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BUY

October 04, 2007

3i Infotech Ltd

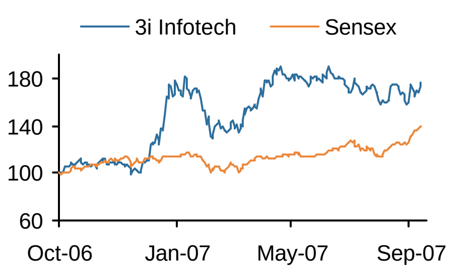
Sector: Information Technology

Sensex:	17,847
CMP (Rs):	148
Target price (Rs):	222
Upside (%):	50
52 Week h/l (Rs):	164/83
Market cap (Rs bn/US$ mn) :	18.2/461
6m Avg vol BSE&NSE ('000Nos):	900
No of o/s shares (mn):	123.8
FV (Rs):	10
Bloomberg code:	III IN
Reuters code:	TIIN.BO
BSE code:	532628
NSE code:	3IINFOTECH

Shareholding pattern

June 2007	(%)
Promoters	41.0
Foreign	7.0
Indian Institutions	22.0
Public & others	30.0

Share price trend



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3i Infotech has differentiated by outstanding performance

3i Infotech clearly stands out in a sector engulfed with multiple concerns of rupee appreciation, US sub-prime mortgage crisis, salary inflation, rising attrition and commoditizing business models. Where the sector players are reporting slow revenue growth, declining profitability and opting for drastic guidance cuts, 3i has outperformed. Take this for instance; 3i has reported a robust 19% revenue and 17% earnings CAGR over 1QFY07- 1QFY08 with stability in profit margins. More importantly, company has maintained FY08 guidance at Rs10-11bn in revenues (53-68% yoy growth) and Rs1.45-1.55bn in profits (39-48% yoy growth).

Business model is robust and highly resilient to current sector concerns

Qualitatively, what differentiates 3i from peers and therefore becomes more advantageous amidst aforementioned concerns, is its non-linear revenue model with products contributing 50% of sales, lower US exposure at 25%, miniscule net dollar earnings (not more than 5% of revenues) due to high dollar costs, superior growth visibility with order book at 3x 1QFY08 revenues, well thought and executed inorganic growth strategy, controlled attrition at 15-17% and capable management.

Our latest interaction instills further confidence

Recent interaction with the company has re-affirmed our belief of company's lower vulnerability to developments in US and movements in the Re/$ rate. 3i is not witnessing any slowdown amongst clients and in any geography and continues to remain confident about achieving the stated guidance for the year. Combined order book (products + services) is growing at 10% qoq.

Best BUY in mid-cap IT space; Target Price Rs222 implies 50% upside

We expect company to clock a sector-leading 40%+ revenue CAGR and 30%+ earnings CAGR over FY07-10. Assuming 100% conversion of all pending FCCBs, we estimate an EPS of Rs9.8 in FY08 and Rs12.4 in FY09 on a fully diluted equity base of Rs1.72bn. Given the superior growth prospects, distinct business model and relatively higher resilience to current sector concerns; 3i deserves a premium valuation. We assign a P/E multiple of 18x (0.6x FY07-10 earnings CAGR) to FY09E EPS to arrive at our one-year target price of Rs222. With more than 50% upside, the company is our best mid-cap IT pick. Immediate triggers for the stock could be utilization of ~US$100mn cash for acquisitions, any reduction in stake by parent ICICI Bank and positive news flow surrounding takeover of the company.

Valuation summary

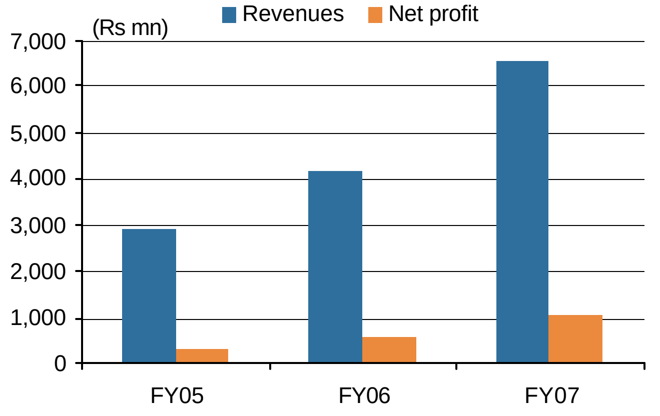
(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	4,178	6,553	11,974	15,735
yoy growth (%)	44.5	56.8	82.7	31.4
Operating Profit	858	1,585	2,715	3,378
OPM (%)	20.5	24.2	22.7	21.5
PAT	574	1,037	1,650	2,125
yoy growth (%)	78.8	80.7	59.0	28.8
EPS (Rs)	5.4	9.2	9.6	12.4
P/E (x)	27.3	16.1	15.4	12.0
P/BV (x)	2.1	1.7	1.9	1.7
EV/EBITDA (x)	10.0	8.7	8.7	6.6
ROE (%)	15.6	20.9	12.4	14.3
ROCE (%)	9.6	11.8	14.5	15.8

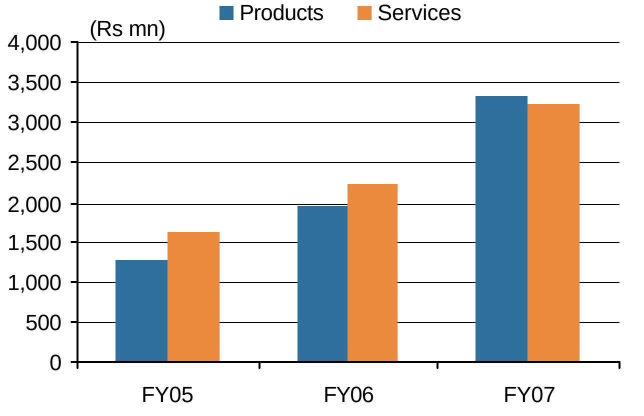
Source: Company, India Infoline Research

Company evolution has been commendable

3i has really come of age over the last 6-7 years from being the back office support and IT services arm of ICICI Ltd (and some of its subsidiaries and affiliates) to becoming a comprehensive player offering a range of software solutions and services to over 500 customers in more than 50 countries through 10 offices worldwide and 10 development centres in India. At present, the company has a diversified and a de-risked business model in terms of offerings (products/services nearly 1:1 with coverage of entire BFSI spectrum), geography (no region >40% of revenues) and customers (ICICI Bank and other Top 10 clients' concentration has been on a decline).

