Nu Tek India Ltd.

Price Band	:	**Rs170 - 192 per share**	**July 25, 2008**
Issue open during	:	**July 29 - August 1, 2008**	
Recommendation	:	**Subscribe with a medium term view**	
Book Running Lead Managers	:	**SPA, India Infoline**	
To list on	:	**NSE & BSE**	
IPO Grading	:	**3 / 5 by Crisil**	
Market Cap post-listing	:	**Rs3.3Bn $78mn (based on the cap price)**	

IPO of 4.5mn equity shares of Rs10 each, aggregating to Rs86.4Cr or $20.4mn (at the cap price), consisting of an offer for sale of 1mn shares (Rs19.2Cr) and fresh equity issue of 3.5mn shares of Rs67.2Cr.

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters	7,321,795	53.2%	7,321,795	42.4%
Yamini Suppliers Pvt Ltd	3,360,000	24.4%	2,360,000	13.7%
Balyasny SI Limited	1,650,000	12.0%	1,650,000	9.6%
Employees	115,801	0.8%	215,801	1.3%
Other Shareholders	1,311,704	9.5%	1,311,704	7.6%
QIBs excluding Mutual Funds	0	0.0%	2,090,000	12.1%
Mutual Funds	0	0.0%	110,000	0.6%
Non Institutional Investors	0	0.0%	660,000	3.8%
Public	0	0.0%	1,540,000	8.9%
Total	**13,759,300**	**100.0%**	**17,259,300**	**100.0%**

Synopsis

- Nu Tek India Ltd. **(**NTIL) is a telecom infrastructure services provider and offers infrastructure rollout solutions for both mobile and fixed telecommunication networks. It has a 15 year track record of providing end-to-end telecom infrastructure solutions to telecom players.
- It installs and maintains Telecom Network Equipment and Infrastructure for telecommunications equipment manufacturers, telecom operators and third party infrastructure leasing companies. It has executed projects for Nokia, Ericsson, BSNL, ZTE Telecom India, Quipo Telecom Infrastructure, Essar Telecom Infrastructure, Tata Teleservices, Reliance Infocomm, MTNL and Delhi Metro Rail Corporation.
- The growth in the Indian telecom sector is largely attributable mainly to robust growth in cellular telephony. The sector's growth will result in increased demand for equipment and cell sites going forward. While in March 2007, India had an estimated 100,000 towers, the requirement of cell towers is estimated at 330,000 nos. in FY10.
- Outsourcing is another buzzword in the telecom industry. In order to enjoy cost advantage and to focus on the core business, telecom operators outsources services such as network roll out. Activities such as operation and maintenance, network management and managed services are also outsourced by major telecom operators. The sector offers huge opportunities for players in the telecom infrastructure space.
- NTIL's revenues and earnings grew at a CAGR of 42.4% and 59% respectively during FY04-08. EBITDA margin showed consistent improvement from 16% in FY04 to 33% in FY08. Consistent fall in employee costs (as % of sales) and SG&A costs (in absolute nos. and as % of sales) improved profitability. We however note a very erratic trend in the receivables collection period, up from 65 days sales in FY07 to 180 days and deteriorating working capital cycle (up from 85 days in FY05 to 302 days in FY08).
- The company is executing orders worth Rs136Cr. The company proposes capex of Rs23.6Cr, 87% of which is attributable to testing equipment and servers for network operating systems. The company plans to acquire a US-based company for which it has set aside Rs21Cr.

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- The IPO is priced at 7.3x FY09E, 5x FY10E and 4.4x FY11E earnings. The high growth trajectory of the telecom industry will lead to huge opportunities for telecom infrastructure services providers in terms of increased outsourcing. However, we view with caution (i) the erratic trend in the company financials (ii) long working capital cycle (iii) challenges stemming from entry into complex overseas markets and (iv) huge negotiating power of the telecom industry, which may impact NTIL's margins going forward. We recommend subscribing with a medium term view.

Company Background

NTIL is a Delhi-based telecom services infrastructure provider. Incorporated in 1993 as Nu Tek India Pvt. Ltd., it was converted into a public limited company in 2006. The company has a strong track record in the telecom space. It has been providing services to companies such as Nokia, Ericsson, BSNL, ZTE Telecom India, Quipo Telecom Infrastructure, Essar Telecom Infrastructure, Tata Teleservices, Reliance Infocomm, MTNL and Delhi Metro Rail Corporation. It is also executing a small project in the power sector for Tata Projects Ltd. in Rajasthan.

Promoters

Mr. Inder Sharma, CMD, has over 18 years of experience in the telecommunications industry. He has worked with AT&T and has been involved in setting up of one of the initial GSM networks along with Motorola India.

