

BUY

Rs 267.7

Sensex: 12,219; Nifty: 3,665

Stock data

Bloomberg	ALST IN
Reuters	ALLS.BO/ALLS.NS
Shares outg (mn)	12
Market cap (Rs mn)	3229
Market cap (US\$ mn)	73
3-m dly avg vol	24,951

Share price performance

52-week high/low (Rs)	307/118		
	-1m	-3m	-12m
Abs (%)	2.3	12.6	NA
Rel* (%)	(5.4)	(9.5)	NA

*to Nifty

Financial snapshot

Rs mn

YE March	FY06	FY07E	FY08E
Net sales	923	1,557	2,402
(%)change	60.1	68.7	54.3
Net income	216	358	534
(%) change	85.0	65.5	49.1
EPS (Rs.)	18.0	29.8	44.5
(%) change	36.1	65.5	49.1
P/E (x)	14.9	9.0	6.0
ROE (%)	30.0	39.0	40.9
ROCE (%)	28.3	37.6	39.2

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Allsec Technologies

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Maintain a buy

Allsec Technologies reported revenues of Rs259mn and net profit of Rs63mn in Q4FY06, a sequential increase of 7.7% and 13.9%, respectively. The company however reported only standalone numbers and not the consolidated (Allsec+B2K) revenues and net profit that we had estimated. Therefore, the revenues and net profit was 8.5% above and 3.3% below our estimates, respectively.

We are reducing our FY07E and FY08E consolidated revenue estimates by 8% and 7.2%, respectively, to Rs1.55bn and Rs2.40bn, respectively, to factor in lower top line growth. We now expect the company to post an EPS of Rs29.8 and Rs44.5 in FY07E and FY08E, respectively, 4.5% and 6.3% below our estimates. With the EPS expected to grow at a two year FY06-08E CAGR of 57.0%, we maintain a buy with a price target of Rs298, 10x FY07E earnings.

The key highlights are:

- ◆ Allsec (standalone) reported revenues of Rs259.3mn, up 7.7% QoQ. The revenue increase is likely on account of volume growth. The company added 240 new employees in Q4FY06-most of which is likely to be billable in Q1FY07E. The company further expects to add around 1,000 employees in Allsec Technologies. We expect the consolidated entity (Allsec and B2K corporation) to add 1,450 employees in FY07E taking the total employee strength to 3,600.
- ◆ We believe that B2K corporation posted a loss in Q4FY06 on account of a) lower utilization of available resources and b) higher integration cost. Going forward, we expect the EBITDA margins to expand as the company increases the utilization in B2K and no integration costs.
- ◆ The EBITDA margins fell 150 bps in Q4FY06 to 28.3% on account of higher operating and G&A expenses as the company commissioned the last phase of its 1,000 seats expansion. We believe that going forward the cost will come down increasing the EBITDA margins as these seats start contributing to the top line.
- ◆ Compucredit contributed 40% to the revenues in Q4FY06 as against 44.5% in Q3FY06. We expect the Compucredit contribution to reduce further as the contribution from other clients' increases.
- ◆ Allsec reported a 13.9% sequential increase in net profit to Rs63mn despite EBITDA margins falling 150 bps on account of higher other income due to mutual fund redemption.
- ◆ We are reducing our FY07E and FY08E consolidated revenue estimates by 8% and 7.2% respectively to factor in lower revenue growth. We now expect Allsec to post consolidated EPS of Rs29.8 and Rs44.5 in FY07E and FY08E respectively, 4.5% and 6.3% below our estimates. At the current PER of 9.0x FY07E earnings we believe that there is still some upside to the stock. Therefore we maintain a buy on the stock with a price target of Rs 298, 10x FY07E earnings.

Quarterly result table						Rs mn
	Q4FY06	Q3FY06	QoQ (%)	Q4FY05	YoY (%)	
Revenues	259	241	7.7	161	61.0	
Staff cost	91	92	-1.1	69	32.0	
Operating Expenditure	45	38	18.3	20	124.6	
Other Expenditure	50	39	28.3	28	75.5	
EBITDA	73	72	2.2	44	67.8	
<i>EBITDA (%)</i>	28.3	29.8		27.1		
Interest	0.3	0.7	-51.4	2.6	-86.2	
Depreciation	17.5	15.6	11.7	10.2	71.7	
Other income	8.9	0.7	1206.6	0.1	9222.9	
PBT	64	56	14.9	31	107.8	
Tax	1.3	0.7	102.3	-5.9		
PAT	63	55	13.9	37	71.0	

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