

**iGate Global Solutions****Rs394**  
**OUTPERFORMER**

## RESULT NOTE

Mkt Cap: Rs12.5bn; US \$280m

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**Result:** Q3FY07

**Comment:** Margin expanded on improved realization

**Last report:** 12 October 2006 (Price Rs233; Recommendation: Outperformer)

## Key financials

Year end 31 March (Rs m)	Net Sales	% Change yoy	Net Profits	EPS (Rs)	% Change yoy	PER(x)
2005	5,800	0.0	223	7.6	0.0	51.8
2006	6,358	9.6	55	1.8	-76.6	221.3
2007E	8,131	27.9	466	14.7	726.5	26.8
2008E	9,988	22.8	873	27.0	83.6	14.6
2009E	12,112	21.3	1,171	35.5	31.5	11.1

In Q3FY07, iGATE Global Solutions's (iGS) revenues grew 4% qoq to Rs2.11bn (rupee appreciation shaved off 3.6% growth), which was in line with our estimates. Volume growth in IT services was 8.9% sequentially. Increased contribution from customers having higher realization led to improvement in billing rates (+1% onsite and +1.6% offshore). Higher billing rates coupled with offshorization (46.3% offshore v/s 44.9% in last quarter) and 86bp saving in SG&A led to 276bp improvement in EBITDA margins to 12.7% - higher than our expectation of 12% margins. The company remains confident of reporting 5% qoq revenue growth in \$ terms and has maintained its guidance of 15% EBITDA margin in Q4FY07. iGate expects to target mid sized clients with deal size of \$5-10m. Client addition was lower during the quarter - added five clients in the quarter including two Fortune 1000 customers. Driven by the better-than-expected margin expansion and positive outlook on average realization, we have upgraded earnings estimates for FY07, FY08 and FY09 by 15.8%, 10.2% and 9.6%, respectively. At 14.6x FY08E and 11.1x FY09E, maintain Outperformer with a price target of Rs462 based on 13x FY09E earnings.

## KEY HIGHLIGHTS

**□ Strong volume growth of 8.9% qoq; revenue grew 4% qoq affected by rupee appreciation**

iGate witnessed a 4% qoq rise in operating revenues in Q3FY07 to Rs2,107m.

Revenues from IT services (90% of total) increased by 4.7% qoq to Rs1,886m on the back of 8.9% qoq volume growth – 10.5% offshore and 4.7% onsite – though rupee appreciation shaved off 3.6% growth. Offshore revenues grew 8.1% qoq, while onsite revenues increased by 2% qoq with share of offshore revenues increasing to 46.3% from 44.9% in Q2FY07. Billing rates too increased by 1% qoq onsite and 1.6% qoq offshore on account of increased proportion of revenue from new clients added at higher billing rates, which contributed to 35% of revenue v/s 30% in the last quarter.

Revenues from top 10 clients (73.4% of total) increased by 6.8% qoq while revenues from GE increased to 29.5% from 28.2% in the previous quarter, up 5.8% sequentially. Accounts other than top 10 remained flat sequentially due to its focus on mining large clients.

□ **Margin expansion of 276bp – driven by higher billing rate and savings in SG&A**

Gross margins increased by 190bp qoq to 31.2% on account of increase in contribution from new high-margin customers and higher offshorization (46% of revenue against 44.9% in previous quarter). A 86bp qoq decline in other operating expenditure as a % of revenue led to EBITDA margin expansion of 276bp (against 190bp expansion in gross profit). Increase in EBITDA margin was higher than our expectations of ~210bp expansion. EBITDA increased by 33% qoq to Rs266.7m.

□ **Net profit grew 57.5% qoq**

Net profit increased 57.5% qoq to Rs159.5m. Tax rate is expected to be 13-14% on a full year basis.

□ **Expects 5% qoq \$ terms topline growth and targets 15% EBITDA margin by Q4FY07**

The management has reiterated its goal of achieving EBITDA margin of 15% by March 2007 primarily driven by increase in average billing rate and better management of project delivery. It expects revenues to grow 5% qoq in \$ terms in future.

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**OTHER KEY METRICS**

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- Utilization remained flat - 68% offshore and 92% onsite.
- Offshore efforts were 73% of the total as against 71% in the same quarter last year.
- 301 employees were added in the quarter, taking the total number of employees to 5,821. The company informed that it will add over 400 employees in Q4FY07. It has added 668 people in 9MFY07. About 40 people are in sales.
- Number of USD1m customers increased from 26 to 29 qoq.
- Five new clients were added, of which 2 were Fortune 1000 customers.
- Attrition declined 200bp qoq to 18%. Average experience of employees reduced to 4.5 years from 5.7 years.

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**VALUATIONS AND VIEW**

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iGS's Q3FY07 results were ahead of our expectations at EBITDA level – reported 280bp improvement against our expectations of 210bp expansion. The management remains confident on the pipeline ahead and improvement in billing rates going forward, and expects 5% sequential revenue growth in \$ terms. We have upgraded our FY07, FY08 and FY09 earning estimates by 15.8%, 10.2% and 9.6%, respectively to factor in higher than expected improvement in margins. Earnings are expected to grow at 55% CAGR over FY07-09E. Reiterate Outperformer with a price target of Rs462 based on 13x FY09E earnings.

## Quarterly results

Year to 31 March (Rs m)	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	FY06	FY07(E)
<b>Revenues</b>	<b>1,652</b>	<b>1,674</b>	<b>1,816</b>	<b>2,026</b>	<b>2,107</b>	<b>6,358</b>	<b>8,131</b>
Direct costs	1,130	1,172	1,333	1,432	1,449	4,419	5,664
Gross Profit	521	502	483	594	658	1,939	2,466
Other Oper Expenditure	324	341	355	394	391	1,325	1,546
<b>EBIDTA</b>	<b>197</b>	<b>161</b>	<b>129</b>	<b>201</b>	<b>267</b>	<b>614</b>	<b>920</b>
Other Income	(8)	(3)	(1)	(3)	(1)	(5)	(7)
Interest	8	8	7	7	7	26	29
Depreciation	91	95	99	98	102	354	408
Profit before tax	91	56	21	93	156	228	476
Tax	22	9	11	6	10	62	45
Minority Interest	55	-	-	11	14	-	35
Extraordinary loss	111	-	-	(3)	-	-	-
<b>Profit after Tax</b>	<b>13</b>	<b>47</b>	<b>10</b>	<b>101</b>	<b>160</b>	<b>55</b>	<b>469</b>
<b>YoY Growth(%)</b>							
Revenues	15.1	15.0	23.1	30.1	27.6	9.6	27.9
EBIDTA	127.6	48.1	27.6	34.5	35.3	90.2	50.0
PAT	(91.8)	111.2	(26.6)	80.2	nm	(75.2)	748.1
<b>QoQ Growth(%)</b>							
Revenues	6.0	1.4	8.5	11.6	4.0		
EBIDTA	32.1	(18.2)	(20.1)	55.6	33.0		
PBT	39.9	(38.9)	(61.8)	335.7	68.0		
PAT	(76.9)	262.3	(77.7)	864.8	57.5		
<b>Operational Parameters</b>							
EBIDTA Margins(%)	11.9	9.6	7.1	9.9	12.7	9.6	11.3
NPM(%)	0.8	2.8	0.6	5.0	7.6	0.9	5.8

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