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DEMOCRATIZING WEALTH CREATION

PEARLPICK

Milking the liquidity premium

January 2018

Suyog Telematics

BSE Code: 537259 | CMP : ₹365 | Face Value : ₹10 | Target price: ₹555 | HP* : **Two years**

About The Company

Our Pearl Pick for the month of January is Suyog Telematics. The company is a telecommunication infrastructure provider engaged primarily in the business of installing and commissioning of poles, towers and optical fiber cable (OFC) systems in India. The company's services include fiber optic network solution, tower erection service, pole erection service and trading service. It also offers services to telecom operators in installing telecom infrastructure on job work basis.

Why to Invest-

Strong Business Model:

Telecom sector has witnessed headwinds due to the recent merger (Vodafone and Idea) precipitated by the entry of Jio. Despite such consolidation and pricing war in the sector, Suyog Telematics retained its third position among telecom infrastructure providers for the third consecutive time. The company outperformed with the aid of low-cost site model and favourable traction in low-cost pole business versus tower business.

India's telephone subscriber base has expanded at 19.22% CAGR over the last decade, scaling a new high of 119 crore subscribers. Despite the growth, we still have low penetration with only 29% of the total population using the internet, pointing towards potential untapped demand in the sector. Further, we believe the Government's intention to deploy 5G by 2020 will further instigate the need for better telecom infrastructure driven by technological upgrades. Being leading providers of tower infrastructure services, Suyog is well-poised to benefit from the demand for towers as the country is at an inflection point of data and voice growth.

Aggressive Business Expansion:

The company primarily operates in Mumbai and Uttarakhand. The company has aggressive plans for site expansion from current ~1700 to ~10,000 towers in a short span of two years. It has targeted NHAI projects – initially connecting Mum-Bangalore, Mum-Goa and Mum-Ahmedabad to add around 1,000 towers. Also, the company was able to retain its 'BEST' (10 years) and MSRDC contract (5 years) aggregating to 480 towers giving rental income visibility. Moreover, with the acquisition of NISA (operations in Delhi and Ahmedabad) in December 2016, it added 209 active cell sites.

Rural Growth - The key driver:

Slum revenue contributes primarily to its topline with a share of 46.3% in FY17. It has been the company's forte to focus on low-cost sites primarily in the rural areas. There remains a major revenue untapped from rural sector considering the low coverage of telecommunication network. Use of poles have been cheaper than towers and pole segment being its core strength, Suyog Telematics is poised to tap opportunities. It is currently in talks for expansion in the Konkan region. Moreover, the company expects to increase the current average tenancy per tower from ~1.8 to ~2.3.

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*** HP :** Holding Period

Reliance Jio&Fibre Optic Business:

Telecom sector has witnessed a major entrant Jio which has increased the data penetration with its low-cost schemes. Being a supplier to Jio, Suyog has benefited from Jio's commissioning of projects in Bangalore's outskirts (sharing of 200 pole orders). We expect capex by Reliance Jio and following the suit by other telecom service operators will benefit the company. Moreover, the telecom sector is witnessing a revolution of transforming microwave link to fibre optic for data safety, Suyog Telematics being an established player in fibre is in talks to provide connectivity services to Jio.

Investing in the Stock

Price	Accumulation
330 to 355	33%
330 to 320	22%
320 to 290	22%
<290	22%

The company has a share capital of Rs. 10.15 crore with 49.64% promoter holding. Also, a non-promoter company has been holding 23.64% for more than 3 years. Two-week average traded quantity comes around 2,748 shares. We urge our investors to enter the stock and accumulate as per the chart.

Financial Performance

The company has reported topline CAGR of 72.8% over FY14-17 with a staggering PAT growth of 163% for the same period. Reliance Jio leads its revenue share of 25.7%, followed by Airtel 19.9% and Vodafone 18.6% in FY17. Even though the company has broadened its debts (major borrowings in FY17), its solvency ratio remained maintainable (Current Ratio of 1.8x in H1FY18). The company earned a revenue of ~Rs.3.5 lakhs per site. We expect optimal working capital in the coming years, as the company has opted a favourable balloon payment facility for its loan payment.

