

May 8, 2012

OnMobile Global (ONMGLO)

₹ 53

WHAT'S CHANGED...

PRICE TARGET Changed from ₹ 80 to ₹ 65
 EPS (FY12) Changed from ₹ 8.1 to ₹ 7.1
 EPS (FY13E) Changed from ₹ 6.7 to ₹ 6.4
 RATING Unchanged

Topline in line; higher tax mars PAT...

OnMobile Global reported its consolidated numbers, which were in line with our estimates on the topline and EBITDA fronts. The company reported a topline of ₹ 177.6 crore against our expectation of ₹ 177.3 crore, growing 5.2% QoQ and 33.2% YoY. International revenues formed 52.5% of the total topline and were at ₹ 93.2 crore, growing ~15% QoQ and ~119% YoY. EBITDA for the quarter stood at ₹ 41.3 crore against our expectation of ₹ 40.6 crore growing 5.5% QoQ and 34.5% YoY. The EBITDA margin for the quarter stood at 23.3%, improving 8 bps QoQ. PAT stood at ₹ 4.8 crore against our expectation of ₹ 16.2 crore due to higher tax pertaining to previous quarters with respect to income from overseas operations.

Highlights of the quarter

Revenue growth in Q4FY12 came mainly from international operations, which formed 52.5% of the total topline in the quarter. While international revenues grew ~ 119% YoY to ₹ 93.2 crore, domestic revenues de-grew 7% to 84.4 crore. EBITDA margins remained more or less flat at 23.3% in Q4FY12. The PAT, however, was hit by higher taxes owing to transfer pricing relating to Telephonica in Latin America. The management indicated that Telephonica LatAm deployment is going according to plan and is currently in 12 countries with 99% of the addressable subscriber base in that market.

Valuation

As in the last two quarters, the company reported handsome growth in international revenues and de-growth in domestic revenues. However, in light of a higher tax rate for FY13, we have revised our EPS estimates for FY13 from ₹ 6.7 to ₹ 6.4. At the CMP of ₹ 53, the stock is trading at 7.4x FY12E EPS of ₹ 7.1 and 8.2x FY13E EPS of ₹ 6.4. Using the DCF methodology, assuming a revenue CAGR of 13.5% over FY12 to FY20 and 3.0% thereon, we have arrived at a target price of ₹ 65 implying an upside of 24%. Our target price discounts the FY13E EPS by 10.2x. We continue to rate the stock as **BUY**.

Exhibit 1: Valuation Metrics

(₹ Crore)	Q4FY12	Q4FY12E	Q4FY11	Q3FY12	QoQ (Chg %)	YoY (Chg %)
Net Sales	177.6	177.3	133.3	168.8	5.2	33.2
EBITDA	41.3	40.6	30.7	39.1	5.5	34.5
EBITDA Margin (%)	23.3	22.9	23.0	23.2	8 bps	23 bps
Depreciation	26.0	25.1	14.4	23.5	10.5	79.8
Interest	1.5	0.5	0.3	0.7	108.3	368.8
Reported PAT	4.8	16.2	26.9	17.8	-73.1	-82.2
EPS (₹)	0.4	1.4	4.6	3.0	-86.5	-91.1

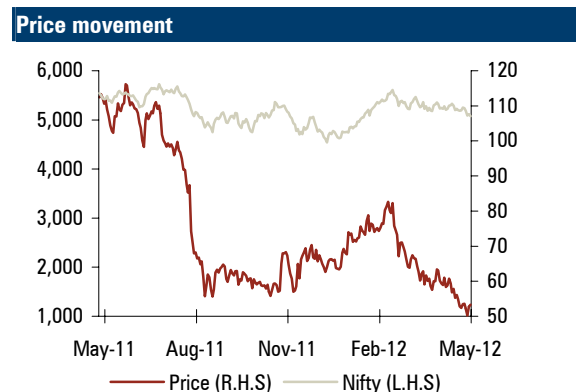
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 65
Target Period	: 12 months
Potential Upside	: 24%

Key Financials				
(₹ Crore)	FY10	FY11	FY12	FY13E
Net Sales	454.2	537.2	638.0	744.5
EBITDA	82.9	120.6	139.9	183.2
Net Profit	42.8	89.2	83.1	75.0
EPS (₹)	7.3	15.2	7.1	6.4

Valuation summary				
	FY10	FY11	FY12	FY13E
PE (x)	7.2	3.4	7.4	8.2
Target PE (x)	8.9	4.3	9.2	10.2
EV/EBITDA (x)	0.7	1.6	3.2	2.6
P/BV (x)	0.4	0.4	0.7	0.6
RoNW (%)	6.0	11.7	10.0	8.5
RoCE (%)	5.2	7.4	5.8	8.5