Industry Overview

Indian telecom industry is growing at rapid pace mainly due to the robust growth in the cellular subscriber population. The industry requires additional equipment and increased number of cell sites in tandem with its growth. Telecom operators are outsourcing more and more their network roll out components to meet the growing industry demand.

Outsourcing also helps them focus on their core business. Activities such as operation and maintenance, network management and managed services are outsourced by major telecom operators.

Opportunities

- Focus on improving quality of service and network coverage demands a multifold expansion of the telecom tower infrastructure
- Entry into the highly underpenetrated rural markets (tele-density of only 8.35%)
- Requirement of ready telecom infrastructure by new players for the immediate roll-out of their networks
- Rapid expansion plans of third party tower companies such as GTL Infrastructure, Quipo Telecom Infrastructure and Essar Telecom Infrastructure
- Cost arbitrage leading to increased outsourcing in the telecom infrastructure services industry

Business Overview

NTIL provides telecom infrastructure services, offering Infrastructure rollout solutions for both mobile and fixed telecommunication networks. It offers services to Telecommunication Equipment Manufacturers, Telecom Operators as well as third party infrastructure leasing companies in installing and maintaining Telecom Network Equipment and Infrastructure.

The company undertakes turnkey projects, provides management skills to create and install infrastructure for telecom sites which includes passive and active Infrastructure. It offers all outsourced services related to design, installation, construction, operation and maintenance of telecom networks.

Passive Infrastructure includes towers, telecom shelters, back-up power - DG sets and battery banks, electrical infrastructure and earth stations etc.

Active infrastructure includes Base Transceiver Station (BTS), microwave, optic fibre, Base Station Controller (BSC), Mobile Switching Centres (MSC), IN (Intelligent networks), Value added services (VAS) equipments, transmission equipment such as STM's and Microwaves to the most advanced World Interoperability for Microwave Access (WIMAX) equipment and future ready 3G Nodes.

The order book of NTIL is Rs136Cr comprising of orders from Aircel / Dishnet Wireless, Huawei Telecommunications (India), Ericsson, ATC Tower Company, and Shyam Telelink. In addition, the company has received LOI of Rs39Cr from other clients.

The company is also executing a Rs4.8Cr on order from Tata Projects related to power sector in Rajasthan and Orissa.

Services provided by the company

- Turnkey Infrastructure Rollout Services
- Telecom Equipment Implementation & Commissioning Solutions
- Turnkey Rollout Services for Optical Fibre Cable Access & Backbone Tower Infrastructure
- Operations and Maintenance for Wireless and Wireline Networks Support
- Technical Support Services

Revenue Mix

Business Activities	FY06	FY07	FY08
Turnkey Solutions	69%	70%	58%
Technical Support Services	18%	12%	16%
Telecom Implementation	13%	11%	13%
O&M, PMC	-	7%	13%

Break up of the Order book

Name of Client	(RsCr)
Aircel*/Dishnet	68.80
Huawei Telecom.	13.24
Ericsson	12.55
ATC Tower	11.77
Shyam Telelink	8.55
Total	**114.90**
LOI Received	38.53
Total Potential Order book	**153.44**

Expansion Project

Particulars	(RsCr)
Capex	23.58
Overseas Acquisitions	21.00
Long-term Working Capital resources	44.00
General Corporate Purposes	-
Expenses related to Fresh Issue	-
Total (at least)	**90.00**

Means of Finance

	(RsCr)
Proceeds of the fresh Issue (max)	67.20
Internal accruals	-
Shortfall (approx)	**22.80**

Our Views

Positives

1. Long track record of project execution, including projects such as
   a. GSM roll out (Nokia, Ericsson, BSNL and ZTE Telecom India)
   b. passive infrastructure for third party tower companies (Quipo Telecom Infrastructure, Essar Telecom Infrastructure)
   c. installation and supply of equipment for indoor CDMA Network Coverage (Tata Teleservices, Reliance Infocomm, MTNL and Delhi Metro Rail Corporation)

   The company offers a portfolio of end-to-end services in the telecom infrastructure space.

2. Improving client concentration

   NTIL has been able to increase its client base and now is far less dependent on its erstwhile single largest client.

Category	FY 06	FY 07	FY 08
Top 1	58.0%	57.0%	18.0%
Top 5	89.0%	83.0%	58.0%
Top 10	99.0%	96.0%	82.0%

Issues and concerns

1. Low entry barriers in the industry may attract new competition

   Low capex requirement, low requirement of technical expertise and huge demand from the telecom industry space can attract many new players into the industry. Established players such as GTL Ltd. (GTL) have the benefit of larger scale (standalone gross block of Rs373Cr) to sustain and compete against existing and new entrants. The relatively small size of NTIL's operations may impact its competitiveness and prove to be a deterrent in bidding for larger projects.

