Four Soft Ltd. (FSL)

VISIT NOTE

Sensex: 13,399   CMP: Rs 56.85   **December 11, 2006**

Four Soft Ltd. (FSL) is an enterprise solutions company providing software products exclusively for the freight, transportation, logistics and supply-chain management market place and also offers IT consultancy services. It is among the leaders in the transportation and logistics segment with a large international client base including the majority of the top transportation & logistics companies in the world. The company has big customers including DHL, Kuehne+Nagel, Eagle Global Logistics (EGL), Schenker, Mastushita, Panasonic Logistics, UTi and Geodis.

Industry structure and outlook

Currently the enterprise software providers cater to needs of different industries and are primarily being dominated by SAP and Oracle. Different industries being served by enterprise solution providers include automotive, electronics, healthcare and transport & logistics.

The key focus of the company is on the Transport and Logistics (T&L) industry which is further divided into following:

Segments of T&L	Examples/Sub-verticals	Market Size
Infrastructure	Ports Groundling	Combined US$1 billion
Carriers	Liner, Airlines	
Logistics(3PL)	Air Freight, Ocean Freight, Road freight , WMS, Customs, CRM	Market size of US$ 500 Mn
Courier	Fedex , UPS	NA

Key Takeaways

### Leading global player in T&L

FSL currently has 13 % market share globally in logistics segment and approximately 85% of their revenues are from logistics segment. FSL's is also focusing on Carriers and Infrastructure segment of T&L which currently contributes about 10% of their revenues. Additionally, the company also provides services in supply chain execution to verticals other than T&L which constitutes the rest of their business. The company's clientele includes 10 out of the top 20 logistics companies. The end- to-

Bloomberg Code	:	FOUR IN
Reuters Code	:	FOUR.BO
BSE Code	:	532521
NSE Code	:	FOURSOFT
52-Week Range(H/L)	:	80 / 35
Market Cap (Rs.mn)	:	2057.6
Shares O/S (mn)	:	36
Free Float (mn)	:	23
3m Avg. Volume	:	104645
Face Value	:	5

Price Performance: (%)

	3m	6m	12m
Absolute	4.7	51.4	-14.4
Relative	-11.1	10.7	-66.6

Relative Price Movement
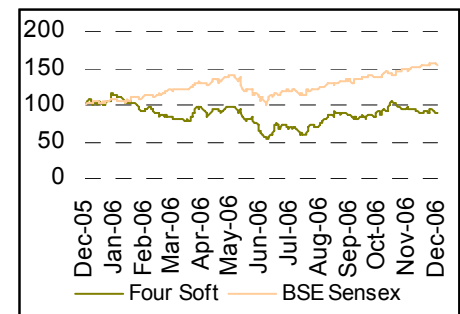
Q/E (Rs. M)	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06
Services	169	324	343	387	393
Growth % (QoQ)		91.4	6.1	12.7	1.6
Salaries	104	253	189	233	262
Other operating expenses	42	63	115	87	66
EBIDTA	23	8	39	67	65
OPM %	13.7	2.5	11.5	17.3	16.5
Depreciation	4	7	9	8	8
EBIT	19	1	31	59	57
Interest	2	11	13	9	9
Other income	5	12	27	11	9
Profit before tax	22	3	45	62	57
Provision for tax	5	1	10	11	7
Profit after tax	17	2	34	51	50
Growth % (QoQ)		(89.4)	1,814.6	47.8	(1.8)
NPM %	10.0	0.6	10.0	13.1	12.6
Paid up capital	181	181	176	176	176
EPS (Rs)	0.5	0.0	1.0	1.4	1.4

end ERP solution area for T&L vertical, which FSL operates in, is not being served by any single global player since the technology industry and business in T&L vertical is fragmented. The technology provided in the market is not modifiable to suit the global requirement. The company's vision is to be a US$ 100 million company in two - three years time using organic as well as inorganic routes.

Inorganic initiatives to grow

FSL wants to retain its global leadership position in the T&L vertical and increase its market share from 13% to 20%. As a part of this strategy the company acquires companies which have products with rich functionalities, globally marketable products and portfolio of large clients.

During 2005, FSL acquired DCS Transportation and Logistics Solutions Division, a UK headquartered Transport & Logistics Software solutions major, with operations in UK, Netherlands, US, France & Germany. The company was acquired at US$ 19 and was partly funded by debt from ICICI Bank, UK. FY06 revenues included 7months of revenues from the acquisition of T&L division of DCS Group, Plc. The division had annual revenues of US$ 20 million prior to acquisition. The acquisition established FSL as the market leader with large international client base including majority of the top twenty T&L companies of the world.

Recently, FSL also acquired freight and shipping software business of FWL Technologies.

Expected revenue from this acquired operation will be in the range of US$ 6.5 million per year. In an all cash transaction, the cumulative purchase consideration will be approximately 10-12 crores based on performance parameters. The acquisition of business includes IP, staff, customer contracts and business assets.

FSL is close to acquiring one more company, which will take its revenues to an annualised rate of US$ 50 million from the current US$ 40 million (including FWL). It will be a combination of cash and equity issuance for the deal. This acquisition will be in the T&L vertical - logistics segment. The acquisition will strengthen their presence in the T&L space. Post acquisition the company will start focusing on other segments of T&L and the supply chain execution catering to the needs of other industries.

Focused product and services portfolio around the vertical

A combination of acquiring products with rich functionality, research & development on product portfolio and use of web-centric technology helps FSL increase the depth of the products and provide complete solutions. In Q206 the AMC (14%) and Licenses (4%) business together contributed 18% of the revenues. 82% of the revenues were from product related services.

Following is the portfolio to serve customers in the T&L vertical:

Products

eTrans (Enterprise / Mid Market / On Demand) : Web-centric applications for transportation companies - Air / Sea / Truck
eCustoms : First global customs software on J2EE covering the custom requirements of countries in US, EU & APAC
3Plex : Portal enabling freight forwarders to get real-time shipment status information throughout the entire supply chain
eLog : Web-centric enterprise applications for warehousing and contract logistics
eSupply: Web-centric mid market application for logistics service providers
VisiLog: Web-centric enterprise applications for supply chain-intense organizations, in manufacturing, procurement and distribution
i Logistics: Classic but functionally rich solution for logistics service providers in Europe and North America
iDrive: Web-centric business intelligence application designed specifically to meet the needs of freight and logistics companies.

Services

Product development, implementation and related IT services / support: Software development services using web technologies existing product customers (READS INCOMPLETE)- AMC, customization & onsite support & implementation, integration, development & maintenance of systems
IT consulting, offshore development and outsourcing : Large carriers (airlines, shipping cos.), infrastructure organization (port authority) & related business

Concerns

Client concentration: FSL's ~ 95% revenues are from T&L vertical and are dependent on the large players in the segment. With nearly 57% revenues coming in from top 5 customers, any change in the business environment in the T&L vertical or with any change in business of its client may substantially impact the performance of the company.
Technological obsolescence: FSL's strategy revolves around technology driven products. Rapid technological change could make FSL's products obsolete, less competitive and difficult to sell, negatively impacting their financial performance.
Acquisition: Acquisitions have been one of the key elements of FSL's growth strategy. Most of the acquisitions are low margin businesses. Turning them around may take more than required time due to any unforeseen events.
Currency risk: Substantial rupee appreciation may impact company's profitability.

Valuations

Currently, the stock is trading at Rs 56.9 (11-Dec-2006) valued at 11.1x of quick FY07 EPS of Rs 5.1 and at 7.7x quick FY08 EPS of Rs 7.4.