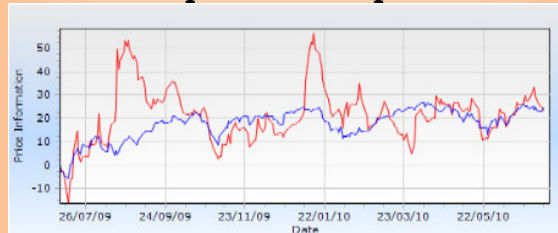


July 07<sup>th</sup>, 2010

**C.M.P.:**  
Rs.25.95

**Target Price:**  
Rs.31.00

## 1 Year Comparative Graph



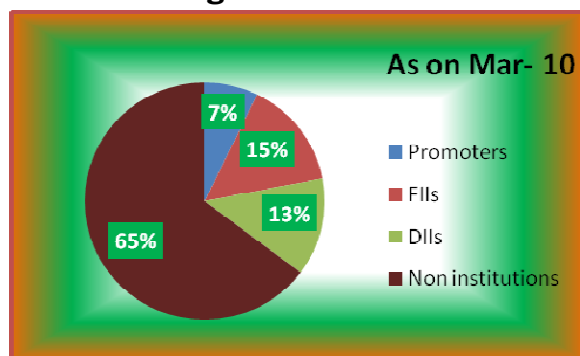
MEGASOFT LTD

BSE SENSEX

## Stock Data

<b>Sector</b>	IT
<b>Face Value(Rs)</b>	Rs.10.00
<b>52 wk. High/Low (Rs.)</b>	Rs.34.65/17.50
<b>Volume (2 wk. Avg.)</b>	18803
<b>BSE Code</b>	532408
<b>Market Cap(Rs in Mn)</b>	1148.81

## Share Holding Pattern



V.S.R. Sastry  
Equity Research Desk  
vrsastry@firstcallindiaequity.com

Dr. V.V.L.N. Sastry Ph.D.  
Chief Research Officer  
drsastry@firstcallindia.com

## SYNOPSIS

- We initiated the coverage of MEGASOFT LTD and set a target price of Rs.31.00 for medium to long term gains.
- Megasoft is a trans-national Intellectual Property driven, product-based technology company. Established in 1994 in Virginia USA.
- The Company is merged with another company called XIUS, which became the telecom division of Megasoft, which is a leading global provider of Advanced Roaming, OSS and Convergent Service Delivery Infrastructure solutions to Wireless & Wire line Network Operators and Service Providers.
- The members of the company had approved the sale and transfer of the BlueAlly Division to Trianz, a US based company which is a wholly owned subsidiary of Trianz Holdings.
- The company is looking to acquire a mobile applications or telecom infrastructure company for around US\$50mn (around Rs2.25bn).
- The Company is planning to expand business globally and slowly go into Asian markets, further expand business in both South America and North America.

## Financials (Rs in Mn)

	CY09	CY10	CY11E	CY12E
<b>Net Sales</b>	3630.90	3029.90	2423.92	2666.31
<b>EBIDTA</b>	847.40	221.10	445.22	489.74
<b>PAT</b>	325.70	-221.00	72.64	96.31
<b>EPS</b>	7.36	-4.99	1.64	2.18
<b>P/E</b>	2.87	-5.20	15.82	11.93

## Peer Group Comparison

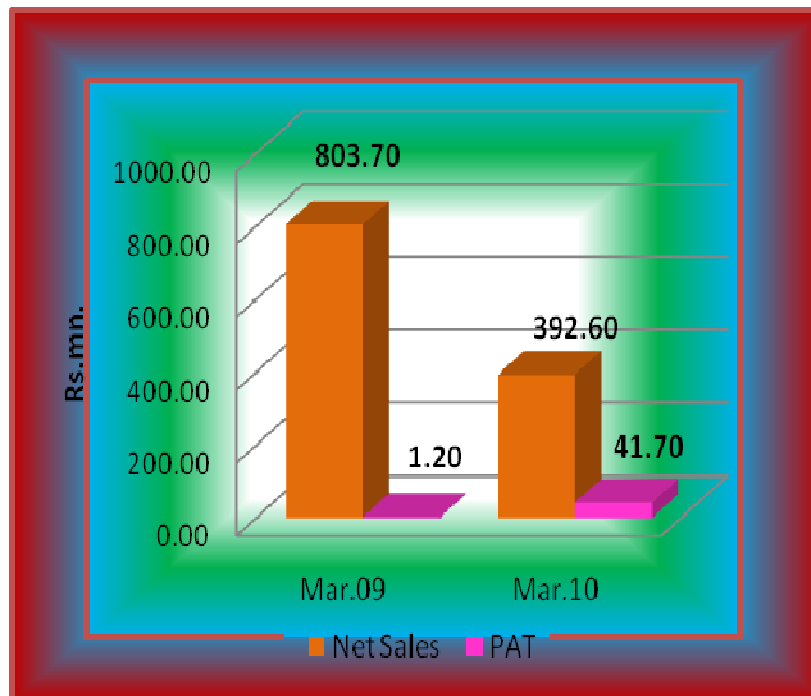
Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/BV(x)	Dividend (%)
Megasoft	25.95	1148.81	-4.99	-5.20	0.52	0.00
Redington India	370.90	2916.61	12.65	29.32	4.08	40.00
Take Solutions	30.10	368.42	0.94	32.02	1.47	20.00
Sankhya Info	33.60	28.39	3.22	10.37	0.55	0.00

