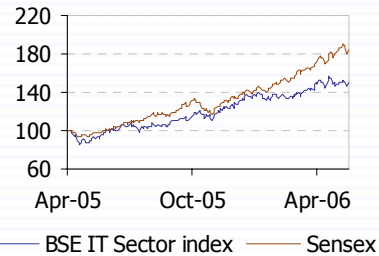
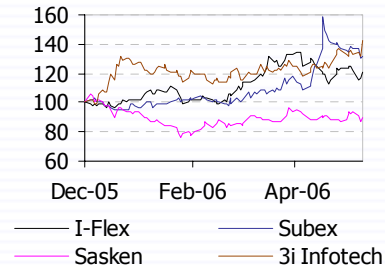


BSE IT Index vs BSE Sensex

Source: ENAM Research, Bloomberg

Relative Performance

Source: ENAM Research, Bloomberg

Financial summary

Company	Price (Rs.)	Mkt cap (USD mn)	EPS (Rs.)		P/E (x)		RoE (%)		EV/EBITDA (x)		Target Price (Rs.)	Relative to Sector
			FY07E	FY08E	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E		
i-Flex	1,227	2,066	44	55	28	22	22	23	18	14	1,466	Outperformer
Sasken	345	212	16	22	21	16	11	13	10	8	-	Not Rated
Subex	521	263	26	38	20	14	25	26	14	10	-	Under Review

Source: Company data, ENAM Research. Note : Subex is on standalone basis. FY07 and FY08 average INR / USD rate assumed at Rs44.8 and Rs43.4 respectively

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India: IT Products Sector

The scale effect ...

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Investment Summary

➔ Global market share play

- India's market share in IT products stood at less than 1% in 2005, but expected to leapfrog owing to:
 - ▶ Global Transition – To open source systems/ platforms
 - ▶ Scale – Via acquisitions and alliances by Indian product vendors
 - ▶ Brand – Quality and cost of Indian engineering talent driving International ISVs to India
 - ▶ Innovation – Improving ecosystem eg. domestic market as a catalyst ; Improvements required in funding, govt amenities/ support etc.
 - ▶ Demonstrated success in the global arena – i-Flex Solutions, Subex Systems
 - ▶ Selective prescription – Companies with consistent risk appetite, strong core engg design team and innovative aptitude

➔ Earnings visibility to increase

- Revenue Model – Improvement in license fee adds stability via AMC predictability
- Higher RoI on Product Investments
- Investor Challenges – Lumpy Financials, Earnings predictability low compared to services

➔ Event drivers - Increasing momentum

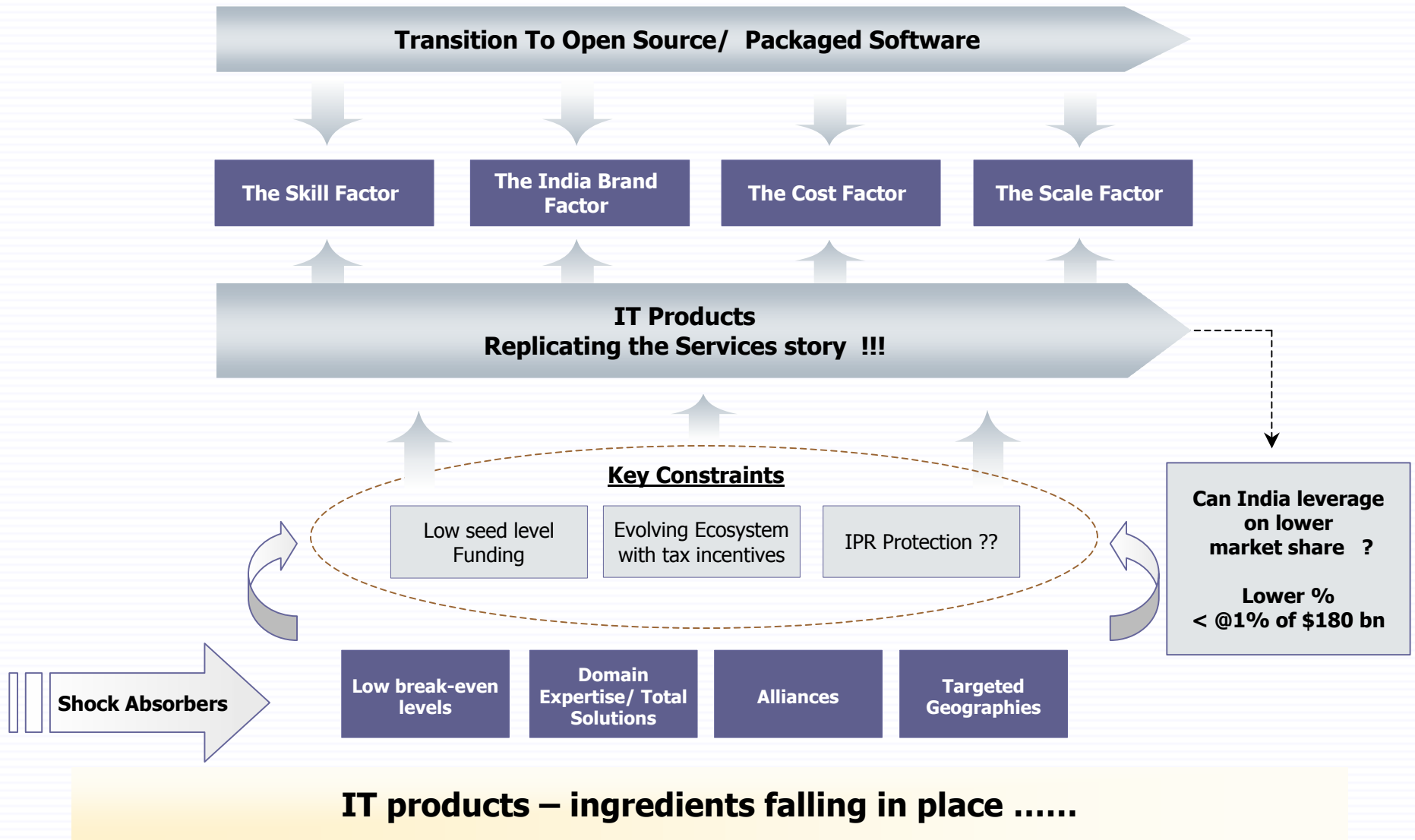
- Re-rating - Valuation multiples eg. i-flex Solutions (post Oracle acquisition and ↑ client access)
- Business drivers - New product development and launches, Test phase completion, Funding, Commercial roll-out etc.

➔ Bet on Application Product Companies (APC) v/s Technology and Enterprise Product companies – On the back of a larger addressable market, higher profitability, faster payback period in APCs

➔ Recommendations

- Sector Outperformer – i-flex Solutions

Indian IT Product Story ... taking off



Valuations: Comparative assessment

(x)	Space	Country	Price	M Cap (USD mn)	P/E		M cap/ sales		EV/ EBITDA		RoE (%)	
					2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E
Indian IT Product Cos												
I-Flex Solutions Ltd	BFSI	INDIA	1,227	2,061	28	22	5	4	18	14	22	23
Sasken	TELECOM	INDIA	345	212	21	16	2	2	10	8	11	13
Subex Systems Ltd	TELECOM	INDIA	521	263	20	14	5	4	14	10	25	26
Global IT Product Cos												
Temenos	BFSI	SWITZ.	13	616	25	18	3	3	15	12	22	23
Misys Plc	BFSI	BRITAIN	2	1,866	12	11	1	1	8	8	NM	NM
Sap AG	ERP	GERMANY	167	68,130	28	23	5	5	18	15	28	28
Oracle Corp	ERP	US	14	75,699	16	14	5	4	11	9	28	25
Indian IT Svcs Cos												
Infosys Technologies Ltd		INDIA	3,144	19,044	27	22	6	5	19	15	39	36
Tata Consultancy Svs Ltd		INDIA	1,979	21,335	26	20	5	4	21	16	54	44
Wipro Ltd		INDIA	535	16,786	29	23	6	5	24	19	29	29
Satyam Computer		INDIA	746	5,344	20	17	4	3	14	11	26	25
HCL Technologies Ltd		INDIA	543	3,863	18	14	3	3	12	10	24	28
Patni Computer Systems		INDIA	395	1,205	19	15	2	2	13	10	16	14

Source: ENAM Research, Company Websites, Bloomberg, Prices in local currency, Figures for International Companies are for CY06E & CY07E, Mkt. Cap/ EBITDA substituted for EV/ EBITDA for international companies; Note: TCS EV/ EBITDA on standalone basis. Subex on standalone basis, excluding Azure Solutions.

➤ Indian IT products premium valuations justified in select companies

- Indian Products V/s International ISVs - Incumbent v/s Challenger : Valuations driven by nascent stage of Indian product story
- Indian Products v/s Indian Services – Nascent v/s Proven : Can the products space replicate the success story of IT services ?



Unleashing the Indian Product Story

Different Models, differing profitability matrices

Technology Product Companies

- **Products** – On Open standards/ source
- **Success Factors** - Influenced by changing standards and not marketing alliances
- **Key Markets** - US and Japan
- **Remarks**
 - ▶ **Penetration Strategy** - Domestic market
 - ▶ **Risk** - Technological obsolescence high
 - ▶ **Space** - Mostly in the IP/ telecom vertical
 - ▶ **Target clientele** - largely OEM vendors
 - ▶ **Exits** - Represent good acquisition targets

Enterprise Product Companies

- **Products** - Enterprise space (CRM/ SCM), Data Warehousing, Analytics
- **Success Factors** - Deep Pockets necessary
- **Growth Rates** – Now stagnating at 9-12% YoY for International enterprise product companies
- **Remarks**
 - ▶ **Penetration Strategy** - Services used as a complementary offering
 - ▶ **Target clientele** - Typically Middle East, Africa and Asia
 - ▶ **Market Concentration** – High, top 2 players cornering 30% market share, below Top 2 markets fragmented

Application Product Companies

- **Products** - Generally towards industry verticals – BFSI, Health etc.
- **Success Factors** – Product functionality should be high with respect to process specific knowledge
- **Remarks**

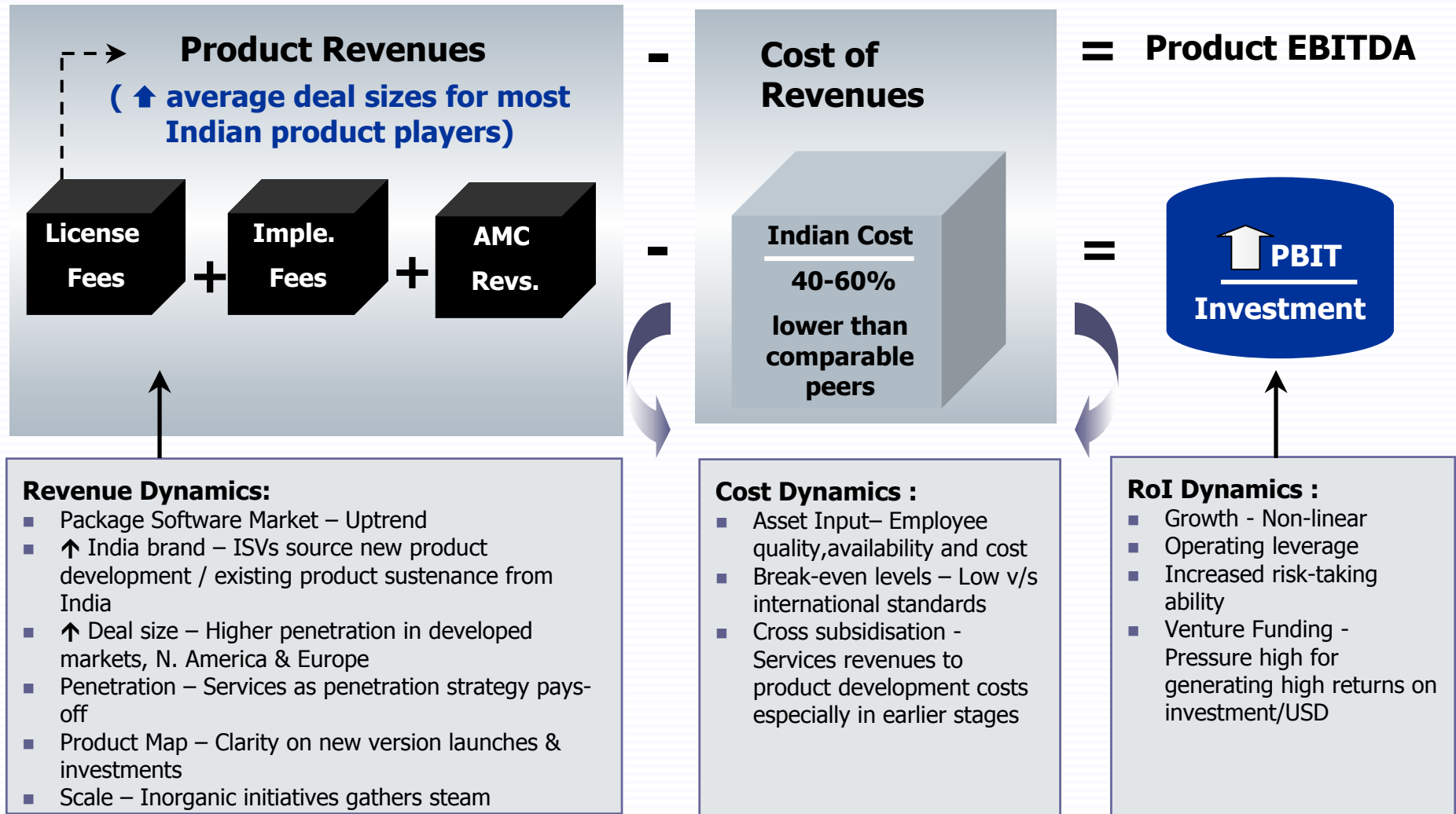
Success rate high because of :

 - ▶ modular approach
 - ▶ higher version launches (consistency)
 - ▶ being push products in nature, marketability high through cross-selling of services, etc.
 - ▶ lower sales cycle especially in developing countries
 - ▶ tangible benefits accrue faster unlike enterprise products ... leading to quicker revenue accretion



Bet on Application Product companies, Technology Product companies – Selective prescription

Unleashing the Indian Product Story



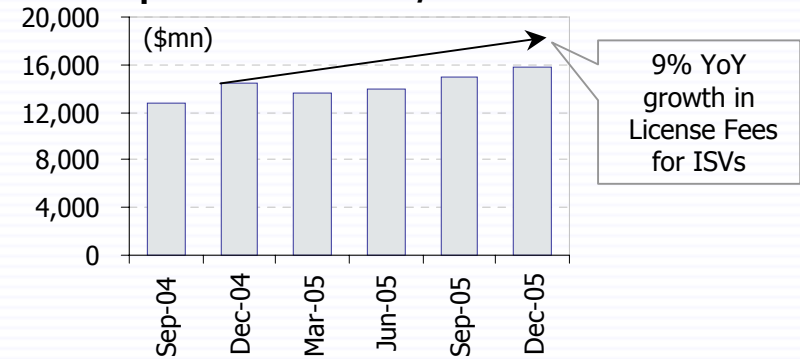
Improving RoI : fn (International transition, ↑ Average deal sizes, ↓ Break-even levels)

Ingredients in place: Demand dynamics

- ➔ **IT products space set to replicate India's success in IT services space ...**
- ➔ **India can score over other preferred offshore destinations, even for product development as in services:**
 - India accounts for 28% of total suitable labour pool for offshorisation (China – 11%, Russia - 10%)
 - Indian engineering talent ranks at 7.4/ 10 (USA – 7.2) with availability per 10,000 being at no: 2
- ➔ **ISVs (60% of Major ISVs)/ Systems Integrators :** Establishing India as a nucleus for product development and engineering services ...**strengthening India's brand equity**
- ➔ **Development of Patents from India - Texas Instruments (200 patents), Intel (62 patents)**
- ➔ **Increased investments in S&M and brand building by Indian product vendors**
- ➔ **Rub-off Effect : Oracle buy-out of i-Flex**

