



Research



RESEARCH :: COMPANY :: CMC LIMITED

30th November, 2009

COMPANY PROFILE

BUY

Approx price = Rs 1280
 Target price = Rs 1530
 Estimated EPS = 98
 Projected PE = 16-20
 Investment period = 12 mnths

STOCK INFO (TTM Basis)

Sector IT
 Market cap (Rs. Cr) 1953.4
 Face value 10
 Book value Rs 252
 EPS 75.75
 Cash EPS 85
 Dividend 150%
 Sales Growth (22%)
 RONW 30.78
 Debt to equity .09
 52 week H/L 1434/255
 Avg Daily Vol.(2wk) 10437
 Sensex 16632
 BSE code 517326
 Promoter Holding 51%
 Management R Ramanan
 Incorporation 1975
 Listed NSE/BSE

CMC was established in December 1975 as 'Computer Maintenance Corporation Private Limited'. It was converted from private sector into a public limited company. Further it was renamed as CMC Limited and obtained a fresh certificate of incorporation in Aug, 1984.

CMC Limited is a leading India-based IT solutions company and a **51% subsidiary of Tata Consultancy Services Limited (TCS Ltd)**, one of the world's leading information technology consulting, services and business process outsourcing organizations. Company is involved in the design, development and implementation of software technologies and applications and specializes in providing broad range information technology solutions to a diverse base of global as well as national clients.

The Company's operation is divided into four strategic business units (SBU): **customer service (CS), systems integration (SI), information technology (IT) enabled services (ITeS) and education and training (E&T)**. List of activities undertaken in the above mentioned business units:-

Systems Integration	Customer Services	Education And Training	ITeS
Embedded systems	Business critical needs of IT infrastructure relating to architecture, design and consulting services	Entry level courses	Corporate intranet, data management, business process outsourcing
Software products and customized services	Equipment supply and integration	Professional development courses	Business Process Management, Digitization
Software development Maintenance	Networking services and consultancy	Vendor certified courses	EDI
Turnkey projects	Environmental engineering and facilities management	Customized courses for specific training needs of companies	Database services, data center services
Systems consultancy, integration, training, handholding support, etc.	Develops range of products for electronic communications, message handling systems, DGPS based vehicle tracking system, etc	career development courses and degree courses	Web designing and hosting, forms processing

CMC America Inc, a wholly owned subsidiary of CMC Ltd, was acquired in 1991. It services clients in USA. CMC also has branch offices in the UK and Dubai to market products and services in Europe, Africa and the Middle East.

CMC is setting up an IT and ITeS Sector specific Special Economic Zone (SEZ), named Synergy Park at its Campus at Gachibowli, Hyderabad. Phase I of the project with seating capacity of around 2700 in three ODCs is now fully functional. The Company has spent Rs. 40.19 crore on this project till March 31, 2009.

Company is synergizing with TCS Ltd for passport e-Seva project to provide infrastructure management service, digitalization services and training and support services. There has been delay in project due to project schedule reasons but is still working on steady note.

CONSOLIDATED SEGMENT RESULTS

SEGMENT REVENUE	Contribution				Contribution		
	Q2FY10	Q2FY09	VAR	%TO TOTAL Q2FY10	%TO TOTAL Q2FY09	Q1FY10	%TO TOTAL Q1FY10
Customer Services	67.08	66.65	1%	31%	33%	70.23	34%
Systems Integration	114.43	107.33	7%	53%	53%	103.9	50%
ITES	25.79	17.46	48%	12%	9%	25.02	12%
Education & Training	9.02	11.53	(22%)	4%	6%	8.74	4%
TOTAL	216.32	202.97	7%	100%	100%	207.89	100%

SEGMENT PBIT	Q2FY10	Q2FY09	VAR	%TO TOTAL Q2FY10	%TO TOTAL Q2FY09	Q1FY10	%TO TOTAL Q1FY10
Customer Services	3.73	0.6	522%	8%	2%	5.22	13%
Systems Integration	34.75	29.53	18%	72%	84%	25.67	64%
ITES	9.02	3.48	159%	19%	10%	9.49	24%
Education & Training	0.52	1.6	(68%)	1%	5%	-0.5	-1%
TOTAL	48.02	35.21	36%	100%	100	39.88	100%

Systems integration (SI):-

The systems integration (SI) strategic business unit (SBU) undertakes the activities of solution deployment. **SI is the high margin strategic business unit of CMC contributing 72% in Q2FY10 to the PBIT. PBIT margin of this unit stands at 41.4% for Q2FY10.** The operations of the CMC America Inc fall in this category.

