

# OnMobile Global (ONMGLO)

Rs 290

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 300 to Rs 318
EPS (FY11E) .....	Changed from Rs 9.1 to Rs 15.2
EPS (FY12E) .....	Changed from Rs 15.4 to Rs 21.9
RATING.....	Unchanged

## Moving towards higher growth trajectory...

OnMobile Global declared its Q1FY11 results that were above our expectations. The company reported a topline of Rs 123.8 crore growing 15.4% YoY and 0.7% QoQ against our expectation of Rs 106.0 crore. EBITDA margin for the quarter at 22.9% was up by an impressive 509 bps QoQ and 18 bps YoY, primarily due to lower cost of sales and SG&A expenses. PAT stood at Rs 17.8 crore, a QoQ and YoY jump of 61.2% and 106.5%, respectively. The jump can be attributed to lower tax provisioning due to an existing office falling under a newly formed SEZ and partly due to forex gain of ~Rs 2.1 crore.

### ■ Highlights for the quarter

OnMobile has reinitiated services for a lost client on the CDMA platform in the domestic market during the end of Q1FY11. The company deployed RBT with Telefonica in one more country in this quarter and is now live in two Latin American countries. In sync with the FIFA World Cup, the company developed the OnMobile Futbol product on SMS and WAP and deployed it in LATAM markets across 12 countries. In Europe, it deployed speech recognition and IVR solution for a large retail chain in partnership with a large telco.

Domestic revenues for the quarter stood at Rs 95.2 crore as compared to Rs 83.8 crore in Q1FY10. International revenues also improved from Rs 23.4 crore in Q1FY10 to Rs 24.7 crore in Q1FY11.

## Valuation

OnMobile is expected to gain momentum in the international market on account of the full deployment of solutions within the Telefonica and Vodafone group companies. Also, the launch of 3G services in the domestic market would give the company the necessary thrust. At the CMP of Rs 290, the stock is trading at 19.1x FY11E EPS of Rs 15.2 and 13.3x FY12E EPS of Rs 21.9. Using the DCF methodology, we have valued the stock at Rs 318, implying an upside of 9.7%. Our target price discounts the FY12E EPS by 14.6x. We maintain our rating as **ADD**.

### Exhibit 1: Valuation Metrics

(Rs Crore)	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	123.8	106.0	107.2	122.9	0.7	15.4
EBITDA	28.4	19.3	24.4	21.9	29.5	16.3
EBITDA Margin (%)	22.9	18.2	22.8	17.8	509 bps	18 bps
Depreciation	13.2	12.1	13.3	11.2	17.9	-0.5
Interest	0.1	0.1	0.0	0.1	30.0	225.0
Reported PAT	17.8	10.6	8.6	11.1	61.2	106.5
EPS (Rs)	3.0	1.8	1.5	1.9	61.2	103.9

Source: Company, ICICIdirect.com Research

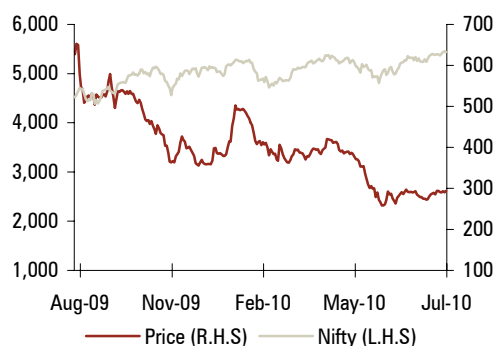
Rating matrix	
Rating	: Add
Target	: Rs 318
Target Period	: 12 months
Potential Upside	: 10%

Key Financials				
(Rs Crore)	FY09	FY10E	FY11E	FY12E
Net Sales	406.3	454.2	558.1	679.3
EBITDA	128.1	82.9	136.5	180.0
Net Profit	85.2	42.8	89.2	128.0
EPS	14.7	7.3	15.2	21.9

Valuation summary				
	FY09	FY10E	FY11E	FY12E
PE (x)	19.7	39.7	19.1	13.3
Target PE (x)	21.6	43.6	20.9	14.6
EV/EBITDA (x)	10.8	18.8	10.5	7.5
P/BV (x)	2.4	2.3	2.1	1.8
RoNW (%)	13.9	6.0	12.1	15.4
RoCE (%)	12.0	5.2	9.6	12.2

Stock data	
Market Capitalisation	Rs 1699.1 Crore
Debt-Cons. (FY09)	Rs 4.6 Crore
Cash & Invst.-Cons. (FY09)	Rs 294.2 Crore
EV	Rs 1388.7 Crore
52 week H/L	681 / 290
Equity capital	Rs 58.5 Crore
Face value	10.0
MF Holding (%)	7.1
FII Holding (%)	19.6

### Price movement



### Analyst's name

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### Result Analysis

#### ■ Core business growing...

The core business has exhibited strong momentum in this quarter. Revenues stood at Rs 119.9 crore as compared to Rs 104.1 in the same period last year, growing 15.2%. The revenue improvement was primarily led by a ramp up in sales of products earlier launched in domestic markets. We expect further improvement from Q2FY11E as the company has re-deployed services with a lost client on the CDMA platform in the domestic market. Revenues from the same would start flowing in from Q2FY11E. The EBITDA margin improved to 31.9% as compared to 25.6% in Q4FY10.

