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EXCEL INFOWAYS LIMITED

July 13, 2009

SMC RANKING ★ ★

OVERVIEW

Incorporated in 2003, Excel Infoways is a BPO and Customer Contact Centre based in India. The company is a provider of offshore BPO services to Clients primarily in Telecommunications and Financial Sector. The BPO service is provided mostly to clients in the US and UK. Initially the company commenced its operations with the capacity of 50 seats as compared to the current 150 seats. Company's present manufacturing facility is at Andheri (W) in Mumbai and it further proposes to set up a 300 seat facility in Mumbai at Borivali (W) and Kandivali- Charkop in Financial Year 2010-2011.

ISSUE HIGHLIGHTS

Industry	ITeS Industry
Issue Size	Rs.45.33 Cr – Rs.48.17 Cr
No. of Shares	56,67,000 Shares
Price Band	Rs.80 – Rs.85
Offer Date	14th Jul '09
Close Date	17th Jul '09
Listing	BSE, NSE
Face Value	Rs.10.00
IPO Grading	CARE IPO GRADE "1" (Indicating Poor Fundamentals)

Use of proceeds	Estimated Amt. (In Lacs)
Setting up New Facilities	4727.66
Strategic Investment / Joint Ventures	3000.00
Issue expenses	-
General Corporate Purpose*	-
Total*	-

ISSUE COMPOSITION

Total Issue	56,67,000 Shares
QIBs	28,33,500 Shares
NIBs	8,50,050 Shares
RETAIL Lot Size	19,83,450 Shares 80 Shares

*Will be incorporated on finalisation of issue price

BOOK RUNNING LEAD MANAGER

CHARTERED CAPITAL AND INVESTMENT LIMITED

REGISTRAR TO THE ISSUE:

LINK INTIME INDIA PRIVATE LIMITED

INDUSTRY OVERVIEW

India's Business Process Outsourcing (BPO) sector had been growing at a compounded annual growth rate of 37% before global slowdown stopped it in its tracks. A relatively new industry, the BPO sector grew from being a \$1.6 billion industry in 2002 to \$14.5 billion in 2008-09. In the same period, employee headcount in the sector grew from 155,000 to about one million now. According to the Industry officials, the slowdown-hit BPO industry is likely to face better times in the medium-to-long term and the downturn gives opportunities for Indian firms to acquire businesses abroad.

SHAREHOLDING PATTERN

	Pre-issue	Post issue
Promoter & Promoter Group	96.30%	70.52%
Others	03.70%	02.71%
QIBs	-	13.39%
NIBs	-	04.01%
RETAIL	-	09.37%
Total	100.00%	100.00%

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INVESTMENT ARGUMENTS

Diversified business model

The Company's income is diversified across a range of geographies and industries. Diversified income is a competitive strength, as it provides a hedge against cyclicity or other adverse developments (including changes in laws or regulations) within any particular industry sector or geography or affecting any client. The diversified business model will result in relatively less volatility in the income, profits and cash flows, which will allow more effective planning and investing in the growth of the business.

In **telecom**, the company provides the clients with a broad range of services, including customer acquisition, provisioning and fulfillment support, customer service, billing support and collections.

In **Financial services**, Excel provides broad range of services including Customer acquisition, customer service, funds management and overseas property management, Business & Financial Transcription, e-media Transcription.

In **technical services**, the company provides the clients with Network Management and Monitoring, Solution of complex connectivity problems to increase bandwidth, improve response times, maximize performance, and support global operations.

In the **healthcare industry**, Excel provides with a broad range of services, including Insurance Claim Processing, Medical Billing and Coding.

Proven delivery model

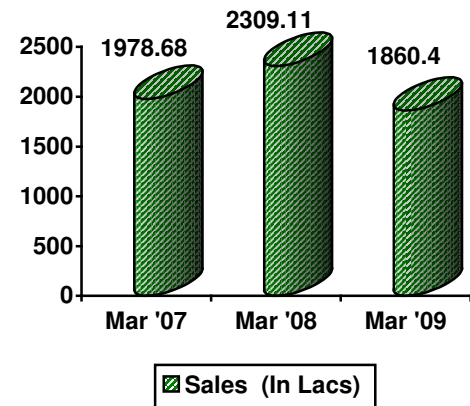
Excel is recognized for its service delivery. The company efficiently designs and implements outsourced solutions to suit customer's requirements. Such solutions are measured, monitored and audited by the company on an on-going basis.