Revenue growth is strong and profitability has improved significantly



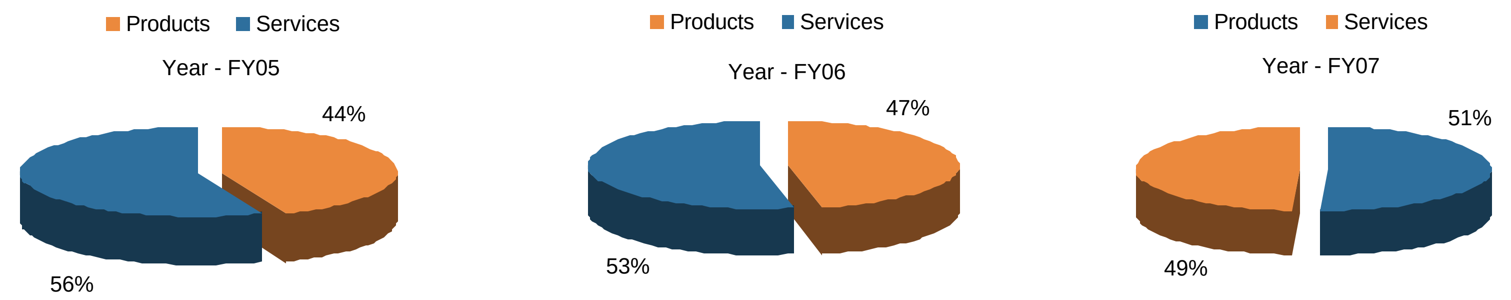


Source: Company Reports

3i Infotech has pursued a sales strategy aimed at maintaining a healthy mix between products and services, a balance distribution among various geographies and offering a wide range of products to bring in more predictability in the business model. In the last seven years, company's revenues have grown at CAGR of 48.7% from Rs417mn in FY00 to Rs6,708mn in FY07.

The growth has especially been solid with a CAGR of 57% over the last two years despite a larger base. It has been driven by increasing brand recognition and acceptance of company's solutions globally and an aggressive inorganic strategy. 3i Infotech acquired 3 companies in FY06 and 11 companies in FY07. The acquisitions contributed Rs150mn in FY06 and Rs700mn in FY07 to revenues. Company surpassed its guidance for the year FY07 of Rs6.2-6.4bn in revenues and Rs16-17 in EPS by clocking revenues of Rs6.7bn and EPS of Rs18 in the year.

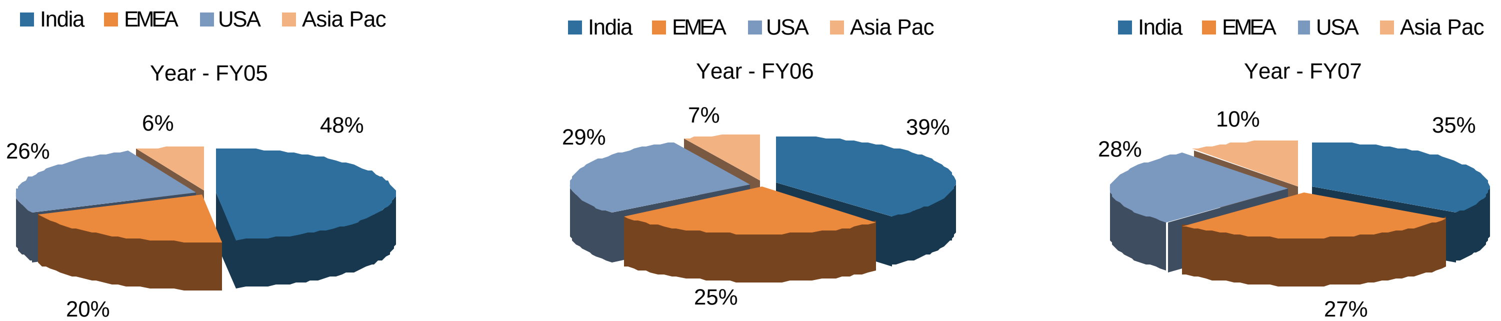
Product / Services mix more balanced with shift towards products



Source: Company Reports

In the last five years, company has reduced its dependence on services business from 94% to 49% being driven by its strategy of having a 50:50 mix between products and services. The significant shift towards products has been led by increased acceptance of company's solutions worldwide and inorganic additions to the product portfolio. In the last two years various products catering to broker community, stock exchanges, regulators, mutual funds, banks, private wealth mangers, etc were added through acquisitions.

