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THINKSOFT GLOBAL SERVICES LIMITED

September 19, 2009

SMC RANKING ★

Issue Highlights

Industry	IT -Software
Issue Size(in Cr)	43.75 - 47.30
No of shares	3,646,000
Price Band (Rs.)	120 - 130
Offer Date	Sep 22,09
Close Date	Sep 24,09
Listing	NSE,BSE
Face Value	10
Lot Size	50
IPO Grade	ICRA IPO Grade"2"
(Indicating below average fundamental)	

Issue Composition

Total Issue	3,646,000 Shares
QIBs	1,823,000 Shares
Non Institutional	546,900 Shares
Retail	1,276,100 Shares

Book Running Lead Manager

Karvy Investor Service Ltd.

Name of the registrar

Karvy Computershare Pvt. Ltd.

Shareholding Pattern (%)

Particular	Pre-issue	Post issue
Promoters	55.5	48.1
Promoter Group	5.9	5.1
NIB	28.5	7.3
QIB	0.0	18.1
Retail	10.0	21.4
Total	100.0	100.0

Analyst

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Company Profile

Thinksoft Global Services Limited (TGSL) incorporated in 1998 is primarily engaged in software testing services focusing on Banking, Financial Services and Insurance (BFSI) industry. It operates in the financial and insurance software testing space that transforms company performance and operational effectiveness. To cater to the distinct needs of its customers, the company has configured its range of services capabilities in the area of testing and business requirements assurance such as functional testing, performance testing, etc. TGSL is a 100% Export Oriented Unit (EOU) registered with Software Technology Parks of India (STPI).

TGSL was rated among 'Deloitte Tech Fast 50 India' and 'Deloitte Tech Fast 500 Asia Pacific' for the years 2006 and 2007 and 'Deloitte Tech Fast 500 Asia Pacific' for the year 2008. It has established a global presence in New York, London, Frankfurt, Singapore, Hong Kong, Brussels, Sydney, Bangalore and Chennai through its wholly owned subsidiaries and Branch Offices/place of business.

Software testing is required by companies in the BFSI sector who are increasing investments in IT as their business is highly sensitive to software errors. By its very nature, software testing is a very exacting job and requires highly dedicated specialists and experts with the necessary domain knowledge. With 10 plus years of experience in financial domain focused independent testing, TGSL has acquired the ability to customize testing solutions for clients across a variety of business areas and products to systems integrators, product development companies and to the clients in the finance sector to achieve near defect-free rollouts. These include:-

Business Activity	Name of Product Tested*
Core Banking / Retail Banking	Finacle, Bancs 24, Flexcube, Newton, FinnOne, Equation, T24, CS Eximills
Treasury	Kondor+, Kastle, Urbis
Investment Banking	MIDAS
Retail Lending / Loans / Mortgages	Pan Credit, LSI-NT, Foresee, Chequemate, NBO, Generalized Installment Loans, System, Integrated Consumer Credit System
Credit Cards	VisionPLUS®, TS2, PRIME
Payment System	STS – CWS
Corporate Banking	FLEXCUBE®
Insurance	GENIUS, METFACS2, PREMIA
Private Banking	ORBI
CRM	Siebel
Campaign Management	ClarityQ

*copy rights and patents belong to the respective product companies

The company presently has its off shore facilities at Chennai with a capacity of around 360 seats and it plans to increase market presence in Europe, Middle East and USA. Its customers are amongst the TopTier in the Financial Services Sector, and they look for exclusive secure dedicated testing centre for off-shoring their business testing requirements. Therefore, the company proposes to expand its off shore facilities by adding additional capacity of another 400 seats. It will attempt to upgrade infrastructure facilities to meet the growing standards of the client's needs and requirements.

Strengths

Domain Expertise & Sub-domain Competencies

The company was one of the early entrants in the software testing space. This enabled it to accumulate methodologies. Added to this is the domain focus which differentiates it from generic testing service providers / system integrators offering testing services. TGSL has also developed sub-domain specific competencies centered on popular software products in

respective areas. This helps in realizing service efficiencies and provides another competitive strength.

Long term relationships with customers

The company has relationships with several Fortune 500 global corporations, built on its successful execution of prior engagements. Its track record in delivering the services has helped the company in forging strong relationships with its major customers resulting in repeated business from them.

Advantages of SEZ & EOU status and location

The new testing centre is proposed to be established in the Madras Export Processing Zone, Chennai. As it is located within the export processing zone, it has the inherent advantages of being inside a Special Economic Zone (SEZ). This would enable certain statutory benefits to the company under the present regulations. Being an EOU, the company enjoys tax holiday on its export earnings till the financial year 2009-10. In addition, Chennai is a good source for availability and supply of skilled resources for off-shore testing jobs. Further, the existing units are in leased premises and therefore having its own premises may have cost saving over the years.

ISO 27001:2005 and ISO 9001:2000 certified

The company believes that the compliance with the requirements of ISO 27001:2005 certification will help in convincing the customers that productivity loss on account of system/network failures is substantially reduced and that the company has the ability to work in a secured environment. TGSL is also ISO 9001:2000 certified.

Business Strategy

Continue to invest in infrastructure

The company intends to continue investing in physical and technological infrastructure to support growing worldwide development and sales operations to increase its productivity.

