

Telecom

Onmobile Global Ltd

Traction in international market rises, Price target revised by 7.5%....

Q3 FY12 Result Update

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Onmobile Global (OMGL) reported mixed set of numbers for Q3'12. There is big traction as anticipated by us in international business. We have revised the price target by 7.5% to ₹ 85 on this count though remain watchful on market developments.

Q3FY12 Highlights:

Traction in international revenue aided revenue growth....

Onmobile Global posted a revenue growth of 14% Y-o-Y at ₹ 1668.3 mn for Q3FY12 on a consolidated level mainly driven by its international revenues contributing ₹ 877.9 mn (48%), and was half of December revenue. Going forward, Company sees the more of international revenues than local.

Domestic business going down:

Domestic business witnessed drops 21% Y-o-Y at ₹ 810.3 mn in Q3FY12. Management is expecting its domestic business to face slow-down because of poor 3G response and unfavorable TRAI regulations. Hence, Company is de-risking its domestic business downfall by focusing more and more on overseas market.

Expanding base in other emerging markets:

During Q3FY12, OMGL has commenced operations in three more Latin American countries. With this OMGL has now reached up to 98% of addressable subscriber of Telefonica LatAm market. Also this project has generated positive cash flows in Q2 and in Q3FY12e. Now the Company is growing significantly in North America and African market.

Maintains EBIDTA margin in spite of rising cost...

14% growth in sales translated in 16% rise in EBIDTA in spite of significant rise in employee cost (+36%) on new projects in North America and Africa.

... PAT slips 11% on higher depreciation and financial charges

However, higher depreciation cost (+45%) of ₹ 234.9mn on higher amortization of market developing expenses incurred on investments made in its international operations together with greater interest cost (+227%) of ₹72 mn. pulled down bottom line by 11% was at ₹ 178 mn.

Modest improvement in WC cycle

OMGL's working capital cycle has positively improved albeit marginally by 4 days at 116 days on decrease in debtor days.

Revised Rating	Hold
Old Rating	Buy
Current Target Price	85
Old Target Price	79
CMP	75
Upside	12.2%
Sensex	16863

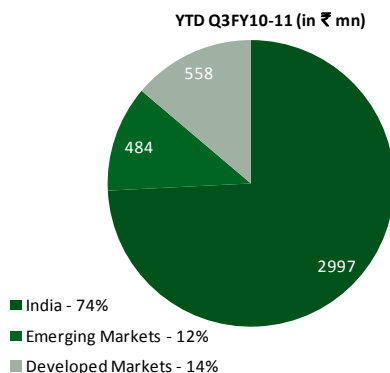
Key Data	
Bloomberg Code	OBMB IN
Reuter Code	ONBO.BO
NSE Code	ONMOBILE
Current Share o/s (mn)	117.9
Diluted Share o/s (mn)	117.9
Mkt Cap (₹bn/\$mn)	8.8/177.1
52 WK H/L (₹)	154.95/53.1
Daily Vol. (3M NSE Avg)	1112358
Face Value (₹)	10
Beta	1.13
1 USD/₹	49.7

Shareholding Pattern	(%)
Promoter	48.9
FII	19.9
Other	31.3

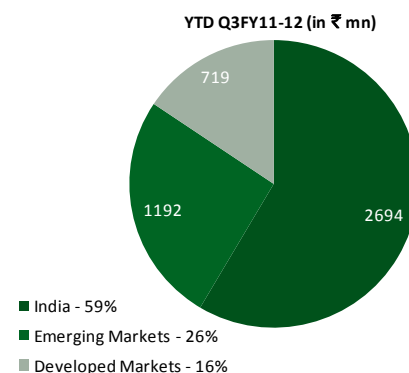
Price Performance (%)	1M	6M	1yr
OMGL	16.9	25.2	-38.2
NIFTY	10.0	-5.1	-7.7

Source: Bloomberg; *As on 30th Jan, 2012

Exhibit 1: Revenue distribution by geography – Growth in overseas revenue makes up loss in local revenue



Source: Company, Networth Research



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Near-term outlook

- ◆ Management aims ~20% top line growth in FY12E and sustain its EBITDA margins at ~22% even as domestic business slows down. Further, we believe in adoption of services in LatAm, North America & Africa to improve from current penetration level of 5% and improve the growth momentum in future.
- ◆ We expect the employee cost to get normalized by coming quarters as Onmobile will be going live in most of its projects and revenue to kick in from new projects which had hitherto not having commensurate revenue stream. Also, taxation rate to stay put at 23-24%, as guided by the Company.

Valuations:

We maintain our view of 5% de-growth in FY12E PAT on higher depreciation & tax expenses and domestic business tapering off. OMGL is currently trading at 9.2x/5.7x its FY12E/ FY13E earnings of ₹ 7.01 / ₹ 11.39. Considering its trailing two year average P/E of 8, we improve the price objective of ₹ 79 set at our initiating coverage to ₹ 85 on significant traction in international business. The stock would trade 7.5x FY13E earnings at our new target price level. We recommend "Hold" on the stock at CMP of ₹ 75.