Regional mix more diversified

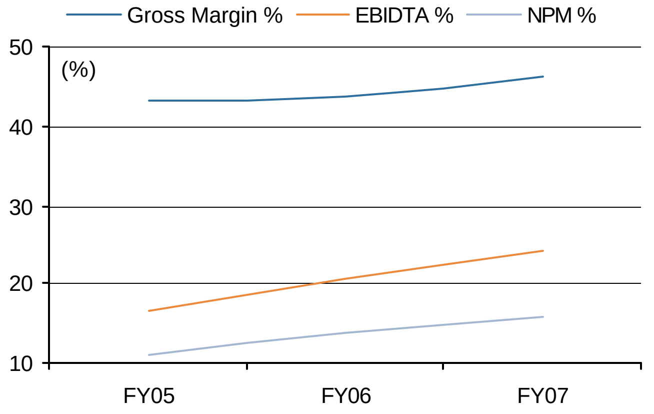


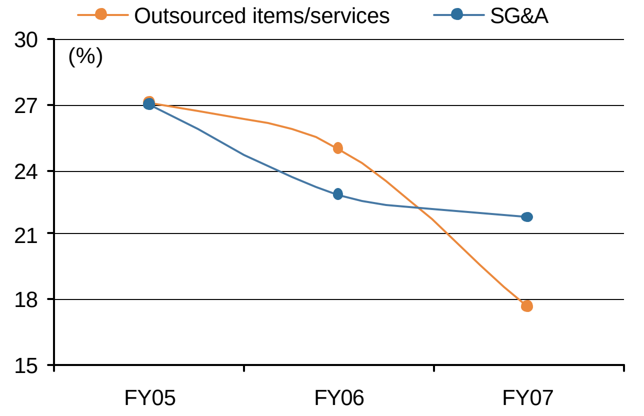
Source: Company Reports

3i Infotech offers an array of software services to the clients in the developed markets of US and Europe while it offers a bouquet of product offerings to the emerging markets of Middle East, Africa and Asia Pacific region. The company's emerging market focus comes from its urge to minimize risks by diversifying across regions and to ride on faster growth of these solutions based markets.

The share of South Asia (which is 90-95% India business) has declined significantly from 59% in FY03 to 35% in FY07. The increases in the share of EMEA region in FY07 was driven by the acquisition of Rhyme Systems in UK.

Improved profitability with margin improvement within both segments and shift towards products





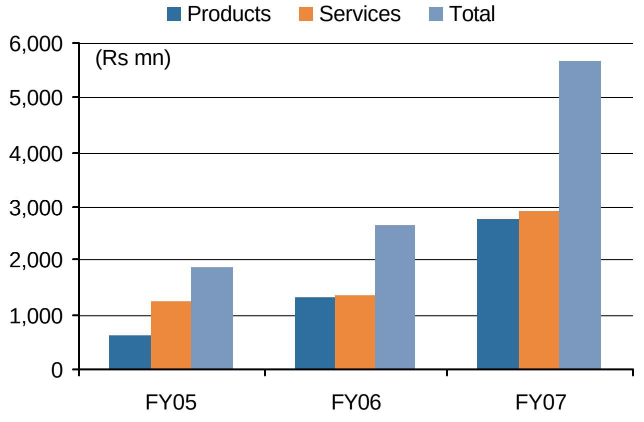
Source: Company Reports

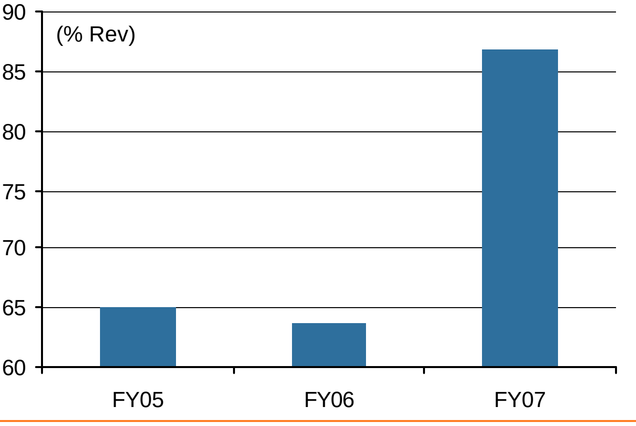
Gross margin of the company has improved from 36.9% in FY04 to 46.3% in FY07. The cost of revenues has come down from 63.1% in FY04 to 53.7% in FY07 driven by the decline in the cost of outsourced services and items from 27.1% in FY05 to 17.7% in FY07. In terms of revenue mix, the material shift towards products has aided gross margin improvement. The product business earns a relatively higher gross margin at 52-55% as compared to 37-40% in services. At the segmental level, gross margin has improved significantly within both the businesses. In products, it has improved from 45.8% in FY04 to 54.3% in FY07 due to increase in brand recognition and acceptance and in services gross margin has improved from 32.8% in FY04 to 38.0% in FY07.

The EBIDTA margin of the company has improved significantly from 6.1% in FY04 to 24.2% in FY07 on account of sharp decline in SG&A level from 30.8% in FY04 to 22.1% in FY07. Key reasons for SG&A improvement has been good sales growth, improvement in average deal size across all the products and the success of partner sales strategy, which involves only variable costs in the form of commissions on successful sales.

Net profit margin has improved from 11.1% in FY05 to 15.8% in FY07 due to lower than sales growth in interest and depreciation, increase in other income and decrease in effective tax rate. Effective tax rate has declined for the company due to regional diversification especially from the decrease in share of India operations. Company pays MAT (Minimum Alternate Tax) on profits in India whereas in Middle East and US it pays zero taxes on profits due to applicable laws and brought forward losses respectively. In addition, company's operations in Malaysia and Thailand enjoy a tax holiday as per applicable laws. In Europe, company pays applicable taxes.