The SI unit earned revenue of Rs. 312.05 crore during the year as against Rs. 297.84 crore during the previous year as a result of more focus in SI business. For the quarter, on consolidated basis, System Integration revenues grew by 10.1% to Rs 114.44 Crore contributing 53% to revenues. PBIT margins improved 570bps to 30.4%. **SI revenues come from firstly, embedded systems. Secondly, Government sector in India which includes treasury management, HRMS system development and implementation, GST related migration or software development, tax computerization, etc. and Lastly, Private sector in which company has increased focus on insurance sector and financial services sector and another important area is identity management and GPS or GIS based solutions for private sector.** Average deal sizes in SI business are RS5-10 Crores per engagement with 2 -3 year engagement and more than Rs 50 crore are mission mode project within the country. 40-50% revenues of business go into maintenance business.

In domestic market, SI strategic business unit is a strong player in general insurance sector, defence, securities, transport and government projects. **Total government business is about 28% including PSU's and state government.** CMC has bagged new orders on national and international front in the banking and financial services sector. CMC has increased focus on the private sector for new business and has steadily built ERP capabilities over the past few years.

CMC's strong infrastructural base includes in-house development platforms like Tandem, IBM, HP, Sun, Digital, NCR and the nationwide public data network, Indonet (now called ITES).

E-Governance: Effective implementation of E-Governance can expand IT applicability to the common man, national and state governments to align their services with the changing needs of both citizens and stakeholders, as well as develop the economy. It can provide vital inputs to the government's policy-making process and it will make government processes accountable. CMC's domain expertise in E-Governance can create customized solutions that address the entire spectrum of the information technology needs of government. This segment is forecasted to have a huge potential of growth in near future. **CMC developed HRMS system, which recently won the CSI award for the best HRMS implementation in the country or best E-governance project in the country,** Company expects expansion replication of HRMS system, at state level across many other states in the country.

An IT-driven e-Governance system primarily involves the creation, storage, analysis, dissemination and use of information. E-Governance automates and thereby speeds up routine administrative functions. CMC offers packages for public health authorities,

hospital solutions, law and order applications for police departments, water resources management solutions for irrigation departments, tourism departments and a comprehensive social welfare monitoring application for tribal's and other marginalized sections of society.

Indicative Client list of SI strategic business unit:

Application development	Oil and Natural Gas Corporation Ltd (ONGC) Gujarat Narmada Valley Fertilizer Company Limited (GNFC)
Web-based applications	Space Applications Centre (SAC), Ahmedabad, Integrated Establishment System for the Reserve Bank of India (RBI)
Software migration	Oil and Natural Gas Corporation Ltd (ONGC)

Customer services (CS):

This strategic business unit undertakes activities related to IT infrastructure of large and medium corporate organization in India and abroad.

The CS unit earned revenue of Rs. 383.44 crore during the year as against Rs. 573.55 crore during the previous year registering a decline of 33.1%. For the quarter, on consolidated basis, sequentially, Customer Services segment revenues dipped 5% at Rs 67.08 crore contributing 31% of revenues with PBIT margins down 190bps at 5.6%. As per the company this drop is the result of reduction in sale of low margin equipments.

Some of Its client list includes Indian Oil Corporation, Bharat Earth Movers, Bangalore, Oil & Natural Gas Corporation Ltd, Survey of India, Dehra Dun, Indian Railways, etc.

IT enabled services (ITeS):-

Formerly called INDONET which was India's first public data network set up way back in the eighties primarily providing email and online services - the IT-enabled services (ITeS) SBU has diversified to providing end to end process outsourcing solutions to its wide range of customers.