The Demand Dynamics

Time-to-market shrinking with imperative to sustain/ lower cost



India ranks highest in country competitiveness

Country	Total
India	6.9
China	6.1
Malaysia	6.1
Philippines	5.8
Singapore	5.7
Thailand	5.7
Czech Republic	5.6
Brazil	5.5
United States	5.5

ISVs and SIs have increased outsourcing from India

	India base % of Total
Microsoft	5%
Oracle	17%
Novell	6%
CA	3%
Adobe	11%
SAP	2%
Symantec	5%
PTC	17%
Cadence	12%
i2	88%

Source: ENAM Research, Company Websites, NASSCOM, AT Kearney Study

...the supply dynamics

Supply dynamics

India's engineering pool

(in 000's)	Degree-Engg Grads	Degree-IT Professionals (Comp. Electronics etc)
FY06E	222	133
FY07E	270	162
FY08E	290	180



Overhead Cost advantage (excl S&M)

	S&M (%)	G&A (%)	Overheads
ISVs	22	12	34
Indian Product Companies	16	7	23

Source: ENAM Research, Company Websites, Indian Product Companies include i-Flex, Subex, Sasken. ISVs include Top 10 global

Indian Software Product Managers (@~US\$ 26,000/ p.a) are still over 50% cheaper than their US and European counterparts and less than 2/3rd the cost in countries like Singapore

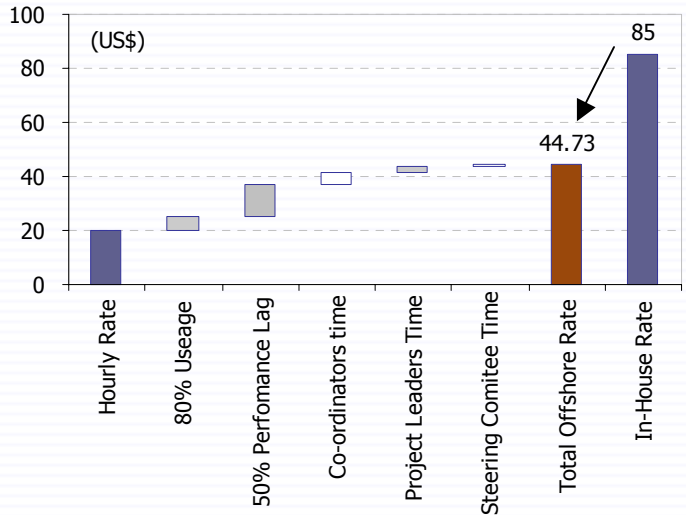


Dual Advantage: Supply dynamics (quality + cost + support services) favour India -

- Exposure: Indian IT professionals exposed to latest/ state-of-art technologies/ platforms
- Availability: FY08E to have supply of 0.54 mn engineering graduates (degree + diploma holders) with 57% from IT/ Computers/ Electronics field
- Cost: In comparison to global ISVs, Indian product vendors enjoy cost advantage of 40-50%
- Overheads : Though S&M investments are similar, Indian vendors enjoy G&A cost advantage of an average of 400-600 bps

Source: ENAM Research, Company Websites, NASSCOM, Booz Allen & Hamilton

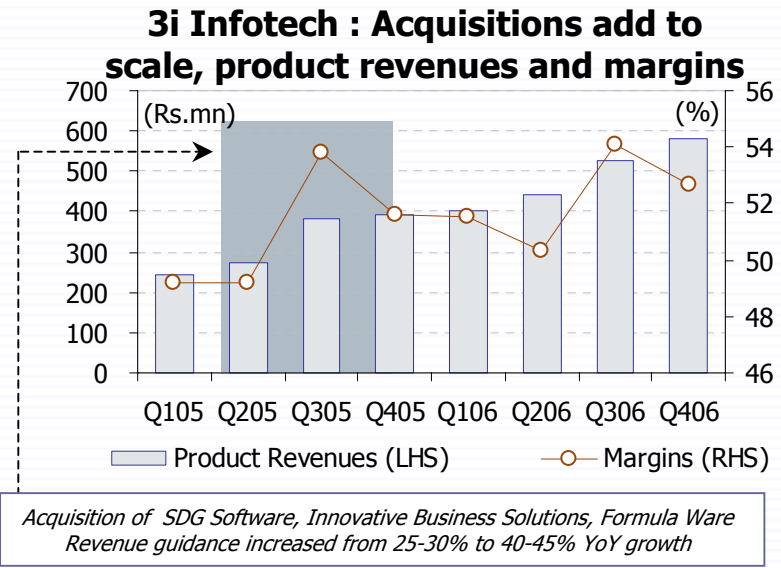
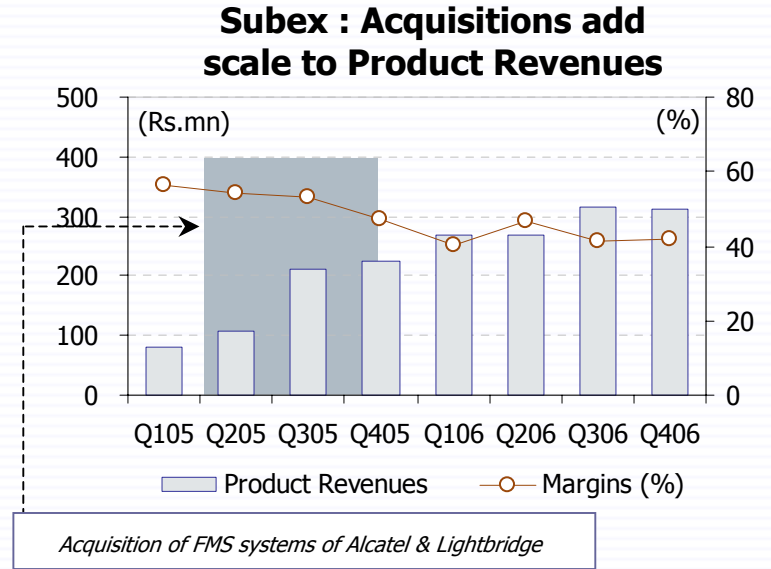
20-50% cost savings can be replicated in product story akin to the services business



Supply Dynamics: fn (Talent, Costs)

Scale Factor: Acquisitions & Alliances

Company	Strategic Alliance / Strategic Buy-out/ Acquisition
i-Flex	<ul style="list-style-type: none"> Strategic Buy-out - Oracle acquiring equity stake in i-Flex Alliance / JV- IBM, Capco, HDFC Bank, Intel Asia Electronics, Fujitsu, Castek Acquisition - SuperSolutions, IPR rights of Capco's Operational Risk Tool- ORTOS, Equinox Corporation, Login SA (33% stake), Castek (option to become largest shareholder in Castek)
Subex	Acq : FMS systems of Lightbridge, Alcatel, Mantas Inc and Azure Solutions
3i Infotech	Acq :SDG Software, Innovative Business Solutions, Formula Ware, Command Systems, Ajax Systems, Insyst



- ### ➔ Alliances/ Acquisitions
- Third party Indian product companies consolidate their market share through alliances and acquisitions
 - Acquisitions : Enabled access to certain functionalities/ markets
 - Key players: Subex, 3i Infotech etc. have demonstrated higher scalability through inorganic strategy
 - Size of acquisition : Instrumental for scale, ex : Though i-Flex undertook acquisitions, organic revenues > inorganic initiatives
- Source: ENAM Research, Company

Scale Dynamics: fn (↑ Product Scalability/ Functionality, Market Reach)

Market share: The predominant factor

The presence of 4 key ingredients
 Customer-centric development approach
 Domain expertise
 Strong Front-end team
 Offshore development team with onsite consonance

The Off-shoring Effect
 In the Product Engineering services

Emergence of Third Party Product Vendors ... with defined product roadmap
 i-Flex, Subex, Financial Technologies

(US\$ bn)	IT Spend - Products		Exports- Software Products	Market Share (in %)
CY2002	172	FY2003	0.6	0.35
CY2003	184	FY2004	0.8	0.43
CY2004	197	FY2005	0.9	0.46
CY2005	211	FY2006E	1.1	0.52
CY2006	226			
CY2007	243			
CY2008	259			

The Deal Effect
 The Oracle buyout

Improving Revenue Profile
 Higher license fee paves way for stable AMC revenues

Apt Marketing Strategy
 Emerging Markets as the entry point

R & D Svcs (\$Bn)	Spend	Offshoring Potential	Offshorable Cost Base	Savings	Addressable Market
New Product Development	9	75-80%	\$28	40-50%	\$14-17
Maintenance	8	75-80%			
System Testing	3	60-70%			
Porting/ Variants	7	75-80%			
Localization	5	100%			
Documentation	3	90-100%			

Source: ENAM Research, NASSCOM

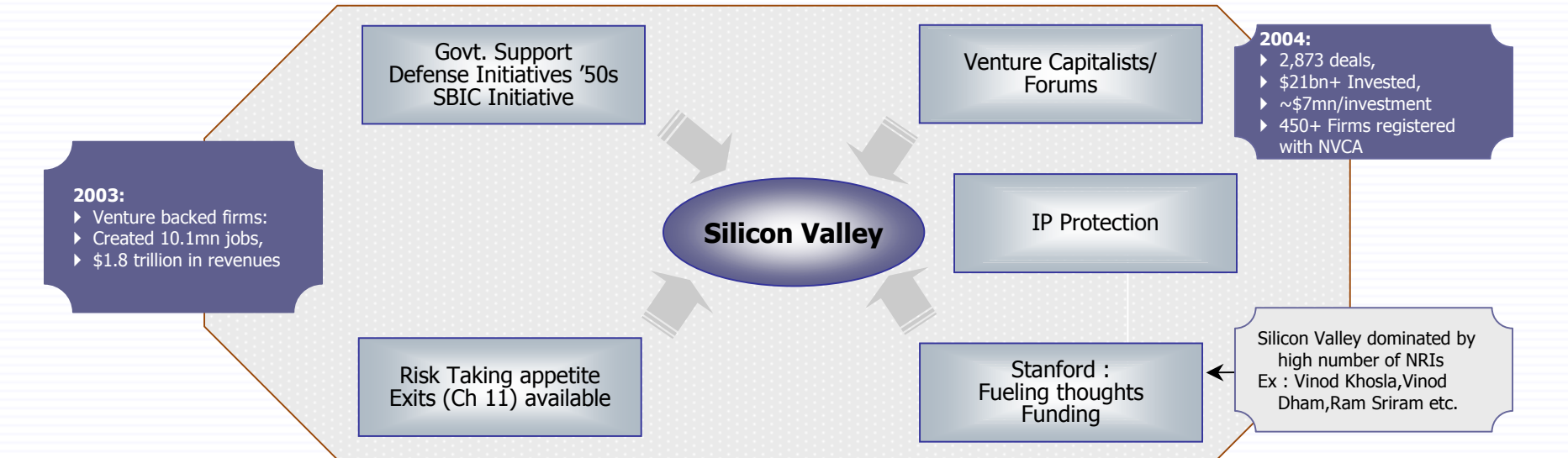
Market Share at Nascent Stage.... can they deliver ?



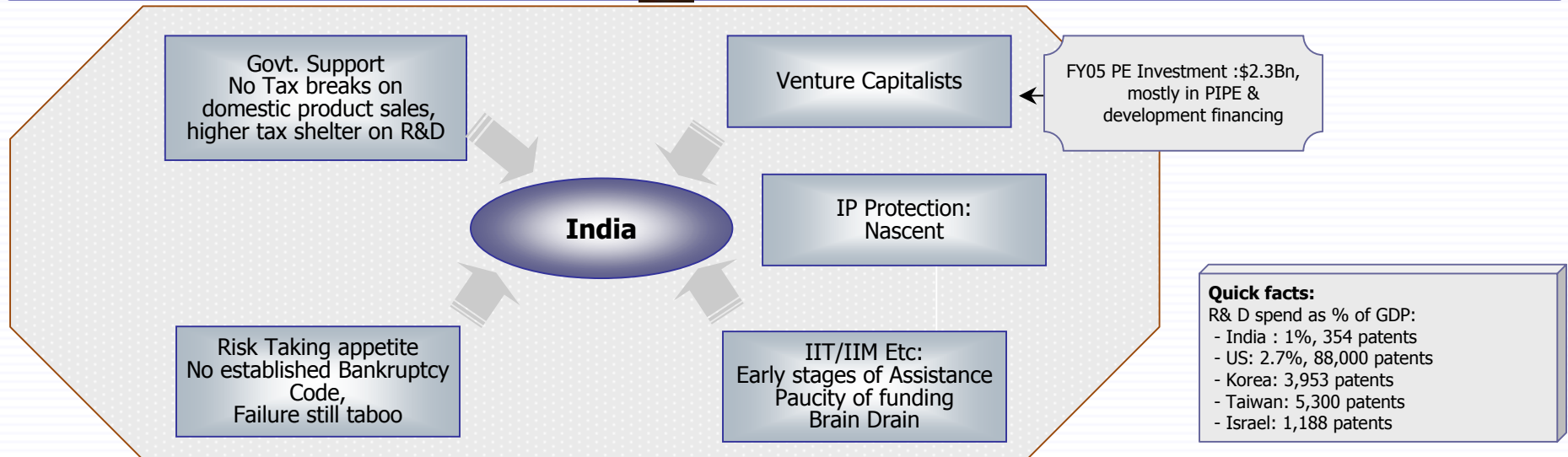
Positive trends, but challenges remain

- **Enduring Ecosystem**
- **Funding Mechanism**
- **Distribution Strategy**
- **Brand Building + Market Reach**
 - **Tax Sops**
- **Domestic Market....the changing factor**

Product Innovation: Driven by engaging Ecosystem



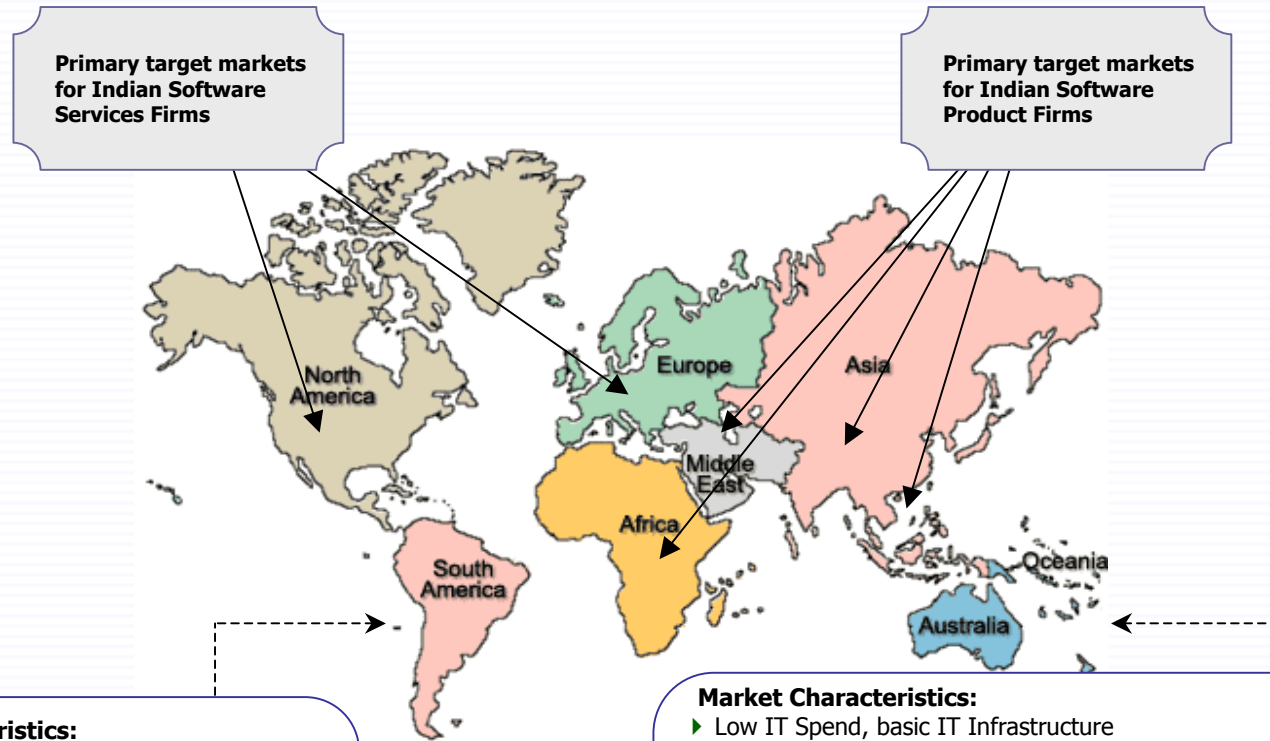
Can Product Innovation Thrive in India? **?**



Source : NVCA, AVCJ, FE.com

Go to Market strategy...