Strong visibility in the form of order book

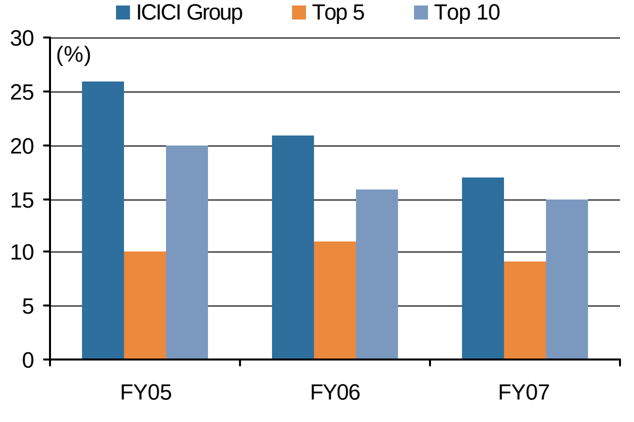




Source: Company Reports

The current (1Q FY08) order book position stands at Rs6.6bn, which is 1x FY07 revenues. The orders are executable over the coming 6-8 months and thereby lend visibility to a strong revenue growth in the current year. The order book position has posted a CQGR of 16% over the last 9 quarters, driven by the robust CQGR of 20% in product order book over the same period.

ICICI Bank's concentration in revenues is on a decline



Client Concentration %	FY05	FY06	FY07
ICICI Bank	26	21	17
Top 5	10	11	9
Top 10	20	16	15
yoy growth %			
ICICI Bank	*-*	*16.7*	*27.0*
Top 5 (excl ICICI)	*-*	*58.9*	*28.3*

Source: Company Reports

3i Infotech provides software development and maintenance, IT infrastructure management and transaction processing services to ICICI Bank. The share of ICICI Bank in revenues, which was 100% in FY99 has been on the decline and stood at 17% in FY07. However, ICICI Bank revenues have been increasing in absolute terms.

Multiple acquisitions have driven growth between FY05-07

Company Acquired	Competencies	Region	Stake	Price	Revenues	Profitability	Date
Innovative Business Solutions	IT services - EAI, BI & IT security	US	100%	US$3.6mn	US$7.2mn	profit making	5-Sep
SDG Software Technologies Ltd	Banking/capital markets products with focus on surveillance & fraud management	India	100%	US$3mn	US$2.3mn	profit making	5-Nov
Formula-ware Inc	ERP Solutions for process manufacturing industries. Focus on paints and chemicals	US	100%	US$0.6mn	US$1mn	-	5-Nov
Distinctive Solutions Inc	Factoring Software Solutions	US	100%	US$1mn	-	-	6-Apr
Delta Services Pvt Ltd	Non-voice BPO with BFSI focus	India	51%	US$1.5mn	US$3mn	NPM - 11%	6-Jul
G4 Software Technologies	Payment services, back office exception and business process integration services	India	100%	US$0.7mn	US$1.6mn	Breakeven	6-Sep
Edge Software Technologies Inc	-	US	100%	US$1.2mn	-	-	6-Sep
Rhyme Systems Holding Ltd	Asset/Wealth management products	UK	100%	GBP19.6mn	GBP15.2mn	OPM - 27%	6-Oct
e-enable Technologies	IT services - Business Intelligence and Data warehousing	India	51%	Rs 51mn	Rs 65mn	NPM - 14%	6-Nov
Stex Software Pvt Ltd	Workflow product and document imaging software	India	100%	Rs 61mn	Rs 60mn	NPM - 12%	6-Nov
Corban Systems Inc	Software Solutions	US	100%	US$1.05mn	-	-	6-Nov
Professional Access	IT services company focusing on BFSI vertical	US	51%	US$12mn	US$24mn	NPM - 10%	6-Nov
WhizInfo Technologies Inc	IT services consulting	US	100%	US$4.08mn	-	-	7-Jan
aok in-house BPO & aok in-house factoring services	Credit card and loan processing capabilities	India	51%	-	Rs200mn	-	7-May
KNM Services	Cheque truncation services for banks	India	60%	-	-	-	7-May

Source: Company Reports

Rationale behind the inorganic strategy

Company's acquisition strategy has been carried out with following objectives:

- Entering niche areas in the BFSI segment. Example – Datacons (mutual fund products), SDG Software (anti-money laundering and surveillance/fraud products for banking and capital markets), Delta services and G4 Software Technologies (niche BPO and back office processing services)
- Strengthening existing suite of products and services. Example - Formula-ware Inc (niche ERP solutions for paints and chemicals industries), Innovative Business Solutions and e-enable (BI & Data warehousing)
- Increasing/strengthening geographic presence. Example – Professional Access (US), Rhyme Systems Holding (UK), etc
- Complementing existing suite of products and services. Example – Stex Software (work flow product and document imaging software)

Many of the acquisitions have been small in size (US$0.5-5mn) but strategic in nature. These acquisitions have either bridged the gap or strengthened existing products/services offerings in the focused BFSI vertical. The inorganic initiatives have increased company's capability of providing integrated IT products and services to global clients and created huge cross selling opportunity amongst existing accounts.

In the product space, 3i Infotech's acquisition strategy has been two pronged

- To acquire products already launched and accepted in the market
- To add further value to make them much stronger offerings

Company has typically acquired smaller product companies not having enough funds to invest in further product development and extensive marketing. Post acquisition, company makes deeper investments in the acquired products for further development and uses its extensive global marketing and sales network to showcase the offering. Apart from factoring solutions, all the other products in the current portfolio have been acquired and groomed.

People originally associated with the products ie promoters and employees of the acquired entities have been with 3i Infotech given that they get an opportunity to create global success of their product. The promoters/key management persons of the acquired entities presently occupy senior positions in the company and they continue to drive the product acquired.

