Key Highlights

- GISL is expected to take a strategic stake in Clangula IT AB, Sweden to the extent of 76% of its equity capital.
- In order to expand its product range the company is planning to acquire companies which would complement its existing product portfolio.
- GISL has signed Share Purchase Agreement with shareholders of Pico Peta Simputers Pvt Ltd, Bangalore, to takeover 100% shareholding in it.
- GISL to buy 100% stake in Engage Solutions Ltd, a Hongkong based company that specializes in the provision of services and products primarily for the Financial Services Industry.
- GISL joins hands with Global IP Sound (GIPS), a leading provider of embedded voice processing solution for the Voice over IP (VoIP) market.
- Geodesic Information Systems Ltd will be launching beta version of Mundu Radio, an innovative mobile Internet radio service.

Industry Scenario

The Indian IT industry has come a long way from being body shoppers and providing programming support services to providing end-to-end solutions to clients worldwide. IT revenues during the FY2005 crossed Rs.1,00,000 crores. During the year, the industry provided direct employment to 10 lakh people. The industry's top 10 companies witnessed a 37% growth in their topline performance and 40% increase in the bottomline performance. Apart from the application development and maintenance segments, revenues from the testing and package implementation segments have grown. Exports during the FY 2005 grew at an estimated 53.85 percent clocking revenues of Rs. 76,500 crores approximately as compared to the previous years Rs.49725 crores. In terms of dollars revenues have grown from USD 11.05 billion to USD 17.billion. Indian exports to the Japanese markets that currently equates to 3% of the total are likely to rise in coming years leveraging on the improved relationship with China. Business from Australia too is expected to boost revenues. Indian firms are likely to witness increased revenues from a strengthening relationship with China, Japan, South Korea and other Asean countries. The demand trend in the industry looks robust. Large customers appear to be ramping up well and new customer wins continue to be robust. The companies have made significant employee additions in the past twelve months (over one third of the total headcount), which is proxy for the management's revenue visibility. The industry currently is facing shortage of trained manpower to successfully execute its transactions resulting in high employee costs. Inspite of rising manpower costs, the English speaking, technically qualified and trainable manpower gives it the competitive edge amongst developing nations.

The enterprise solutions business (package implementation) has been a significant growth driver for the Indian IT services companies with 40% YoY growth in FY2006. The overall demand environment for implementation services remains robust. Companies continue to improve their existing IT infrastructure either through extension of their existing SAP functionalities or consolidating their current infrastructure. Additionally, as SAP expands into the SMB market, demand for consulting/implementation services should continue. Also, the Indian players appear to be well positioned. The general sense was that customers are becoming more comfortable with the global delivery model and are more likely to utilize offshore players to control costs.The rupee has been weak relative to global currencies in the past few months, which would have positive impact on the industry. While the rupee has depreciated by about 2% against the USUSD since March 31, 2006, it has depreciated by over 6% against the Euro and the Pound. Broadly, a 1% fall in the rupee helps EBITDA margins by about 30 to 40 bps. The industry is also faced with piracy levels at 73% as compared to the world's average 36%. This continues to curb the growth of the industry leading to a loss in revenues and employment opportunities. A mere 10% reduction from the current levels would lead to an increase in earnings by approximate Rs.7200 crores. Low PC penetration, currently at a mere 0.7% is a factor that needs to be dealt with. Infrastructure development and improvement in power supply is a necessary to boost the industry's growth rate. The industry is expected to grow at 28-30% till 2010.

Operational Performance

The company registered a 128.33% increase in topline performance during the year ended Mar'06 over the corresponding period previous year. The year ended with net sales at the Rs.91.88 crores from the previous corresponding year's Rs.40.24 crores levels. The other income of the company stood at Rs.4.22 crores. Owing to the increase in employee expenses and other expenses by 31.42% and 163.01% respectively to Rs.3.42 crores and Rs.35.27 crores respectively the operating expenses also rose by 141.57% to Rs.38.70 crores. Operating profits during this period under review rose 119.57% from Rs.24.22 crores to Rs.53.18 crores. The interest declined by 83.33% to Rs.0.01 owing to which the gross profit rose by 128.33% to Rs.57.39 crores. The depreciation and tax liability rose by 126.06% and 172.16% respectively to Rs.12.32 crores and Rs.2.64 crores respectively. The period closed with the bottomline higher by 127.44% to Rs.42.44 crores from Rs.18.66 crores. OPM and NPM declined by 231 basis points and 117 basis points to 57.88% and 44.16% respectively.

New Launches

Beta Version

Geodesic Information Systems Ltd will be launching beta version of Mundu Radio, an innovative mobile Internet radio service. It offers free access to unlimited music or broadcast content of choice to its users from any part of the world on their mobile devices. Users can also personalize their playlist and manage their profile using an easy to use interface giving users ultimate freedom to listen to their favorite stations and their favorite genre commercial-free.

Financial Performance

The company registered a 75.79% increase in topline performance during the quarter ended Dec'06 over the corresponding period previous year. The quarter ended with net sales at the Rs.44.44 crores from the previous corresponding quarter's Rs.25.28 crores levels. The other income of the company stood at Rs.2.15 crores. Owing to the increase in employee expenses and other expenses by 40.98% and 50.94% respetively to Rs.1.72 crores and Rs.13.72 crores, the operating expenses also rose by 49.66% to Rs.15.43 crores. Operating profits during this period under review rose 93.59% to Rs.29.00 crores. The depreciation rose by 70.21% to Rs.5.77 crores. The period closed with the bottomline higher by 107.18% to Rs.25.38 crores from Rs.12.25 crores. OPM and NPM rose by 604 basis points and 855 basis points respectively to 65.27% and 54.49% respectively in the quarter ended Dec'06.

The company registered a 84.24% increase in topline performance to Rs 116.31 crores during the nine month-ended Dec'06 over the corresponding period previous year. The other income of the company stood at Rs.4.77 crores. Owing to the increase in other expenses by 82.92% to Rs.41.23 crores, the operating expenses also rose by 70.18% to Rs.44.06 crores. Operating profits during this period under review rose 94.01% to Rs.72.25 crores. The depreciation rose by 93.50% to Rs.15.79crores. The period closed with the bottomline higher by 112.86% to Rs.63.24 crores from Rs.29.71 crores. OPM and NPM rose by 314 basis points and 693 basis points respectively to 62.12% and 52.23% respectively .

Cautions

- Inorganic expansion of smaller companies could pose to have initial hiccups.
- Operating profit margins for the company has been significantly depressed in comparison with past performance.
- Software margins have reduced as anticipated due to an increase in salaries as well as addition in number of people due to anticipated growth and high attrition rates.