

11<sup>th</sup> January 2007**Not rated**Price  
**Rs394****Sensex - 13,362****Price Performance**

(%)	1M	3M	6M	12M
Absolute	58	101	106	56
Rel. to Sensex	58	86	64	10

Source: Capitaline

**Stock Details**

Sector	IT Services
Reuters	MASC.BO
Bloomberg	IGS@IN
Equity Capital (Rs mn)	126
Mkt. Cap (Rs bn)	12
Face Value (Rs)	4
52 Week H/L	Rs 432/145
Daily Avg Volume (No of shares)	87524
Daily Avg Turnover (US\$ mn)	0.8

**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

**Krupal Maniar, CFA**[krupal.maniar@emkayshare.com](mailto:krupal.maniar@emkayshare.com)

91-22-66121253

**iGATE Global solutions**Results  
review**Q3FY07 Results review****Margin improvement continues****Sequential Results Analysis****Revenue Analysis**

We believe the recent business transformation initiatives taken by the management of iGATE have started reflecting in better operating and financial matrices. Q3FY07 revenues grew by 4% in rupee terms (7.6% in US\$ terms) to Rs 2.1 bn. Rupee appreciation negatively impacted topline growth by 3.6%. Revenues from IT services were up 4.7% sequentially in Q3FY2007 on the back of a 8.9% growth in overall volumes led by a 10.5% expansion in offshore volumes. Significant ramp up was seen in Top 10 clients. Top 10 clients grew 6.8% sequentially and contributed 73.4% in Q3FY07 as against 72% in Q2FY07. However, revenues from non Top 10 clients have been stagnant for the last 6-7 quarters, which the management believes would start showing reasonable growth from coming quarters.

Billing rates have shown a remarkable improvement. Both onsite and offshore rates have increased by 1.5-2% for the second consecutive quarter. This is mainly due to the addition of new higher margin customers. Utilization rates were stable for the current quarter at 68% for offshore and 92% for onsite. The company has added 5 new clients in Q3FY07, including 2 Fortune 1000 customers. The number of million dollar clients has increased from 26 to 29 in Q3FY07.

**Margin Analysis**

EBITDA margin improved by a solid 280 bps, despite rupee appreciation and RSU charge. This expansion was driven by operational efficiencies, better pricing and better leverage in SGA expenses. SGA expenses as a percentage of revenues fell to 18.6% in Q3FY07 from 19.5% in Q2FY07. EBITDA jumped by 33% sequentially to Rs 266.7 mn. The company has targeted to achieve a 15% EBITDA margin in Q4FY07E, which we believe is achievable. We also believe better SGA leverage, cost rationalizations and improved pricing are some of the margin levers available with the company. The growth momentum in the topline coupled with the initiative to rationalize costs has resulted in the expansion of PAT by 57.3% sequentially to Rs 159.5 mn. The company has posted EPS of Rs 8.35 for 9M FY07.

**Human Resources**

The company added 300 employees (net) in Q3FY07, taking total head count to 5821. Attrition was down to 18% in Q3FY07 from 19.5% in Q2FY07. The company had guided for net additions of 1200-1500 for FY07E, but has recruited only 680 employees during 9M FY07. We believe the company would add 950-1000 (net) employees for FY07E. 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.

**Guidance by company**

The company has guided for 5-6% sequential growth in revenues in US\$ terms for the next 4-5 quarters. The company has stated intentions to improve EBITDA margins to 15% by Q4FY07.

## Improving Operating Matrices

### Revenue Analysis of iGATE's IT services and consulting business

Client Concentration (%)	Q3FY07	Q2FY07
Top Client (GE)	30	29
Top 5	59	59
Top 10	73	72
Geographical Distribution	Q3FY07	Q2FY07
North America	76.9	76.5
Europe	11.9	12.5
Asia Pacific	11.2	11.0
Delivery (%)	Q3FY07	Q2FY07
Offshore	46.3	44.9
Onsite	53.7	55.1
Efforts (%)	Q3FY07	Q2FY07
Offshore	73	72
Onsite	27	28
Utilization (%)	Q3FY07	Q2FY07
Offshore	68	68
Onsite	92	92

Source : Company

### Concerns

We believe attracting and retaining talent is one of the biggest challenges for the company. Also, sizeable client additions and client mining would be required in the coming quarters to attain sustainable growth of the company.

### Valuation

The company has posted EPS of Rs 8.35 for 9MFY07. On a rough estimate, we expect EPS of Rs 15 and Rs 22 for FY07E and FY08E respectively. At current market price, it is available at 17.8x FY08E. We believe that most of the business transformation-related upsides / positives of margin improvement have already been captured by the current stock price. The stock has delivered a 60% absolute return in last one month. We expect the stock to consolidate at the current levels in the near term.

### Key Financials

#### Consolidated Income Statement

Particulars (Rs mn)	Q3FY07	Q2FY07	%QoQ
<b>Operating Revenues</b>	<b>2,107</b>	<b>2,026</b>	<b>4.0%</b>
Less: Direct Costs	1,449	1,432	
Gross Profit	658	594	
Less: Other operating exp	391	394	
<b>EBITDA</b>	<b>267</b>	<b>201</b>	<b>33.0%</b>
<b>EBITDA (%)</b>	<b>12.7</b>	<b>9.9</b>	<b>+280 bps</b>
Add: Other Income	(1)	(3)	
Less: Interest	7	7	
Less: Depreciation	102	98	
PBT	156	93	
Less: Tax	10	3	
Add: Minority Interest*	14	11	
<b>PAT</b>	<b>160</b>	<b>101</b>	<b>57.5%</b>
<b>PAT (%)</b>	<b>7.6</b>	<b>5.0</b>	<b>+260 bps</b>

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

Source : Company

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Emkay Share and Stock Brokers Ltd.,  
Paragon Center, Ground Floor, C-6  
Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299