Case examples of strategy's success

- 3i Infotech had acquired its existing insurance (PREMIA) and ERP (ORION) products from a Middle East company called Insist for US$2.5mn in the year 2002. At that time, Insist had 25 customers, 100 employees and presence only in the Middle East region. The total cost of the acquisition was US$5mn including the earn outs. Presently, after having leveraged 3i Infotech's investments in product development and its global sales and marketing reach, both the products have a combined revenue run-rate of about US$35mn per annum. The promoter of Insist is currently the Deputy MD of the company.
- The company had acquired its universal lending product through the acquisition of Apna Loan in FY03 at a cost of US$ 0.5mn. It contributed more than US$10mn in FY07.
- The anti-money laundering product, which was acquired from SDG Software in 2005 is currently no.1 in India in its category and is used by large banks like SBI, ICICI, etc. At the time of acquisition, Vijaya Bank was its only client.

The strategy of acquiring IPR rich companies and growing them organically has paid-of well for 3i Infotech in the past and the company is poised to reiterate the success among the newly acquired entities.

Valuation norm for target companies

Company typically values target companies at 1.5-1.7x revenues (product companies)/1x revenues (services companies) or 10x profits. All the acquisitions made in the last two years have met the above criteria. Further, they have been debt free companies with cash on books.

Acquisitions made significant contribution to topline of the company

Acquisitions contributed Rs700mn in FY07 and Rs150mn in FY06. During FY07, Rhymes Systems contributed Rs400mn while the rest of the inorganic contribution came from Datacons, Delta Services, G4 Software Technologies, E-Enable Services and Stex Software. Professional Access did not contribute anything in the year as the acquisition could not be closed and integrated before the end of FY07. SDG Software Technologies, acquired in FY06, registered about 100% growth in revenues in FY07 to Rs200mn.

FCCB issues to fund inorganic growth

Particulars	1st Tranche	2nd Trance	3rd Tranche	4th Tranche
Date	6-Mar'06	6-Oct'06	7-Mar'07	7-Jul'07
Issue Size	US$50 mn	Euro15 mn	Euro30 mn	US$100 mn
Rupee direct quote	44.4	58.3	57.6	40.6
Issue Size (Rs mn)	2,218	874	1,728	4,060
Conversion price – pre 1:1 bonus	230	190	309	332
Coupon rate (%)	-	1.5	-	-
YTM (%)	6.8	5.8	6.9	7.1
Potential dilution (mn shares)	9.6	4.6	5.6	12.2
Dilution outstanding (mn shares)	5.3	0.0	5.6	12.2

Inorganic growth strategy to continue

3i Infotech plans to continue with its aggressive acquisitions strategy, which would be funded from the money raised by the recent FCCB issues. The rationale and strategy for future acquisitions would remain similar. Company would continue to prefer smaller targets (5-10% of company's existing revenues/employee base) for ease in integration. Management has acknowledged certain gaps in the existing product portfolio like solutions in the areas of cash management, credit risk, trade finance and credit card processing, which the company intends to fill.

Increasing brand recognition of 3i

- 3i Infotech was recognized the 4th largest Indian software product company 2005-06 by Dataquest.
- It was also recognized as one of the fastest growing Indian software product companies with respect to both domestic and overseas products sales by Dataquest.
- Company was recognized as the Asia Insurance Service Provider of the year for the second consecutive year in 2006.
- 3i has been a winner of Frost & Sullivan product innovation award for its insurance solutions in 2006.
- It has been rated as the 3rd largest ERP application software vendors (after Oracle and SAP) in the Middle East and North Africa (MENA) region by IDC.
- Kastle, universal lending system rated as the 2nd highest selling lending solution by the UK based International Banking Systems (IBS) in 2006.

The increasing brand recognition of the company is also reflected in more than 40 client additions per quarter over the past 8-10 quarters.

Change in accounting policy with respect to cost of software acquired and developed in-house

Old Policy – Costs of software acquired and that towards in-house product development were capitalized and written-off over a period of 10 years.

New Policy – Costs towards in-house product development to be expensed when incurred and that towards product acquisition to be written-off over a period of 5 years or estimated life, whichever is lower.

Adjustment made in 3Q FY07 – 1. 95% of the book value (Rs1.21bn) as at April 1st 2006 of capitalized software cost was written off. 2. Reversal in deferred tax liability on the above to the extent of Rs250mn.

The above adjustment resulted in significant reduction (~Rs1.6bn) in gross block thereby lowering depreciation 3Q FY07 onwards. Further, the reorganization of US operations during the quarter led to re-instatement of goodwill of Rs1.25bn. Company also provided towards some customer claims and penalties to the extent of Rs170mn in the quarter.

Manpower

There was a net addition of 1,400 employees during FY07 with 500 employees added through acquisitions. Presently, headcount is near 5,000 people with attrition rate at 17%. Company plans to add 500-600 people in the current year on organic basis.

Company background

3i Infotech, promoted by ICICI Bank, is a provider of information technology products and services. Formerly known as ICICI Infotech, the company was established in 1999 as the back office support and IT services arm of ICICI Limited and certain of its subsidiary and affiliates. Thereafter it has expanded its IT products and services offerings across diverse geographies to various clients globally. The company was re-named as 3i Infotech in early 2005. It came out with Rs2,170mn IPO in April 2005 mainly to repay the debt appearing on the balance sheet. Currently, 3i-Infotech provides comprehensive range of software services and solutions to over 500 customers in more than 50 countries. Company has 10 offices worldwide and 10 development centres in India for continuously enhancing its product portfolio.

3i Infotech is a focused player in the BFSI vertical catering to all the sub-verticals of banking, insurance, mutual funds and capital markets. Company also has presence in manufacturing, retail & distribution and government verticals. Its software processes are SEI CMMI Level-5 certified whereas the managed IT services and BPO operations are ISO 9001:2000 certified.

