

## VSNL

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**Under Performer**  
**Rs103.35**

VSNL has declared net revenue of Rs12.47bn and net profit of Rs2.46bn for Q2FY03. On the back of falling settlement rates, the company's international telephony revenues for the quarter under review at Rs10.48bn is 25% lower YoY. Sequentially, telephony revenue declined steeply at 11.75%. Net profit declined 33% YoY. Traffic decline, a sequential 7.2% for the first time has also come as a (nasty) surprise. On a six-month basis, though, traffic growth was still healthy at 16% to 1695 million minutes. Revenue from value-added services at 16% showed a sequential growth of over 7% for yet another quarter.

	Rs Mn		
	Q2FY03	Q2FY02	Change
<b>Sales</b>	<b>12,478</b>	<b>15,954</b>	<b>-21.8%</b>
Traffic revenues	10,480	13,988	-25.1%
Others	1,998	1,966	1.6%
<b>Expenditure</b>	<b>8,887</b>	<b>11,755</b>	<b>-24.4%</b>
Network costs	7,937	11,120	
Staff costs	341	320	
Administration costs	137	68	
Operating costs	472	247	
<b>Operating profit</b>	<b>3,591</b>	<b>4,199</b>	<b>-14.5%</b>
Depreciation	364	345	
EBIT	3,227	3,854	
Interest	6	0	
EBT	3,221	3,854	
Other income	563	1,488	-62.2%
PBT	3,784	5,342	
Tax	1,324	1,547	
PAT	2,460	3,795	-35.2%
Prior period expenses/income		-110	
<b>Reported profit</b>	<b>2,460</b>	<b>3,685</b>	<b>-33.2%</b>

Source: Company reports

Pending final revenue sharing/interconnection agreement with BSNL and MTNL, the same has been accounted by the company in the same ratio of the revenue sharing as was applicable in FY02 and as adopted for Q1FY03. The company has asked TRAI to intervene to formulate a revenue sharing/interconnection agreement by stipulating a cost-based revenue sharing formula with BSNL and MTNL. We remain concerned about the belligerent stand of BSNL and MTNL regarding the revenue sharing agreement and a probable loss of preferred status carrier for VSNL. Even if VSNL were to match rates as proposed by Bharti Telesonic and Data Access, we believe it would be at the risk of severe margin erosion.

Delays in commencing NLD operations and increased business risk in ILD owing to bankruptcy of MCI Worldcom, USA and Teleglobe, Canada, have also affected sentiment for the stock. Besides, the reported Rs6.37bn investment in Tata Teleservices is unlikely to lead to any returns for the next 3-4 years for the minority shareholders of VSNL.

We maintain our **Under Performer** rating on the stock.