

S Mobility

INCH DEEP - MILE WIDE

Sensex: 16,968

CMP: INR 44.1



Telecom Equipment

We recently met with the management of S Mobility to understand the reasons behind the recent slide in performance of the group. S Mobility (previously Spice Mobility) is a mid tier mobile handset manufacturer with 887 retail stores across India spread over 145 cities. The company also has strong online presence. It also provides VAS to different telecom service provider's customers through Voice, IVR, SMS and applications etc. In FY12 the company's revenue grew by 10.6% to INR 22.3bn as against 92% CAGR over FY08-11. Here are a few excerpts:

Telecom Subscriber - Big Market

S Mobility is building its growth on a strong mobile subscriber base. The remarkable growth in the number of subscribers in India is due to (i) One of the lowest mobile tariffs globally (ii) Local mobile manufactures and cheap Chinese models. The company is planning to capture the data driven growth in mobile business emanating from the onset of the 3G and broadband technologies, hence increasing the application usage by the end customer resulting in a strong growth in Smartphone sales.

HotSpots in a Hot Market

S Mobility is one of the leading players in the Organized retail under the brand Spice Hotspot for selling mobile and laptops through its 887 stores (240 in Delhi). Organized retail contributes 13% to the overall retail market with ~2500 outlets across 15 players. The company, in-order to differentiate itself is moving away from accessories and phone sales towards application demos and customer experience.

Smartphone sales pick up

The company sold 3.8lakh smartphones in Q4FY12 as against 2.2lakh in Q3FY12 growing at 70% sequentially. As the ASP (Average Selling Price) of smartphones is much more than a normal phone it contributes better to the topline. However due to technical advancements and increasing competition the ASP for smartphones saw a sequential decline of -11%. In order to boost its smartphones sales, the company through its retail outlets is increasing application awareness among the customers. The overall smartphone market is expected to contribute 45% to the

delta growth of the handsets in the next 3 years. The mobile subscriber base is expanding at 8mn users per month from the present 678mn, thus presenting a big opportunity in the smartphone sales market.

Balance Sheet

S Mobility has no debt and a cash of INR 702mn (FY11 B/S). 30% of its balance sheet is constituted by goodwill emanating out of a fully owned subsidiary "Hindustan Retail India Pvt. Ltd.". It has a healthy RoE of 14%, though the conversion of EBITDA into Operating Cash has been lower at 7% due to increase in working capital on the back of an expanding business.

VAS - significant growth potential

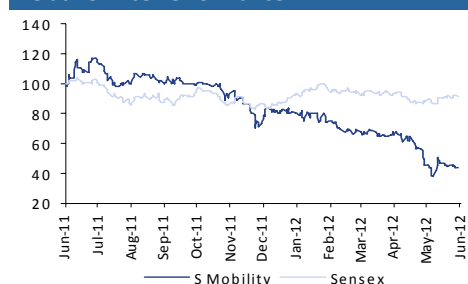
The company through its partnerships with various TSPs (Telecom Service Providers) is providing end customers VAS through Voice, IVR, SMS and applications etc. both locally (83%) and internationally (17%). Mobile VAS revenues are expected to grow at 31.6% CAGR over FY10-15E to INR 482mn.

Outlook & Valuation

S Mobility derives 90% of its revenue from Mobile devices and the rest from services. The data as a % of mobile revenues in India has been 15% which is much lower compared to 30% in China or UK, thus there is a huge market in the VAS business along with growth potential in Smartphone sales. The company is rightly positioned at the brink of this growth, but needs to bring its costs under control which has ballooned due to expansion across various businesses by the company. Once the company is able to identify its niche, it could give significant returns.

Shareholding (%)	Mar-12
Promoters	68.65
FII's	4.45
DII's	0.00
Others	26.90

Relative Price Performance



Key Data	
BSE Code	517214
NSE Code	SMOBILITY
Bloomberg Code	SPCEM IN
Reuters Code	SPCL NS
Shares Outstanding (mn)	238.1
Face Value	3.0
Mcap (INR mn)	10,475.8
52 Week H/L	121.25 / 35.05
2W Avg. Qty, NSE	21,000
Free Float (%)	30.0%
Beta	0.59

Y/E March (INR mn)	FY08	FY09	FY10	FY11
Net Sales	2,847	6,716	12,420	20,165
Growth (%)	49.18%	135.92%	84.93%	62.36%
EBIDTAM (%)	4.65%	0.34%	7.08%	6.25%
Adj. PAT	147	10	526	1,040
Growth (%)	75.50%	-93.01%	5022.67%	97.87%
Adj. EPS (INR)	0.62	0.04	2.21	4.37
P/E (x)	71.39	1,021.03	19.93	10.07
EV/EBIDTA	24.50	140.49	3.32	7.95
Net Debt/Equity	-5.20%	-14.29%	-4.79%	-5.54%
RoCE (%)	12.62%	1.29%	5.75%	8.35%
RoE (%)	18.80%	1.34%	12.70%	13.24%

Industry Outlook

India's Wireless telecommunications market is one of the world's fastest growing industry with over 680mn subscribers with 8mn being added each month, growing at 15% CAGR. The total number of mobile handsets sold each month in India is close to 14mn out of which 29% are smartphones and feature phones. The smartphone market is expected to take off with 3G and LTE launches in India and is expected to contribute 45% to the incremental handset sales in the next 3 years.