## Investment Highlights

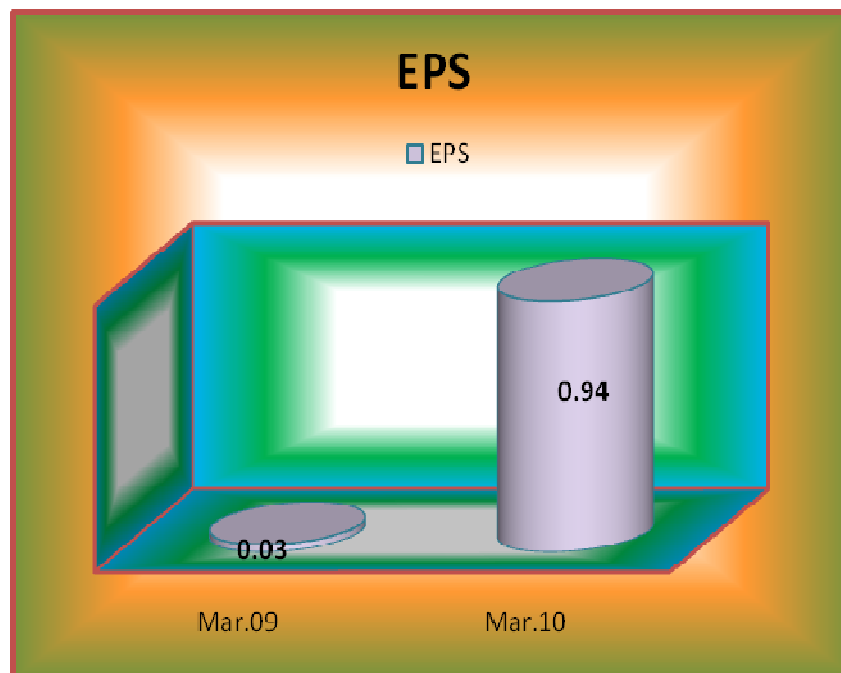
### 🏠 Q4 CY10 Results Update

Megasoft Ltd disclosed results for the quarter ended March 2010. Net sales for the quarter moved down 51% to Rs.392.60 million as compared to Rs.803.70 million during the corresponding quarter last year. During the quarter, PAT is increased Rs.41.70 million as compared to Rs.1.20 million in previous year same quarter. The Basic EPS of the company stood at Rs.0.94 for the quarter ended March 2010.

Quarterly Results – Consolidated (Rs in mn)			
As At	Mar-10	Mar-09	%Change
<b>Net sales</b>	392.60	803.70	-51%
<b>PAT</b>	41.70	1.20	3375%
<b>Basic EPS</b>	0.94	0.03	3375%



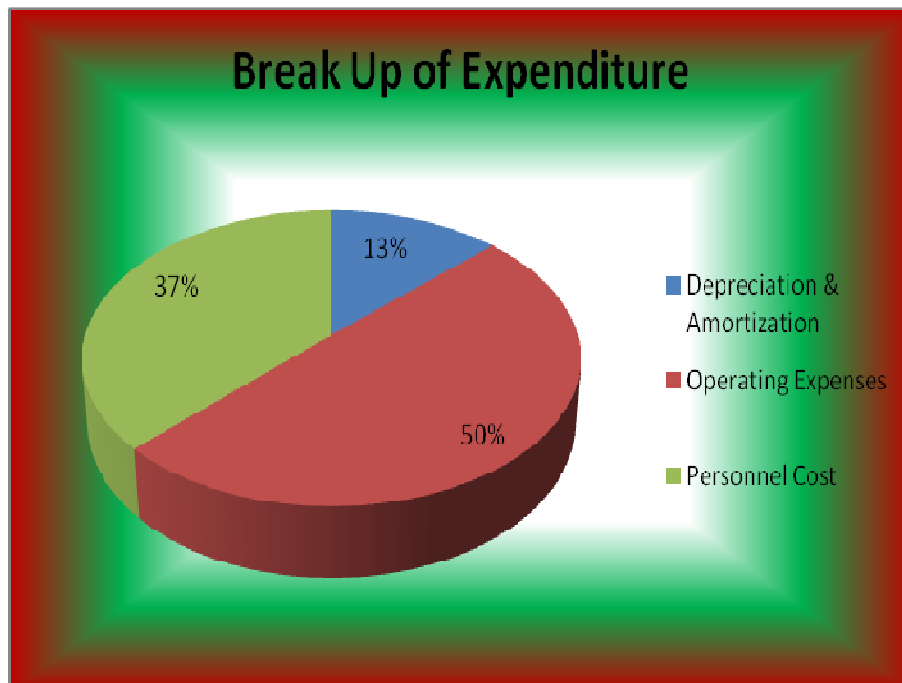
**Basic EPS of the company stood at Rs.0.94**