Management

Name	Designation
V Srinivasan	MD & CEO
Hariharan Padmanabhan	Deputy MD
Amar Chintopanth	ED & CFO
Anirudh Prabhakaran	Head - South Asia
Debneel Mukherjee	Head - Asia Pac
Kalpesh Desai	Head - EMEA
Padmanabhan Iyer	Head - Product Development
Suheim Sheikh	Head - Capital Markets
Bharat Gupta	Head - Document Management
Chandrashekar M S	Head - Mutual Funds
Ravi Jagannathan	Head - BPO
Arvind Gupta	Head – BI & DW
Manoj Mandavgane	Head – HR

Key customers of the company

Names	
ICICI Bank	AIG
Prudential	ICICI Lombard
Deutsche Bank	IDBI Bank
Stan Chart	GSK
Hong Leong Bank	Pidlite
Bank of Punjab	SRF Polymers
Centurion Bank	Pioneer

Product Portfolio

Banking	**Kastle** Suite	Core banking
		Treasury Management
		Wealth management
		Risk Management
		Universal lending
		Anti-money laundering
		Asset liability management
		Factoring
Insurance	**Premia** Suite	General Insurance
		Life Insurance
		Health Insurance
		Property & Casualty Insurance
		Collaborator
Capital Markets	**AWACS**	Stock Exchange surveillance system
	iBOSS Suite	Trader Workstation
		RMS Client
		Workhorse – clearing & settlement system
		LiveStock - Internet Trading
Mutual Fund	**MFund** Suite	Asset/Mutual funds management solution
		Investor services system
		Dealing - Investment management solution
ERP	**ORION** Suite	ORION Enterprise – ERP solution suite
		ORION Advantage – ERP for micro-verticals
		ORION Lite - ERP for traders & merchants
		ORION Fashion - ERP for Fashion industry
	Xroadz	ERM software

3i Infotech products enjoy high credibility in the Banking, Insurance, Capital Market and Mutual Fund (new products) segment with over 300 clients including leading Indian banks.

The **Kastle** Secure banking solutions suite caters to all the operational requirements of a bank such as core banking, treasury management, asset-liability management, risk management, retail loans, wealth management, investments, factoring and anti-money laundering. The individual products address immediate business requirements of banks and are platform independent ie can be implemented on any core baking solution. These products have 100+ clients globally with 1 out of 4 banks using it in India. Deutsche Bank, Emirates Bank, Standard Chartered Bank and Hong Leong Bank are some of the leading users of this product.

The level of competition is product specific with core banking solution being the most crowded market. In anti-money laundering and factoring space, company's solutions are no.1 in India while in retail lending solutions company has competition from Nucleus Software. The banking solution products contribute 14-15% of the total revenues.

The **PREMIA** insurance management solutions suite is designed to proficiently perform most of the functions of an insurance company such as underwriting, policy administration, claims management, reinsurance and accounting. PREMIA products for insurance companies include PREMIA life, PREMIA health, PREMIA property & casualty, etc and for intermediaries include Premia Broker, PREMIA collaborator, etc. In 2006, company launched PREMIA Insurance Broking Exchange (IBX), India's first subscription and internet based insurance broking software. It enables insurance brokers, companies and customers to interact in real time with one another on the same software interface through the web.

Insurance solutions have 100+ clients globally. Clients include local insurance companies like Oriental Insurance and global majors like AIG (using company's products in Greece, Cyprus, etc), Liberty Mutual (using in Singapore, Vietnam, Hong Kong, etc), Prudential UK (using in Singapore), etc. In this filed, competition is mainly from the local companies is various global markets. Average deal size is US$2mn with the biggest win of a US$6mn deal against e-vow in Malaysia. The insurance products vertical contributes 11-12% of the total revenues.

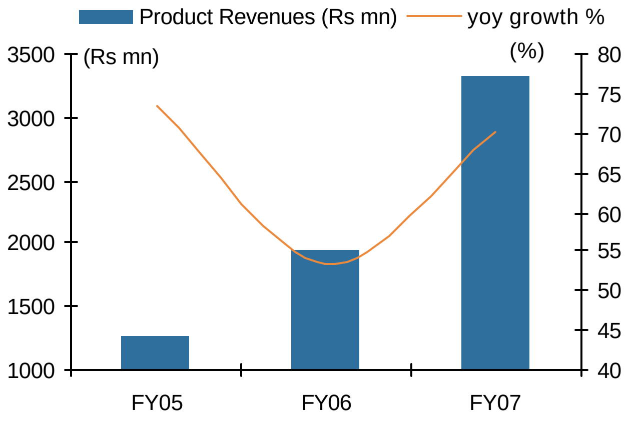
Mfund, the Mutual Fund products suite, encompasses operations such as fund accounting, valuation, investment management, lending operations, investor services, dealing, pre-dealing, intent generation and order management for unit trust management companies, asset management companies and other financial institutions. Mfund is the market leader in the Indian mutual fund industry with 2 out of 3 asset management companies using it.

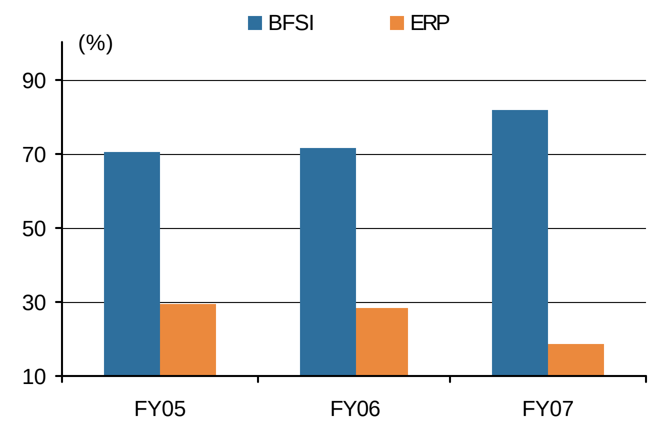
iBOSS, Integrated Broker Office Solutions Suite, is a comprehensive solutions suite for stockbrokers and traders, giving them absolute control over the entire trading process from order to settlement. It streamlines and integrates all the operations spanning front office, risk management and back-office.

