

BUY
CMP: Rs.

12 Month
TARGET: Rs.

ZYLOG SYSTEMS LIMITED.

INITIATING COVERAGE

As on December 21, 2007.

Market Price (20/12/07)	385.80
Market Cap. (Rs. Cr.)	645.74
Book Value per Share	169.94
Market Cap/Sales	1.43
52 Week High/Low	525 / 305
Face Value	10

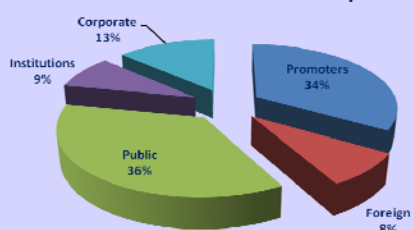
Codes

BSE Code	532883
ISIN No	INE225101018
NSE Symbol	ZYLOG
Blomberg Code	ZSL IN EQUITY
Reuters Code	ZYSY.BO

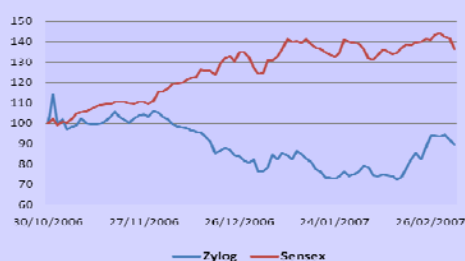
Key Ratios

EPS (TTM Consolidated)	24.58
P/E Ratio (20/12/07)	15.97
ROCE (%)	28.67
RONW (%)	33.79
Debt/Equity	0.30
Interest Coverage Ratio	14.81

SHAREHOLDING PATTERN Sept 07



Relative Price Chart



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Investment Rationale:

Currently, the stock is quoting at Rs. 56.21 and 66.53 FY08E and FY09E earnings respectively. The stock has bottomed down over the last three month on account of Rupee strengthening versus dollar. The stock is currently trading at a PE of 15.97x at FY07 EPS of 24.58 which is on a higher side than its peers. Thus we recommend BUY at current levels and Accumulate at every drop in share price with a 15 month price target of Rs. 665, an upside of 76.46%.

Sales rose 44.02% to Rs 152.13 cr. in the Q208 as against Rs 105.63 cr. during Q207.

Net profit rose 48.7% to Rs 20.98 cr. in the Q208 as against Rs 14.1 cr. during Q207.

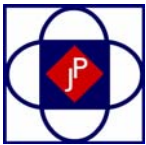
Earnings growth trailed topline growth mainly on account of higher onsite presence, which resulted in lower-than-peers EBITDA margins.

The company is also gearing up for strategic acquisitions in the US and Europe, which is likely to lead to client acquisition. The strategy behind overseas acquisitions is to leverage its synergies in ODCs.

The Indian IT - ITES industry recorded growth CAGR of 28% during the period FY00-06. The industry accounted for 64% of total export earnings of India in FY05. Exports are likely to see further growth, estimated to reach from levels of \$18.2bn in FY05 to \$60bn by FY10.

Financial Summary

Particulars	Net Sales (Rs. Cr.)	Op. Profit (Rs. Cr.)	PAT (Rs. Cr.)	EPS (Rs.)	Book Value (Rs. Cr.)
FY2006	256.68	49.29	37.12	35.41	99.30
FY2007	403.43	69.24	54.05	41.73	168.44
FY 2008 (E)	671.33	120.42	92.44	56.21	308.89
FY 2009 (E)	957.45	145.61	109.41	66.53	418.30



VALUATIONS

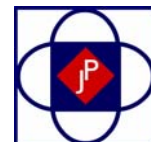
NAME OF COMPANY:		Zylog Systems				
as on		12/19/2007				
Current Market Price		INR 377.00				
Sector P/E		11.00				

<u>E. Y.</u>	<u>EPS</u>	<u>% Increase</u>	<u>BV</u>
31/03/2006	35.41		99.30
31/03/2007	41.73	17.85%	168.44
31/03/2008	56.21	34.69%	308.89
31/03/2009	66.53	18.36%	418.30
CAGR in EPS		23.39%	

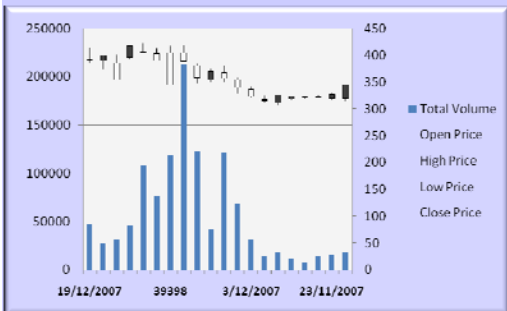
<u>E. Y.</u>	<u>Forward P/E at CMP</u>	<u>P/E</u>			
		6.00	8.00	10.00	12.00
31/03/2007	9.03	250.38	333.84	417.30	500.76
31/03/2008	6.71	337.24	449.65	562.07	674.48
31/03/2009	5.67	399.15	532.20	665.25	798.30
FY 09 TARGET				INR 665.25	
Upside Potential in Rs.				INR 288.25	
Upside Potential in %				76.46%	