ITeS unit earned revenue of Rs. 72.29 crore during the year as against Rs 64.99 crore during the previous year. For the quarter, on consolidated basis, sequentially, ITES segment revenues grew 3% at Rs 25.79 crore contributing 12% of revenues with PBIT margins dipping 300bps at 35%. Most of the growth in ITES business in H1FY2010 is from growth in international business. **The volume growth from customers has lead to growth in productivity leading to improvement in margins.**

ITES revenue for the H1FY2010 is Rs 50.81 crore, out of this domestic revenues were at Rs 19.55 crore for. This unit has extended its reach into additional verticals like media research, insurance, banking, legal, logistics, and publishing domains in the global market with its KPO offerings. The Company has 6 clients in USA, 5 clients in Europe and many clients in India.

Education and training (E&T):-

The E&T SBU of CMC is in the forefront of providing solutions in field of e-learning. It has extensive experience in education and training, and is ready to partner and develop eLearning solutions for organizations.

The E&T SBU earned revenue of Rs. 44.47 crore as against Rs. 47.27 crore in the previous year. For the quarter, on consolidated basis, Education & training segment revenues were up 3% sequentially at Rs 9.02 crore contributing 4% of revenues with profit at PBIT level of Rs 52 lakh against loss of Rs 50 lakh in the sequential quarter. As per the company, lower earnings in this segment is as a result of reduced outsourcing of induction programmes owing to the downturn trend in international business scenario. E&T SBU continues to be a preferred vendor for a large number of IT and ITES companies both for induction programmes as well as refresher programmes.

Result analysis:

Revenue mix comparison of FY09 and FY08:-

Particulars	2008-09		2007-08	
	(Rs/crores)	%	(Rs/ crores)	%
Equipment	231.96	28.3	389.11	39.8
Services	588.49	71.7	588.08	60.2
Total Operating Revenue	820.45	100	977.19	100
Domestic	560.07	68.3	688.29	70.4
International	260.38	31.7	288.9	29.6
Total Operating Revenue	820.45	100	977.19	100

In FY09, low margin equipment business declined by 40 % as a part of company's strategy to continuously improve the share of revenue mix of services, leading to increase in share of services revenue from 60.2% to 71.1%. **Share of international revenue increased to 31.7% from 29.6% previous year.**

On TTM (consolidated) basis for FY10, other income increased by 277% to Rs 23.39 crore on account of rise in the value of US dollar against Indian rupee and higher income from investment of surplus funds. Operating expenses decreased by 21% to Rs 738 crore. As a result **operating profit increased by 30% to Rs 169.61 crores and PAT increased by 33% to Rs 128 crores.** Company's debt equity ratio stands at 0.9:1.

For the quarter ended September 2009, on consolidated basis, **CMC reported 4% rise in operating income at Rs 219.11 crore with OPM up 310bps at 18%.** Net profit for Q2FY10 stood at Rs 34.65 crore against Rs 27.09 crore in Q2FY09. The management expects that the current level of margins to be sustainable in the near term and could improve going forward.

Equipment sales for the quarter were at Rs 32.57 crore down from Rs 35 crore in the sequential quarter, decline of 6% and Rs 28.04 crore in corresponding quarter previous year as the company de-focuses from the equipment business. The share of equipment revenues to total revenues would be steady at 15% with some quarterly aberration.

Services revenues grew 6% q-o-q and 4% y-o-y contributing 85% of the revenues against 83% in the sequential quarter and 86% in the corresponding quarter previous year. **International business grew 9%** sequentially and 11% on y-o-y basis contributing 48% of the revenues up from 46% in sequential quarter and up from 45% in the corresponding quarter previous year. **Revenue from USA subsidiary grew 13% in US\$ terms on q-o-q basis and 29% on y-o-y.**

Company added 10 new clients, one client from USA in embedded systems and 9 other from India in the space of e-governance, securities, health care, energy and infrastructure.

IT industry:

The world economies are going through slowdown the full ramifications of which are still to be understood and all industries including IT industry is significantly impacted by the same.

Indian IT industry, which depends on US for more than 60% of its business, has not escaped the impact of these events. The financial sector, which is central to the current crisis, is one of the major users of IT and spends about 9.5% of its revenue on IT, compared to other sectors such as manufacturing (about 3.5%) and retail about (5%). All other industries directly and indirectly depend on financial sector for their growth. As a natural consequence of downturn in financial sector, several other industries— notably Realty, Retail and Automotive – have curtailed their IT budgets adversely affecting the prospects of Indian IT Industry. Gartner expects shrinking of about 3.8% in IT spending in 2009.