Stock data	
Market Capitalisation	₹ 614.5 Crore
Debt-Cons. (FY12)	₹ 81.3 Crore
Cash & Invst.-Cons. (FY12)	₹ 244.2 Crore
EV	₹ 451.6 Crore
52 week H/L	118/ 48
Equity capital	₹ 115 Crore
Face value	₹ 10
MF Holding (%)	3.0
FII Holding (%)	19.7



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Result analysis

Domestic revenues for the quarter stood at ₹ 84.4 crore representing 3.9% de-growth QoQ from ₹ 87.8 crore in Q3FY12 while international revenues grew 15.1% QoQ from ₹ 81.0 crore in Q3FY12 to ₹ 93.2 crore in Q4FY12. For FY12, domestic revenues stood at ₹ 353.8 crore, de-growing 9% from ₹ 390.5 crore in FY11 while international revenues grew handsomely by 94% to ₹ 284.2 crore from ₹ 146.7 crore in FY11.

Outlook & Valuation

As in the last two quarters, the company reported good growth in revenues thanks to handsome growth in international revenues. Domestic revenues, however, continued to de-grow on account of low ARPU in the telecom industry, Trai guidelines including double confirmation and slow uptake in 3G services.

The outlook for the domestic business will continue to remain bleak until there is better uptake in 3G services in India. The management, however, indicated that it will take at least three or four years for 3G to pick up in India and help increase revenues for VAS.

The international business, unlike the domestic business, has been growing by leaps and bounds. The management has indicated that the Telephonica LatAm project is going according to plan. In Q4FY12, it was taken to another country taking its tally to 12 countries with 99% of the addressable subscriber base in that market.

Going forward, we expect revenues to grow by 13.6% in FY13 to ~ ₹ 745 crore led by robust growth of 61% in international revenues to ~ ₹ 395 crore forming ~ 55% of the total revenues.

The company paid ₹ 13.3 crore (73.5% of PBT) in tax in Q4FY12 to compensate for previous quarters. The management has indicated that it will take a couple more months to ascertain a stable tax rate, going ahead. In our estimates, we have assumed 31% tax rate in FY13E, in line with the full year tax rate for FY12. In light of a higher tax rate for FY13, we have revised our EPS estimates for FY13 from ₹ 6.7 to ₹ 6.4.

At the CMP of ₹ 53, the stock is trading at 7.4x FY12E EPS of ₹ 7.1 and 8.2x FY13E EPS of ₹ 6.4. Using the DCF methodology, assuming a revenue CAGR of 13.5% over FY12 to FY20 and 3.0% thereon, we have arrived at a target price of ₹ 65 implying an upside of 24%. Our target price discounts the FY13E EPS by 10.2x. We continue to rate the stock as **BUY**.

Exhibit 2: DCF Assumptions

₹ in Crore

WACC	13.9%
Revenue CAGR over FY12-20E	13.5%
Present value of cash flow till FY20E	401.9
Terminal Growth	3.00%
Present value of terminal cash flow	280.4
Total present value of the firm	682.3
Less: Current debt	8.7
Total present value of equity (excluding current cash)	673.6
Number of equity shares outstanding (Cr)	11.70
Per share value (excluding current cash)	57.6
Add current cash & cash equivalents per share	7.8
DCF - Target price (₹)	65.3

Source: Company, ICICIdirect.com Research

Exhibit 3: Valuation Table

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY10	454.2	11.8	7.3	-50.4	7.2	0.7	6.0	5.2
FY11	537.2	18.3	15.2	108.6	3.4	1.6	11.7	7.4
FY12	638.0	18.8	7.1	-53.4	7.4	3.2	10.0	5.8
FY13E	744.5	16.7	6.4	-9.7	8.2	2.6	8.5	8.5

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12	FY13E
Total operating Income	454.4	537.2	638.0	744.5
Growth (%)	11.8	18.2	18.8	16.7
Cost of Sales	130.5	130.3	136.2	148.1
Employee Expenses	149.3	177.3	231.2	268.0
Other Expenses	90.6	109.0	130.7	145.2
Total Operating Expenditure	370.4	416.6	498.1	561.3
EBITDA	84.0	120.6	139.9	183.2
Growth (%)	-34.4	43.6	16.0	31.0
Depreciation	44.1	56.7	84.0	94.5
Interest	0.3	0.8	3.1	2.0
Other Income	22.8	44.8	67.6	22.0
PBT	62.5	107.9	120.4	108.7
MI/PAT from associates	0.4	2.5	-	-
Total Tax	20.1	21.2	37.3	33.7
PAT	42.8	89.2	83.1	75.0
Growth (%)	-49.8	108.4	-6.9	-9.7
EPS (₹)	7.4	15.2	7.1	6.4