Pay-off observed in BFSI space



- Market Characteristics:**
- ▶ Rising IT Spend, sophisticated IT Infrastructure
 - ▶ High number of In-house/ Legacy systems
 - ▶ High opportunity for labour arbitrage
 - ▶ Recognition for Quality standards
 - ▶ English as the *lingua franca*
 - ▶ Low competition from other offshore locations
 - ▶ Brand India positioned well

- Market Characteristics:**
- ▶ Low IT Spend, basic IT Infrastructure
 - ▶ Markets in need for end-to-end solutions
 - ▶ Average deal size low, sales cycle quicker
 - ▶ Key drivers - De-regulation & growing economies
 - ▶ Multiple language support required
 - ▶ Country of origin effect reflected in higher acceptance (India v/s Finland & Poland)
 - ▶ Partnership models with local partners very popular and successful, hence marketing costs are low
 - ▶ Market size not yet attracting large scale competition from global leaders
 - ▶ Recall for India-based products not high yet

Distribution

- **Product companies : “ Promotion” predominates the other Ps namely Price, Place and Product**
- **.....success for Internationally successful product companies has evolved through aggressive/ wide distribution network**

	Sales (US\$mn)	S&M (%)	Distribution Strategy	Remarks
Microsoft	39,788	22	27,895 Sales with 102 Subsidiaries, Deep Partner & Vendor Development Program, E-Procurement, Web Downloads, Certified Partners, Product Support Centres, Third Party Support Service Providers, Issue of Free Software Licences	Strong Sales Team of 27,895 personnel
Oracle	11,799	21	Strategic Acquisitions for ↑ market share, Financing / leasing packages, Partnership strategy with ISVs, Hardware & Infrastructure Partners, System Integrators	58% Staff Overseas with 15,000+ partners
Novell	1,198	33	3,200 Solution Provider Partners, 800 Technology Partners, and 900 Training Partners in PartnerNet leading to > than 5,600 partners	50% staff outside US with 365,000 individual certified professionals
Computer Associates	3,530	25	Strategic Acquisitions and Brand-building through alliances with ISVs, Independent Platform Vendors, Global System Integrators	
Adobe	1,966	30	Online purchase, resellers, developers, solutions providers, ISVs, print service providers, and trainer programs	
SAP	8,513	21	120 country presence & 6,670 sales team with partnership strategy with SIs, ISVs, OEMs, resellers & partners	Indirect Business Volume > Direct sales
Symantec	1,149	38	Acquisitions, Alliances & Partner Approach (Multi Partner Model)	Alliances with all Major ISVs

Source : Company Websites

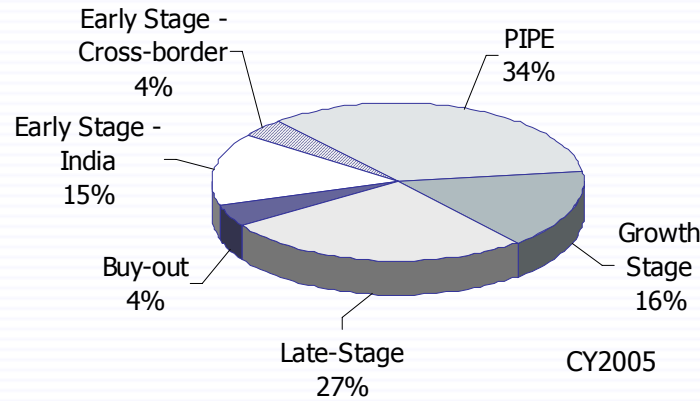
Distribution Model: An Evaluation

Evaluation : Indian Product Companies

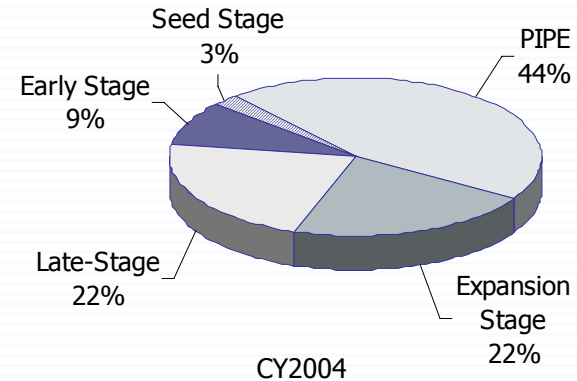
Entry Mode	Capital Investment/ Commitment	Brand Building Investment	Local Market Understanding	Expansion Pace Offered	Observation	Examples
Direct	High	High	Low - Initially	Slow	Best for key markets due to high investments Payback duration long	<ul style="list-style-type: none"> ■ i-Flex - 22 Global Offices ■ Subex - 5 Global Offices
Joint Venture	Medium	Medium	High	Medium	Suitable for markets where Local market understanding is vital, Risk shared, Concerns over partner relations, bookkeeping etc.	<ul style="list-style-type: none"> ■ i-Flex - JV with HDFC Bank
Channel/ Re-seller/ Partner	Low	High	Limited to Feedback from Channel	Fastest	Best when Brand is established, product customization low. Concerns over IP and limited feedback from end customers	<ul style="list-style-type: none"> ■ i-Flex - Partners with leading SI's - 120 Country presence ■ Subex - partners with Leading ISVs & MDS, Siemens, Alcatel etc
Acquisition	High	Low	High	Fast	Apt for rapidly increasing scale & synergy. Offers immediate market presence at a reasonable/ higher valuation, Issues on integration and synergy value to be addressed	<ul style="list-style-type: none"> ■ Subex - Azure , FMS (Alcatel) & Lightbridge ■ i-Flex – Equinox, Castek etc

The retarding factors

Early/ Seed Stage Funding by no: of Deals - Low



Early/ Seed Stage Funding by Value - Low



India : Scores lower -

VC professionals/ 1,000 engineers, Investment Portfolio

	2001	2002	2003	2004	2005E
No. of VC firms	77	78	81	86	89
Est. VC professionals	267	270	278	289	292
Invst. during the yr (\$ mn)	1,135	1,050	865	1,363	665
Invst. Portfolio (Dec 31)	2,343	3,188	3,120	4,739	4,304

Source: NASSCOM, Venture Intelligence India

- Factors retarding growth in product segment :
 - Nascent structure of venture capital industry
 - Attraction and retention of techno-pool
 - Alliance management
 - IPR related risks and Patent protection
 - Pricing mechanism

Government initiatives for high growth in IT product space

- Rising spending on Education especially at IITs, IISCs etc.
- Higher Tax sops/ incentives for development and market expansion for India-based products (eg : higher tax eligibility at greater than 1x for expenditure on R&D/ product development, overseas marketing costs etc.)
- Creation of stimulating environment – for eg. permitting test and development facilities at Defense, Govt banks/ departments, Nation-Level Scientific organisations

Source : Venture Intelligence India, CY2005, ENAM Research, NASSCOM

Low funding and systemic mechanics retard leveraging

Enablers : Domestic market & shock absorbers

➔ Domestic market becoming conducive to product development :

- FY06 domestic market growth expected at 23% YoY, on a higher growth of 32% YoY in FY05.
- 34% of increased IT spend, earmarked for innovation and process refinement
- Key growth driver - Enterprise application products
- Key verticals instrumental for IT products exhibit strong growth - BFSI, Telecom, Govt and Manufacturing
- Customisation of products by MNCs/ certain Indian organisations (CDAC)
- Success in price-sensitive Indian market could ensure higher success in global markets

Domestic Market Size

(US\$bn)	2002	2003	2004	2005	2006E
Exports	7.6	9.8	13.4	18.2	23.9
- Software Products- Exports	0.3	0.6	0.8	0.9	1.1
Domestic	5.8	6.3	8.3	10.2	12.4
- Software Products- Domestic	0.4	0.4	0.5	0.7	0.9
- Domestic - Hardware	3.2	3.3	4.4	5.4	6.4

Source: NASSCOM

The Shock Absorbers ...

Low-Break Even Levels

- Average Cost per employee for Indian product companies is at 40-50 % to International product companies.
- Overhead G&A savings are 4-6%
- Ensures low-break even levels to achieve faster profitability

Target Geography – Developing Markets

- Developing markets as target geographies ensured better earnings, with cushion from recurring AMC revenues.
- Fair share of services revenues cross-subsidize product development

Alliance / M&A Approach / Distribution Strategy

- Alliances / acquisitions aid scalability

Domain Expertise

- Expertise in BFSI and Telecom vertical instrumental in developing better product functionalities

Source: ENAM Research

Domestic market, shock absorbers build hope for Indian product story

Indian BFSI Experience ... reflects buoyancy

	2000 RBS	2000 IBS	2001 RBS	2001 IBS	2002	2003	2004	2005
Total Additions - nos	170	161	147	162	315	306	320	334
Share - Top 3 Players (%)	37	58	38	53	28	29	25	26
Top 3 Players	ERI Bancaire, Sanchez, i-Flex, Kindle, Infosys	Temenos, i-flex, MKI-Frustum	ERI Bancaire, i-Flex, Infosys	Temenos, i-Flex, Misys	i-Flex, Temenos, Sunguard	i-Flex, Reuters, Temenos	i-flex, Temenos, Summit	i-flex, Temenos, Misys
Indian Additions (%)	15	19	20	21	23	20	26	27
i-Flex Experience (%)	9	19	13	18	12	12	12	12

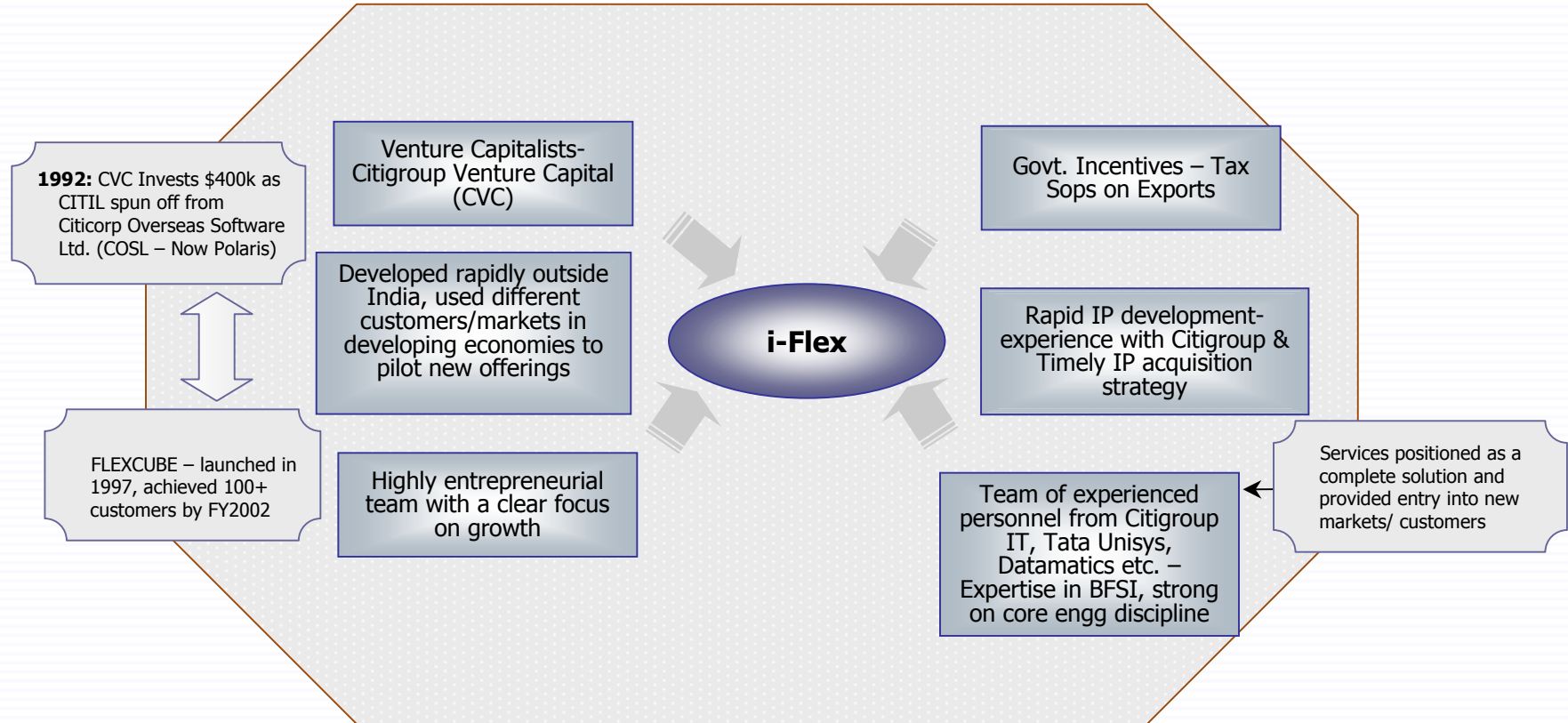
IBS : International Banking System, RBS : Retail Banking System. Consolidated from 2002 onwards

➤ India's success in BFSI product space has been the highest as compared to other verticals :

- Domain expertise in BFSI vertical (legacy from services)
- Higher venture fund investments in BFSI space
- Test Beds driven by BFSI parent (Citigroup, ICICI etc.)
- Success in selection of target markets (developing economies)
- Risk taking ability of promoters in BFSI product space
- Adoption of Alliance strategy v/s complete reliance on direct selling

Source: ENAM Research, www.ibspublishing.com

i-Flex: A confluence of catalysts



Can Product Innovation be replicated in other companies ?  Factors instrumental for success of i-Flex : Passion for products at core of engg design team, entrepreneurial drive with risk appetite and venture-based funding from a BFSI parent

Source: ENAM Research, Company Website



Valuation perspectives

Key event triggers

Companies	Event Triggers
i-Flex Solutions	<ul style="list-style-type: none"> ▪ Replication of FLEXCUBE success in Revelus ?? ▪ Yearly sales target assignment for Oracle sales team ▪ Higher share of Tier 1 and Tier II banks ▪ Higher license fee bookings ▪ Improvement in GPM ▪ Financial Leverage from Oracle parentage
Subex Systems	<ul style="list-style-type: none"> ▪ Assimilation of Azure Solutions, the recent acquisition ▪ Increase in third party Outsourcing for FMS and Revenue Assurance services ▪ Consolidation in the industry ▪ Inorganic initiatives ▪ New product launches / concept acceptance eg. RoC that targets the CFO / COO

Momentum maintained by product-related events ... in addition to valuations



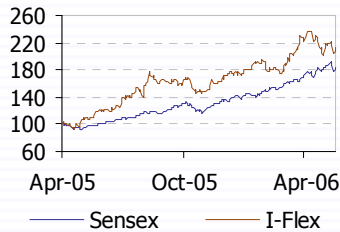
Companies Section

Stock Data

No. of shares	: 76.2 mn
Market cap	: Rs.97bn
52 week high/low	: Rs.1,475 / Rs.650
Avg. daily vol. (6mth)	: 368,700 shares
Bloomberg code	: IFLEX IN
Reuters code	: IFLX.BO

Shareholding (%) Mar-06 QoQ chg

Promoters	:	47.7	47.7
FIIIs	:	18.3	1.3
MFs / UTI	:	3.5	(3.7)
Banks / FIs	:	0.3	(0.5)
Others	:	30.2	(44.8)

Relative Performance

Source: ENAM Research, Bloomberg

Financial summary

Y/E Mar	Sales (Rs. mn)	PAT (Rs. mn)	Cons. EPS* (Rs.)	EPS (Rs.)	Chng.YoY (%)	P/E (x)	RoE (%)	EV/EBIDTA (x)	P/BV (X)	Debtor Days
2005	11,404	2,033	-	27	19	22	20	14	4	119
2006	14,835	2,190	-	29	6	46	18	32	7	130
2007E	20,110	3,372	42	44	54	28	22	18	6	120
2008E	25,491	4,174	51	55	24	22	23	14	5	118

