

27th December 2006

Not Rated

Price
Rs334

Sensex - 13,708

Price Performance

(%)	1M	3M	6M	12M
Absolute	41	85	70	38
Rel. to Sensex	41	66	25	(8)

Source: Capitaline

Stock Details

Sector	Software
Reuters	IGAT.BO
Bloomberg	IGS@IN
Equity Capital (Rs mn)	125
Face Value (Rs)	4
52 Week H/L (Rs)	350/145
Market Cap (Rs bn)	10
Daily avg Vol (No of shares)	65989
Daily avg Turnover (US\$ mn)	0.3

Shareholding Pattern (%)

Promoters	81.9
FII's /NRI's	9.4
Institutions	2.2
Private Corp	0.8
Public	5.7

Source: BSE, 30.09.2006

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iGATE Global Solutions Limited

At an Inflection Point ?

Company
Visit Note

We met management of iGATE Global Solutions Limited (iGATE) recently and the key takeaways are:

Business transformation initiatives

The management of the company is undertaking four major business transformation initiatives in the recent past:

- Shifting from routine low end IT services to high end IT consulting, ERP, BI etc,
- Reducing share of low margins system integration,
- Moving away from small customers to Fortune 1000 companies which provides substantial scope of client mining and
- Moving business to a more offshore centric model.

Recent Improvements in operating performance

Some of these measures have already started showing remarkable improvements as evidenced from last 2-3 quarterly results:

- Addition of 5-6 Fortune 1000 clients per quarter in last 2-3 quarters.
- Both offshore and onsite billing rate hike of 2-3% per quarter in last 2-3 quarters.
- Improvement in utilizations.
- Increased offshoring.
- iTOPS (integrated technology and operations) finding increased traction in the recent times.

Sequential quarter review: Q2 FY 2007 v/s Q1 FY 2007

- Operating revenues jumped 11.6% to Rs. 2,026.2 mn compared to Rs. 1,816.3 mn.
- Gross profit up 22.9% at Rs. 594.2 mn compared to Rs. 483.4 mn.
- Operating profit up 55.7% at Rs. 200.7 mn compared to Rs. 128.9 mn. Operating Profit Margin improves to 9.9% from 7.1% in the immediately preceding quarter.
- Net profit after tax and minority interest increases by 865.8% at Rs. 101.4 mn compared to Rs. 10.5 mn in the preceding quarter. Net Margin improves to 5.0% in Q2 FY2007 from 0.6% in Q1FY07.

Guidance by company

The company has guided for 5-6% sequential growth in revenues for next 3-4 quarters.

The company intends to improve EBITDA margins to 15% by Q4FY07.

Improving Operating Matrices

Revenue Analysis of Igate's IT services and consulting business

Client Concentration (%)	Q2FY07	Q1FY07
Top Client (GE)	29	28
Top 5	59	56
Top 10	72	69
Geographical Distribution (%)	Q2FY07	Q1FY07
North America	76.5	75.4
Europe	12.5	12.9
Asia Pacific	11.0	11.7
Delivery (%)	Q2FY07	Q1FY07
Offshore	44.9	46.1
Onsite	55.1	53.9
Efforts (%)	Q2FY07	Q1FY07
Offshore	72	73
Onsite	28	27
Utilization (%)	Q2FY07	Q1FY07
Offshore	68	67
Onsite	92	88

Source: Company

Key Concern

We believe attracting and retaining talent is the biggest challenge for the company at present. Attrition rate currently stood at 19.5%. The company had guided for net additions of 1200-1500 for FY07E, but has recruited only 380 employees in H1FY07. The company has recently recruited Head-HR and has taken various initiatives such as ESOPs, RSUs, performance linked bonus, training, improving quality of work etc to resolve employee related issues. We believe that the company may have to forego some of the business opportunities due to lack of sufficient manpower in hands.

Conclusion:

The company has done EPS of Rs 3.6 for H1FY07. We believe that some of the business transformation-related upsides have already been captured by the current stock price; from now on, the stock would be driven only by the surprises (both +ve or -ve) in the quarterly results in the forthcoming 2-3 quarters. We believe that the company is more concerned at supply side rather than demand side. The company's ability to attract and retain talents should be closely watched for the next few quarters.

Key Financials:**Consolidated Income Statement**

Particulars (Rs mn)	Q2FY07	Q1FY07	%QoQ
Operating Revenues	2,026	1,816	12%
Less: Direct Costs	1,432	1,333	
Gross Profit	594	483	
Less: Other operating exp	394	355	
EBITDA	201	129	56%
EBITDA (%)	9.9	7.1	
Add: Other Income	(3)	(1)	
Less: Interest	7	7	
Less: Depreciation	98	99	
PBT	93	21	
Less: Tax	3	11	
Add: Minority Interest*	11	-	
PAT	101	10	865%
PAT (%)	5.0	0.6	

* Includes proportionate consolidation of interest in joint venture Software AG (India) Pvt Ltd.

Source: Company

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