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12	FY13E
Profit after Tax	42.8	89.2	83.1	75.0
Add: Depreciation	44.1	56.7	84.0	94.5
(Inc)/dec in Current Assets	129.2	1.5	-161.1	-129.5
Inc/(dec) in CL and Provisions	-48.8	50.5	49.0	27.1
Others	-132.7	-128.8	78.5	-7.4
CF from operating activities	34.5	69.1	133.5	59.7
(Inc)/dec in Investments	-88.1	-77.5	-54.4	-72.4
(Inc)/dec in Fixed Assets	-36.2	58.2	11.4	0.0
Others	-6.0	-171.3	-	-
CF from investing activities	-130.3	-190.7	-43.0	-72.4
Change in Equity Capital	2.3	2.0	56.0	0.0
Inc/(dec) in loan funds	-0.2	23.4	49.6	18.7
Others	16.7	-0.8	-86.0	-13.4
CF from financing activities	18.9	24.6	19.6	5.3
Net Cash flow	-76.9	-97.1	110.1	-7.4
Opening Cash	265.2	188.3	91.2	201.4
Closing Cash	188.3	91.2	201.4	194.0

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12	FY13E
Liabilities				
Equity Capital	58.6	59.0	115.0	115.0
Reserve and Surplus	681.0	773.2	770.4	832.0
Total Shareholders funds	739.6	832.2	885.4	947.0
Total Debt	8.7	31.8	81.3	100.0
Others	181.4	53.6	21.9	21.9
Total Liabilities	929.7	917.6	988.7	1,069.0
Assets				
Gross Block	522.8	626.9	664.1	736.4
Less: Acc Depreciation	193.4	249.2	341.7	436.1
Net Block	329.5	377.7	322.5	300.4
Capital WIP	9.2	14.4	40.0	40.0
Total Fixed Assets	338.7	392.1	362.5	340.4
Investments	67.7	54.2	42.8	42.8
Inventory	0.0	2.5	0.0	0.0
Debtors	169.0	224.5	175.5	291.3
Loans and Advances	111.9	150.4	142.7	163.8
Other Current Assets	2.5	1.5	111.7	111.7
Cash	188.3	91.2	201.4	194.0
Total Current Assets	471.6	470.2	631.3	760.8
Total Current Liabilities	153.0	203.5	252.5	279.6
Net Current Assets	318.6	266.6	378.7	481.1
Other non current assets	204.6	204.7	204.7	204.7
Application of Funds	929.7	917.6	988.7	1,069.0

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12	FY13E
Per share data (₹)				
EPS	7.3	15.2	7.1	6.4
Cash EPS	14.8	24.9	14.3	14.5
BV	126.4	142.2	75.6	80.9
DPS	0.0	0.0	1.0	1.0
Cash Per Share	16.1	7.8	17.2	16.6
Operating Ratios (%)				
EBITDA Margin	18.3	22.4	21.9	24.6
PBT / Total Operating income	13.5	20.1	18.9	14.6
PAT Margin	9.4	16.6	13.0	10.1
Inventory days	-	-	-	-
Debtor days	125.9	133.7	114.4	114.4
Creditor days	142.6	121.1	130.5	130.5
Return Ratios (%)				
RoE	6.0	11.7	10.0	8.5
RoCE	5.2	7.4	5.8	8.5
RoIC	6.9	8.3	7.3	10.4
Valuation Ratios (x)				
P/E	7.2	3.4	7.4	8.2
EV / EBITDA	0.7	1.6	3.2	2.6
EV / Net Sales	0.1	0.4	0.7	0.6
Market Cap / Sales	0.7	0.6	1.0	0.8
Price to Book Value	0.4	0.4	0.7	0.6
Solvency Ratios				
Debt/EBITDA	0.1	0.3	0.6	0.5
Debt / Equity	0.0	0.0	0.1	0.1
Current Ratio	3.1	2.3	2.5	2.7
Quick Ratio	1.9	1.9	1.7	2.0

Source: Company, ICICIdirect.com Research

Exhibit 4: Recommendation History



Source: Reuters, ICICIdirect.com Research

Exhibit 5: Recent Releases

Date	Event	CMP	Target Price	Rating
5-Jul-11	Q1FY12 Result Preview	110	126	BUY
8-Aug-11	Q1FY12 Result Update	71	83	HOLD
5-Oct-11	Q2FY12 Result Preview	61	70	BUY
3-Nov-11	Q2FY12 Result Update	66	70	HOLD
6-Jan-12	Q3FY12 Result Preview	68	70	HOLD
31-Jan-12	Q3FY12 Result Update	74	80	HOLD
4-Apr-12	Q4FY12 Result Preview	63	80	BUY

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Buy: > 10%/ 15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

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