Excel has leveraged its experience in the telecom fulfillment solutions, Financial Services, Technical Services and healthcare industries and its operational expertise to expand the service offerings to new areas within those industries, as well as to clients in other industries. The strategic positioning within the key target industries is a significant competitive strength that will provide key growth opportunities to the company.

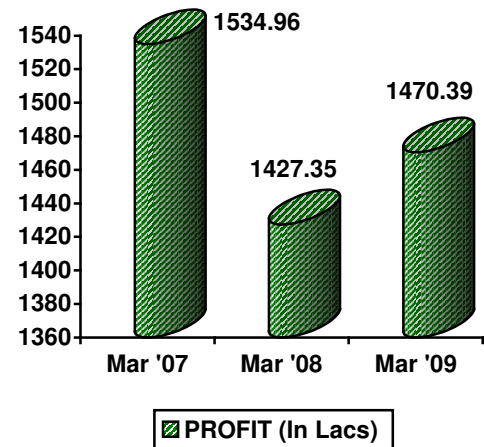
Extension of exemption under the Software Technology Parks of India (STPI) scheme

Excel benefits from certain tax incentives provided by the Government of India. Further, 100% Income Tax holiday as per the provisions of Section 10B of the Income Tax Act, 1961 in respect of profits derived by its undertaking/s from the IT Enabled services was available only upto Fiscal year 2010. However, Benefit of tax holiday to export oriented units (EoUs) under Section 10A and Section 10B has been extended by one year as announced in the Union Budget 2009-2010. It would now be available up to assessment year 2011-12.

Operational Income over the last 3 financial years



Profit over the last 3 financial years



EXPANSION PLANS

Setting Up New Facilities

Excel intends to set up and fill the 300 seats in the New Facility at two locations in Borivali and Kandivali in Mumbai by January 2011. Towards this, the company has entered into the agreements for the premises located at Borivali (W), Mumbai and Kandivali (W), Mumbai for this purpose and payment of Rs.1809.00 Lacs has been paid by the company. According to the company, there is no impact of downturn in the market prices on the cost of acquisition of these properties. The estimated total cost of setting up the New Facility is Rs.4727.66 Lacs.

Strategic Investments/Joint Ventures

The company seeks to further enhance its position as a player in the Indian IT enabled Service industry. Towards this end, company proposes to target companies in India and overseas which have substantial experience in their respective domains and a good clientele. At present, the company has not yet entered into any letter of intent or definitive commitment for such acquisition, investment or joint venture. Excel intends to utilize Rs.3000 Lacs of the Net Proceeds of the issue towards such strategic investments/joint ventures.

With regard to the investment in strategic investments/joint venture, the company has appointed two consultants M/s Bedi Capital LLC and US Financial Investment to identify prospective companies/firms for joint venture or acquisitions.

INVESTMENT CONCERNS

- The rate at which income from operations is growing year on year has reduced to a very nominal rate & the ability of the Company to increase the level of operations with the expanded projects seems to be difficult.
- CARE has assigned an IPO Grade 1 indicating poor fundamentals, to the proposed initial public offering of Excel Infoways Limited.
- The company currently derives and believe that it will continue to derive a substantial portion of its income from a small number of clients. For the Fiscal 2008 & 2009, four largest clients accounted for 94.17% & 98.87% of the total income, respectively. As a result of its reliance on a small number of clients, it may face certain issues including pricing pressures. There are a number of factors, other than the performance, that could cause the loss of a client and such factors may not be predictable. The loss or significant decrease in the volumes of work from one or more large clients would have a material adverse effect on the business, results of operations, financial condition and cash flows.
- Out of the total cost of setting up 2 new facilities at Borivali and Kandivali in Mumbai of Rs.4727.66 lacs, cost of acquisition of the premises itself is Rs.2610.54 lacs which is more than 55% of the total cost of setting up new facility. Investing so aggressively in the fixed assets which is not going to generate revenue for the company may not give the investors a proper return on their investment.
- Initially the project was scheduled to be completed by July, 2009 however due to the delay in the initial public offer of the Company; the project has been delayed & is now scheduled to be completed by January, 2011 as the project was to be funded by the public issue apart from the internal accruals. The delay in the project has delayed the generation of revenue & profit to the company for the period of delay.
- The exchange rate between the Rupee and the U.S. Dollar has changed substantially in recent years and may continue to fluctuate significantly in the future. During Fiscal 2006 the value of the Rupee against the U.S. Dollar fell by approximately 1.97% and during Fiscal 2007 & 2008, the value of the Rupee against the U.S. Dollar rose by approximately 2.29% & 8.30%, respectively. The entire revenues from services in Fiscals 2006, 2007 and 2008 was on account of overseas clients and was denominated in U.S. Dollars. During the same period, a substantial proportion of the costs were denominated in Rupees. Accordingly, the operating results have been and will continue to be impacted by fluctuations in the exchange rate between the Rupee and the U.S. Dollar and other foreign currencies. The company may not be able to perfectly hedge all its risks against foreign currency fluctuations. Any strengthening of the Rupee against the U.S. Dollar, the Euro or other foreign currencies could adversely affect the financial condition and results of operations.