AWACS, Advanced Warning and Control System - handles all the critical elements of the surveillance process of the stock exchanges and regulators and provides a robust monitoring and warning mechanism.

ORION, a product in the ERP domain, integrates business processes across suppliers, partners, employees and customers. The company has developed tailor-made ORION enterprise solutions for various industries and processes such as manufacturing, contracting, energy, retail, ports, pharma, chemical, fashion, etc. GlaxoSmithKline, Pidilite, SRF Polymers etc are some of the leading users of this product in India. The company is witnessing increased traction in EMEA region for this product. Average deal size for ORION has been near US$0.5mn. It contributes 7-8% of the total revenues.

Product Revenues (50% of revenues, FY05-07 CAGR–70%)





Source: Company Reports

Services portfolio

Services	Revenue share
ADM, Product re-engineering, Package Implementation, Enterprise Application Integration, Business Intelligence & Data Warehousing	27%
Managed IT services	7%
BPO	10%
e-governance	6%

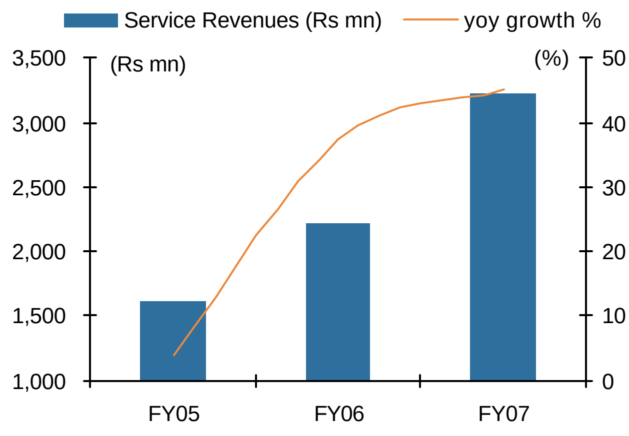
The **ADM** segment including company's enterprise offerings and IT security consulting services forms 27% of revenues. Management expects this segment's share to remain at similar levels going ahead.

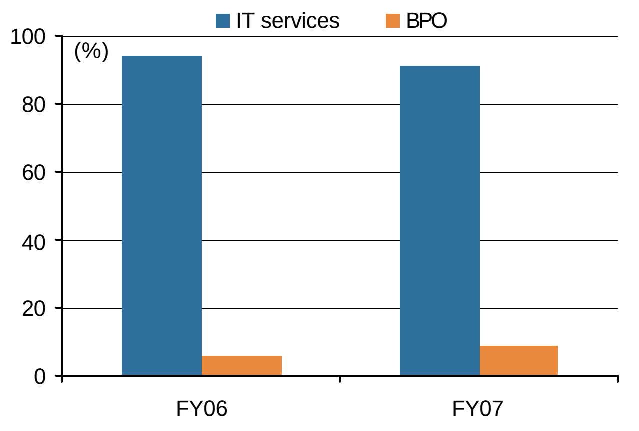
BPO segment, which focuses mainly on the domestic market, constitutes 10% of revenues against 6% in FY06. The segment was started 1.5-2 years back. Company's strategy here has been of acquiring small companies having expertise in particular processes in the non-voice/transaction processing space.

Managed Services is an extension of IT infrastructure management provided to ICICI Bank. The segment has been recently started and currently about 90-95% of revenues comes from the parent. The services are rendered from a facility in Chennai.

In **e-governance**, company engages in consulting assignments and BOOT projects executable over 3-5 years. 3i Infotech has been a consultant to Municipal Corporation of Delhi, Ministry of IT for e-enabling, etc. Among BOOT projects, company won a project for country-wide implementation of VAT costing Rs300mn spread over 5 years in FY06. It has executed a project for Government of Karnataka for setting up 800 tele-centres across the state. Company has been recently selected as the managed service provider for implementing Government of India's National Tax Information Exchange System project across the country. In US, company has successfully deployed a number of applications for state and local government agencies, law enforcement agencies, fire departments and emergency management services organizations. 3i Infotech is the only other vendor, other than IBM, who is approved by the New York Police and Fire Departments.

Services Revenues (50% of revenues, FY05-07 CAGR – 42%)





Source: Company Reports

Quarterly Snapshot

Period (Rs mn)	Q1 FY06	Q2 FY06	Q3 FY06	Q4 FY06	Q1 FY07	Q2 FY07	Q3 FY07	Q4 FY07	Q1 FY08
Sales	885	974	1,120	1,200	1,285	1,450	1,716	2,102	2,603
% qoq growth	35.8	10.0	15.0	7.1	7.1	12.9	18.3	22.5	23.8
Expenditure	(715)	(774)	(886)	(944)	(991)	(1,109)	(1,290)	(1,577)	(1,978)
Operating profit	170	200	234	255	293	341	427	525	625
% qoq growth	(63.5)	17.7	17.1	9.3	14.8	16.2	25.2	23.0	19.0
OPM (%)	19.2	20.5	20.9	21.3	22.8	23.5	24.9	25.0	24.0
Software development exp	-	-	-	-	-	-	(191)	(73)	(78)
Other income	15	10	24	16	48	40	61	8	39
Interest	(25)	(13)	(20)	(25)	(32)	(45)	(71)	(61)	(103)
Depreciation	(56)	(73)	(66)	(65)	(79)	(90)	58	(58)	(48)
PBT	103	123	172	182	230	246	283	340	435
Tax	-	10	(7)	(6)	(17)	(13)	(4)	(20)	(32)
ETR (%)	(0.3)	(8.3)	4.3	3.4	7.3	5.3	1.4	5.8	7.3
PAT	103	133	165	176	214	233	279	320	403
Minority Interest	-	-	(1.7)	(0.6)	-	(6.3)	(2.8)	1.7	(11.2)
Exceptional Item	-	-	-	-	-	-	120.1	-	-
APAT	103	133	163	175	214	226	397	322	392
% qoq growth	(75.0)	29.6	22.0	7.6	21.9	6.0	75.2	(18.7)	21.7
NPM (%)	11.6	13.7	14.5	14.6	16.6	15.6	23.1	15.3	15.1
Equity – Basic	527.9	528.4	530.5	530.5	531.6	533.3	534.2	563.0	619.1
EPS (Rs) – Annualized Basic*	3.9	5.1	6.2	6.6	8.1	8.5	14.9	11.5	12.7