#### Exhibit 2: Non financial KPIs

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Subscriber Reach (Mn)	630	687	673	727	786
Unique Users (Mn)	64	71	77	83	86
Active RBT Users (Mn)	37	40	42	44	46
Number of Employees	1,154	1,223	1,209	1236	1271
Countries Live in	23	23	24	25	26

Source: Company, ICICIdirect.com Research

#### ■ International business declines QoQ but would grow gradually

The company's international revenues remained flat sequentially at Rs 28.5 crore. The share of international business stood at 23.0%, flat QoQ. In the Asia Pacific region, the company has launched music radio services in two operators. It extended the feature set of social networking products by adding new connectors to LinkedIn. The Network Address Book product added an enterprise capability to allow companies to share and sync addresses across the enterprise. In Europe, it deployed speech recognition and IVR solution for a large retail chain in partnership with a large telco.

## Outlook & Valuation

### Outlook

The initial results of telecom service providers indicate an improving scenario in the domestic telecom industry. Also, with the subsequent deployment of 3G services, the addressable market for OnMobile is set to expand further. The increasing market size coupled with relatively higher cost premium services would pan out well for the company.

The company has also been gaining traction in the international market. It is in the process of developing and implementing various new products with international operators. The company has gone live in two more countries in LATAM. The management has indicated that it would go live in all countries under the Telefonica deal. We expect the content cost to move downwards. This would help in the improvement of margin. We expect the margin to improve considerably during FY11E as OnMobile starts generating revenues from the two major international clients. We expect the contribution from international revenues to go up to 32% in FY11E from 25% in FY10E.

We have revised our EPS estimates for FY11E and FY12E, owing to a better operational performance and lower tax rates indicated by the management.

### Valuation

OnMobile is expected to gain momentum in the international market on account of full deployment of solutions within the Telefonica and Vodafone group companies. Also, the launch of 3G services in the domestic market would give the company the necessary thrust. At the CMP of Rs 290, the stock is trading at 19.1x FY11E EPS of Rs 15.2 and 13.3x FY12E EPS of Rs 21.9. Using the DCF methodology, we have valued the stock at Rs 318, implying an upside of 9.7%. Our target price discounts the FY12E EPS by 14.6x We maintain our rating as **ADD**.

#### Exhibit 3: DCF assumption

<i>Rs in Crore</i>	
WACC	13.7%
Revenue CAGR over FY11-20E	20.0%
Present Value of Cash Flow till FY19E	715.4
Terminal Growth	3.00%
Present Value of terminal cash flow	909.2
Total present value of the firm	1,624.6
Less: Current Debt	8.7
Total present value of the Equity (excluding current cash)	1,615.9
Number of Equity Shares outstanding (Cr)	5.78
Per Share Value (excluding current cash)	279.6
Add Current Cash & Cash Equivalents Per Share	38.9
<b>DCF - Target price (Rs)</b>	<b>318.4</b>

Source: Company, ICICIdirect.com Research

#### Exhibit 4: Valuation table

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(Rs cr)	(%)	(Rs)	(%)	(x)	(x)	(%)	(%)
<b>FY09</b>	406.3	55.2	14.7	40.3	19.7	10.8	13.9	12.0
<b>FY10E</b>	454.2	11.8	7.3	-50.4	39.7	18.8	6.0	5.2
<b>FY11E</b>	558.1	22.9	15.2	108.6	19.1	10.5	12.1	9.6
<b>FY12E</b>	679.3	21.7	21.9	43.5	13.3	7.5	15.4	12.2

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe

OnMobile Global				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	ONMGLO		<b>FY09</b>	406.3	14.7	19.7	10.8	13.9	12.0	
		<b>CMP</b>	290.4	<b>FY10E</b>	454.2	7.3	39.7	18.8	6.0	5.2
		<b>Target</b>	318.4	<b>FY11E</b>	558.1	15.2	19.1	10.5	12.1	9.6
<b>MCap (Rs Cr)</b>	1,678.2	<b>% Upside</b>	9.7%	<b>FY12E</b>	679.3	21.9	13.3	7.5	15.4	12.2

Tanla Solution				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	TANSOL		<b>FY09</b>	687.1	19.4	1.8	0.6	21.9	24.4	
		<b>CMP</b>	34.8	<b>FY10E</b>	366.6	4.9	7.1	1.0	5.5	5.6
		<b>Target</b>	40.7	<b>FY11E</b>	486.9	6.4	5.5	1.4	6.9	7.2
<b>MCap (Rs Cr)</b>	348.0	<b>% Upside</b>	17.1%	<b>FY12E</b>	549.6	6.8	5.1	1.4	7.0	7.4

Source: Company, ICICIdirect.com Research

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 Add: Up to 10%;  
 Reduce: Up to -10%  
 Sell: -10% or more;

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