Company Background

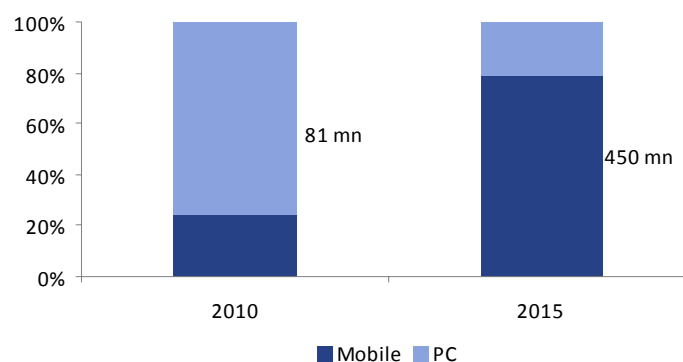
S Mobility has presence across three main segments (i) Mobile Devices (ii) Retail and (iii) Value Added Services (VAS). Mobile Devices contributes 90% to the overall revenue. The segment has seen a growth of 10.73% in FY12 mainly on the back of increasing smartphone sales volume which now contributes 37% to the overall phone sales business and 58% in value terms. The ASP of the smartphone business has come down by 11% due to higher competition and innovation in technology.

Services which constitute both VAS and Retail business contributes 10% to the business, the margins have come down from 24% in Q1FY11 to 0.5% in Q4FY12 due to expansion in international businesses, application development and online sales creation channel. The company is now concentrating on monetizing these channels. At present 17% of the services business comes from international location out of which 95% is contributed by Africa on the back of its partnership with one of the TSP.

Company Outlook

The company is now concentrating on transforming its retail channel from point of sale for mobile and accessories to information centers about various applications developed by Spice Labs, thus monetizing its apps business. The company has launched various apps in the mobile radio, video streaming and news/information segment. These initiatives have spread the company thin for now, but will benefit in the long run on the back of strong mobile data growth.

Fig1. Internet Subscriber Base



(Source: Mckinsey, SPA Research)

Fig2. Quarterly Income Performance

Income Statement YE 'Mar (INR Mn)	4QFY12	4QFY11	YoY	3QFY12	QoQ	FY12	FY11	YoY
Net Sales	5,533	5,279	4.81%	6,175	-10.40%	22,310	20,165	10.64%
Staff Cost	332	295	12.54%	420	-20.95%	1,407	1,086	29.56%
Purchase of Finished/Traded Goods	3,666	3,578	2.46%	4,435	-17.34%	15,687	13,934	12.58%
Raw Material Consumed	309	227	36.12%	242	27.69%	1,287	359	258.50%
Other Expenditure	1,331	916	45.31%	1,228	8.39%	3,632	3,525	3.04%
Total Optg. Exps.	5,638	5,016	12.40%	6,325	-10.86%	22,013	18,904	16.45%
EBIDTA (excl OI)	(105)	263	-139.92%	(150)	30.00%	297	1,261	-76.45%
EBIDTA Margin (%)	-1.90%	4.98%	-6.88%	-2.43%	0.53%	1.33%	6.25%	-4.92%
Dep./Amortization	90	71		78		317	334	
EBIT	(195)	192	-201.56%	(228)	14.47%	(20)	927	-102.16%
EBIT Margins (%)	-3.52%	3.64%	-7.16%	-3.69%	0.17%	-0.09%	4.60%	-4.69%
Interest Expense	16	14		12		52	68	
Other Income	29	89		40		182	317	
Exceptionals	-	-		-		-	239	
PBT	(182)	267	-168.16%	(200)	9.00%	110	1,415	-92.23%
Tax Expenses	16	76		(21)		108	298	
PAT	(198)	191	-203.66%	(179)	-10.61%	2	1,117	-99.82%
PAT Margins (%)	-3.58%	3.62%	-7.20%	-2.90%	-0.68%	0.01%	5.54%	-5.53%
Minority Interest	3	25		9		46	77	
APAT	(201)	166	-221.08%	(188)	-6.91%	(44)	1,040	-104.23%
APAT Margins (%)	-3.63%	3.14%	-6.78%	-3.04%	-0.59%	-0.20%	5.16%	-5.35%
Diluted EPS	(0.84)	0.70	-220.00%	(0.79)	-6.33%	(0.19)	4.37	-104.35%

(Source: Company, SPA Research)