Valuation & Outlook

The company is trading at TTM P/E of 26.8x with TTM EPS of Rs. 13.27. Tower commissioning has increased by four-fold to ~4,50,000 towers in FY17. With the government's favourable regulation policies and 4G services hitting the market, the Indian telecommunication sector is expected to witness fast growth in the next few years. Also, deployment of 5G spectrum by 2020 is expected to benefit the company. Digitization would trigger enormous demand in mobile towers and fibre optic network. Thus, we expect the company to clock a growth of 40-45%. We see an upside of 52% with a target price of Rs. 555 over the next two years.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	60.54	43.75	21.71	11.72	8.89
Total Income	63.29	43.86	21.72	11.72	8.92
Total Expenditure	31.37	20.18	13.14	7.80	5.44
PBIDT	31.92	23.68	8.58	3.92	3.48
PAT	17.01	12.06	3.37	0.93	1.00
Adj. EPS(Rs)	16.75	11.88	3.32	1.20	1.79

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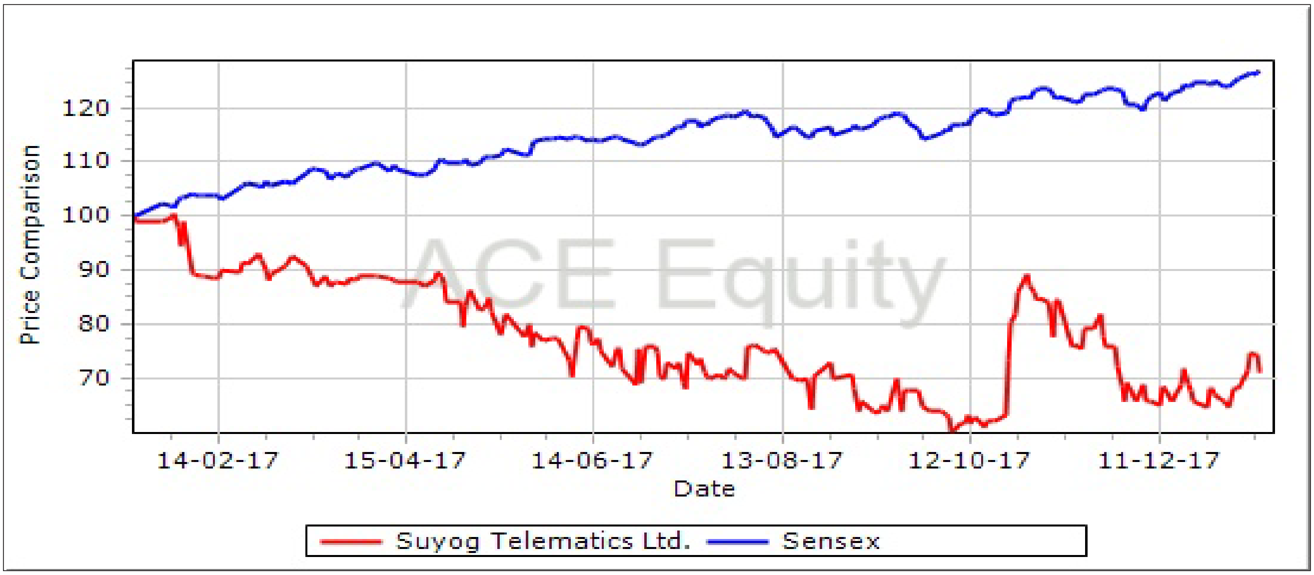
Price Comparison
120
110
100
90
80
70
14-02-17
15-04-17
14-06-17
13-08-17
12-10-17
11-12-17
Date
Suyog Telematics Ltd.
Sensex
ACE Equity