Source: *Consensus broker estimates, Company, ENAM estimates

i-flex Solutions

Relative to Sector: **Outperformer**

Rs. 1,227

Target Price: Rs.1,466
Potential Upside: 19%

An apt opportunity

Investment Summary

- **Strong business momentum: fn (Macro up trend + Oracle parentage)**

 - Expect higher deal sizes especially Tier 1 banks
 - Leverage Factor - Oracle parentage (17/20 Top banks & 23/25 Top North American banks use Oracle, Oracle has 8,500+ bank clientele)
 - Revelus represents a good business proposition and entry opportunity

- **Revenue and earnings expectations**

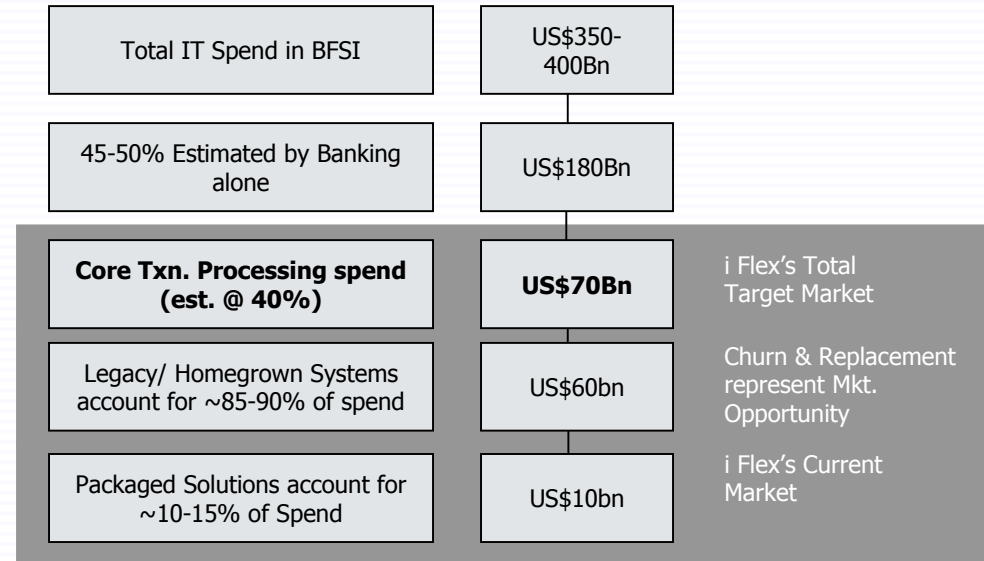
 - Higher product tank (US\$ 65 mn in Q4FY06) and high momentum in tank size additions (USD 25 mn for i-flex v/s USD 28 mn for Temenos in Dec 2005 quarter) to reflect in financials and higher Gross Margins for the product segment in coming quarters. In March 2006 quarter, licensing revenues for i-Flex was \$ 15 mn v/s \$ 11 mn for Temenos
 - In products space, we expect revenues and PBIT to record CAGR growth of 38% and 49% respectively between FY06 and FY08E
 - RoE to improve from 18% in FY06 to 23% in FY08E

- **Concerns**

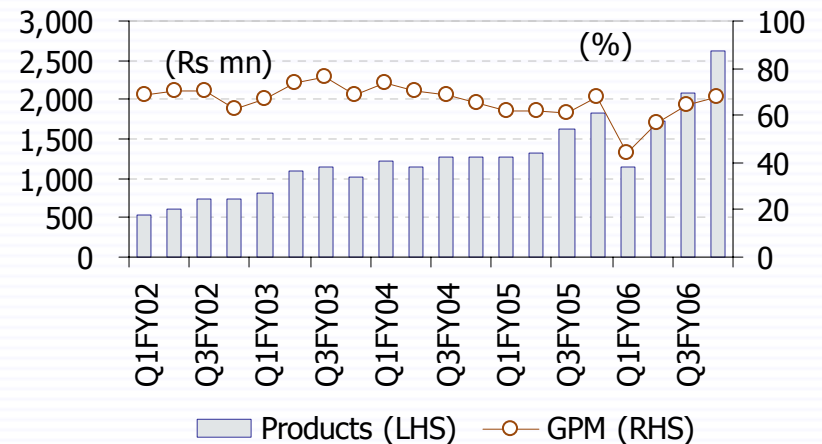
 - Slow implementation, if any, with respect to roll-outs v/s market expectations on revenues from Tier 1 bank space
 - Strategic placement of Services business post Oracle buy-out (41% share to topline & 21% share to consolidated PBT in Q4FY06)
 - Services business has lower margins (Q4FY06 OPM at 17%)

- **Valuations**

 - Current valuations at 28x FY07E and 22x FY08E earnings though rich v/s services leader, are justified given the size of the addressable market
 - Price upside of ~19% to our price target of Rs.1,466



Products : Revenues v/s GPM



Source: ENAM Research, Company

i-flex Solutions: A profile

⇒ i-Flex Solutions - The most successful BFSI product story from India :

- Expected revenues of ~ US\$ 450 mn in FY07 on consolidated basis
- FY07E product revenues share of ~ @ US\$240 mn
- Well defined and chartered product road-map

⇒ Key beneficiary of macro-improvement (w.r.t replacement of legacy systems by Tier I banks) :

- US\$ 70 bn market with higher deal sizes (> US\$ 5mn license fess from Tier I / Tier II banks)
- Lower penetration – only 15% of Tier I banks have replaced legacy systems
- Internal & External Factors driving growth :
 - ▶ Internal Factors : Legacy > Modular ; System consolidation driven by M & A; Batch Processing > Continuous Processing ; Data Integrity
 - ▶ External Pressures : Regulation (Basel II etc.) ; Integration/ Interoperability (SEPA) ; Increasing Competition, Commoditization of basic services

⇒ Challenges

- Lower cycle - Slow sales/ execution cycle v/s market expectations (esp on roll-outs wrt Tier I banks) to impact price performance
- Product Margins – would be impacted due to higher investments in S&M/ account management with respect to Tier 1 banks .
- Strategy with respect to service business

Parametric Evaluation : Products

Revenue Growth	PAT Growth
30% (FY02-FY06)	23% (FY02-FY06)

	Parametric Evaluation
R& D Spend	20-25% of product revenues, 13-14% of consolidated revenues
Revenue Break-up (%)	Q4FY06 : Products –57, Services –41, KPO – 2
PBIT Margins (%)	Q4FY06 – Products –41 %
Product Tank Size (PTS)	\$ 65 mn
Addition to PTS last qtr	Absolute addition was \$22 mn
Product Revenue Break-Up, Category wise	Q4FY06 – License Fees- 50%,Maintenance- 37%, AMC –13%
Product Revenue Break-Up, by products	Majority FLEXCUBE, > 90% Revelus expected to show scale
Products, Geographical Break-Up	USA-22%, Middle East & Africa-25%,APAC – 20%, Europe- 32%
Products – Country presence	123+
Client Base	600+
No : of Tier 1 BFSI	10% share v/s 3% 3 years back (Q3FY06)
Products – Avg Deal Size	> \$ 1.6-1.7 mn (www.ibspublishing.com)
Employee Base	Products - 2018, Total Employee Base – 6858
Client Concentration in Products	Top – 6%, Top 5 – 22%, Top 10 – 33%, Citigroup & its Entities – 18 %
Receivable Days	117

Source: ENAM Research, Company

Evaluation: Product roadmap v/s competitive landscape



Years	Implications	Evaluation
1996-2000	<ul style="list-style-type: none"> Microbanker adjudged no: 1 in wholesale back-office system FLEXCUBE incorporates various functionalities – Retail, Investor Services, ASP, CRM e-services Management adopts JV / partnership strategy 	FLEXCUBE milestone – Ranked among the Top 10 bkg solns within 4yrs of conceptualization, with a 66 country presence
2000-2002	<ul style="list-style-type: none"> FLEXCUBE, Functionalities introduced – Payment, Insurance, Investment, WM etc Different geography strategy – Japan, Africa Alliances to strengthen presence – IBM India, Fujitsu, Intel Asia Electronics 	FLEXCUBE achieves 50+client base within 5 yrs of launch with presence in 84 countries & marquee client wins – Shinsei, UBS, Citibank (100 country roll-out deal)
2002-2004	<ul style="list-style-type: none"> Acquisition of SuperSolutions (consumer finance foray) Functionalities incorporated – Web-enablement, Virtual Banks Launch of Revelus within 6 yrs of FLEXCUBE launch Global Alliance with IBM 	93 country presence, 100+ client base & ↑ in marquee client wins. In performance, it demonstrated scalability with > 4500 TPS*
2004-2005	<ul style="list-style-type: none"> Functionalities Incorporated – Linux, Islamic Banking Alliances – Capco, FRS agreement, Castek Acquisitions – Equinox, 33% stake in Login SA, IPR acquisition of ORTOS (Capco), option to become largest shareholder in Castek 	112 country presence with substantial ↑ in marquee bank wins. Acquisitions approach was aggressive and adds to skill sets,
2005-2006...+	<ul style="list-style-type: none"> Acquisition of Oracle’s majority interest in i-flex, MOA with Oracle for Revelus Basel II 	Tier share ↑ to 10% (3% 3 yrs ago – Q3FY06), Favourable macro-environment, leveraging of Oracle parentage expected

⇒ **Defined product map has served a competitive tool to i-flex : EBITDA margins better (39%) v/s Temenos (27%), Misys (22%)**

- FLEXCUBE functionalities / features improved. High on TPS functionalities
- Average deal sizes lower v/s Temenos, expected to improve as share of Tier 1 banks increase. Ex. Dec 2005 quarter ILF signings by i-flex was US\$ 25 mn v/s US\$ 28 mn by Temenos. Share of Tier 1 at 10% v/s 47% ILF signings by Temenos from Tier I & II (Base : Dec 2005 quarter)
- Quarterly run-rate better than Temenos, lower than Misys. AMC share at 17% v/s 21% for Temenos and 47% for Misys
- Country spread lower v/s Misys

* TPS – Transactions per Second

Competitive Evaluation

Products	i-Flex	Temenos	Misys	Fidelity	SAP	Fiserv	Infosys
Client Base	> 617	600 client sites	1200+ with annualized revenues @ USD 471 mn	7800	550	17000+ with annualized revenues @ USD 524 mn	87 with annualized revenues @ USD 86 mn
Country Spread	123 with > \$1.6 mn Average Deal Size	100 with \$3.1 mn Average Deal Size	134	60+	60+	60+	47
Last quarterly run-rate	\$ 59 mn	\$ 37 mn	H1FY05 - \$218 mn				\$ 22 mn
Banking Functions Addressed	core, retail, corporate, investment, internet banking, asset management and investor servicing	Private, Wholesale, Universal, Retail with R&D costs At 17% of Sales	retail banking, wholesale banking, treasury and capital markets and risk management.	Automotive Fin., Banking, Card Services, Check servicing, Comm. lending, Community Banking, Credit Unions, E payments, gaming, Mortgage Financing, Real estate, wealth mgmt with R&D costs @11%	Basel II, Deposits Mgmt, Loans Mgmt, Leasing, Fin Database, Core Banking etc.	banking, credit union, lending, insurance, securities, and investment products	core banking, e banking, treasury, wealth mgmt, CRM, & cash mgmt of universal, retail, corporate, community and private banks
Profile of Client base	Tier Share – around 10%	2005 Signings : Tier 1&2 - 47%, Tier 3 - 12%, Tier 4 – 41%	Top 49 / 50 Banks	7800 Financial Institutions ; Top 35/50 Banks	33 of top 50 largest Europe banks	5000 (10000 Financial Institutions)	Credit Suisse is core customer
Revenue Break-Up (%)	Licensing – 50 AMC – 13 Services – 37 EBITDA @ 44%	Licensing – 30 AMC – 35 Services – 35 EBITDA @ 14%	Licensing – 34 AMC – 47 Services – 19 EBITDA @ 18%			EBITDA at 22%	

Source: ENAM Research, Company

Milestone Required for 50% + price ↑

Bottom-up Exercise

	FY08E
Target Price - 50% +	1,841
P/E (x)	30
EPS (in Rs)	61
Existing EPS estimate (Rs.)	55
Incremental EPS required (Rs.)	6.4
Incremental PAT (Rs.mn)	482
PBT margins in Products (%)	36
Incremental Sales in Products (Rs mn)	1,774
Existing Product Sales in FY08 (Rs.mn)	14,461
Incremental Sales / Existing Product Sales (%)	12
Additional License Fee (Rs.mn)	532
Incremental Product Tank Size @45	12
Required Product Tank in FY07	97
Required Additions to Product Tank Size (USD mn)	32
No: of Tier deals assumed @ USD 3 mn per Tier 1 (USD mn)	4

Source: ENAM Research, Company Data

⇒ Our estimates indicate :

- i-Flex Solutions would require license fee of US\$ 109 - 114 mn in FY07 for 50% upside in price performance
- Thus, quarterly additions to product tank size should average at US\$27 – 28mn
- Our assumed rate of license fee booking is 25% of accumulated tank size and license fees to constitute 30% of product sales
- i-Flex added US\$25 mn in Q3FY06 and US\$22mn as additional license fees in Q4FY06

Sensitivity

Pass-through to Oracle for Client Penetration	5%	10%	15%	20%	25%
Required Product Sales (Rs mn)	16,235	16,235	16,235	16,235	16,235
Pass-through to Oracle (Rs mn) - assumed @ 20% of Sales by Oracle	162	325	487	649	812
Gross Sales	16,397	16,560	16,722	16,884	17,047
Required License Fee (Rs mn)	4,919	4,968	5,017	5,065	5,114
Required License Fee (USD) - @ 45	109	110	111	113	114

Source: ENAM Research, Company Data

i-flex Solutions: Company Financials

Income statement

Y/E March (Rs. mn)	2005	2006	2007E	2008E
Net Sales	11,404	14,835	20,110	25,491
Total Income	11,404	14,835	20,110	25,491
Cost of Goods Sold	5,948	8,148	10,818	13,636
Contribution (%)	47.8	45.1	46.2	46.5
Sales & GA	2,686	3,738	4,654	6,084
Operating Profit	2,770	2,950	4,638	5,771
Other Income	277	275	215	226
P B D I T	3,047	3,225	4,853	5,997
Depreciation	337	505	538	610
Pre-tax Profit	2,710	2,720	4,316	5,387
Tax Provision	627	535	943	1,213
Equity In loss of Associate	-	5	-	-
Profit After Tax	2,033	2,190	3,372	4,174

Key ratios

Y/E March (%)	2005	2006	2007E	2008E
Sales growth	42	30	36	27
OPM	24	20	23	23
Oper. profit growth	23	6	57	24
Empl. cost / Net sales	52	55	54	53
Overheads/Net sales	24	25	23	24
Depreciation / G. block	16	16	14	14
Net w.cap / Net sales (x)	0.7	0.6	0.6	0.6
Net sales / Gr. Block (x)	5	5	5	6
RoE	20	18	22	23
RoCE	26	22	29	29
EPS (Rs.)	27	29	44	55
EPS Growth	19.2	6.3	54.0	23.8
CEPS (Rs.)	32	36	52	63

Source: Company, ENAM Research

i-flex Solutions: Company Financials

Balance sheet

Y/E March (Rs. mn)	2005	2006	2007E	2008E
Total Assets	11,315	13,716	16,648	20,223
Gross Block	2,103	3,130	3,745	4,432
Net Fixed Assets	1,285	2,124	2,515	2,936
Investments	66	59	59	59
Goodwill & Intangible Assets	970	995	995	995
Other Non-Current Assets	719	1,217	1,503	1,914
Deferred Tax Asset	1	71	71	71
Net Current Assets	8,274	9,250	11,507	14,248
Capital Employed	11,315	13,716	16,648	20,223
Equity Capital	374	392	392	392
Reserves	10,917	13,170	16,103	19,678
Other Non Current Lia.	22	152	151	151
Deferred Tax liability	2	2	2	2

