

Visualsoft Technologies

Apoorva Zinzuvadia (apoorva@karvy.com)

Market Performer

Rs204 P/E (FY03E) - 12x

Marginally lower than expected topline

The company has announced good results. However, the topline especially in the solutions segment was a bit lower than expectation, at around Rs286mn. The company has managed to improve margins by around a percentage point due to personal expenses declining as a proportion of revenues. Other income decreased from last quarter's levels (Rs12mn) to around Rs10mn most probably due to foreign exchange losses.

Insurance sector targeted for Solutions revenue growth

Visualsoft has decided to target the Insurance sector for revenue growth in the Solutions division. The company plans to provide enterprise application integration (EAI) services to initiate business with the insurance companies. It would then start bidding for long-term application development and maintenance contracts.

Products division still struggling

Visualsoft has stopped giving more funding to the Products division. The division is cash positive, however, it is not growing. Visualsoft continues to search for partners for hiving off the Products division.

Debtors position improving

Debtor's days have reduced from 107 (Q1 FY2003) to around 92 in Q2 FY2003. The debtor's position seems to be slowly falling in line with the other Indian IT services players.

View and valuation

We expect the company to record an EPS of around Rs17.45 for FY03, which means the company is currently quoting at a forward P/E (FY03) of around 12x. Visualsoft has announced plans of entering BPO and setting up a BPO center in Vizag (Andhra Pradesh). However, we expect the value of these contracts to be reflected in the stock price only after September 2003 as the pilot for the project would be starting at around the same time. Taking into consideration current market conditions, we rate the stock to be a **Market Performer**.

Projections

Quarterly Projections

Rs Mn

Year Ended March 31 (Rs Mn)	Q1 2002 <i>Actuals</i>	Q2 2002 <i>Actuals</i>	Q3 2002 <i>Karvy Est.</i>	Q4 2002 <i>Karvy Est.</i>
Solutions Revenues	267	286	306	328
% Growth QonQ		7%	7%	7%
Products Revenues	12	13	13	13
% Growth QonQ		7%	0%	0%
Total Revenues	279	299	319	341
% Growth QoQ		7%	7%	7%
Net Profits	74	81	89	99
% Growth QoQ		10%	11%	11%
EPS (Rs)	3.8	4.1	4.5	5.0
% Growth QoQ		10%	11%	11%

Note: Consolidated results

Yearly Projections

Rs Mn

Year Ended March 31	2002 <i>Actual</i>	2003E	Change %
Revenues			
Solutions	941	1,188	26.2%
Products	80	50	-37.1%
Total	1,020	1,238	21.3%
Net Profits	254	343	35.1%
EPS (Rs)	12.92	17.45	35.1%
P/E (x)	16	12	

Note: Consolidated results; Karvy Estimates

Consolidated Results

Rs Mn

Year ended March 31	Q2 2003	Q1 2003	QoQ %Chg	Q2 2002	QoQ %Chg
Revenues					
Solutions	286	267	7.4%	223	28.5%
Products	13	12	6.5%	11	16.0%
Total Revenues	299	279	7.3%	234	27.9%
Expenditures					
Personal expenditure	151	146	3.6%	146	3.5%
Other expenditure	47	41	16.1%	36	30.5%
Depreciation	24	23	0.3%	19	25.9%
Operating Profits	77	69	12.4%	33	135.4%
Other income	10	12	-12.5%	16	-37.3%
Interest					#DIV/0!
Profit before Taxation	87	80	8.8%	49	78.4%
Provision for taxation	7	7	0.0%	2	209.5%
Net Profit	81	74	9.5%	47	72.5%
No. of Shares (mn)	20	20	0.0%	20	0.0%
EPS Basic - (Rs)	4.11	3.75	9.5%	2.38	72.5%
OPM	25.8%	24.6%		14.0%	
PBT Margins	29.2%	28.8%		20.9%	
NPM	27.0%	26.4%		20.0%	
Tax/PBT	7.5%	8.1%		4.3%	
Other Income/PBT	11.6%	14.4%		33.0%	

Stock Ratings Absolute Returns

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

Karvy Stock Broking Limited

131, Andheri Industrial Estate, Off Veera Desai Road, Andheri (W), Mumbai – 400 053. India.

Voice: (91-22) 695 0204 - 7, 636 7226 /9044.

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