

Hinduja TMT Ltd.

14th June 2006

Market Out-Performer

Key Details.

CMP (Rs)	418
Buy Upto (Rs.)	435
52 Wk H/L	507/283
Book Value (Rs)	110
Price Earning (9MFY06)	43.9
Dividend (%)	75
Gearing	0.0

Company Background.

Hinduja TMT is a new economy play on convergence with presence in Telecom, Media, IT and ITES services. It holds close to 30% stakes in 2 local cable television companies, 100% stake in INCablenet & 19% in Fascel (the cellular operator for Gujarat). The company has been aggressively targeting the ITES services arena for revenue growth. However, management has been a concern with a case in the Bofors scam against the promoters.

Shareholding Pattern.

Promoters	67.4
Institutions	8.8
Foreign	14.6
Non Promoter Corporate	3.2
Public	5.9

Financials.

(Rs Cr.)	Mar'04	Mar'05	9MFY06 (Dec'05)
Sales	162.3	167.3	169.3
PBIDT	81.9	79.8	38.1
OPM (%)	51.1	47.7	22.5
Tax	15.9	39.6	4.3
PAT	75.5	70.1	33.7
Equity Capital (Rs. 10 FV)	40.9	40.9	40.9
EPS Annualised (Rs)	18.5	17.1	11.0
DPS	7.5	7.5	0.0

Key Investment Points.

- IT business gaining momentum:** The Company saw a 94% and 75% QoQ growth in revenues and profits in the IT business in Q3FY06 driven by addition of clients and operations from the Phillipines branch kicking in. The company has tied up customers in the IT Enabled Services space & increased the employee strength in the businesses of Business Process Outsourcing and Call Centers to over 6000 from 2000 employees a year ago. Hinduja TMT has announced that it has set aside a war chest of \$ 200mn and would be aggressively looking for acquisitions in the IT-ITES space. The company would be looking to acquire companies in the range of \$ 35-100mn.
- Media arm offers tremendous growth opportunities:** Hinduja TMT's 100% subsidiary IN Network Entertainment Ltd. Has 7.5mn subscribers. The Company has bought a stake in a set-top box technology provider and could sell the technology in India. This will allow the company to get additional upside from the sale of set-top boxes. The company will be offering Conditional Access System under the InDigital brand. CAS could see the industry undergo a consolidation with HTMT as a major player.
- Consolidation of businesses could lead to higher valuations:** The Company has begun consolidating its businesses and subsidiaries to reduce the number of business entities. Also, the implementation of CAS and higher demand for Internet over Cable should improve earnings of its loss-making subsidiaries. This will bring in clarity on & improve consolidated earnings – a possible cause for re-rating.
- Sale of Cellular business could bring in huge amounts of cash:** Hinduja TMT holds 19% in Fascel – the largest cellular operator (50% market share) in Gujarat. The Company has recently entered into a share purchase agreement with Sumitomo for buying out Sumitomo's 100% stake in Pacific Horizon which currently

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holds 24.12% of IndusInd Telecom Network Ltd. (ITNL). With this acquisition, HTMT together with its wholly owned subsidiary, InNetwork Entertainment Ltd. will hold 91.54 % of ITNL corresponding to a 5.16% stake in Hutch. HTMT is selling off its stake in Hutch at \$590mn valuing it at Rs 656 per share.

The stock trades at 34xFY06E, which might appear to be a bit expensive. But we believe that the current valuations do not capture the future growth in its Media business and the value of its stake in Hutch. We rate the stock a Market Out- Performer with a target of Rs 800.

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