2. Some financial issues

   a. Robust expansion in EBITDA margin (from 16% in FY04 to 33% in FY08) has been achieved due to sharp decline in employee costs and SG&A costs as % of sales. Interestingly, SG&A costs have been declining in absolute terms as well, while employee costs reveal declining average salaries per month (refer peer comparison). According to the company, higher sales contribution of the O&M segment and efficient utilization of resources helped it achieve cost efficiencies. However, given the requirement of low skill labour for O&M jobs, we believe its pricing power may erode and EBITDA margins (35% for O&M) may not be sustainable in the long term.

Costs Structure

For year to March 31,	2004	2005	2006	2007	2008	Remarks
Sales	**100%**	**100%**	**100%**	**100%**	**100%**	Sales growth 32%, 54%, 36% and 50% respectively for FY05, 06, 07 and 08
Project Costs	29%	38%	53%	44%	51%	
Employee Costs	30%	27%	20%	20%	14%	Erratic trend in the employee costs 18%, 11%, 36% and 4% of sales, respectively
S, G & A Costs	24%	16%	8%	3%	3%	In absolute terms Rs5.6Cr, Rs4.8Cr, Rs3.5Cr, Rs2Cr and Rs2.8Cr respectively
Total Expenditure	**84%**	**81%**	**80%**	**67%**	**67%**	
EBITDA	**16%**	**19%**	**20%**	**33%**	**33%**	

Employee costs vis-à-vis peers

On comparing employee costs with its peer GTL and GTL Infrastructure, which is into leasing of telecom towers, we find NTIL's manpower costs much lower.

In our view sooner or later, the cost arbitrage may not sustain, affecting the EBITDA margins. The low attrition rates of 6%, 7% and 8% for FY06, FY07 and FY08 respectively are surprising, in view of the low average salaries of NTIL.

	GTL	GTL Infra	NTIL
No. of employees	5,045	208	1,083
Employee cost (RsCr)	145.35	18.19	13.12
Employee cost % of sales	10.3%	11.9%	13.8%
Average cost per employee (Rs.)	2,88,107	8,74,519	1,21,145
Avg. employee cost p.m.	**24,009**	**72,877**	**10,095**

b. Historically, NTIL's receivables collection period shows erratic trend, increasing sharply from 66 days in FY07 to 180 days in FY08.

c. Deteriorating working capital cycle (up from 85 days in FY05 to 302 days in FY08). We believe the poor working capital cycle is a cause for concern.

For year to March 31,	2004	2005	2006	2007	2008
Fixed Assets Turnover (x)	13.4	11.7	14.0	15.4	13.9
Debtors Turnover (x)	5.6	2.4	4.8	5.5	2.0
Debtor Collection period (days)	65	150	75	66	181
Working Capital Cycle (days)	-61	85	214	260	302
ROE	55.2%	36.4%	20.9%	28.1%	24.6%
ROCE	74.1%	39.6%	35.2%	42.7%	33.0%

3. The company plans to acquire a US-based company. NTIL has a rather low presence and short track record in the overseas markets viz., a subsidiary in Turkey formed in December 2007 and operations in Dubai since January 2008. Banking on such a small experience in the complex market such as US may prove difficult.

4. We believe high EBITDA margin of around 33% may not be sustainable in a market dominated by telecom operators. In our view, telecom operators, telecom equipment producers and tower leasing companies are in a position to bring down the realizations of O&M players like NTIL.

5. Most of the equipment (79% of capex) will be sourced from a single supplier.

Keynote Capitals's earnings estimates

	FY09	FY10	FY11
Net Sales (RsCr)	150.50	246.00	302.50
PAT (RsCr)	45.15	66.42	75.63
EBITDA margin	30.0%	27.0%	25.0%
EPS (Rs)	26.16	38.48	43.82
P/E (x)	7.3	5.0	4.4

Peer Comparison

(RsCr)

	GTL	GTL Infra	NTIL	STL	American TowerCorp.*
Sales Turnover	1415.83	152.41	95.16	562.26	1456.59
Net Profit	110.56	-72.74	21.27	50.16	59.96
Paid-up-Equity capital	94.57	737.41	17.26#	20.72	39.71
Price (as on 23-07-08)	206.95	39.90	192.00	75.50	39.87
Market Cap	1957.13	2942.27	331.39	312.87	1583.16
EPS (Rs)	11.69	-0.99	12.32	12.10	$0.18
Book Value (Rs)	97.67	11.56	87.03	50.10	$7.36
P/E (x)	17.7	-40.4	15.6	6.2	220.3
P/B (x)	2.1	3.5	2.2	1.5	5.4
P/S (x)	1.4	19.3	3.5	0.6	1.1
Debt (as on FY08)	701.82	2475.69	9.54	N.a.	4430.00
Cash (as on FY08)	861.04	1375.64	6.4	N.a.	128.43
EV	1797.91	4042.32	334.50	N.a.	5884.73
EBITDA	223.44	76.68	31.02	88.09	993.114
EV/EBITDA (x)	**8.05**	**52.72**	**10.78**	**N.a.**	**5.93**
Face value	10	10	10	5	-
EBITDA margin	**15.8%**	**50.3%**	**32.6%**	**15.7%**	**68.2%**
Net margin	**7.8%**	**-47.7%**	**22.3%**	**8.9%**	**4.1%**

TTM data for all except NTIL & American TowerCorp.
* American TowerCorp. figures in $mn.