### **Megasoft approves sale of `BlueAlly` to USA co.**

Megasoft, a global intellectual property driven, product-based technology company has approved the sale and transfer of the BlueAlly Division as a `going concern` to Trianz Inc., USA, which is a wholly owned subsidiary of Trianz Holdings, India. Company`s board of directors have considered and approved the price consideration, which after taking into account, the value of the outstanding receivables on the date of the transfer of the division, to be around USD 13 million to USD 15 million subject to the approval of the shareholders of the company .

### **Break Up of Expenditure**



## **Company Profile**

Megasoft is a trans-national Intellectual Property driven, product-based technology company. Established in 1994 in Virginia USA & Listed in Mumbai Stock Exchange. Megasoft, a public listed company operates out of offices spanning Europe, Asia and America. Megasoft is currently focusing on Telecom as thrust area given its strong management and delivery capabilities in these industry domains.

XIUS-bcgi, the telecom division of Megasoft is a leading global provider of Advanced Roaming, OSS and Convergent Service Delivery Infrastructure solutions to Wireless & Wireline Network Operators and Service Providers. Strong partnerships with global leaders like HP, Teleglobe and TNZI have given XIUS-bcgi the reach and credibility to build a customer base spanning across Asia, Americas, Europe and the Middle East with over 65 commercial installations to its credit till date.

## **Subsidiary Companies**

- ✿ Megasoft Consultants Sdn Bhd.
- ✿ Megasoft Consultants Pte Ltd.
- ✿ Cellular Express, Inc.
- ✿ Boston Communications Group, Inc.
- ✿ BCGI Wireless Private Limited.

## Financials Results

### 12 Months Ended Profit & Loss Account (Consolidated)

Value(Rs.in million)	CY08A	CY9A	CY10E	CY11E
	12m	12m	12m	12m
Description				
<b>Net Sales</b>	<b>3630.90</b>	<b>3029.90</b>	<b>2423.92</b>	<b>2666.31</b>
<b>Other Income</b>	8.10	-164.50	8.91	9.80
<b>Total Income</b>	3639.00	2865.40	2432.83	2676.11
<b>Expenditure</b>	-2791.60	-2644.30	-1987.61	-2186.38
<b>Operating Profit</b>	<b>847.40</b>	<b>221.10</b>	<b>445.22</b>	<b>489.74</b>
<b>Interest</b>	-219.40	-228.10	-182.48	-191.60
<b>Gross Profit</b>	628.00	-7.00	262.74	298.13
<b>Depreciation</b>	-260.40	-242.70	-182.03	-191.13
<b>Profit before Tax</b>	367.60	-249.70	80.71	107.01
<b>Tax</b>	-41.90	28.70	-8.07	-10.70
<b>Profit after Tax</b>	<b>325.70</b>	<b>-221.00</b>	<b>72.64</b>	<b>96.31</b>
<b>Equity Capital</b>	442.70	442.70	442.70	442.70
<b>Reserves</b>	3209.90	1752.50	1825.14	1921.45
<b>Face Value(Rs)</b>	10.00	10.00	10.00	10.00
<b>EPS</b>	<b>7.36</b>	<b>-4.99</b>	<b>1.64</b>	<b>2.18</b>

