

## Avaya GlobalConnect Ltd.

**24<sup>th</sup> January 2007**
**Market Out-Performer**
**Key Details.**

|                        |         |
|------------------------|---------|
| CMP (Rs)               | 242     |
| Buy Upto Rs.           | 260     |
| 52 Wk H/L              | 504/204 |
| Book Value (Rs)        | 124.6   |
| Price Earning (1HFY07) | 17.3    |
| Dividend (%)           | 45      |
| Gearing                | 0.0     |

**Company Background.**

Avaya GlobalConnect is one of the few integrated communication solutions providers in India. The company has access to latest product and technologies from its parent company Avaya Inc. USA. The company caters to the IT enabled services business, which has been showing strong growth. We expect Avaya GlobalConnect to be a major beneficiary of the booming IT/ITES industry in India. Avaya GlobalConnect has structured itself as a complete solution provider by strengthening its presence in the Internet protocol and data space besides its leadership in the voice segment. Avaya Inc. along with Cisco is one of the two major players in the IP telephony solutions space. Other players are Alcatel, Nortel and 3Com.

**Shareholding Pattern.**

|                        |      |
|------------------------|------|
| Promoters (Avaya Inc.) | 59.1 |
| Institutions           | 9.3  |
| Foreign                | 4.4  |
| Other corporate bodies | 6.7  |
| Public                 | 20.4 |

**Financials (Consolidated)**

| (Rs Cr.)                   | Mar'05 | Mar'06 | Sep'06 (1HFY07) |
|----------------------------|--------|--------|-----------------|
| Sales                      | 330.3  | 469.6  | 269.1           |
| PBIDT                      | 41.8   | 44.4   | 18.9            |
| OPM (%)                    | 12.6   | 9.5    | 7.0             |
| Tax                        | 12.9   | 21.4   | 7.2             |
| PAT                        | 23.3   | 30.9   | 10.6            |
| Equity Capital (Rs. 10 FV) | 14.2   | 14.2   | 14.2            |
| EPS Annualised (Rs)        | 16.4   | 21.8   | 14.9            |
| DPS                        | 4.5    | 4.5    | 0.0             |

**Key Investment Points.**

- **Parent company is the largest IP based network solutions provider in the world:** Avaya GlobalConnect's parent company Avaya Inc. is the largest provider of IP based solutions. The company provides IP based solutions for various industries including IT/ITES, manufacturing, Hospitality, healthcare, Retail and Government. The company also has a R&D center in Pune which undertakes research in developing next generation solutions which are expected to be rolled out over the next 3-5 years.
- **Tapping into the Australian market:** Avaya GlobalConnect had opened a subsidiary in Australia in H2FY05 to provide call center and CRM solutions. The Australian call center and CRM market is worth \$ 40-50mn and is expected to grow at 15-16% CAGR over the next few years. Avaya's Australian unit has bought over Sirus Converged Solutions division in September'06 for a total consideration of Aus \$ 1.2mn. Although the revenues were minimal in H1FY07 the Australian subsidiary is expected to start contributing significantly from FY08 onwards.
- **Turnaround story:** Avaya GlobalConnect had slipped into the red in the quarter ending June'06 largely on account of stagnating sales, increasing costs and restructuring exercise. The EBDITA margins had slipped to 1%. The company bounced back in 2QFY07 with revenues increasing by 35.7% qoq while EBDITA margins improved to 11.6%. with the company doubling its capacity and positioning itself as a full fledged solutions provider we believe that there is further scope of margins improvement.

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- **Cash rich and inexpensive valuations:** The company had cash balance of Rs. 958.8mn as on 31<sup>st</sup> March'06, which translates to Rs. 67.5 per share. On an ex cash basis the company is trading at 9.1x FY07E and 5.6x FY08E. **We believe that the stock is under priced given its strong product portfolio and market leader status. We rate the stock a Market Out-Performer with a price target of Rs. 410 (10.0x FY08E plus cash).**

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