

RESULTS REVIEW
Videsh Sanchar Nigam Limited
Hold
Share Data

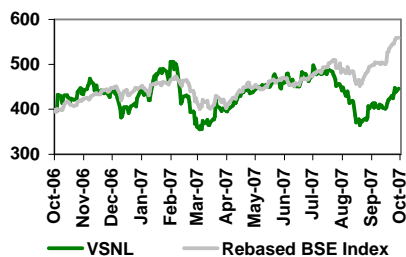
Market Cap	Rs. 127.17 bn
Price	Rs. 446.2
BSE Sensex	17,328.62
Reuters	VSNL.BO
Bloomberg	VSNL IN
Avg. Volume (52 Week)	0.21 mn
52-Week High/Low	Rs. 514.9/342.2
Shares Outstanding	285 mn

Valuation Ratios (Standalone)

Year to 31 March	2008E	2009E
EPS (Rs.)	17.7	20.9
+/- (%)	2.9%	18.4%
PER (x)	25.2x	21.3x
EV/ Sales (x)	3.0x	2.8x
EV/ EBITDA (x)	12.7x	11.2x

Shareholding Pattern (%)

Promoters	76
FII's	2
Institutions	13
Public & Others	9

Relative Performance

Losing momentum

Videsh Sanchar Nigam Limited's (VSNL) financial performance improved on a yoy basis, however, sequentially the Company exhibited weak results for 1QFY08. Net sales increased 9.1% yoy but declined by 7% qoq to Rs. 10,081.3 mn. The qoq decrease in net sales was primarily a result of decline in both the voice and data segments. EBITDA increased 10.9% yoy but fell sequentially by 3% to Rs. 2,327 mn. This sequential decline was led by lower sales coupled with higher employee remuneration. EBITDA margins jumped 40 bps yoy and 100 bps qoq to 23.1%. The qoq improvement in margins was led by lower SG&A expenses as a percentage of sales, partially offset by higher network and employee remuneration costs. VSNL's net profits increased by 18.2% yoy but declined by 25% sequentially to Rs. 1,041.6 mn, on the back of lower other income and higher tax charges.

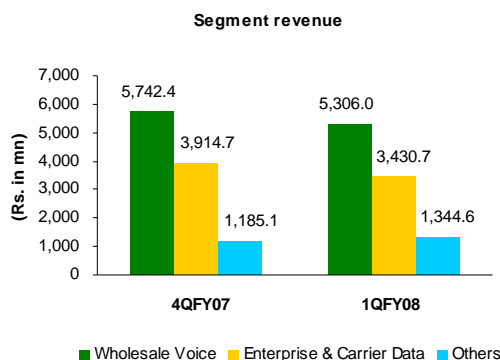
With the expected increase in enterprise data and broadband segments driven by enhanced subscriber base and robust demand, the Company's net sales are estimated to grow at a CAGR of 5.5% for FY07-FY09E. However, declining revenues in the voice segment will partially offset the growth in sales. At the current price of Rs. 446.2, the stock is trading at a forward PE of 25.2x FY08E and 21.3x FY09E. We maintain **Hold** on the stock with a target price of Rs. 495 for FY09E.

Result Highlights

On a sequential basis, net sales declined by 7% to Rs. 10,081.3 mn owing to reduced sales across both the voice and data segments.

Key Figures (Standalone)

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	9,244	10,842	10,081	9.1%	(7.0%)
EBITDA	2,099	2,399	2,327	10.9%	(3.0%)
Net Profit	881	1,389	1,042	18.2%	(25.0%)
Margins (%)					
EBITDA	22.7%	22.1%	23.1%		
Net Profit	9.5%	12.8%	10.3%		
Per Share Data (Rs.)					
EPS	3.1	4.9	3.7	18.2%	(25.0%)



Decline in EBITDA due to reduction in sales and higher employee cost

Wholesale voice segment's sales declined by 7.6% to Rs. 5,306 mn as a result of lower voice charges despite registering 6% growth in minutes of use. In addition, enterprise and carrier data segment's sales reduced by 12.4% to Rs. 3,430.7 mn. However, revenue growth of 13.5% in the broadband segment restricted the overall decline in sales. The increase in sales of the broadband segment was driven by higher subscriber base as well as increased ARPU.

EBITDA declined by 3% to Rs. 2,327 mn as a result of reduction in sales coupled with increase in employee remuneration cost. However, margins improved 100 bps to 23.1% driven by lower SG&A expenses as a percentage of sales, partially offset by higher network and employee remuneration expenses. Net profits reduced by 25% to Rs. 1,041.6 mn and margins dipped by 250 bps to 10.3%. The decline in profits was due to lower other income in addition to higher tax charges.

Segmental summary					
(Rs. in mn)	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
Revenues					
Wholesale Voice	5,379	5,742	5,306	(1.4%)	(7.6%)
Enterprise & Carrier Data	2,840	3,915	3,431	20.8%	(12.4%)
Others	1,025	1,185	1,345	31.2%	13.5%
Total	9,244	10,842	10,081	9.1%	(7.0%)
Segment result					
Wholesale Voice	1,270	1,326	758	(40.3%)	(42.8%)
Enterprise & Carrier Data	2,116	3,230	2,915	37.7%	(9.8%)
Others	201	297	722	258.6%	143.4%
Total	3,588	4,852	4,394	22.5%	(9.4%)

Key Events

- VSNL is planning to invest USD 200 mn in the submarine cable project of Infraco (South African government owned telecom network operator). The project is expected to complete by the end of FY09.

- The Company lost a case in Income Tax Appellate Tribunal (ITAT) relating to deductions under Section 80-IA. ITAT denied claim for tax exemption under the aforesaid section which has resulted in a tax outgo of Rs. 170 mn for FY96. However, the sum can run in thousands of million if the order becomes binding for subsequent years.

Key Risks

Listing of FLAG telecom (Reliance Communications Ltd's subsidiary) will provide a strong basis to value VSNL's TYCO business. Increase in the value of TYCO can provide an upside to the rating.

Outlook

We have reduced our estimates on the back of weak 1QFY08 results. We estimate a decline in wholesale voice segment as a result of reducing voice charges. However, going forward enterprise and carrier data as well as broadband segments are expected to generate strong sales. The increase in sales will be driven by strong global and domestic demand coupled with higher subscriber base. In addition, TYCO and Teleglobe will also contribute to the growth in sales. Thus, we expect the net sales to grow at a CAGR of 5.5% for FY07-FY09E. Moreover, the Company is also planning to introduce Wi-fi and Wi-max, which will further add to the top line growth.

At the current price of Rs. 446.2, the stock is trading at a forward PE of 25.2x FY08E and 21.3x FY09E. We maintain **Hold** on the stock with a target price of Rs. 495 for FY09E.

Higher subscriber base and robust demand: major drivers for sales growth

Key Figures (Standalone)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	33,030	37,810	40,418	42,861	45,004	5.5%
EBITDA	7,691	8,868	9,306	10,072	11,476	11.0%
Net Profit	5,330	5,286	4,900	5,038	5,966	10.3%
Margins (%)						
EBITDA	23.3%	23.5%	23.0%	23.5%	25.5%	
Net Profit	16.1%	14.0%	12.1%	11.8%	13.3%	
Per Share Data (Rs.)						
EPS	18.7	18.5	17.2	17.7	20.9	10.4%
PER (x)	23.9x	24.1x	26.0x	25.2x	21.3x	

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