FINANCIAL PERFORMANCE

PROFIT & LOSS STATEMENT

(In Lacs)

Particulars	March '09	March '08	March '07
Net Sales	1860.40	2309.11	1070.00
Total expenditure	384.29	536.98	385.42
OPM (%)	79	77	81
Operating Profit	1476.11	1772.13	1593.26
Other Income	0.33	1.81	0.50
PBDIT	1476.44	1773.94	1593.76
Interest	3.55	1.12	0.95
PBDT	1472.89	1772.82	1592.81
Depreciation	83.36	74.50	25.77
PBT	1389.53	1698.32	1567.04
Tax	(166.72)	215.22	23.82
PAT before EO	1556.25	1483.10	1543.22
EO	71.18	51.97	8.26
PAT after EO	1485.07	1431.13	1534.96
Prior Period Expense	14.68	3.78	-
Adjusted Profit	1470.39	1427.35	1534.96

BALANCE SHEET

(In Lacs)

Particulars	March '09	March '08	March '07
Shareholder's Fund as represented by:			
Share capital	1546.87	1543.67	512.00
Share Application Money	33.00	-	-
Reserves & surplus	3717.90	2213.25	1740.64
Less: Misc. Exp	10.68	18.36	16.80
Shareholders fund	5287.09	3738.56	2235.84
Net Block (A)	794.55	1196.13	518.51
Capital Work in progress (B)	2442.00	1335.50	275.00
Deferred Tax Assets (C)	261.14	-	-
Current Assets, Loans & advances (D)	2043.60	1554.74	1549.41
Loan Funds:			
Secured loans (E)	28.62	5.83	11.95
Total Current liabilities & provisions (F)	225.58	276.99	65.30
Deferred Tax Liab. (G)	-	65.95	38.64
Net Worth (A+B+C+D-E-F-G)	5287.09	3738.56	2235.84

PEER COMPARISON

Particulars	Excel Infoways	eClerx Services	First Source Solutions
Face Value	10.00	10.00	10.00
Latest Equity	21.17	18.95	428.48
Mkt. Price	80.00	239.25	20.20
Book Value	33.96	101.79	22.03
EPS	9.49	32.07	0.35
P/E	8.43	7.46	57.71
P/B	2.36	2.35	0.92
M.Cap/Sales	2.45	2.30	1.53
PAT / Sales	79%	31%	3%
PBIDT / Sales	79%	38%	23%
M.Cap (Cr)	45.60	453.38	865.53

Note – The M.Cap is calculated on the price as on July 10, 2009. EPS, Book Value and Sales are taken for FY09.

DU PONT ANALYSIS

Particulars	March '09	March '08	March '07
Net Profit Margin	79.04	61.81	77.57
Asset Turnover	0.34	0.57	0.84
Equity Multiplier	1.05	1.09	1.05
ROE	27.81	38.18	68.65
ROA	26.54	34.93	65.51

Valuations

At a price band of Rs.80 to Rs.85 per equity share, the company is trading at a P/E multiple of 8.43x at lower side of the band and 8.96x at the higher side of the price band of its EPS of Rs.9.49 for FY09. Looking at the post issue valuation the issue will trade at a P/E of 11.52x at the lower side of the band and 12.24x at the higher side of its price band of its post issue EPS of Rs.6.95 for FY09.

Looking at peer analysis, Excel is a small sized operations company with a short track record and positioned at the lower end of Indian BPO industry which faces intense competition due to mushrooming of a large number of small players. The P/BV of the stock is at 2.36, which is higher when compared with the peers. However, the company has profitable operations and a low debt level. Therefore, the investors interested in the stock should have a long term view.

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RANKING METHODOLOGY

★ WEAK

★★ NEUTRAL

★★★ FAIR

★★★★ GOOD

★★★★★ EXCELLENT

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