**EPS has been adjusted for recent 1:1 bonus*

Operating Metrics

Particulars	Q1 FY06	Q2 FY06	Q3 FY06	Q4 FY06	Q1 FY07	Q2 FY07	Q3 FY07	Q4 FY07	Q1 FY08
Revenue Mix %									
Products	44.5	45.1	46.1	47.7	47.1	46.9	51.6	51.0	46.1
Services	55.5	54.9	53.9	52.3	52.9	53.1	48.4	49.0	53.9
Segmental GM%									
Products	52.2	50.3	54.1	52.7	52.5	55.0	55.5	53.9	54.9
Services	38.9	38.6	37.1	38.2	43.3	41.3	40.0	39.4	39.0
Product Revenue Mix %									
BFSI	72.0	75.0	73.0	66.0	78.0	78.0	78.0	82.0	-
ERP	28.0	25.0	27.0	34.0	22.0	22.0	22.0	18.0	-
Pending OB (Rs mn)									
Products	710	737	945	1,323	1,465	1,609	2,544	2,778	2,909
Services	1,279	1,313	1,301	1,341	1,467	1,614	1,723	2,909	3,639
Client Concentration %									
Top (ICICI Group)	23.0	22.0	20.0	18.0	18.0	18.0	16.0	15.0	14.0
Top 5 (excl ICICI)	23.0	22.0	12.0	8.0	21.0	15.0	17.0	21.0	15.0
Top 10 (excl ICICI)	34.0	28.0	18.0	12.0	26.0	20.0	24.0	29.0	22.0

Financials

Projected Income Statement

Period to (Rs mn)	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)
Net Sales	4,178	6,553	11,974	15,735
Operating expenses	(3,321)	(4,968)	(9,258)	(12,357)
Operating profit	858	1,585	2,715	3,378
Software development cost	-	(264)	(453)	(629)
Other income	62	155	189	200
Interest	(80)	(209)	(411)	(300)
Depreciation	(261)	(169)	(209)	(264)
Profit before tax (PBT)	580	1,098	1,831	2,385
Tax	(3)	(53)	(137)	(215)
Profit after tax (PAT)	576	1,045	1,695	2,170
Minority Interest	(2)	(7)	(45)	(45)
Extraordinary / prior period items	-	-	-	-
Adjusted profit after tax (APAT)	574	1,037	1,650	2,125

Projected Balance Sheet

Period to (Rs mn)	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)
Sources				
Share Capital	1,530	1,563	2,720	2,720
Reserves	2,148	3,397	10,558	12,167
Net Worth	3,679	4,960	13,278	14,887
Loan Funds	3,350	6,475	2,500	2,500
Net intangibles	(129)	(355)	(355)	(355)
Total	**6,900**	**11,081**	**15,423**	**17,033**
Uses				
Gross Block	3,296	2,298	2,448	2,598
Accd Depreciation	(1,111)	(928)	(1,137)	(1,401)
Net Block	2,185	1,370	1,311	1,197
Capital WIP	53	184	100	100
Total Fixed Assets	2,238	1,554	1,411	1,297
Investments	1	1	1	1
Total Current Assets	5,167	5,780	11,759	14,633
Total Current Liabilities	(1,210)	(2,037)	(3,531)	(4,682)
Net Working Capital	3,957	3,742	8,228	9,951
Goodwill	704	5,783	5,783	5,783
Total	**6,900**	**11,081**	**15,423**	**17,033**

Key ratios

Period to	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)
Per share ratios (Rs)				
EPS*	5.4	9.2	9.6	12.4
Cash EPS*	7.9	10.7	10.8	13.9
Div per share	2.0	3.0	3.0	3.0
Book value per share	69.4	88.1	77.2	86.6
Valuation ratios (x)				
P/E	27.3	16.1	15.4	12.0
P/CEPS	18.8	13.8	13.7	10.7
P/BV	2.1	1.7	1.9	1.7
EV/Sales	2.1	2.1	2.0	1.4
EV/EBIDTA	10.0	8.7	8.7	6.6
Profitability ratios (%)				
OPM	20.5	24.2	22.7	21.5
PAT	13.7	15.8	13.8	13.5
ROCE	9.6	11.8	14.5	15.8
ROE	15.6	20.9	12.4	14.3
Liquidity ratios				
Current ratio	4.3	2.8	3.3	3.1
Debtors days	98.1	104.2	104.2	104.2
Inventory days	-	-	-	-
Creditors days	81.0	89.1	86.3	87.7
Leverage ratios (x)				
Debt / Total equity	0.9	1.3	0.2	0.2
Payout ratios (%)				
Dividend Payout Ratio	18.5	16.3	31.3	24.3
Tax payout	0.6	4.9	7.5	9.0

**EPS has been adjusted for recent 1:1 bonus*

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