\*A=Actual, \*E=Estimated

### Quarterly Ended Profit & Loss Account (Consolidated)

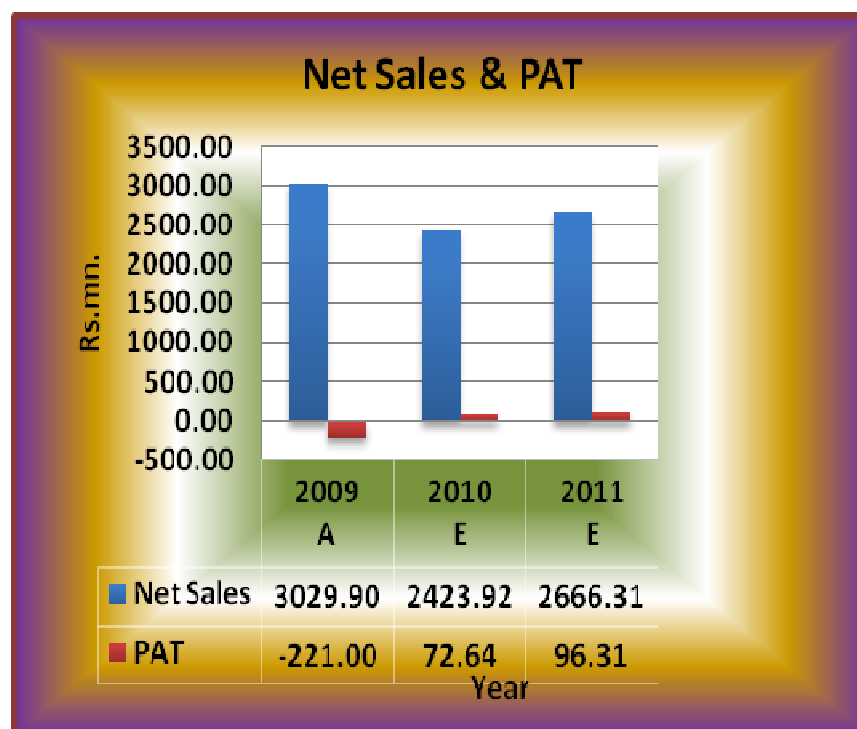
Value(Rs.in million)	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10
	<b>3m(A)</b>	<b>3m(A)</b>	<b>3m(A)</b>	<b>3m(E)</b>
<b>Description</b>				
<b>Net Sales</b>	<b>811.00</b>	<b>683.10</b>	<b>392.60</b>	<b>431.86</b>
<b>Other Income</b>	-42.70	-129.00	-8.90	-8.01
<b>Total Income</b>	768.30	554.10	383.70	423.85
<b>Expenditure</b>	-730.00	-555.50	-264.20	-345.49
<b>Operating Profit</b>	<b>38.30</b>	<b>-1.40</b>	<b>119.50</b>	<b>78.36</b>
<b>Interest</b>	-78.10	-21.50	-42.90	-38.61
<b>Gross Profit</b>	-39.80	-22.90	76.60	39.75
<b>Depreciation</b>	-52.00	-62.90	-39.20	-37.24
<b>Profit before Tax</b>	-91.80	-85.80	37.40	2.51
<b>Tax</b>	-2.30	40.20	4.30	0.25
<b>Profit after Tax</b>	<b>-94.10</b>	<b>-45.60</b>	<b>41.70</b>	<b>2.76</b>
<b>Equity Capital</b>	442.70	442.70	442.70	442.70
<b>Face Value(Rs)</b>	10.0	10.00	10.00	10.00
<b>EPS</b>	<b>-2.13</b>	<b>-1.03</b>	<b>0.94</b>	<b>0.06</b>