Cash flow

Y/E March (Rs.mn)	2005	2006	2007E	2008E
Sources	1,931	2,588	3,158	3,841
Retained earnings	1,821	2,253	2,933	3,575
Add: depreciation	125	188	225	266
Issue of Equity	1	17	-	-
Others	(16)	129	-	-
Applications	1,931	2,588	3,158	3,841
Capital Expenditure	722	1,051	615	687
Investments	(45)	(7)	-	-
Net Current Assets	92	641	339	569
Others	318	568	286	412
Change in cash	844	335	1,918	2,173

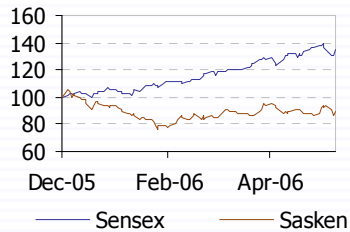
Source: Company, ENAM Research

Stock Data

No. of shares	: 27.9m
Market cap	: Rs.10bn
52 week high/low	: Rs.575/ Rs.260
Avg. daily vol. (6mth)	: 124,300 shares
Bloomberg code	: SACT IN
Reuters code	: SKCT.BO

Shareholding (%) Mar-06 QoQ chg

Promoters	:	25.8	(0.2)
FII's	:	9.7	0.5
MFs / UTI	:	2.0	1.0
Banks / FIs	:	0.0	(0.0)
Others	:	62.5	(1.3)

Relative Performance

Source: ENAM Research, Bloomberg

Financial summary

Y/E Mar	Sales (Rs. mn)	PAT (Rs. mn)	Cons. EPS* (Rs.)	EPS (Rs.)	Chng.YoY (%)	P/E (x)	RoE (%)	EV/EBIDTA (x)	P/BV (X)	Debtor Days
2005	2,418	228	-	8	35	-	18	-	-	82
2006 #	3,081	297	-	11	30	32	11	19	2	77
2007E	4,233	453	16	16	53	21	11	10	2	65
2008E	5,354	610	20	22	35	16	13	8	2	60

Source: *Consensus broker estimates, Company, ENAM estimates, Note: # Prior to Extra Ordinary items

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Sasken Communication Technologies

Rs.345

Relative to Sector: **Not-Rated**

May 16, 2006

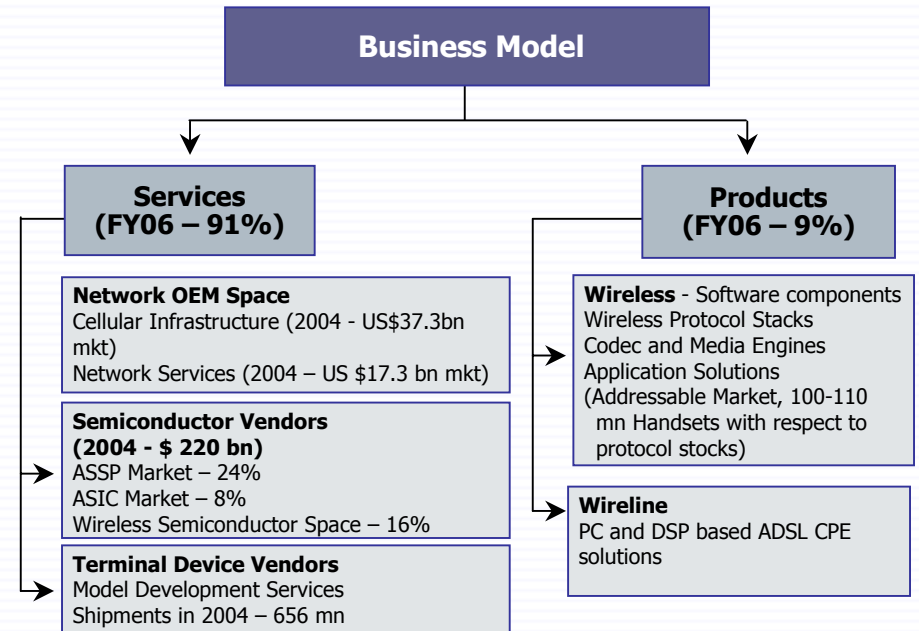
Sasken: A profile

- **Player in the embedded communication segment between Network OEMs, semiconductor Vendors and mobile terminal vendors**
- **Hybrid Model - Presence in products and services**
- **Product and service offerings substantiated by following subsidiaries**
 - SNSL – provision of OSS solutions to NEMs and independent OSS software vendors
 - SNEL – Services include planning, deployment & management of wireless networks

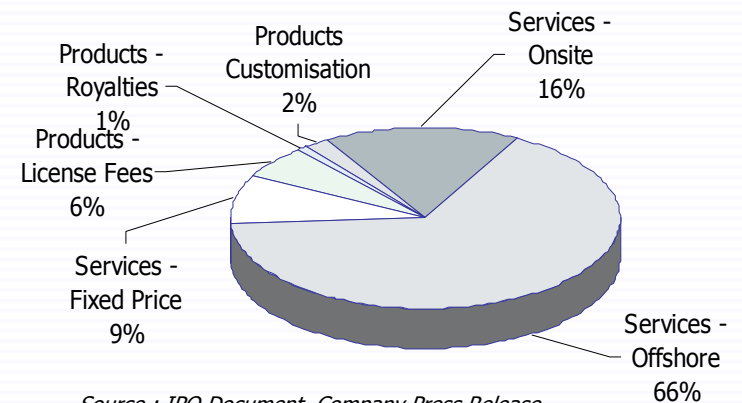
Parametric Evaluation

Revenue Growth	PAT Growth
36% (FY04-FY06)	45% (FY04-FY06)
consolidated as revenue model of products undergoes a change in FY05	

R& D Spend (including PES)	~ 10%
Revenue Break-up (%)	FY06 : Products – 9%, Services – 91%
PBIT Share (%)	FY06 : Products – negative, Services – 136%
Product Revenue Break-Up, Category wise	License Fees – 66%, Royalties – 10%, Customization – 24%
Consolidated Geographical Break-Up	FY06 – North America (35%), Europe (37%), India (22%), APAC (7%)
Active Client Base	Q4FY06 - 39
> US \$ 1 mn accounts	18
> US \$ 10 mn accounts	2
Employee Base (Consolidated)	Q4FY06 - 2575



Revenue breakup (FY06 – Rs. 3,081 mn)



Source : IPO Document, Company Press Release

Product Roadmap v/s Competitive Landscape

1994-1995

1994 -Initiatives in DSP and multimedia space
 1995 – Investments in multimedia technology

1996-2000

Participation in standardization bodies
 1997 – licensing of DSL reference design
 1998- Investments in terminal space – handset-side UMTS protocol stack
 1999 – Development & integration of standalone stacks into a dual-mode protocol stack
 2000- Licensing of W-CDMA protocol

2003

Subsidiaries established to : 1) Provide OSS & BSS and 2) Provide services to Network OEMs
 Application partner for Ericsson Mobile Platforms
 Launch of handset model that carried its multimedia applications

2004

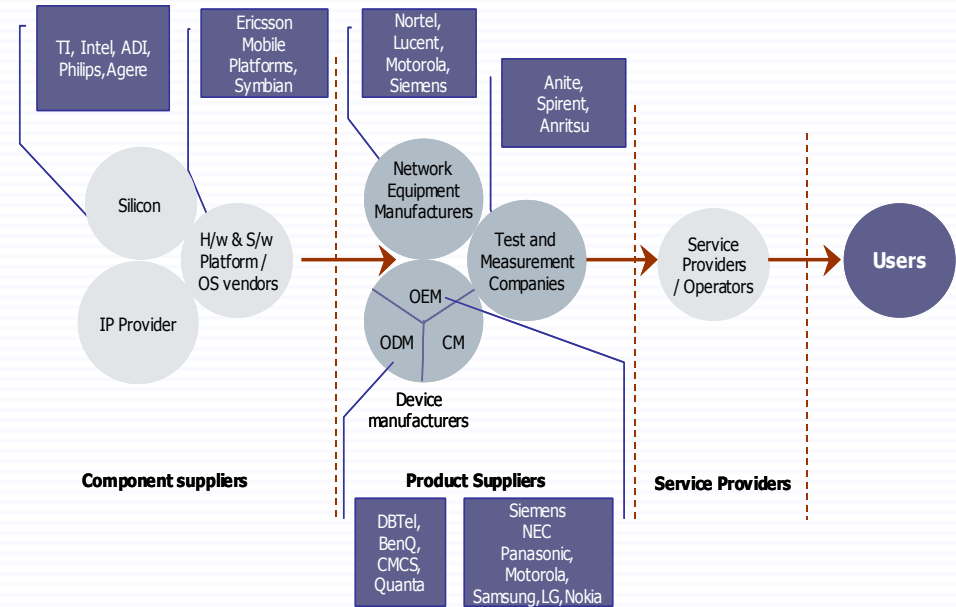
Acquisition of Blue Broadband Technologies Pvt
 Royalty based engagement for 1st handset

2005

Joins initiative for promotion of software flexibility in mobile phones
 Dev. Partner for Philips Nexperia mobile prdts
 Joins the Symbian Competence Center Program

2006

NTT DoCoMo releases FOMA N902i mobile that has Sasken's Multimedia Solutions



Sasken v/s nearest competitor, TTPCom

- Cost of revenues as a % of Sales at 69% (Q4FY06) v/s 89.4% (H1) for TTPCom. TTPCom has negative EBITDA and is targeting 15% margins within 3 yrs
- Royalty fees (Sasken at 5% v/s TTPCom at 26%)
- APAC share (Sasken at 3% v/s TTPCom at 51%)

Sasken: Company Financials (US GAAP)

Income statement

Y/E March (Rs. mn)	2005	2006	2007E	2008E
Net Sales	2,418	3,081	4,233	5,354
Total Income	2,418	3,081	4,233	5,354
Cost of Goods Sold	1,638	2,188	2,951	3,707
Contribution (%)	32.3	29.0	30.3	30.8
Sales & GA	559	581	785	960
Operating Profit	221	312	497	687
ESOPS amortization exp.	7	9	12	15
Other Income	37	63	71	83
P B D T	250	366	556	754
Interest	5	1	-	-
Pre-tax Profit	245	365	556	754
Tax Provision	17	69	103	144
Profit After Tax	228	297	453	610
Extra-ord expenses	-	68	-	-
Reported PAT	228	229	453	610

Key ratios

Y/E March (%)	2005	2006	2007E	2008E
Sales Growth	46	27	37	26
O P M	9	10	12	13
Oper. Profit Growth	39	42	59	37
COGS / Net Sales	68	71	70	69
SG&A/Net Sales	23	19	19	18
Net W.Cap / Net Sales (x)	0.2	0.2	0.1	0.1
Net Sales / Gross Block (x)	1.5	1.6	1.8	1.8
Effective Tax Rate	7	19	18	19
R O E	18	11	11	13
RoCE	20	14	14	16
Adj. E.P.S. (Rs)	8	11	16	22
EPS Growth	35	30	53	35

Note: PAT prior to Non Cash Charge for issue of shares to Nortel
And prior to amortisation of capitalised software development expenses

Source: Company, ENAM Research

Company Financials

Balance sheet

Y/E March (Rs. mn)	2005	2006	2007E	2008E
Total Assets	1,434	3,860	4,479	4,890
Gross Block	1,603	1,895	2,350	2,942
Net Fixed Assets	870	977	1,189	1,463
CWIP	8	34	-	-
Investments	6	1,865	-	-
Wkg. Cap. (excl cash)	442	690	577	682
Cash / Bank Balance	109	151	2,313	2,345
Capitalized soft dev expenses	0	141	400	400
Capital Employed	1,434	3,860	4,479	4,890
Equity Capital	168	279	279	279
Reserves	1,251	3,569	4,200	4,611
Borrowings	15	12	-	-

Cash flow

Y/E March (Rs. mn)	2005	2006	2007E	2008E
Sources	434	2,611	862	729
Retained earnings	176	37	350	411
Add: depreciation	142	185	243	318
Issue of Equity	105	2,391	281	-
Borrowings	10	(3)	(12)	-
Applications	434	2,611	862	729
Capital Expenditure	227	461	679	592
Investments	(21)	1,860	(1,865)	-
Net Current Assets	146	248	(113)	105
Change in cash	81	43	2,161	32

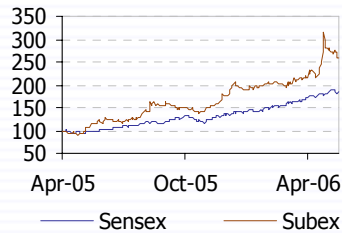
Source: Company, ENAM Research

Stock Data

No. of shares	: 21.8m
Market cap	: Rs.12bn
52 week high/low	: Rs.650/ Rs.199
Avg. daily vol. (6mth)	: 85,100 shares
Bloomberg code	: SUBX IN
Reuters code	: SUBX.BO

Shareholding (%) Mar-06 QoQ chg

Promoters	:	18.6	(0.0)
FII's	:	19.2	4.1
MFs / UTI	:	30.1	1.4
Banks / FIs	:	0.8	0.5
Others	:	31.4	(5.8)

Relative Performance

Source: ENAM Research, Bloomberg

Financial summary (Standalone basis)

Y/E Mar	Sales (Rs. mn)	PAT (Rs. mn)	Cons. EPS* (Rs.)	EPS (Rs.)	Chng.YoY (%)	P/E (x)	EV/EBIDTA (x)	M Cap/ Sales (x)	P/ BV (Rs.)	RoE (%)	Debtor Days
2005	1,166	257	-	13	45	31	23	10	6	28	229
2006	1,814	379	-	19	47	23	17	6	5	25	194
2007E	2,319	553	27	26	38	20	14	5	4	25	180
2008E	2,990	802	39	38	45	14	10	4	3	26	160

Source: *Consensus broker estimates, Company, ENAM estimates. The above estimates are on standalone basis. Refer Slide 39 for a consolidated review

Subex Systems

Rs.521**Relative to Sector: Under Review****An outsourcing play**

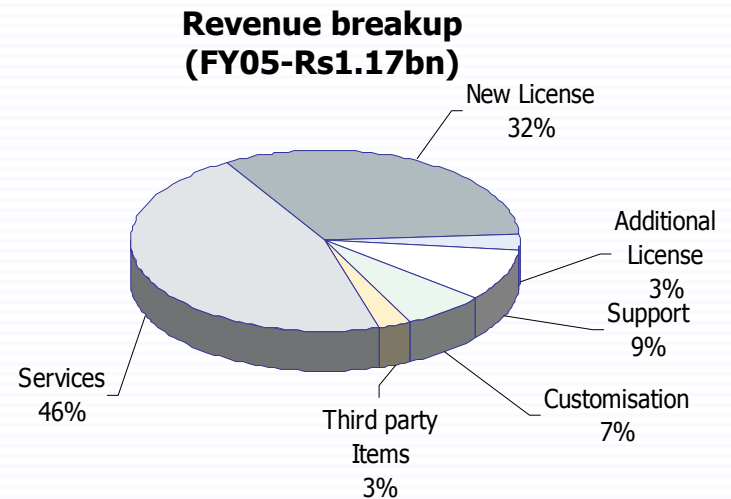
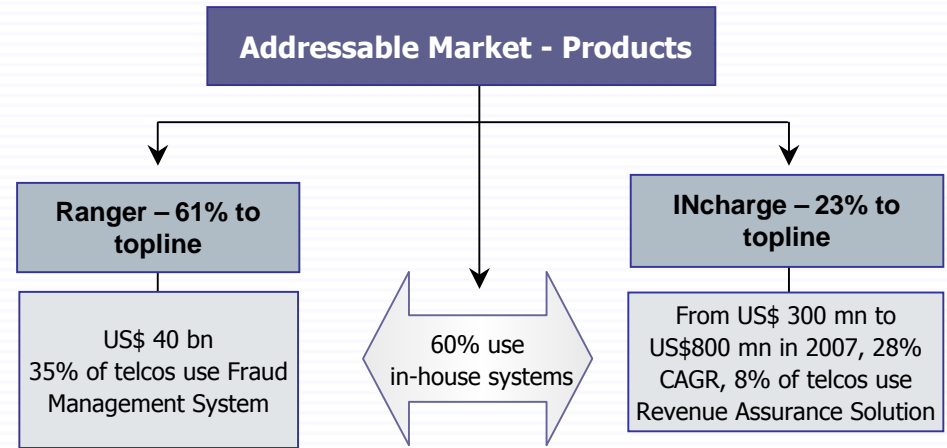
Investment Summary