Financials

Income statement

Y/E Mar (INR Mn)	FY08	FY09	FY10	FY11
Net Sales	2,847	6,716	12,420	20,165
Growth (%)	49.18%	135.92%	84.93%	62.36%
Staff Cost	46	137	382	1,086
Purchase of Finished/Traded Goods	2,210	5,397	10,100	13,934
Raw Material Consumed	82	2	17	359
Other Expenditure	377	1,157	1,041	3,525
Total Optg. Exps.	2,714	6,693	11,541	18,904
EBIDTA (excl OI)	132	23	880	1,261
EBIDTA Margin (%)	4.65%	0.34%	7.08%	6.25%
EBIDTA Growth (%)	207.87%	-82.93%	3792.66%	43.36%
Dep./Amortization	3	7	82	334
EBIT	130	15	797	927
EBIT Margins (%)	4.55%	0.23%	6.42%	4.60%
Interest Expense	8	27	27	68
Other Income	66	62	117	317
Exceptionals	-	(35)	-	239
PBT	188	16	888	1,415
Tax Expenses	41	5	344	298
PAT	147	10	544	1,117
PAT Margins (%)	5.15%	0.15%	4.38%	5.54%
PAT Growth (%)	75.50%	-93.01%	5205.01%	105.22%
Minority Interest	0	-	19	77
APAT	147	10	526	1,040
APAT Margins (%)	5.15%	0.15%	4.23%	5.16%
APAT Growth (%)	75.50%	-93.01%	5022.67%	97.87%

Key Ratios

Y/E Mar	FY08	FY09	FY10	FY11
Per Share Data (INR)				
Reported EPS	1.97	0.14	4.55	4.37
Adj. EPS	0.62	0.04	2.21	4.37
Growth (%)	75.5%	-93.01%	5022.67%	97.96%
CEPS	1.39	0.20	7.22	4.18
DPS	0.45	0.27	1.50	1.50
BVPS	10.75	10.51	113.96	36.82
FCFPS	4.37	2.85	12.79	2.95
Return Ratios (%)				
RoCE	12.62%	1.29%	5.75%	8.35%
RoNW	18.80%	1.34%	12.70%	13.24%
RoIC	12.65%	1.29%	11.25%	9.08%
Du Pont Analysis				
Tax Burden	78.18%	65.49%	61.31%	78.94%
Interest Burden	144.84%	101.79%	111.33%	152.64%
Sales Turnover	4.55%	0.23%	6.42%	4.60%
Asset Turnover	354.76%	856.43%	146.02%	230.01%
Debt Liabilities	102.84%	102.24%	205.61%	111.60%
RoE	18.80%	1.34%	12.70%	13.24%
Valuation Ratios				
P/E (x)	71.39	1,021.03	19.93	10.07
P/BV (x)	4.09	4.19	0.39	1.19
PEG (x)	0.95	n.a.	0.00	0.10
MCap/ Sales (x)	1.15	0.49	0.26	0.52
EV/EBIDTA (x)	24.50	140.49	3.32	7.95
Payout Ratio (%)	73.02%	626.53%	67.95%	34.33%

Balance Sheet

Y/E Mar (INR mn)	FY08	FY09	FY10	FY11
Share Capital	224	224	714	714
Reserves and Surplus	556	543	6,793	7,491
Total Network	780	767	7,507	8,205
Minority Interest			590	555
Secured	21	17	121	-
Unsecured	-	0	278	-
Total Debt	21	17	399	-
Deferred Tax Liability	2	-	10	7
Source of Funds	802	784	8,506	8,767
Net Block	38	50	914	771
CWIP	-	0	42	409
Goodwill	-	-	1,896	2,616
Investments	101	101	2,708	1,566
Current Assets	1,403	1,572	6,950	6,911
Current Liabilities	739	945	4,006	3,513
Net Current Assets	663	627	2,944	3,398
Deferred Tax Assets	-	6	2	7
Application of Funds	802	784	8,506	8,767

Cash Flow

Y/E Mar (INR mn)	FY08	FY09	FY10	FY11
EBT	188	16	888	1,415
Less: Other Income/Excp.	(20)	(46)	(84)	(168)
Add: Depreciation	3	7	82	334
Add: Interest Paid	5	19	16	26
Less: Taxes Paid	(8)	(52)	(417)	(421)
Change in Working Capital	160	242	286	(718)
Others	(4)	7	8	(379)
CFs from Operations (a)	323	192	779	89
Purchase of Fixed Assets	(3)	(20)	(176)	(612)
Proceed from sale of FA	3	0	3	1
Change in Investments	(242)	(84)	(605)	886
Others	16	44	625	(401)
CFs from Investments (b)	(227)	(60)	(153)	(126)
Change in Equity	-	-	(175)	16
Change in Debt	(44)	(3)	(296)	(197)
Dividend Paid	(5)	(39)	(23)	(58)
Interest Paid	(26)	(15)	(12)	(27)
CFs from Financing (c)	(74)	(57)	(507)	(266)
Change in Cash (a+b+c)	22	76	120	(303)
Opening Cash	39	61	127	759
Exchange Difference	-	(10)	512	(1)
Closing Cash	61	127	759	455
FCF	326	213	954	702

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		OTCEI	INB200891838
		PMS	INP000003179
		CDSL DP	IN-DP-CDSL-485-2008
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