\*A=Actual, \*E=Estimated

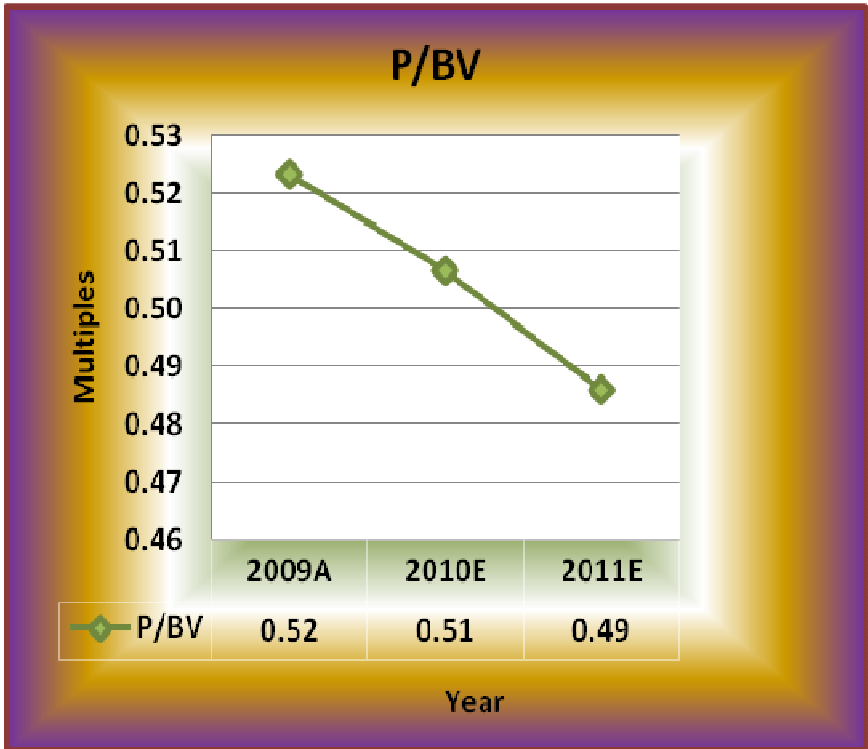
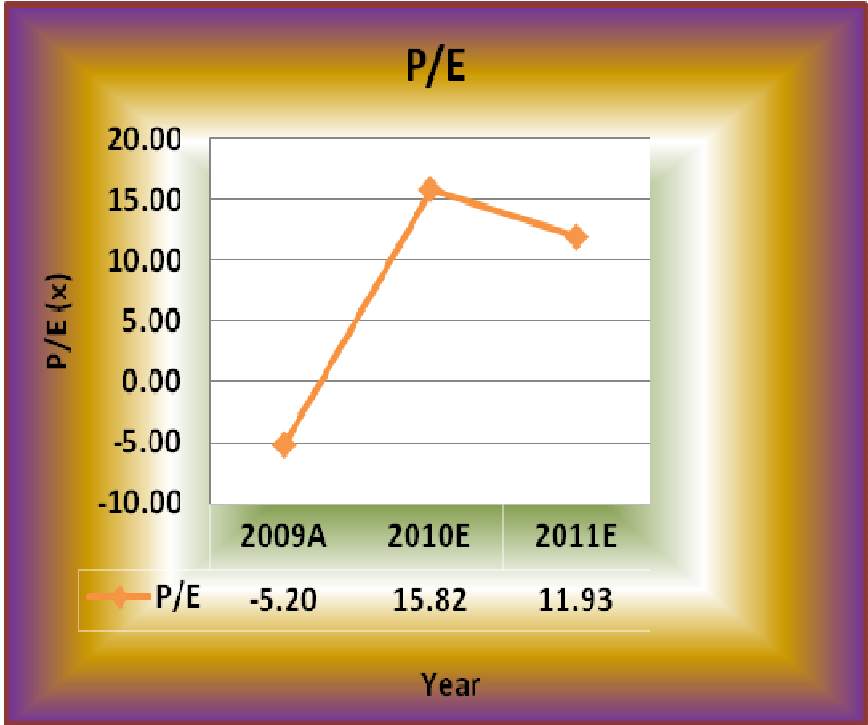
## Key Ratios