➤ Product business to stage strong growth

- Market share – Expected to rise from 7% in FY05 to 10-11% in FY07E with ↑ in average deal sizes from US\$0.9 mn in FY05 to US\$1.2 mn in FY08 (on standalone basis). With Azure Solutions, market share target by company stands at 25-30% by FY08
- Client base – Increase in share of Tier 1 telcos
- Geographies - Higher penetration in development markets, Americas and EMEA
- Growth strategy – Key beneficiary from outsourcing of revenue maximization functions, articulated product road-map, inorganic initiatives
- State of the market - 4% of revenues lost due to fraud, telcos targeting to reduce to 1.5%, penetration lower at 35% of telcos

➤ Concerns

- Debtor days - High(FY05 - 229, ↓ to 194 in FY06)
- Services business - Drag on consolidated profits ; topline & PBDIT share at 37% & 3% in Q4FY06



Evaluation: Product Roadmap v/s Competition

Years & ADS	Implications	Evaluation
1998-2000	<ul style="list-style-type: none"> Development and Launch of Ranger FMS Acquisition strategy given an impetus – acquired IVth Generation Inc 	N.A.
2000-2002 2002 ADS - \$0.2 mn	<ul style="list-style-type: none"> Commercial-roll-out of Ranger FMS Acquisition of Magardi Inc Launch & first installation of INcharge (2002) <p><i>New Product launch within 2 yrs of first product launch</i></p>	<ul style="list-style-type: none"> Subex took only 6 yrs v/s 8 yrs for the industry for product development with commercial roll-out in 3rd yr Avg deal size @\$0.2 mn in 2002
2002-2004 2004 ADS - \$0.8 mn	<ul style="list-style-type: none"> Subex – becomes 2nd largest FMS vendor Launch of Chinese operations Launch of RevMax suite 	N.A.
2004-2005 2005 ADS - \$0.9 mn	<ul style="list-style-type: none"> Acquisition of FMS of Alcatel and Lightbridge <p><i>Acquisitions placed Subex as the largest player in FMS segment</i></p>	Acquisitions enabled faster penetration into Americas where ADS is higher
2005-2006...+ 2006 ADS - > \$ 1mn 2008 ADS - > \$ 1.2 mn (on standalone basis)	<ul style="list-style-type: none"> Industry Dynamics positive – Investments in convergence/3G/NGN ,Consolidation Acquisition of FMS of Mantas Inc Growth through inorganic initiatives – Azure Solutions, new product launches especially that address developed markets, promotion of RoC concept 	Faster penetration into Tier 1 telcos (aimed at 80-100 Tier 1 from 15 currently) to lead to better annuity revenues. Nonetheless, S&M investments would be higher

➤ Defined product map with a fair share of inorganic initiatives :

- Subex scores over competition on installation base and country presence
- Highest Market share in FMS (7% in FY05), expected to reach 10-11% in FY07. With Azure Solutions, market share targeted by management stands at 25-30% by FY08
- Core competence in real-time fraud management, revenue assurance tool and event integrity. Azure Solutions – its acquired competitor, exhibits core competence in real-time fraud management and revenue assurance with limited capability in event integrity

Earnings... post acquisition of Azure

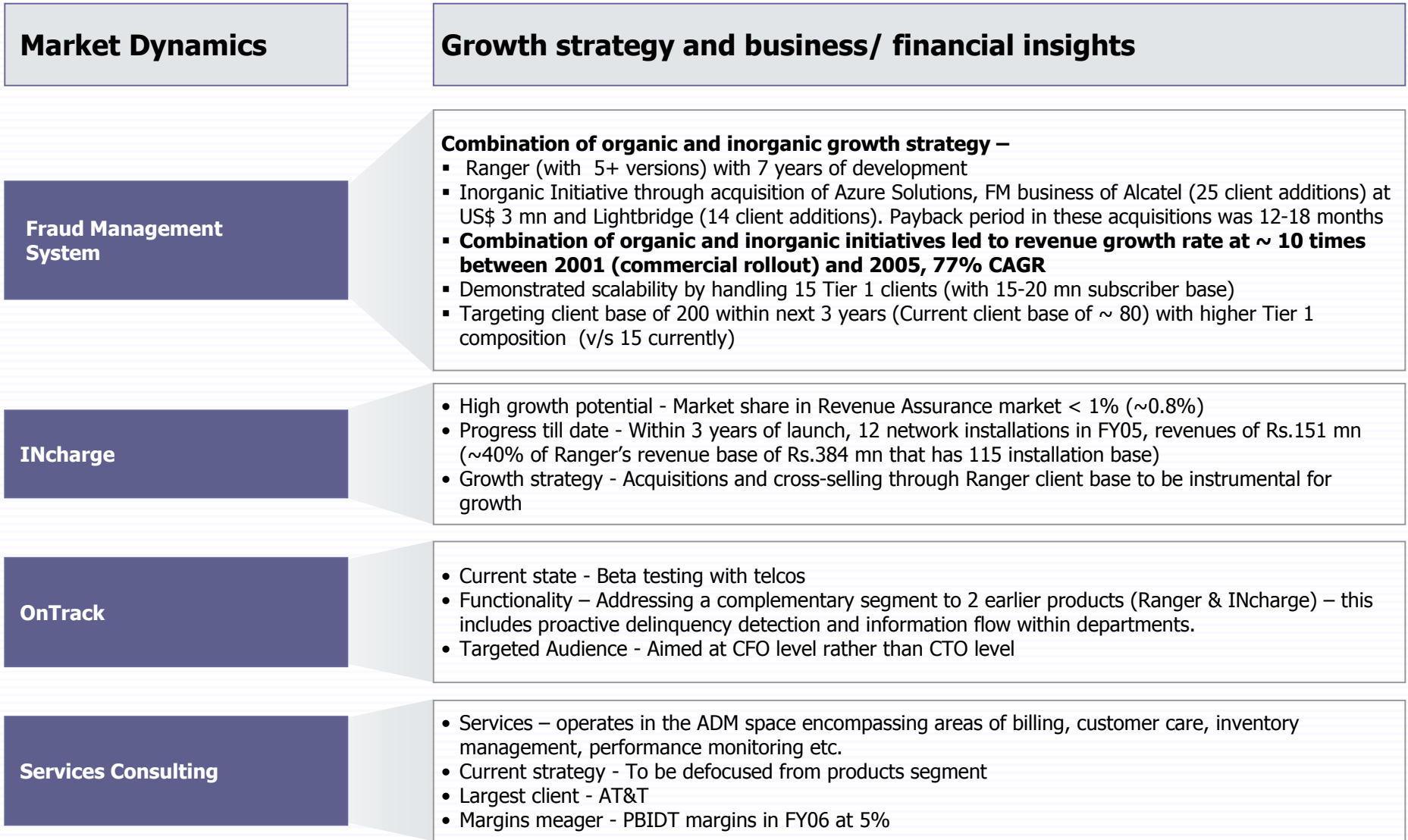
- **Strategic acquisition @ US\$140 mn ... 4.5x Sales**
 - Subex market leader in the Fraud Management space
 - Azure Solutions its competitor in the revenue assurance space is leader in revenue assurance market
 - Acquisition strengthens its presence in developed markets with improvement in its client quality (23 Tier I telcos) and client base of 150 (Subex client base - ~ 70+)
- **The acquisition scales its leadership in both fraud management and revenue assurance space.**
- **Acquisition positive for introduction of its " RoC" based product strategy that addresses IT spend by telcos at CFO level**
- **The acquisition would be consummated within 10 months**
- **Equity dilution of 50-52%**

Acquisition Analysis

	Standalone			Consolidated Guidance (for products)	
	FY06	FY07E	FY08E	FY07E	FY08E
PAT (Rs mn)	379	553	802	650	1,500
No: of shares	23	23	23	35	35
EPS	17	24	35	19	43
Incremental EPS	-	-	-	-	22.3
Increment to PAT	-	-	-	-	698
Acquisition P/E Multiple @ Rs 45 exchange rate	-	-	-	-	9.0

Source: Company, ENAM Research

Market Analysis v/s Growth Strategy

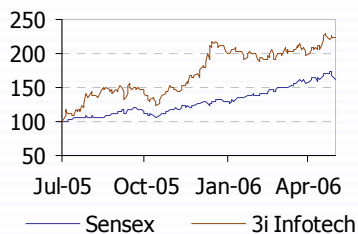


Stock Data

No. of shares	: 53mn
Market cap	: Rs.11.2bn
52 week high/low	: Rs.217/ Rs.88
Avg. daily vol. (6mth)	: 935,500 shares
Bloomberg code	: III IN
Reuters code	: III.BO

Shareholding (%) Mar-06 QoQ chg

Promoters	:	54.0	(0.2)
FII's	:	3.5	(0.1)
MFs / UTI	:	2.3	(0.3)
Banks / FIs	:	7.0	0.1
Others	:	33.1	0.5

Relative Performance

Source: ENAM Research, Bloomberg

Financial summary

Y/E Mar	Sales (Rs. mn)	PAT (Rs.mn)	EPS (Rs.)	Chng.YoY (%)	P/E (x)	RoE (%)	Mkt. Cap/ Sales (x)	Mkt Cap/ EBITDA
2003	2,196	(88)	-	-	-	-	-	-
2004	2,292	(118)	-	-	-	-	-	-
2005	2,892	320	6.0	-	-	17	-	-
2006	4,178	574	9.5	58	21	21	2	11

Source: Company, ENAM estimates, Note: 3i Infotech was listed in FY06

3i Infotech

Rs. 196Relative to Sector: **Not Rated**

BFSI Product Story.....

Investment Summary

➤ BFSI product wins key for performance

- 3i's strategy of penetrating the MEA, CIS States / C & E Europe and Asia Pacific for its BFSI offerings has so far been successful
- It has a strong presence in MEA, especially for the Insurance product, which is witnessing strong traction even in the US.
- The Banking product offerings have also been consolidated under the KASTLE name and now features regularly in IBS league tables
- ERP software is also growing steadily with sales picking up in the US and emerging markets

➤ Acquisition led Growth, New geographies Targeted

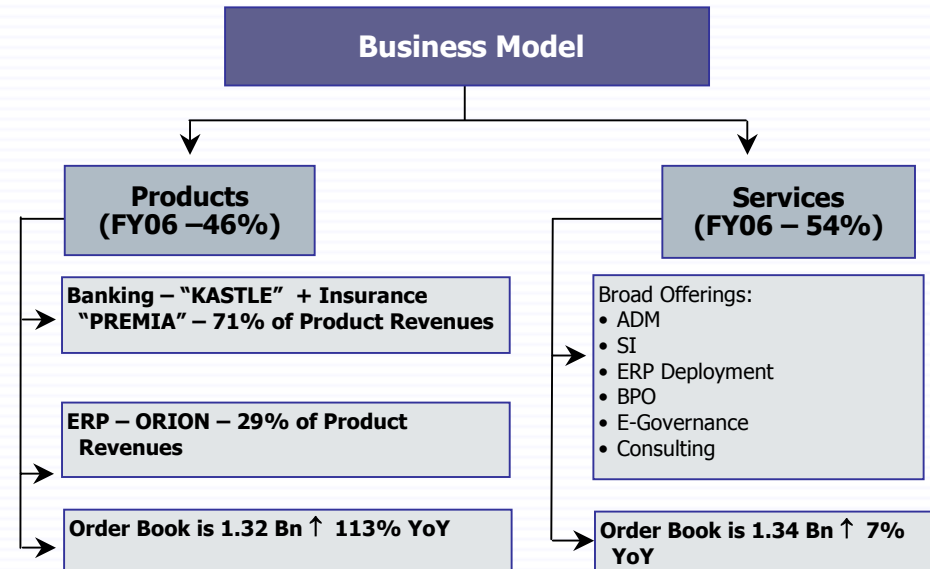
- 4 Acquisitions in FY06
 - ▶ Innovative Business Solutions – USA - Niche IT Consulting
 - ▶ Formulaware – USA - ERP Solutions
 - ▶ SDG – Anti Money Laundering Software
 - ▶ Datacons – India - Mutual Fund Solutions
- Inorganic growth has accelerated scale and scope with ~12-13% addition to FY06 topline, however EBITDA (21%) and PAT margin (14%) vs. i-flex's 39% EBITDA margin leave scope for improvement
- Post Acquisitions, Revenue guidance at @25-30% for FY07E and EPS of Rs.13.0-13.5 (↑ 37-42% YoY)
- Acquisitions will remain a cornerstone of 3i's growth strategy and current guidance does not factor any future inorganic initiatives
- 3i is also planning a deeper penetration in Russia with a partner

➤ Concerns

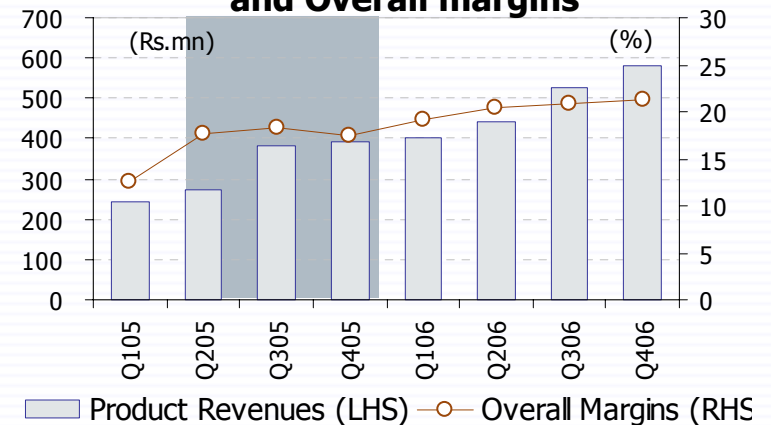
- ICICI group concentration still high at 18%
- Integration of all 4 acquisitions and realizing their synergy value

➤ Valuations

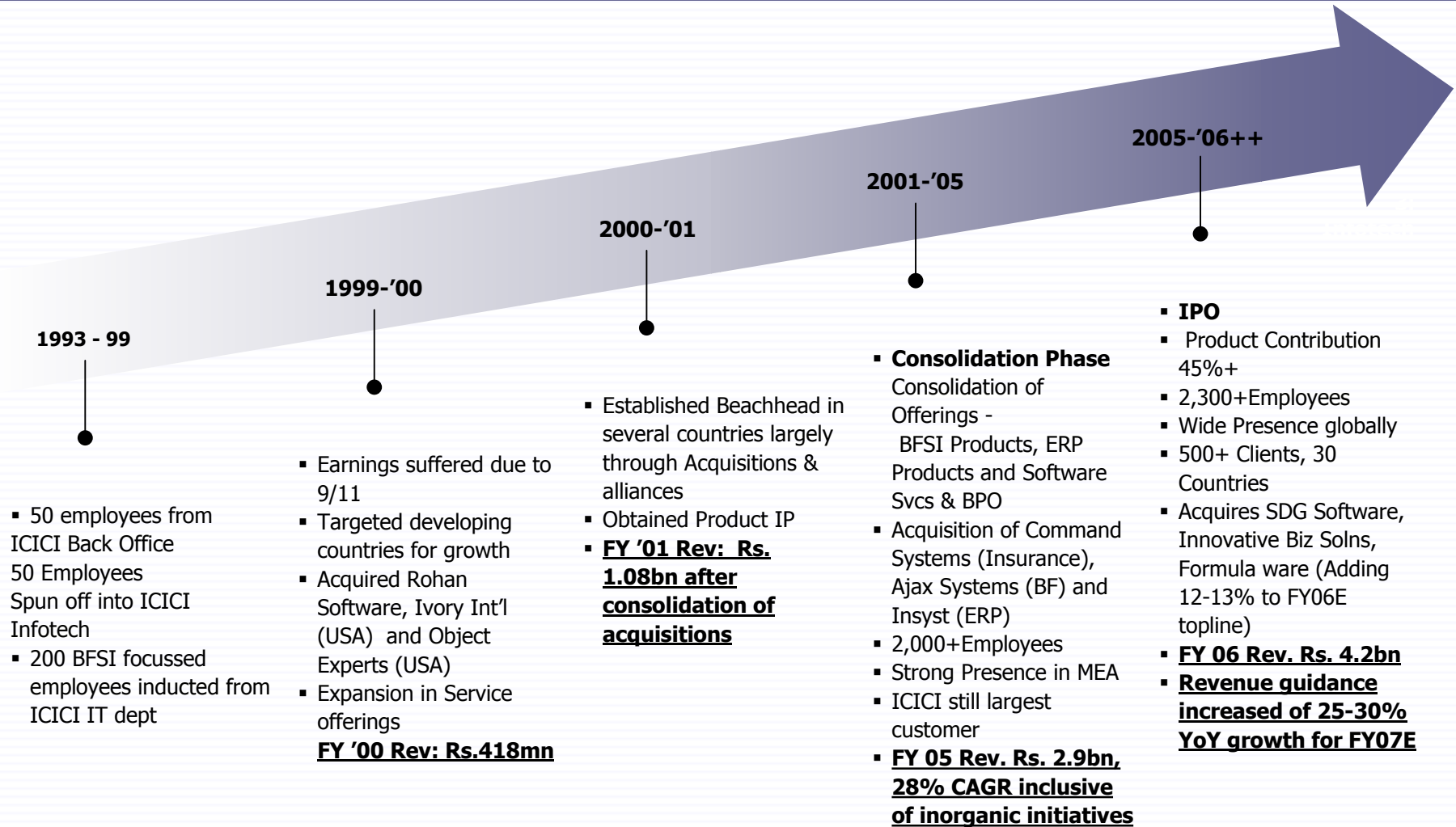
- 3i is currently trading at 21x FY06 trailing earnings and ~15x FY07E guided earnings



Acquisitions add to Product revenues and Overall margins



3i Infotech .. another BFSI success..