As per the early estimates of NASSCOM, the Indian IT industry is estimated to have grown by about 16% in FY 2008-09 to US\$ 71.7 billion. Although international markets such as USA, Europe and Japan are in crippling recessions, Indian economy's own growth story continues although at a reduced growth rate. IDC projects India's domestic IT/ITeS market to grow at about 13.4% in 2009. The growth in domestic ITeS market is likely to be about 40.8% - far higher than that in the IT segment of about 11.4%. NASSCOM has projected Indian IT industry to grow 15 percent annually till 2010-11. Indian state and central governments' focus on infrastructure and e-Governance will continue and foresees large IT investment by Government departments such as Railways, Defence and Finance.

FINANCIALS: CMC limited* (Rs Crores)

	2008-09	2007-08	2006-07	2005-06	2004-05
Gross revenue	939.83	1064.74	1079.81	887.19	807.42
Profit before Interest , tax and depreciation	155.58	132.31	105.01	79.27	48.5
less: Interest/ Finance charges	2.42	1.04	3.96	4.15	4.56
Profit before tax and Depreciation	153.16	131.27	101.05	75.12	43.94
less: Tax	27.67	31.02	23.47	17.46	9.92
Profit After Tax and before Depreciation	125.49	100.25	77.58	57.66	34.02
Add: Deferred Revenue Expenditure	0	0	0	0	0
Cash Accruals	125.49	100.25	77.58	57.66	34.02

*consolidated

BALANCE SHEET: CMC limited* (Rs Crores)

	2009-08	2007-08	2006-07	2004-05	2003-04
Networth	407.29	312.72	238.51	212.11	172.36
Loans- term	49.72	28.93	15	55	65
Loans - working capital	0	0	2.75	12.07	16.72
deferred tax liability	3.75	4.05	4.59	(6.56)	(6.15)
TOTAL	453.26	337.6	251.67	285.74	260.23
net block including WIP	97.32	85.17	83.46	56.89	57.4
Investments	119.88	95.63	0	0	0
net working capital	236.06	156.8	168.21	228.85	202.83
deferred revenue expenses	0	0	0	0	0
TOTAL	453.26	337.6	251.67	285.74	260.23

*consolidated

ANALYSIS & REPORT

Why to invest in shares of CMC Limited?

1) SECTOR:

- IT is seeing increased focus in GPS, GIS based solutions (video surveillance, identity management).
- Gartner expects shrinking of about 3.8% in IT spending in 2009 against a growth of about 6.1% in 2008.
- Indian domestic IT/ITeS market growth rate is expected to be 16.4% over the coming five years till 2013(Source: IDC).
- Indian state and central governments' focus on infrastructure and e-Governance will continue and foresees large IT investment by Government departments such as Railways, Defence and Finance.

2) COMPANY:

- With synergistic relationship with TCS, CMC is gearing itself in IT industry.
- In embedded systems, the Company is seeing growth in US, UK and Europe. In Government segment, the Company is seeing traction in treasury management, HRMS systems for various states, energy sector (APDRP, billing), GST related migration.
- In private sector, the Company is expecting growth from Insurance and Financial sector (depository product), banks. The Company has a good base in Insurance space with 80% of market.
- The Company would be focusing on the transportation vertical, in e-Governance space with TCS and in Defense space. In the private space it is looking at cross-selling solutions & services. The Company is seeing new services like video surveillance, identity management and large corporate are going for offshore
- The company would be re-looking at its franchisee business in E&T SBU. The Company is seeing growth in corporate training business
- The Company is focusing on value added services and cost effective niche solutions as CMC already has a rich portfolio of industry specific assets

3) FUNDAMENTALS:

- Phase I of the SEZ has been completed. Phase II would be completed by June 2011 with a capex of Rs 155 crore over 2 years.
- The Company won defense contract in Q2FY2010 which will improve margins in future as these contracts are all long term contracts. The average deal size is Rs 5 – 10 crore with engagement of 2-3 years
- SI with 41.43% PBIT margin in Q1FY10, we see scope of tremendous growth in this SBU which going forward will improve margins for company. Its Egovernance business has a huge potential for growth.
- Company expects operating profit margin to grow to 20% in next 6-12 months. Presently its stands at 18%, highest ever for the company

4) TECHNICALS:



CMC continues to be bullish in the long term

Stop loss for investors 1000

Notes: Figures and graph sourced from www.bseindia.com and capital market.