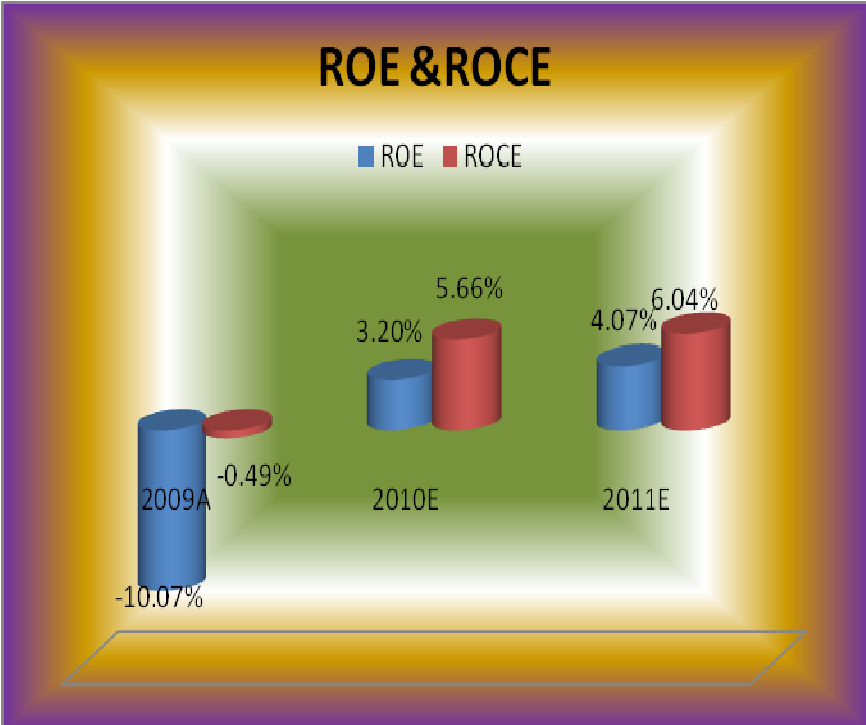
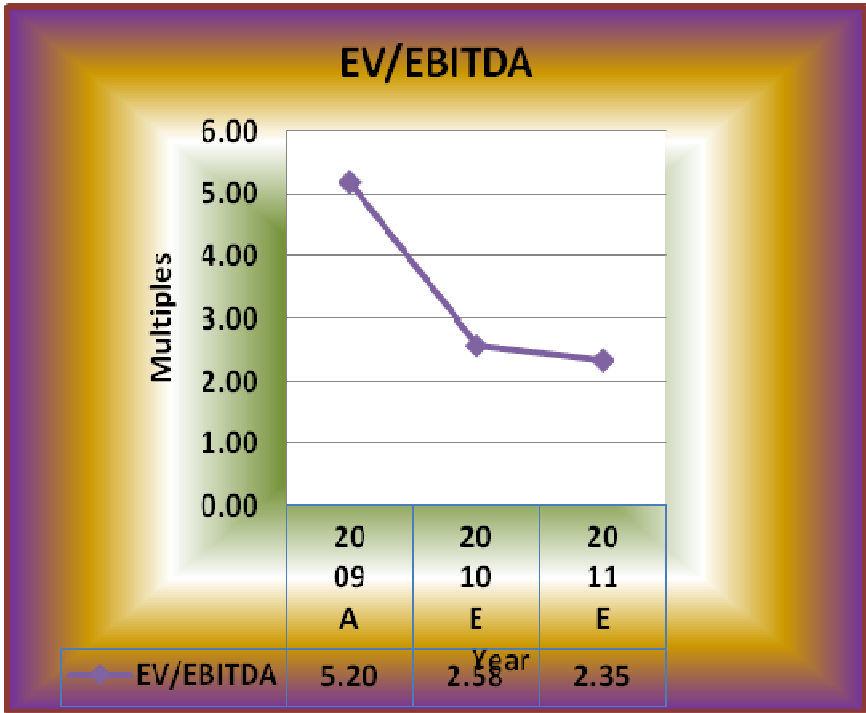
Particulars	CY08	CY9	CY10E	CY11E
EPS (Rs.)	7.36	-4.99	1.64	2.18
EBITDA Margin (%)	23.34%	7.30%	18.37%	18.37%
PAT Margin (%)	8.97%	-7.29%	3.00%	3.61%
P/E Ratio (x)	2.87	-5.20	15.82	11.93
ROE (%)	8.92%	-10.07%	3.20%	4.07%
ROCE (%)	10.44%	-0.49%	5.66%	6.04%
EV/EBITDA (x)	1.10	5.20	2.58	2.35
Debt-Equity Ratio	0.54	0.99	1.05	1.09
Book Value (Rs.)	82.51	49.59	51.23	53.40
P/BV	0.26	0.52	0.51	0.49

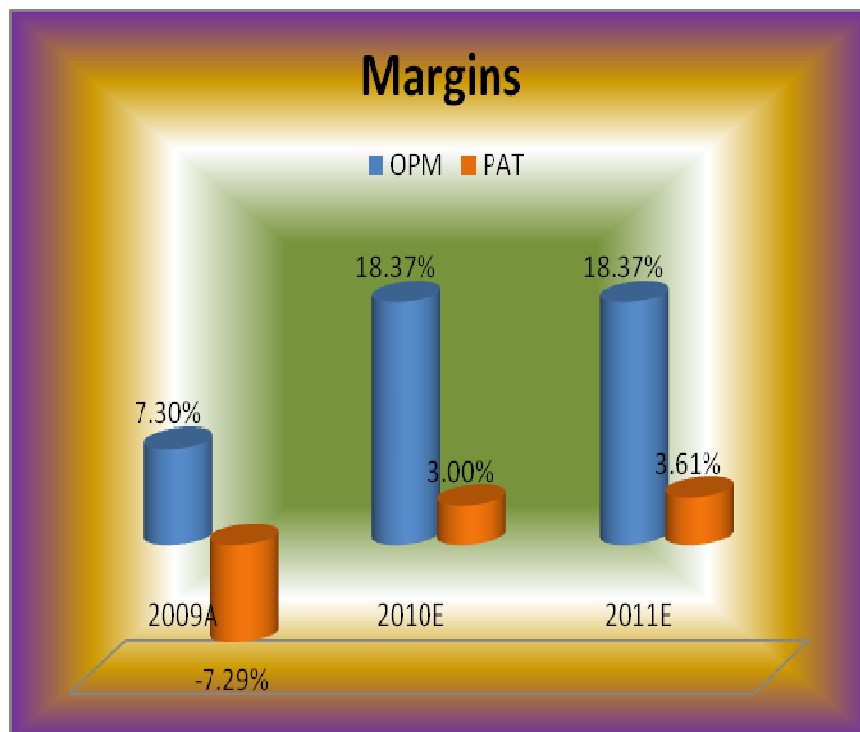
## Charts:











