

RESULTS REVIEW

Videsh Sanchar Nigam Limited

Sell

Share Data

Market Cap	Rs. 192.06 bn
Price	Rs. 673.9
BSE Sensex	20,582.08
Reuters	VSNL.BO
Bloomberg	VSNL IN
Avg. Volume (52 Week)	0.18 mn
52-Week High/Low	Rs. 783/342.2
Shares Outstanding	285 mn

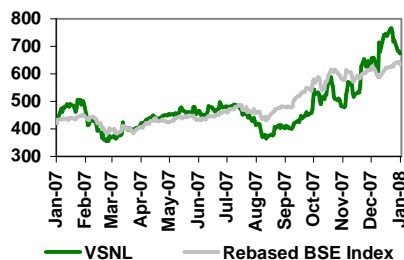
Valuation Ratios (Standalone)

Year to 31 March	2008E	2009E
EPS (Rs.)	15.8	18.1
+/- (%)	(8.1)%	14.7%
PER (x)	42.7x	37.2x
EV/ Sales (x)	4.6x	4.4x
EV/ EBITDA (x)	21.1x	19.0x

Shareholding Pattern (%)

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

Relative Performance



Continues to lose sheen

For the quarter ended Sep'07, Videsh Sanchar Nigam Limited (VSNL) reported disappointing results both on yearly as well as sequential basis. Net sales declined 1.9% yoy and 6% qoq to Rs. 9,477 mn due to lower sales in both the Voice and Enterprise data segments. The EBITDA margin decreased 596 bps yoy and 702 bps sequentially to 16.1%, primarily due to higher network costs coupled with a rise in employee remuneration and operating expenses. The Company's Adj. net profit fell 34.7% yoy and 33% qoq to Rs. 698 mn, led by an increase in the depreciation cost. However, the decline in net profit was partially offset by a higher interest income and lower effective tax rate.

We have calibrated our net sales estimates for FY08E and FY09E by downgrading them 3% each. The revision was made to factor in the weak performance exhibited by the Company over the last two quarters. Going forward, we expect a decline in the Voice segment due to increased competition leading to lower voice charges. However, we remain positive on the Enterprise data and Broadband segments, driven by an enhanced subscriber base and a robust demand.

At the current price of Rs. 673.9, the stock is trading at a forward P/E of 42.7x FY08E and 37.2x FY09E. We believe that currently the stock is trading at a high level and hence, we downgrade our rating from Hold to Sell, with a revised target price of Rs. 570 for FY09E.

Result Highlights

During Q2'08, net sales declined 6% qoq to Rs. 9,477 mn as a result of the

Key Figures (Standalone)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
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(Figures in Rs mn, except per share data)

Net Sales	9,662	10,081	9,477	(1.9)%	(6.0)%	18,955	19,584	3.3%
EBITDA	2,128	2,327	1,522	(28.5)%	(34.6)%	4,227	3,849	(8.9)%
Adj. Net Profit	1,069	1,042	698	(34.7)%	(33.0)%	1,950	1,733	(11.1)%

Margins (%)

EBITDA	22.0%	23.1%	16.1%			22.3%	19.7%
Net Profit	11.1%	10.3%	7.4%			10.3%	8.9%

Per Share Data (Rs.)

Adj. EPS	3.8	3.7	2.5	(34.7)%	(33.0)%	6.8	6.1	(11.1)%
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lower sales registered in both the Voice and Enterprise data segments. Sales in the Wholesale voice segment decreased 5.2% qoq to Rs. 5,031 mn, led by lower voice charges resulting from the increasing competition. Further, Enterprise and carrier data segment's sales dropped 9.9% qoq to Rs. 3,091 mn. The fall in the overall net sales was somewhat contained by higher sales in the Broadband segment (up 0.8% qoq to Rs. 1,356 mn).

EBITDA decreased 34.6% qoq to Rs. 1,522 mn and margin fell 702 bps to 16.1%. The fall in the EBITDA margin was primarily a result of higher network cost (up 337 bps to 59.4% of net sales) coupled with a rise in employee remuneration and operating expenses. VSNL's Adj. net profit declined 33% qoq to Rs. 698 mn and margin reduced 296 bps to 7.4%. The decrease in the net profit margin was led by a higher depreciation cost, partially offset by the rise in interest income and lower effective tax rate.

Higher operating expenses dented the EBITDA margin

Segmental summary					
<i>(Rs. in mn)</i>	Q2'07	Q1'08	Q2'08	YoY%	QoQ%
Revenues					
Wholesale Voice	5,068	5,306	5,031	(0.7)%	(5.2)%
Enterprise & Carrier Data	3,548	3,431	3,091	(12.9)%	(9.9)%
Others	1,047	1,345	1,356	29.5%	0.8%
Total	9,662	10,081	9,477	(1.9)%	(6.0)%
Segment result					
Wholesale Voice	447	758	461	3.3%	(39.1)%
Enterprise & Carrier Data	2,961	2,915	2,563	(13.5)%	(12.1)%
Others	464	722	603	30.0%	(16.4)%
Total	3,872	4,394	3,627	(6.3)%	(17.5)%

Key Events

- VSNL sold a 10% stake in its wholly owned subsidiary, VSNL Sri Lanka, to Sunshine Holdings for a consideration of Rs. 75 mn. The buyer has been further granted a right to acquire an additional 5% stake during the next twelve months.

- The Company's shareholders approved the resolution proposed by the board at the Extraordinary General Meeting held on Dec 14, 2007 to change its name to Tata Communications Ltd. However, the regulatory approvals are still awaited. It will have to pay 0.25% of turnover or 5% of PBT, whichever is lower, as the branding fee to the Tata Group.
- VSNL in collaboration with Seacom and Telecom Egypt plans to construct a cable system, TGN Eurasia, connecting India and Europe. The project will involve an outlay of USD 250 mn and will provide the Company with a 1.28 terabit capacity by FY2010. In addition, it also plans to construct a cable system to connect to the emerging markets, namely Singapore, Honk Kong, Japan, Vietnam and Philippines in Asia. The project will involve an investment of USD 200 mn.

Key Risks

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

Outlook

The Company continued the poor performance in its core operations (wholesale voice segment) with sales declining 5.2% qoq. To factor in the weak results, we have reduced our net sales estimates for FY08E and FY09E by 3% each. Going forward, we expect a decline in the Wholesale voice segment resulting from reducing voice charges due to competitive pressures. However, we remain positive on the Enterprise and carrier data as well as Broadband segments, and expect them to contribute to the sales growth. The increase in sales in these segments will be driven by strong global and domestic demand coupled with a higher subscriber base. TYCO, Teleglobe and the cable expansion plans of the Company will further contribute to the sales growth.

*Wholesale voice segment
continued its declining trend*

At the current price of Rs. 673.9, the stock is trading at a forward P/E of 42.7x FY08E and 37.2x FY09E. We believe that currently the stock is trading at a high level and hence, we downgrade our rating from Hold to Sell, with a revised target price of Rs. 570 for FY09E.

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	41,558	43,636	3.9%
EBITDA	7,691	8,868	9,306	9,143	10,145	4.4%
Adj. Net Profit	5,330	5,286	4,900	4,498	5,161	2.6%
Margins (%)						
EBITDA	23.3%	23.5%	23.0%	22.0%	23.3%	
Net Profit	16.1%	14.0%	12.1%	10.8%	11.8%	
Per Share Data (Rs.)						
Adj. EPS	18.7	18.5	17.2	15.8	18.1	2.7%
PER (x)	10.0x	25.4x	39.2x	42.7x	37.2x	

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