Source : ENAM Research, Company Website

Financial Performance

(Rs. mn)	Quarter ended			12 months ended				
	Q4FY06	Q4FY05	% Chg	Q3FY06	% Chg	Mar-06	Mar-05	% Chg
Net Sales	1,200	809	48.4	1,120	7.1	4,178	2,892	44.5
EBITDA	255	142	80.4	234	9.3	858	480	78.6
PBDIT	272	151	79.6	257	5.5	920	509	80.9
PBT	182	72	153.9	172	5.8	580	212	173.2
Tax	6	(3)	-	7	(16.5)	3	(108)	-
Adjusted PAT	176	75	134.2	165	6.8	577	320	79.9
Minority Interest	1	0	-	2	-	2	0	-!
Reported PAT	175	75	133.5	163	7.6	574	320	79.2
No. of shares (mn)	53	31	-	53	-	53	53	-
EBIDTA margins (%)	21.3	17.5	-	20.9	-	20.5	16.6	-
PBIDT margins (%)	22.6	18.7	-	23.0	-	22.0	17.6	-
EPS - annualized (Rs.)	13.2	9.7	36.5	12.3	7.3	9.5	6.0	57.3
Segmental Performance								
Revenues								
Products	580	392	47.9	528	10.0	1,952	1,288	51.5
Services	636	426	49.2	616	3.2	2,289	1,632	40.2
Gross profit								
Products	306	203	50.8	286	7.0	1,022	661	54.7
Services	243	149	62.9	229	6.3	867	604	43.6
GPM (%)								
Products	52.7	51.7	-	54.1	-	52.4	51.3	-
Services	38.2	35.0	-	37.1	-	37.9	37.0	-

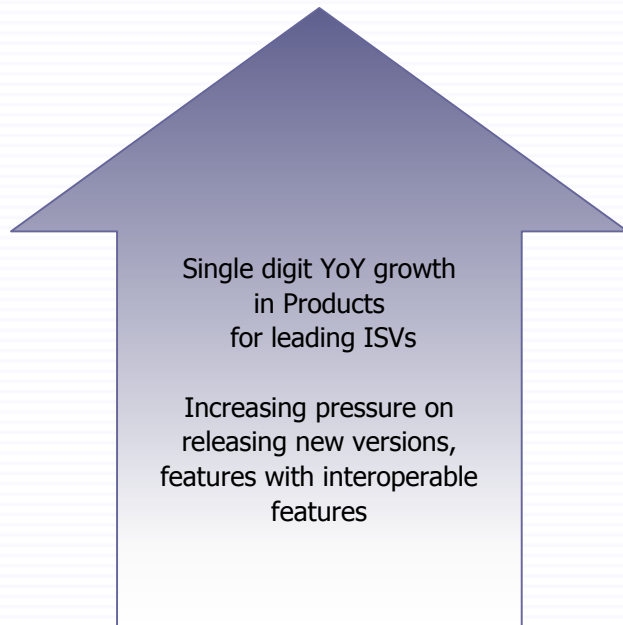
Source : Company, ENAM Research



Appendix

Market factor: T-2-M cycle shortening

	Product Revenues : Slowing Growth Rates						YoY Grwth
	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	
Aggregate Product Revenues (\$mn) (License Fees Product Revenues)	12,738	14,480	13,554	13,976	14,882	15,840	9%



ISV's include: Oracle, SAP, PTC, TI, Intel, Adobe & Novell

➔ Market factors driving growth in R&D outsourcing :

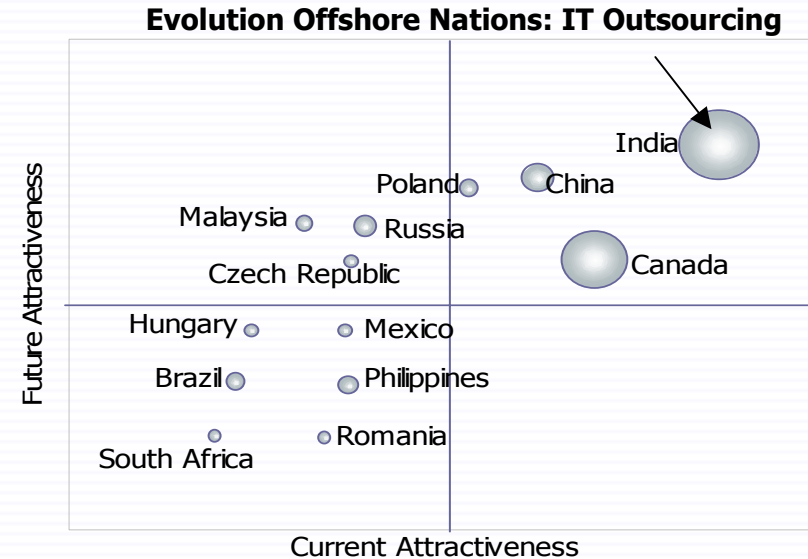
- Lower growth in new license signings
- Transition to open-source applications
- Higher growth in packaged software industry
- Rapid changes in end-user expectations
- Faster new product launches
- Necessity to lower Sustenance/ Maintenance expenses for existing products

➔ Anecdotal evidences support the above :

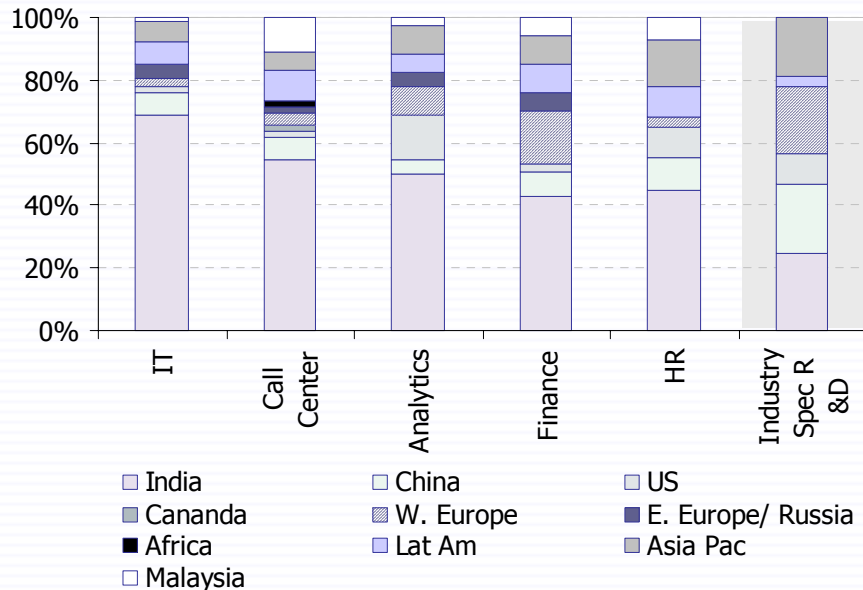
- Telecom Space has seen faster product launches driven by higher growth in Asia Pac Markets (China, India)
- AMR Research - 45% of clients attributed time-to-market as a factor for outsourcing

Place Factor: Country competitiveness

Country	Fin. Structure	People & Skill Avail	Business Environ.	Total
India	3.47	2.14	1.3	6.87
China	3.21	1.76	1.2	6.14
Malaysia	2.95	1.12	2.0	6.07
Philippines	3.58	1.16	1.1	5.79
Singapore	1.62	1.44	2.7	5.73
Thailand	3.27	0.94	1.51	5.72
Czech Republic	2.57	1.12	1.90	5.58
Brazil	2.91	1.36	1.23	5.50
United States	0.54	2.74	2.22	5.49



McKinsey Survey- India a key destination for R&D outsourcing (Manufacturing Domain)



India : Most preferred offshore destination (even for product development, as in services)

- India accounts for 28% of total suitable pool for offshorisation (next China: 11%, Russia: 10%)
- India's ranking in engineering talent :
 - No:2 per 10,000 people
 - Scale - 7.4 / 10 (USA – 7.2 / 10)

Source : NASSCOM, Global Competitiveness Report

Brand Factor : India is THE destination

ISVs : Employee Ramp Ups in India

	India employees	Total Employee	India base % of Total
Microsoft	3,000 curr (MIDC 1300) Targeting 4,000 in 2006.	63,564	5%
Oracle	8,600	49,872	17%
Novell	325 in the ODC	5,066	6%
CA	400 at ODC	15,300	3%
Adobe	650 incl. Macromedia's 150	5,734	11%
SAP	3,000	32,000	2%
Symantec	1,100	14,000	5%
PTC	400	3,928	17%
Cadence	600	4,900	12%
i2	1,100	1,257	88%

Source: ENAM Research, Company websites

India – Top destination for offshore product Development (OPD)

- ➔ Sourcing : ISVs (60% of majors ISVs) and System Integrators have leveraged India through captives and third-party Indian vendors
- ➔ India captive share : Accounts for Employees for 5% to as high as 17% of total base (excl. i2)
- ➔ Patents : Product Engineering companies pursued patent work from India (Texas Instruments – 200 patents, Intel – 62 patents)

Source: ENAM Research

Table for Employee Scale Up

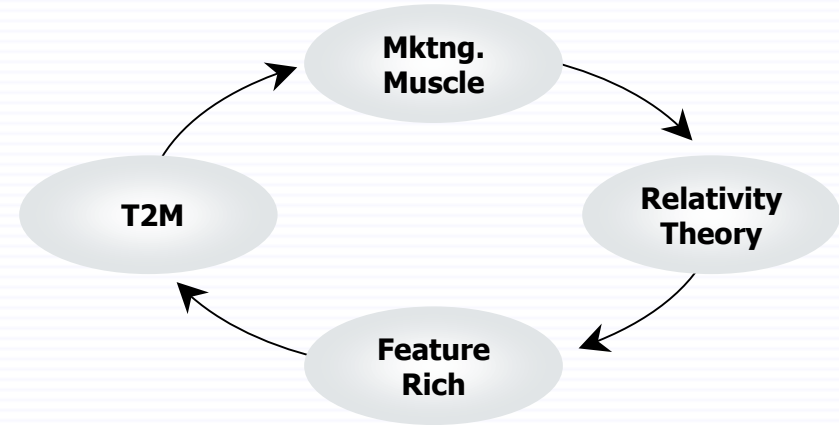
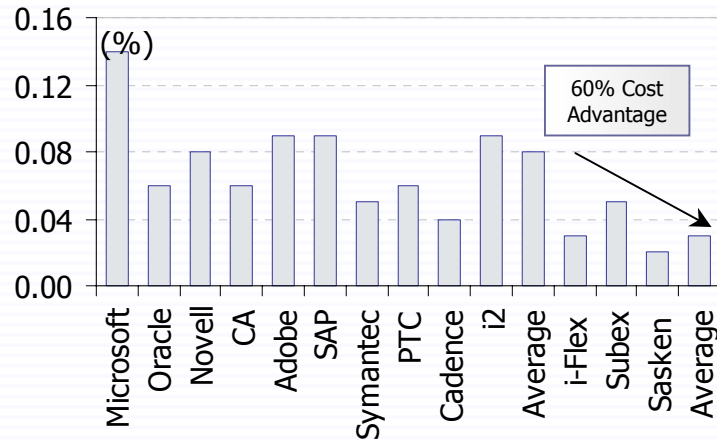
	India employees	Total Employee	India base % of Total	Patents/
Honeywell Industrial Control	1600	100,000	2%	-
Rockwell Automation	180	21,000	1%	-
Delphi	1300	185,000	1%	-
Texas Instruments	1300	35,200	4%	200 Patents
Siemens	12,000	468,000	3%	-
Intel	-	-	-	62 patents

Source: ENAM Research, Company websites

**Oracle buy-out of I-flex
Would be instrumental
in driving attention to
third party
product vendors**

The India Value Proposition

Average Cost per employee : ISVs v/s Indian Players



➔ **India’s Competitive Advantage on Key Product Paradigms :**

Cost, Features, Time-to-market/ Delivery, Presence/ Mindshare

➔ **Associated costs in product segment are lower in India :**

- Average cost pre employee for third party product vendors like i-Flex stand is 40-50% of that of leading ISVs and product engineering companies
- Overhead Advantage : G&A expenses for Indian product are lower by 400-600 bps of Sales than ISVs

Cost Comparison : ISVs v/s India

	R& D Cost % of sales	Patents/ Achievements	HR/ Cost	Avg. cost /employee (000)
Microsoft	13%		2239	35
Oracle	14%	Oracle Student System	757	15
Novell	17%	17 patents	108	21
CA	18%	-	69	5
Adobe	19%	Palm Pilot version of Adobe acrobat	113	20
SAP	12%	Notebook Applications	813	25
Symantec	18%	-	184	13
PTC	18%	-	62	16
Cadence	25%	-	54	11
i2	8%	-	27	22

Source: ENAM Research

..the right ingredients, supply dynamics

The Supply Dynamics

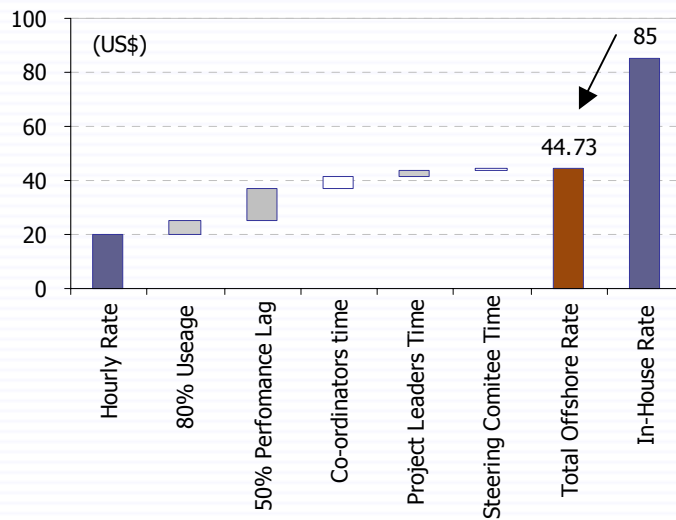
India's engg pool...