<u>E. Y.</u>	<u>P/BV</u>	<u>P/BV at Target of 665</u>
31/03/2007	2.24	3.95
31/03/2008	1.22	2.15
31/03/2009	0.90	1.59
Sector P/BV	84.22	

The PE – EPS valuation gives a FY09 target of Rs. 665 with an upside of Rs. 288.25 i.e. 76.46% rise with in a period of 15 months from current CMP of Rs. 390.25. The stock is bottomed out and the valuation at this level looks very good. Thus the share has a very good upside potential supported by its growth and expansion story. The estimated EPS is improved on account of strong growth in recent quarters and good Y-o-Y earnings growth during FY07 and FY08. The fundamentals are very good as the stock is trading is trading at a very low price earning multiple and investors can expect a very strong growth in the company and their investment in the stock.



Price – Volume Chart



TECHNICAL ANALYSIS



The MACD on daily charts is in buy mode. The daily price chart is in the uptrend showing a bullish pattern. The 50 day moving average and the 100 day moving average has given a buy signal as it cuts the 200 day moving average from below. The candlestick pattern is not showing a clear indication of the further trend indicating a short consolidation phase. On Daily charts it is showing a Gravestone Doji pattern the bulls rally briefly, but not enough to close above the previous day's close. As this leaves shorts in a losing position, the Inverted Hammer represents the potential for an upcoming rally. Confirmation of the trend reversal would be an opening above the body of the Inverted Hammer on the next trading day. The scrip is recently listed thus analyzing the weekly and monthly charts are not possible.

Peer Comparison

Company Long Name	Price/Cash EPS	P/E Ratio	Ebitda (%)	Net Sales (Rs. Cr.)	Market Cap (Rs. Cr.)	Sensex Beta	EV/EBID TA	ROE (%)
3i Infotech	22.72	26.19	23.14	655.32	1788.92	0.86	16.67	10.14
Geometric Soft.	14.66	16.38	19.67	383.07	497.95	0.65	13.07	19.32
Hexaware Tech	14.72	10.94	18.60	848.21	1148.08	0.62	13.62	26.09
KPIT Cummins	10.90	13.92	16.02	463.70	956.00	0.74	10.70	27.84
Sasken Comm. Tech.	18.53	25.68	17.36	477.13	835.09	0.65	14.90	9.66
Zenith Infotech	13.88	13.15	45.70	80.53	408.41	0.72	12.04	46.66
Zylog Systems	9.11	15.97	40.47	407.48	645.74	0.91	7.70	33.79



Products

- RTGS - PayManager
- AML - Detector
- Cheque Truncation System
- IPage-Forms Processing
- DPOne
- Zymobile Server
- Mobile Banking
- Mobile & Wireless Application
- Development
- SMS Gateway

Services

- IT Outsourcing Services
- Application Services
- Infrastructure Management
- Mobile Computing Services
- QA & Testing Services
- BPO Services