Quarterly Financials (in ₹ million):

	Q3FY12	Q3FY11	Y-o-Y (%)	Q2FY12	Q-o-Q (%)	9 Month ended		
						Q3FY12	Q3FY11	(%)
Total Revenue	1,688.30	1,486.10	14%	1,552.20	9%	4,604.60	4,038.80	14%
Expenditure								
(a) Cost of sales and services	369.80	390.40	-5%	346.20	7%	986.90	1,104.30	-11%
(b) Employee cost	616.50	453.90	36%	574.20	7%	1,690.10	1,289.70	31%
(c) Depreciation	234.90	161.50	45%	186.90	26%	580.60	422.30	37%
(d) Other Expenditure	310.60	305.50	2%	307.00	1%	941.40	746.20	26%
Total Expenditure	1,531.80	1,311.30	17%	1,414.30	8%	4,199.00	3,562.50	18%
Profit before Other income, Interest	156.50	174.80		137.90	13%	405.60	476.30	
Other Income	64.80	30.60	112%	511.30	-87%	634.10	202.20	214%
Profit before Interest and Exceptional items (3+4)	221.30	205.40	8%	649.20	-66%	1,039.70	678.50	53%
Interest	7.20	2.20	227%	50.00	-86%	16.30	5.00	226%
Profit before tax	214.10	203.20	5%	644.20	-67%	1,023.40	673.50	52%
Tax expense	36.10	3.90	826%	167.00	-78%	240.40	75.50	218%
Net Profit for the period	178.00	199.30	-11%	477.20	-63%	783.00	598.00	31%
Minority interest								
Share in Profit/(Loss) of Associates							25.2	
Profit attributable to Consolidated Group	178.00	199.30	-11%	477.20	-63%	783.00	623.20	26%

Income Statement (in ₹ million):

Y/E March	FY09	FY10	FY11	FY12E	FY13E
Sales & Service	4063.6	4544.0	5372.0	6394.7	7877.4
Expenditure:					
HW/SW & support expenses	777.4	1322.7	1303.1	1534.7	1733.0
Manpower cost	1203.6	1474.9	1773.3	2046.3	2442.0
Administrative & Other expenses	801.3	915.2	1089.9	1278.9	1536.1
Total expenses	2782.3	3712.9	4166.3	4860.0	5711.1
PBDIT	1281.3	831.2	1205.7	1534.7	2166.3
Other Income	310.1	228.4	448.1	356.9	500.8
Dep. and amortization expenses	439.6	440.7	566.7	822.6	913.1
PBIT	1151.6	618.8	1087.1	1068.9	1753.9
Less: Financial cost(Net)	0.5	2.7	8.2	9.5	9.5
PBT	1151.1	616.1	1078.9	1059.4	1744.4
Total tax	299.2	192.6	212.3	233.0	401.2
PAT	852.0	423.5	866.6	826.3	1343.2

Balance Sheet (in ₹ million):

Y/E March	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUND:					
Shareholder's Funds					
a) Share Capital	578.6	585.6	589.5	1179	1179
b) Reserve & surplus	6411.2	6810.4	7732.4	7998.98	9379.8
Total	6989.8	7395.9	8322.4	9178.5	10559.3
Loan Funds	46.3	86.8	317.6	317.6	317.6
Deferred payment Liability (Net)	128.6	1720.4	457.2	457.2	457.2
Deferred Tax Liability (Net)	68.2	93.7	78.4	78.4	78.4
Total	7232.9	9296.9	9175.6	10031.7	11412.6
APPLICATION OF FUNDS:					
Fixed Assets					
a) Gross Block	2536.3	5228.3	6268.7	6918.7	7368.7
Less: Accumulated Depreciation	1560.8	1933.5	2492.2	3314.9	4228.1
Net Block	975.5	3294.8	3776.5	3603.8	3140.6
Add: Capital Work-in-progress	71.5	92.1	144.3	124.5	110.5
Total	1047.0	3386.9	3920.8	3728.3	3251.1
Goodwill on consolidation	2107.8	2046.3	2046.3	2046.3	2046.3
Deferred Tax asset	1.0	0.2	0.3	0.3	0.3
Investments	86.7	677.1	541.8	568.9	608.7
Current Assets, Loans and Advances					
a) Inventory	-	-	25.2	-	--
b) Sundry Debtor	1445.2	1689.5	2245.0	2663.0	3280.4
c) Cash and balances	2855.1	1883.1	912.3	1485.7	2965.3
d) Loans and advances	1685.7	1118.8	1503.9	1503.9	1503.9
e) Other current assets	22.3	25.0	40.3	15.0	15.0
Total:	6008.4	4716.4	4701.5	5667.6	7764.7
Less: Current Liab and Provisions	2018.0	1530.0	2035.1	1979.8	2258.6
Net Current Assets	3990.4	3186.4	2666.4	3687.8	5506.1
Total	7232.9	9296.9	9175.6	10031.7	11412.6

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