

15th September, 2009

Issue Details

Offer Price Band	Rs. 120-130
Size of Issue	16.2 -17.55 cr
Face Value	10
Total Shares Offered	36,46,000
Fresh Issue	13,50,000
Selling by Shareholder	22,96,000
Type	Fresh Issue
Listing (Stock Exchange)	NSE, BSE
Offer Open Date	22 nd Sept, 2009
Offer Close Date	24 th Sept, 2009

Website: www.thinksoftglobal.com

Scrip Estimates

Market Cap (Rs Crores)	120.62 - 130.67
EPS - FY09 (Rs)	13.88
P/E(x) - FY09 (fully diluted)	8.69 - 9.41
Market Cap/Sales(x) FY09	1.36 - 1.47

Share Holding Pattern (%)

	Pre Offer	Post Offer
Promoters	55.53	48.07
Promoter Group	5.93	5.14
Euro Indo Investments	28.53	2.47
Others	10.01	8.05
Public issue	-	13.43
Offer for Sale	-	22.84

Financials (Rs Crores)

	FY07	FY08	FY09
Sales	52.66	69.77	88.96
Expenditure	42.34	57.20	74.73
EBITDA	10.32	12.57	14.23
EBITDA (%)	19.6	18.0	16.0
PAT	8.08	9.34	13.88
Equity	7.24	7.36	8.70
EPS (Rs)	11.28	12.55	16.88

Investors should read the risk factors and more detailed information in the Prospectus and the application form before investing in the issue.

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Thinksoft, is operational in IT services industry. It is a BFSI focused specialized software testing enterprise with over 8 million person hour track record. It operates in the financial and insurance software testing space that transforms company performance and operational effectiveness.

Object of Issue:

For establishing new testing center at Chennai SEZ, cost of which is approx Rs. 160 million.

Investment Rationale

- **IT Spend in BFSI segment:** Globally IT services industry is estimated at USD1.7 trillion. BFSI segment roughly contributes for around 40% of the total IT services spend globally. The BFSI companies are increasing their IT spend as part of their strategy to increase profits, improve time to market of new products and services, cope with regulatory changes and meet rising customer demand.
- **Specialist in specialized Job:** Software testing is a exacting job making it imperative for this service to be managed by the dedicated specialist and experts with necessary domain knowledge. Thinksoft is into this market from more than 10 years.
- **The early mover advantage:** The early mover advantage has been associated with the company with accumulated methodologies in the segment. The domain focus differentiates it from generic testing service providers.
- **Diversification in concentration:** Ironically the company is well diversified in their respective concentrated BFSI domain. They provide services in core banking, retail banking, treasury, investment banking, lending business, credit cards, payment system, corporate banking insurance, private banking, CR campaign management etc.

Investment Concerns

- Concentration in BFSI, the segment which is adversely affected by slowdown, which unfolds lesser budget for IT spend
- Concentration in clients, 93% of revenue from top 10 clients
- Concentration in location, 54% of revenue from Europe
- Competition and Rupee fluctuations can have adverse impact on revenues
- Cost of new center is not appraised by any institution but purely management estimates.

Valuation and Investment Argument

The valuations of Thinksoft appear to be stretched as compared to its peers. The company's business model is heavily dependent upon the BFSI sector and is limited to primarily the testing services. At the upper end of the price band of Rs 130 the company is available at a PE of 8.7x and at lower band of Rs 120 at PE of 9.4x of its of its fully diluted FY09 EPS of Rs 13.88. We recommend the investors to avoid this IPO.

Peer Comparison (FY09)

In Rs Crore unless otherwise mentioned.

Particulars	Sonata Software	FCS Software	Thinksoft Global**
Face value (Rs)	1	10	10
CMP (Rs)	36.50	66.9	120-130
Sales	1591.27	190.25	88.96
PAT	76.57	25.05	13.88
Equity	10.52	14.43	10.05
EPS (Rs)	7.28	17.36	13.88
P/E Ratio	5.01	3.85	8.69 – 9.41

* Data as on 31st march 09

** Based on fully diluted post issue equity

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