END

FUNDAMENTAL ANALYSTS	DESIGNATION	CONTACT NO.
Rajesh Gupta	Research Head	0124 -3024862 Rajesh.gupta@fairwealth.in Research@fairwealth.in
Sovid Gupta	Equity Research Analyst	0124 - 3024840 Sovidg@fairwealth.in
Shashi Srivastava	Research Associate	0124 – 3024840 Shashi.s@fairwealth.in
Tanisha Jolly	Research Associate	0124 – 3024840 Tanisha.jolly@fairwealth.in
Varun khanna	Research Associate	0124 – 3024840 Varun.khanna@fairwealth.in

Disclaimer:

This publication has been solely prepared for the information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed reliable investors are advised to satisfy themselves before making any investments. Fairwealth Securities Pvt Ltd does not bear any responsibility for authentication of the information contained in the reports and consequently is not liable for any decision taken based on the same. Further Fairwealth Research report only provides information updates and analysis. All opinions for buying and selling are available to investors when they are registered clients Of Fairwealth Investment advisory services. As a matter of practice, Fairwealth refrains from publishing any individual names with its reports. As per SEBI requirements it is stated that, Fairwealth securities Pvt Ltd, and/or individuals thereof may have positions in securities referred herein and may make purchases or sale while this report is in circulation.



FAIRWEALTH SECURITIES PVT. LTD.
FAIRWEALTH COMMODITY BROKING PVT. LTD.

H. O. : Plot No. 651-652, Udyog Vihar, Phase-5, Gurgaon 122001 (Haryana)
Phone: 0124-3024400 - Fax : 0124-3024474
Website: www.fairwealth.in • E-mail: info@fairwealth.in

• **Delhi**: UG-3, Somdutt Chambers III, 9 Bhikaji Cama Place, New Delhi-110 066 • Ph.: 46091111 (50 Lines) • **Mumbai**: Unit No,12, 2nd Floor, Sonawala Apollo Building, Mumbai Samachar Marg, Above Oriental Bank of Commerce, Fort, Mumbai - 400 001 (Maharashtra) • Ph.: 022-26200053 • **Haryana**: SCO-250, Sector-16, Panchkula - Haryana, Pin - 134109 • Ph.: 017-25057614, 15, 17 • **Punjab**: SCO - 135, First Floor, Chooti Bharadani, Patiala, Punjab • 0175-3241555, 3243555, 3246555 • **Rajasthan**: 411, 4th Floor, Ganpati Plaza, M.L Road, Jaipur 30200, Rajasthan • Ph.: 0141-4073710 • **Ahmedabad**: 206, Peoples Plaza, Nr. Memnagar Fire Station, Navrangpura, Ahmedabad-380009 • Ph.: 079-27911126 • **Indore**: 101-102, Kalyan Palace, Opp. Sheesh Mahal, Cloth Market, Indore, M.P.-452001 • Ph.: 0731-4250007/8/9 • **Lucknow**: 24, 1st Floor, Mahavir Plaza, B.N. Road, Lal Bagh, Lucknow, UP-226001 • Ph.: 0522-4082901/02/03 • **Kolkata**: 3rd Floor, Tobacco House, Dalhousie Square, 1, Old Court House Corner, Kolkata-1 • **Dehradun**: 1st Floor, City Centre, 54, Rajpur Road, Dehradun (Uttanchal) • **Surat**: G-10, Empire State Building, Near Udhna Darwaja, Ring Road, Surat, Gujarat -395002 • Ph.: 0261-3103298, 3102890 • **Raipur**: 1st Floor, Guri Apartment, Main Road, Sadar Bazar, Raipur, Chattishgarh - 4920019 • Ph.: 0771-4243200, 02