Quarterly trend

Particulars	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Revenue (Rs mn)	805	688	779	975	1,157
YoY growth (%)	NA	NA	NA	NA	43.8
QoQ growth (%)	NA	(14.5)	13.2	25.2	18.7
EBITDA (Rs mn)	393	171	209	274	405
EBITDA margin (%)	48.8	24.9	26.8	28.1	35.0
Adj net income (Rs mn)	257	45	152	184	277
YoY growth (%)	NA	NA	NA	NA	7.7
QoQ growth (%)	NA	(82.5)	237.1	21.0	50.9

DuPont analysis

(%)	FY07	FY08	FY09	FY10E	FY11E
Tax burden (Net income/PBT)	67.2	70.9	74.0	70.0	67.0
Interest burden (PBT/EBIT)	109.3	107.3	138.0	116.8	110.5
EBIT margin (EBIT/Revenues)	35.1	30.3	20.5	25.0	29.2
Asset turnover (Revenues/Avg TA)	74.0	45.1	45.1	56.8	68.9
Leverage (Avg TA/Avg equity)	145.4	142.7	137.6	132.9	138.0
Return on equity	27.7	14.8	13.0	15.4	20.5

Company profile

Onmobile an Infosys incubated company is the pioneer and leader of VAS in India with growing international presence. Onmobile's product offering includes ring back tones (RBT), voice portals, ringtone downloads, subscription management, contests, music messaging, on-device client software, mobile radio, dynamic voicemail, voice SMS and missed call alerts. These products are accessible across all channels including Voice, SMS, MMS, WAP, USSD & rich client On-Device portals.

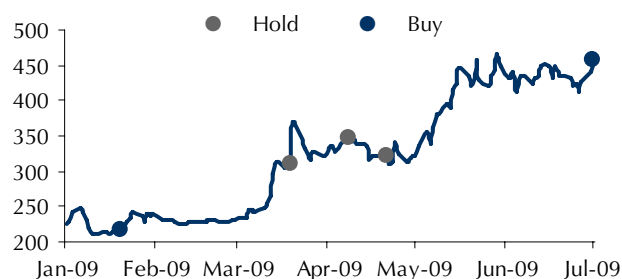
Shareholding pattern

(%)	Dec-08	Mar-09	Jun-09
Promoters	57.1	57.1	56.9
FIs	19.4	21.3	20.7
Banks & FIs	4.4	4.3	5.4
Public	19.0	17.3	17.1

Recommendation history

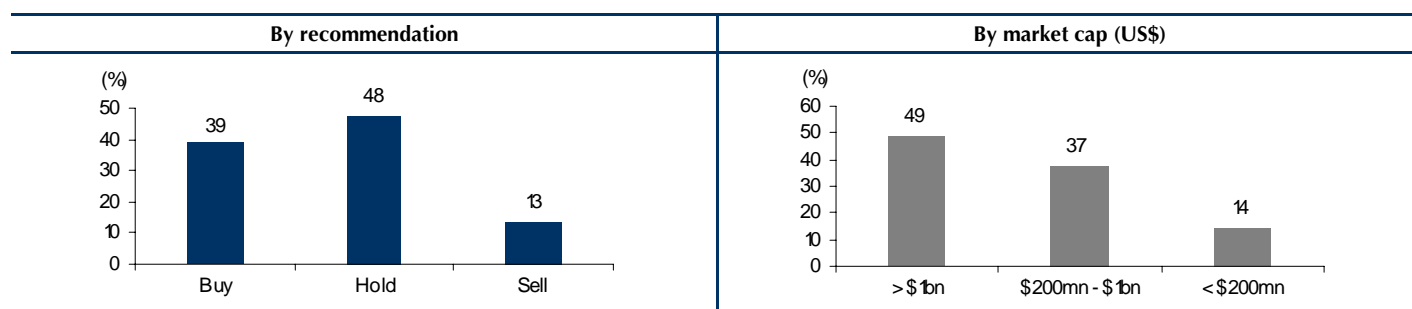
Date	Event	Reco price	Tgt price	Reco
2-Feb-09	Initiating Coverage	215	296	Buy
6-Apr-09	Quarterly Preview	307	296	Hold
22-Apr-09	Company Update	348	324	Hold
4-May-09	Results Review	321	324	Hold
15-Jul-09	Company Update	457	646	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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