Profit & Loss Statements

(RsCr)

For y. e. March 31	2004	2005	2006	2007	2008
Net sales	23.12	30.45	46.91	63.57	95.16
Project Related Costs	6.73	11.64	24.98	28.15	48.17
Employee Costs	7.05	8.29	9.23	12.57	13.13
Admin. Selling & and Other Exps.	5.65	4.82	3.55	2.03	2.85
Total Expenditure	**19.42**	**24.75**	**37.75**	**42.75**	**64.14**
EBITDA	**3.70**	**5.70**	**9.16**	**20.82**	**31.02**
Other Income	1.25	1.23	1.66	0.23	1.54
Interest & Financial Charges	0.11	0.19	0.36	0.42	1.39
EBDT	**4.84**	**6.75**	**10.45**	**20.63**	**31.17**
Depreciation	0.25	0.29	0.41	0.64	0.88
Profits Before Tax	**4.59**	**6.46**	**10.04**	**19.99**	**30.29**
Current Year's Tax	1.27	0.99	4.59	8.56	9.35
Deferred Tax Liability / (Asset)	0.00	0.02	0.00	-0.34	-0.72
Fringe Benefit Tax	0.00	0.00	0.36	0.19	0.35
Provision for Interest on TDS	0.00	0.00	0.00	0.00	0.05
Profits After Tax	3.33	5.46	5.09	11.59	21.27
EBITDA margin	16.0%	18.7%	19.5%	32.7%	32.6%
PAT margin	14.4%	17.9%	10.8%	18.2%	22.3%
EPS (Rs)	665.20	1010.93	4.36	9.94	15.46
Cash EPS (Rs)	715.00	1063.70	4.72	10.48	16.10
Book Value (Rs)	1204.20	2774.26	20.85	35.32	62.87

Balance Sheets

(RsCr)

As at March 31,	2004	2005	2006	2007	2008
SOURCES OF FUNDS :					
Equity Share Capital	0.05	0.05	11.66	11.66	13.76
Preference Share Capital	0.00	0.00	0.00	5.60	0.00
Share Application Money	0.00	0.00	0.32	0.00	0.00
Profit and Loss Account	5.97	11.43	12.34	23.93	44.51
Share Premium Account	0.00	3.50	0.00	0.00	28.24
Total Shareholders Funds	**6.02**	**14.98**	**24.32**	**41.19**	**86.51**
Secured Loans	0.24	1.80	0.70	3.58	6.54
Unsecured Loans	0.08	0.00	4.50	3.00	3.00
Total Debt	**0.32**	**1.80**	**5.20**	**6.58**	**9.54**
Total Liabilities	**6.34**	**16.78**	**29.52**	**47.77**	**96.04**
APPLICATIONS OF FUNDS :					
Gross Block	1.73	2.60	3.35	4.13	6.85
(-)Depreciation	-0.81	-1.10	-1.46	-2.01	-2.87
Net Block	**0.92**	**1.50**	**1.89**	**2.12**	**3.98**
Investments	**9.28**	**8.20**	**0.14**	**0.10**	**12.21**
Current Assets, Loans & Adv.					
Sundry Debtors	4.11	12.54	9.70	11.53	47.17
Cash and Bank Balances	0.22	4.02	4.88	4.44	6.42
Project For Customers Under Progress	0.00	1.37	25.85	47.00	49.92
Loans and Advances	2.08	1.82	2.90	9.13	18.84
Current Liabilities and Prov.	6.41	19.74	43.33	72.10	122.35
Current Liabilities	8.99	11.55	11.98	17.95	33.53
Other Provisions	0.00	0.00	0.07	0.17	0.32
Total Current Liabilities	8.99	11.55	12.05	18.12	33.85
Net Current Assets	**-2.58**	**8.19**	**31.27**	**53.98**	**88.51**
Provision for Tax	1.28	1.10	3.77	8.75	9.70
Deferred Tax Liability / (Asset)	0.00	0.02	0.02	-0.32	-1.04
Total Assets	**6.34**	**16.78**	**29.52**	**47.77**	**96.04**

Keynote Capitals Ltd.

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Ratings structure

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