## Outlook and Conclusion

- ✿ At the current market price of Rs.25.95, the stock is trading at 15.82 x CY11E and 11.93 x CY12E respectively.
- ✿ Price to Book Value of the stock is expected to be at 0.51 x and 0.49 x respectively for CY11E and CY12E.
- ✿ Earning per share (EPS) of the company for the earnings for CY11E and CY12E is seen at Rs.1.64 and Rs.2.18 respectively.
- ✿ The Company is merged with another company called XIUS, which became the telecom division of Megasoftware, which is a leading global provider of Advanced Roaming, OSS and Convergent Service Delivery Infrastructure solutions to Wireless & Wire line Network Operators and Service Providers.
- ✿ The members of company had approved the sale and transfer of the BlueAlly Division to Trianz, a US based company which is a wholly owned subsidiary of Trianz Holdings.

- The company is looking to acquire a mobile applications or telecom infrastructure company for around US\$50mn (around Rs2.25bn).
- On the basis of EV/EBITDA, the stock trades at 2.58 x for CY11E and 2.35 x for CY12E.
- We recommend '**HOLD**' in this particular scrip with a target price of Rs.**31.00** for Medium to Long term investment.

## Industry Overview

### Sector structure/Market size

The Indian information technology industry has played a key role in putting India on the global map. Thanks to the success of the IT industry, India is now a power to reckon with. According to the National Association of Software and Service Companies (NASSCOM), the apex body for software services in India, the revenue of the information technology sector has risen from 1.2 per cent of the gross domestic product (GDP) in FY 1997-98 to an estimated 5.8 per cent in FY 2008-09.

India's IT growth in the world is primarily dominated by IT software and services such as Custom Application Development and Maintenance (CADM), System Integration, IT Consulting, Application Management, Infrastructure Management Services, Software testing, Service-oriented architecture and Web services.

As per NASSCOM's latest findings:

- Indian IT-BPO sector grew by 12 per cent in FY 2009 to reach US\$ 71.7 billion in aggregate revenue (including hardware). Of this, the software and services segment accounted for US\$ 59.6 billion.

- IT-BPO exports (including hardware exports) grew by 16 per cent from US\$ 40.9 billion in FY 2007-08 to US\$ 47.3 billion in FY 2008-09.

Moreover, according to a study by Springboard Research, the Indian IT services market is estimated to remain the fastest growing in the Asia-Pacific region with a CAGR of 18.6 per cent.

Despite the uncertainty in the global economy, the top three IT majors— Infosys, TCS and Wipro—have seen revenue growth from all important sources of income: from the North American and European regions, in the financial services vertical and from application maintenance and development (ADM) offerings between fiscal years 2008 and 2009.

At present, there are 60 million Internet users in the country. According to Manufacturer's Association of IT (MAIT), the number of active Internet entities rose to 8.6 million by March 2009 from 7.2 million units in March 2008.

MAIT has outlined 'Goal 511', an ambitious target that talks about 500 million Internet users, 100 million broadband connections, and 100 million connected devices by 2012.

A latest study by MAIT estimated that the total PC sale in India is likely to grow by 7 per cent in 2009-10, with total sales expected to cross 7.3 million units.

### **Outsourcing**

A research by Gartner forecasts India as the undisputed leader in the outsourcing space in the year 2008. India's most prized resource is its readily available technical work force. India has the second largest English-speaking scientific professionals in the world, second only to the US. It is estimated that India has over 4 million technical workers, over 1,832 educational institutions and polytechnics, which train more than 67,785 computer software professionals every year. The enormous base of skilled manpower is a major draw for global customers.

According to NASSCOM, software and services exports (including exports of IT services, BPO, engineering services and R&D and software products) reached US\$ 47 billion in FY 2008-09, contributing nearly 78 per cent to the total software and services revenue of US\$ 59.6 billion.

India continues to be the most preferred destination for companies looking to offshore their IT and back-office functions. It also retains its low-cost advantage and is among the most financially attractive locations when viewed in combination with the business environment it offers and the availability of skilled people, according to global management consultancy AT Kearney.

India has retained its numerous Uno position even as some other well-established outsourcing hubs dropped in their attractiveness to be replaced by new emerging destinations in AT Kearney's latest ranking of the top outsourcing destinations across the globe. The top three countries in the 2009 Global Services Location Index (GSLI) remain the same — India, China and Malaysia.