(in 000's)	Engg Grads		IT Professionals(Comp. Electronics etc)	
	Abs	Deg(%)	Abs	Deg(%)
FY06E	441	50.3	246	54.1
FY07E	501	53.9	280	57.9
FY08E	536	54.1	303	59.4

Indian Software Product Managers (@~US\$ 26,000/ p.a) are still over 50% cheaper than their US and European counterparts and less than 2/3rd the cost in countries like Singapore



20-50% cost savings would be replicated in product story as observed in services business



The Overhead Cost advantage (excl S&M)

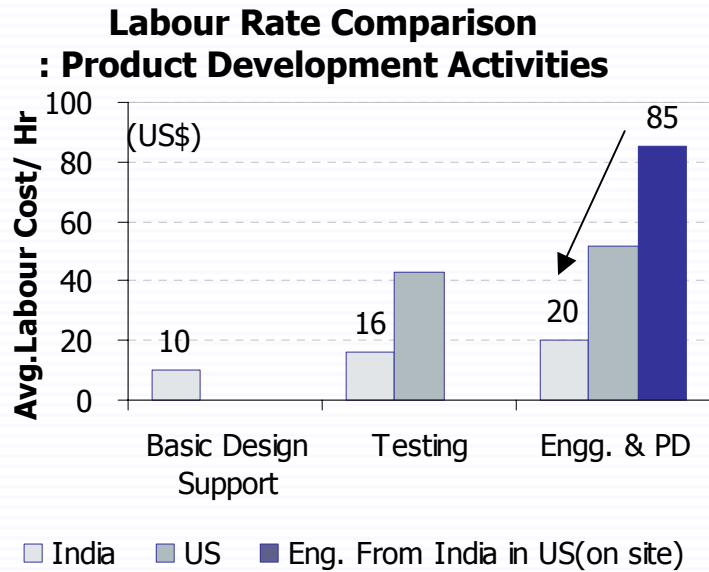
	S&M (%)	G&A (%)	Overheads
Microsoft	21.8	10.5	32.3
Oracle	21.3	4.7	25.9
Novell	32.5	10.2	42.7
Computer Associates		37.0	37.0
Adobe	30.2	8.5	38.6
SAP	20.5	5.1	25.6
Symantec	28.0	4.0	32.0
PTC	33.8	4.0	37.8
Cadence	26.8	8.8	35.6
i2	15.4	18.1	33.5
Average	22.3	12.0	34.1
i-Flex (products segment)	20.79	6.24	27.0
Subex	5.43	6.71	12.1
Sasken	10.3	12.82	23.1
Average	16.3	6.5	22.8
Geodesic	n.a	9.83	-

Dual Advantage : Supply dynamics (quality + cost

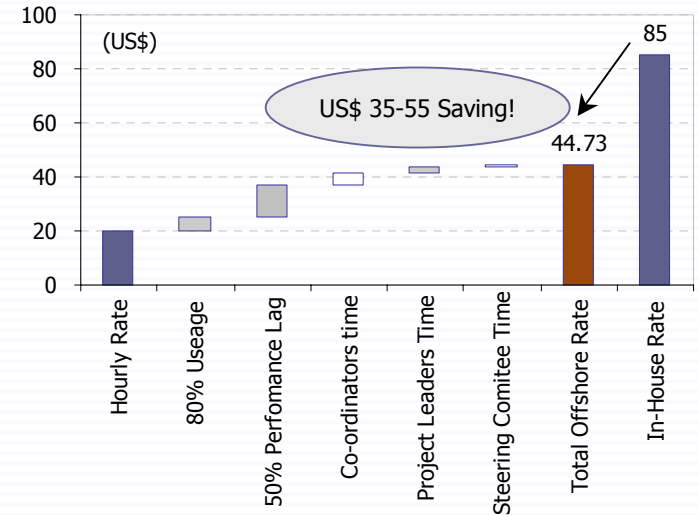
+ support) favour India -

- Exposure : Indian IT professionals exposed to latest / state-of-art technologies / platforms
- Availability : FY08E to have supply of 0.54 mn engineering graduates with 56% from IT / Computers / Electronics field
- Cost : In comparison to global ISVs, India products vendors enjoy cost advantage of 40-50.%
- Overheads : Though S&M investments are similar, Indian vendors enjoy G&A cost advantage by average of 400-600 bps

The Human Factor: Comparative advantage (Cost)



Offshore Vendor (worst case cost scenario) v/s current US costs



Source: NASSCOM

⇒ Cost savings through offshorisation would be a function of :

- Labour Cost Savings : In comparison to current billing rate in US at US\$85 per hour, offshore billing rates at US\$ 20 per hour offer pure labour arbitrage
- After adjustments of other factors (utilization rates, reviews by projects leaders and steering committees, timeframe etc), minimum cost savings of 35-40% to accrue

⇒ Fall-out factor :

- Low break-even levels for Indian product companies ensures faster attainment of profitability
- Nonetheless supply-side constraints could emerge as observed in ADM space

... human Factor: Comparative advantage (Supply)

Knowledge Professionals Employed (000's)

	2000	2001	2002	2003	2004	2005	2006
IT, Engg. & R&D, Software product exports	110	162	170	205	296	390	513
ITES	42	70	106	180	216	316	409
Domestic	132	198	246	285	318	352	365
Total	284	430	522	670	830	1,058	1,287

Source: NASSCOM

➔ Indian talent pool - highlights :

- Abundance advantage - v/s other offshore destinations, India corners 28% of total available suitable labour pool for off-shoring
- Demographic advantage - 60% of population in the 15-59 age group
- Skill advantage : Production of ~ 441,000 technical graduates every year (Engg, Diploma holders, MCAs)

IT Labour Supply (000's)

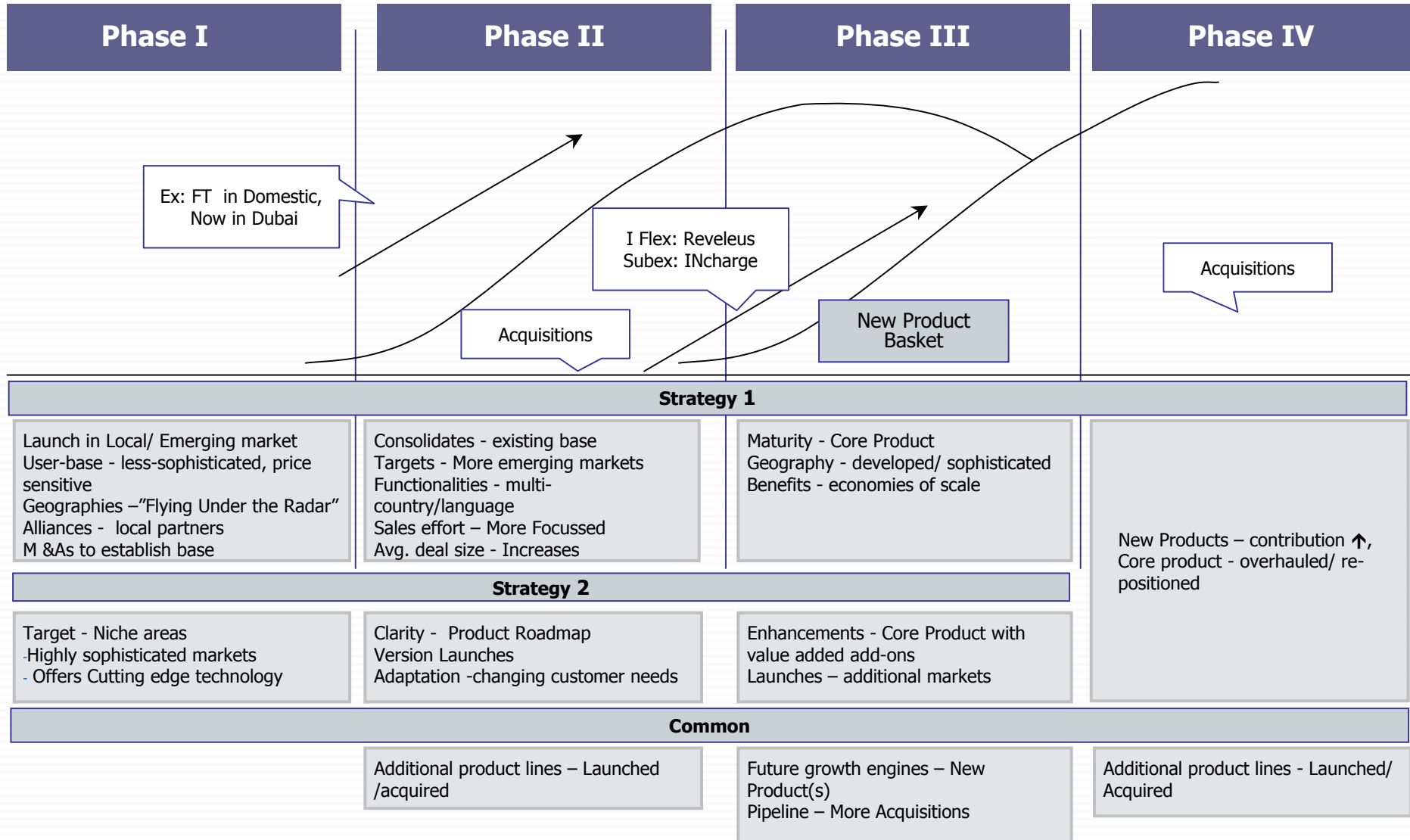
	2004	2005	2006E	2007E	2008E
No. of Engg. Grads.	316	365	441	501	536
- Degree (4 yrs)	139	170	222	270	290
- Diploma/ MCA (3 yrs)	177	195	219	231	246
No. of IT professionals	179	201	246	280	303
- Engg. IT Grads (Degree)	84	102	133	162	180
- (%) of Total	60	60	60	60	62
- Engg. IT Grads (Diploma)	95	99	113	118	123
- (%) of Total	53	49	46	42	41

Source: NASSCOM



Product Evaluation Phase

Product Evolution... redefining the “S” Curve”

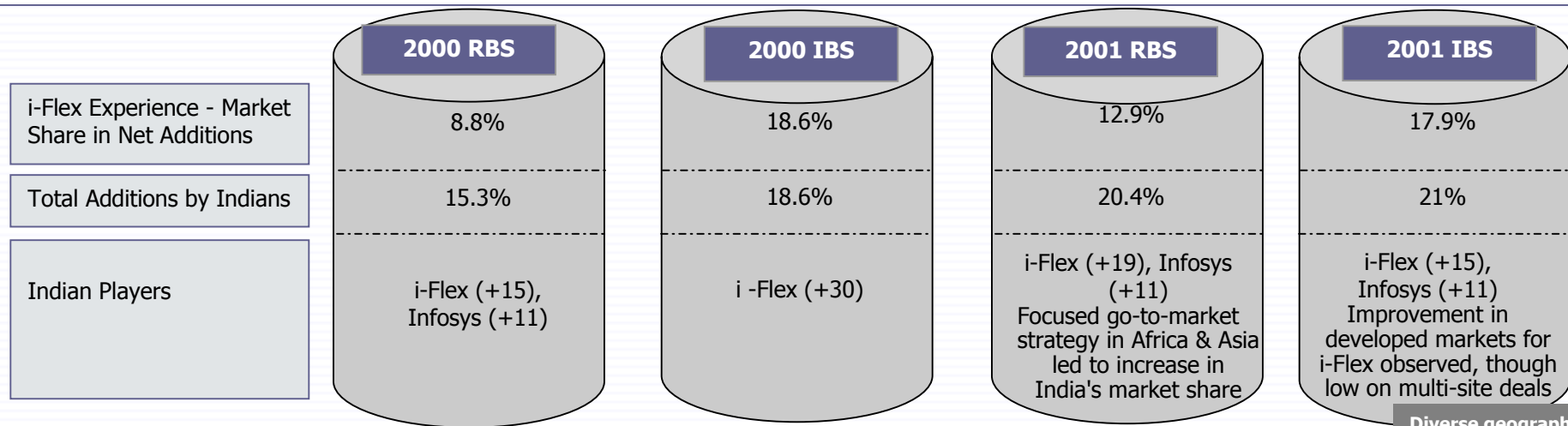


IT Service offerings – complementary as complete solution, entry strategy , performance stabilizer



The BFSI Experiencereflects success

The experience in the BFSI vertical...

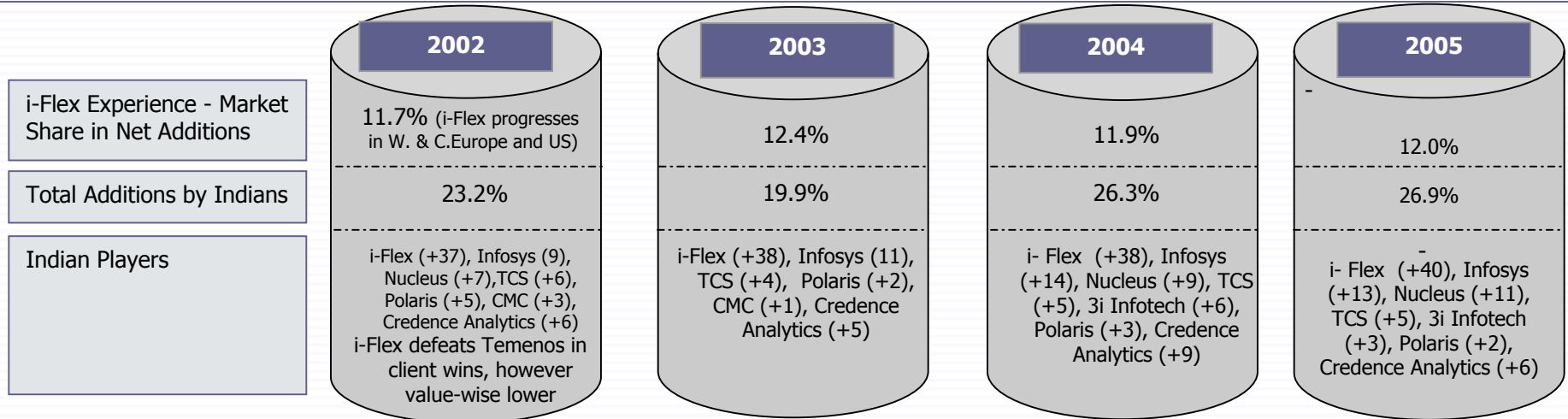


Diverse geography presence pertinent for growth as reflected with Temenos

Industry Characteristics

Total Additions	170	161	147	162
Share -Top 3 Players	37%	58%	38%	53%
Top 3 Players	ERI Bancaire, Sanchez, i-Flex, Kindle, Infosys	Temenos, i-flex, MKI-Frustum	ERI Bancaire, i-Flex, Infosys	Temenos, i-Flex, Misys
Deal Sizes / Wins	Big Value deals low	n.a	Scattered deal sizes	Multi-site deals yet absent
Other Dynamics	Most signings were single country basis, Evaluation phase by top-end of market	Suppliers did better than last year	Presence of smaller players	Improvement post 2001 slump, Replacement market better, No tangible action by large banks
Geographical Characteristics	Markets in North America & Europe , Africa not Healthy, Central & Eastern Europe depressed	Signings were high in Western Europe & Africa	Slump-in established markets especially US & Western Europe	Europe (27%), Africa (18%), APAC (17%), Central Asia (9%), Central Europe (8%), Middle East (6%), Australia (4%) Central & South America (2%), North America (9%)

...Contd.



Industry Characteristics

Total Additions	315	306	320	334
Share -Top 3 Players	28%	29%	25%	26%
Top 3 Players	i-Flex, Temenos, Sunguard	i-Flex, Reuters, Temenos	i-flex, Temenos, Summit	i-flex, Temenos, Misys
Deal Sizes / Wins		Avg deal sizes lower YoY, Industry ILF signings lower 9% YoY	Big Value deals low, Industry avg deal size at \$1 -1.1 mn	Temenos - \$ 2.7 mn i-Flex - \$ 1.6 -1.7 mn
Other Dynamics	Polarization among players, Retail banking healthy with gloomy market for wholesale	Private banking market flat	Multi-site deals scarce. Core & wholesale banking+ treasury saw traction	Pick up in treasury and capital market space
Geographical Characteristics	Investments in developing markets, Economic Factors impacted sales	APAC slow than 2002, Europe slightly down	Japan exhibits system overhaul, Better traction in Europe (37%)and Asia Pac. APAC & Australia at 30%, Middle-East (11%) Africa (11%), America (11%)	-

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Disclosure of interest statement (As on 16th May, 2006)	i-Flex	Sasken	Subex	3iInfotech
1. Analyst ownership of the stock	No	No	No	No
2. Firm ownership of the stock	No	No	No	No
3. Directors ownership of the stock	No	Yes	Yes	No
4. Investment Banking mandate	No	No	No	No
5. Broking relationship	No	No	No	No

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