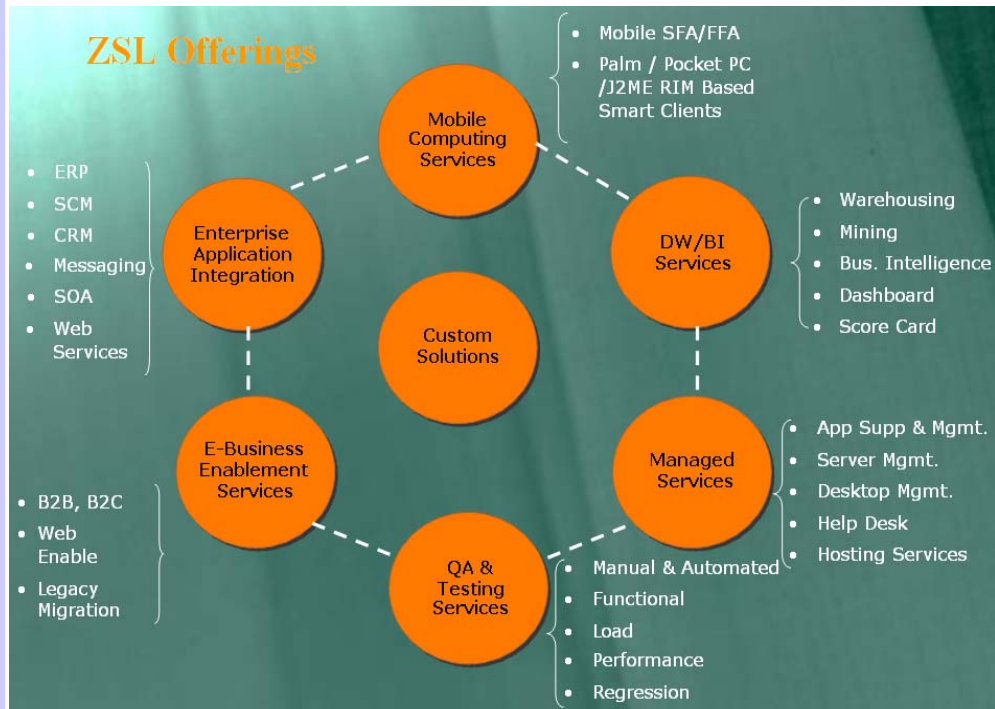
Company Profile

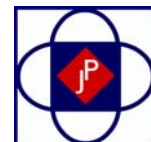
Incorporated in 1995, Zylog Systems Limited is a global services provider delivering technology-driven business solutions. ZSL is a 100% export oriented unit focusing on providing technology services to client specific requirements with a specialization and focus in industry verticals such as telecom, BFS, insurance and retail which are prominent contributors of business.

Zylog has been offering a range of I.T. products and solutions to its global customers across multiple verticals like Banking, Insurance, Telecom, etc.

Zylog's strength lies in its:

- High Quality and Committed Manpower
- Robust Technology Management Practices
- Highly ethical business practices
- Partnership with Clients who have a shared vision of the future
- Proven Project Development and Management Methodologies
- Experienced and efficient Software Designers and Developers



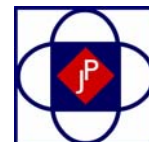


ESTIMATED REVENUE STATEMENT

	FY06	FY07	FY08 (E)	FY09 (E)
INCOME :				
Net Operating Income	256.68	403.43	671.33	957.45
Other Income	1.15	0.63	6.51	8.12
Total Income	257.83	404.06	677.84	965.57
EXPENDITURE :				
Operating Expenses	46.53	20.01	41.54	82.94
Employee Cost	118.02	249.27	408.48	619.56
Power Charges	0.17	-	0.24	0.31
Selling & Admin Exp.	6.04	65.54	85.71	117.15
Misc. Expenses	37.78	-	21.45	
Total Expenditure	208.54	334.82	557.42	819.96
Operating Profit	49.29	69.24	120.42	145.61
(-) Interest	2.20	4.04	5.64	8.52
Gross Profit	47.09	65.20	114.78	137.09
(-) Depreciation	8.12	9.42	9.84	10.31
Profit Before Tax	38.97	55.78	104.94	126.78
Tax	1.79	1.73	12.50	17.37
Reported Net Profit	37.12	54.05	92.44	109.41
Earnings Per Share	35.41	41.73	56.21	66.53
Book Value-Unit Curr	99.30	168.44	308.89	418.30

	FY06	FY07	FY08	FY09
SOURCES OF FUNDS				
Share Capital	10.42	12.85	12.85	12.85
Reserves Total	93.05	203.60	296.04	405.45
Total Shareholders Funds	103.47	216.45	308.89	418.30
Secured Loans	37.95	59.38	82.36	109.51
Unsecured Loans	0.00	0.00		
Total Debt	37.95	59.38	82.36	109.51
Total Liabilities	141.42	275.83	391.25	527.81
APPLICATION OF FUNDS				
Gross Block	74.22	82.95	101.45	128.54
Less: Accumulated Depre	36.43	45.85	49.89	57.21
Net Block	37.79	37.10	51.56	71.33
Capital Work in Progress	0.00	6.87		
Investments	0.56	20.85	22.45	27.98
Sundry Debtors	76.25	105.61	135.84	187.95
Cash and Bank	29.90	80.62	106.34	144.82
Loans and Advances	12.90	44.95	77.61	110.54
Total Current Assets	119.05	231.18	342.24	471.29
Less : Current Lia & Prov				
Current Liabilities	15.94	20.17	25.00	31.15
Provisions	0.00	0.00	7.45	11.64
Total Current Liabilities	15.94	20.17	25.00	42.79
Net Current Assets	103.11	211.01	317.24	428.50
Total Assets	141.42	275.83	391.25	527.81

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Member: NASDAQ, NYMEX (COMEX Division), CBOT, NASD, NFA AND SIPC
(Registered with SEC and CFTC)

Jaypee Commodities Limited

Member: NCDEX, MCX.
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