### **Domestic Markets**

India's domestic market has also become a force to reckon with, as the existing IT infrastructure evolves both in terms of technology and depth of penetration.

According to NASSCOM, domestic IT market (including hardware) reached US\$ 24.3 billion in FY 2008-09 as against US\$ 23.1 billion in FY 2007-08, a growth of 5.3 per cent.

India Inc's demand for IT services and products has bolstered growth in the domestic sector with deal sizes going up remarkably and contracts worth US\$ 50 million-US\$ 100 million up for grabs.

The market for enterprise networking equipment in India is estimated to grow from US\$ 1 billion in 2008 to US\$ 1.7 billion by 2012, recording a compounded annual growth rate (CAGR) of 15 per cent during this period, according to a study by Springboard Research.

## **Investments**

- Infosys Technologies Ltd will invest US\$ 70 million over the next three quarters of the current financial year towards increasing its sales and marketing staff overseas, building new capabilities and hiring local resources for its international centres.
- The Andhra Pradesh Government expects the IT-related SEZs and Software Technology Parks of India (STPI) in the State to receive about US\$ 3.27 billion investments in the next five years.
- HCL Technologies has entered into a strategic partnership with South Africa's UCS Group. As part of the all-cash deal, HCL will acquire UCS's enterprise solutions SAP practice focused on the retail sector for US\$ 7.7 million.

## **Rural Penetration**

According to a report of the Internet and Mobile Association of India (IAMAI), rural India has 3.3 million active internet users. Since rural India was mapped for the first time, the year-on-year growth of internet users in rural India could not be estimated.

The research also notes there are 5.5 million people who claim to have used Internet at some point in time.

## **Government Initiatives**

- The government set up the National Taskforce on Information Technology and Software Development with the objective of framing a long term National IT Policy for the country.
- Enactment of the Information Technology Act, which provides a legal framework to facilitate electronic commerce and electronic transactions.

- The government-led National e-Governance Programme, has played an important role in increasing internet penetration in rural India.

## **Road Ahead**

The Indian information technology sector continues to be one of the sunshine sectors of the Indian economy showing rapid growth and promise.

According to a report prepared by McKinsey for NASSCOM, the exports component of the Indian industry is expected to reach US\$ 175 billion in revenue by 2020. The domestic component will contribute US\$ 50 billion in revenue by 2020. Together, the export and domestic markets are likely to bring in US\$ 225 billion in revenue, as new opportunities emerge in areas such as public sector and healthcare, and as geographies including BRIC and Japan opt for greater outsourcing.

---

*Disclaimer:*

*This document prepared by our research analysts does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable but do not represent that it is accurate or complete and it should not be relied on as such. Firstcall India Equity Advisors Pvt. Ltd. or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provide for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision.*



<b>Firstcall India Equity Research: Email – info@firstcallindia.com</b>	
B. Harikrishna	Banking
B. Prathap	IT
A. Rajesh Babu	FMCG
C.V.S.L.Kameswari	Pharma
U. Janaki Rao	Capital Goods
E. Swethalatha	Oil & Gas
D. Ashakirankumar	Auto
Kavita Singh	Diversified
Nimesh Gada	Diversified
Priya Shetty	Diversified
Neelam Dubey	Diversified

**Firstcall India also provides**

*Firstcall India Equity Advisors Pvt.Ltd focuses on, IPO's, QIP's, F.P.O's,Takeover Offers, Offer for Sale and Buy Back Offerings.*

*Corporate Finance Offerings include Foreign Currency Loan Syndications, Placement of Equity / Debt with multilateral organizations, Short Term Funds Management Debt & Equity, Working Capital Limits, Equity & Debt Syndications and Structured Deals.*

*Corporate Advisory Offerings include Mergers & Acquisitions(domestic and cross-border), divestitures, spin-offs, valuation of business, corporate restructuring-Capital and Debt, Turnkey Corporate Revival – Planning & Execution, Project Financing, Venture capital, Private Equity and Financial Joint Ventures*

*Firstcall India also provides Financial Advisory services with respect to raising of capital through FCCBs, GDRs, ADRs and listing of the same on International Stock Exchanges namely AIMs, Luxembourg, Singapore Stock Exchanges and other international stock exchanges.*

*For Further Details Contact:*

*3rd Floor,Sankalp,The Bureau,Dr.R.C.Marg,Chembur,Mumbai 400 071*

*Tel. : 022-2527 2510/2527 6077/25276089 Telefax : 022-25276089*

*E-mail: info@firstcallindiaequity.com*

*www.firstcallindiaequity.com*