Develop complementary alliances

The company intends to develop alliances that complement its core competencies. The alliance strategy is targeted at partnering with leading technology providers, which allows the company to take advantage of emerging technologies in a mutually beneficial and cost-competitive manner.

Focus on SME Segment

The company intends to concentrate on Small and Medium Enterprise (SME) clients in association with product vendors, as the IT business will see more of standardized products and customer specific small variant of the products. The company has developed specialized service offerings to meet their needs and budgets.

Focus on On-site revenue stream

Presently, 62.98 % of the company's revenue comes from onsite activities and the rest from off-shore activities. Further, the proportion of onsite revenue is likely to be 55% in near future and the company is likely to add new clients in these segments.

Grow the business with existing clients

The company's goal is to build long-term sustainable business relationships with the customers to generate revenues. TGSL is planning to continue to expand the scope and range of services provided to existing customers by continuing to build the company's expertise in financial services industries and extending the company's capabilities into new and emerging technologies. In addition, the company intends to develop value-added services.

Growth through selective acquisition

The company believes the rapid growth being witnessed in the BFSI business will result in a substantial jump in the demand for its services. In order to achieve critical mass, the company will be looking for selective acquisition opportunities. The acquisition will help it in expanding geographically and adding expertise rapidly.

Serve clients globally

Objects of the Issue

Particulars	Amt (Rs. Cr.)
Setting up of new testing centre	16.09
- building, interiors	13.73
- equipment & networking	1.66
- consultancy & approval charges	0.70
Public Issue Expenses	[*]
Total	[*]

The company plans to expand its services and solution capabilities to client locations around the world. Global expansion will allow it to capitalize on high growth geographic regions and diversify its revenue base. The company is currently contemplating opening offices in the Middle East and Europe.

Industry Outlook

IT services form the largest segment (one third of the total) of worldwide spends on technology products and related services. In 2007, outsourcing was the largest and fastest growing category of IT services spending. In geographical terms, while USA continues to dominate overall software and service spends, the total value of contracts awarded in 2007 in EMEA (Europe, the Middle East and Africa) region exceeded the corresponding value for contracts awarded in USA for the first time in a single year.

Businesses today face challenges like cost pressures in an increasingly competitive environment, environmental considerations such as global warming, compliance issues, etc. and the current slowdown in economic growth. Global sourcing offers companies an effective means of controlling these costs and is fundamentally driven by three factors today - access to newer talent pools, reduction in costs, and improvements in aspects of business other than costs. The future outlook on all these factors favours strong growth for global sourcing.

Although the forecast spend in the global IT industry remains moderate, the Indian IT Industry is expected to continue on its growth trajectory, only at a slower pace. As before, service exports will be the key drivers of this growth depending on a booming economy and a growing domestic market. Meanwhile, independent software testing business appears to be enjoying favourable prospects over the long term by virtue of its growing acceptance among users.

Concerns

Lack of presence in markets other than Europe

A significant proportion of the company's revenues are derived from its clients located in Europe. In fiscal year 2007, 2008 and 2009, 65%, 58% and 54% of the revenues from software testing services respectively were derived from clients located in Europe indicating a high level of customer concentration. Unexpected change in product spending or a cut or delay on the client front may lower the demand for its software services and negatively affect the company's business.

Concentration on a single domain

Thinksoft operates only in the BFSI vertical. The BFSI segment has been adversely affected by the current global economic slowdown. The expected reduction in IT spend in the BFSI segment is likely to impact Thinksoft's business over the short-to-medium term.

Exchange rate movement risk

The company has adopted the Indian rupee as its reporting currency but the company currently transacts its business primarily in Indian rupees and, in Singapore dollars, U.S. dollars, Euros, Pound Sterling and Australian dollars. In fiscal 2007, 2008 and 2009, the Company derived approximately 96%, 92% and 97% of the company's net revenue from its overseas business, respectively. To the extent these currencies depreciate against the Indian Rupee, the revenue that the company reports in Indian rupees will be negatively affected. Conversely, an appreciation of these currencies against the Indian Rupee would increase the company's revenue reported in the Indian rupee but would also increase its expenses incurred in those currencies.

Some of the customer contracts entered into by the Company are not stamped as per the applicable laws

Some of the customer contracts entered into by the company has not been stamped as per the applicable laws. In the event of the contracts not being stamped, such contracts cannot be presented as evidence in a court of law.

Valuation

The stock trades at a P/BV of Rs.4.00 on the lower side of the band and 4.01 on the higher side of the band of its FY09 book value Rs.32.44. Looking at the post issue valuation, the stock trades at a P/BV of Rs. 1.75 on the lower side of the band and Rs. 1.90 on the higher side of the band of its post issue book value of Rs.68.52. Considering the P/E valuation, the company is trading at a P/E of 12.42x times on the lower side of the price band and 13.46x times on the higher side of the price band of its consolidated FY09 EPS of Rs.9.66. Looking at post issue valuation, the company is trading at a P/E of 19.71x times on the lower side and 21.35x times on the higher side of its post issue consolidated FY09 EPS of Rs.6.09.

Outlook

TGSL is raising Rs. 47.30 Cr, of which Rs.17.55 Cr will come to the company and the balance of Rs.29.85 Cr will go to the selling shareholders. However, the company's balance sheet shows cash balances worth Rs. 14.72 Cr in March '08 & Rs.26.56 Cr in March '09. This raises a concern over the reason for raising funds through an IPO since there appears to be considerable cash already available to TGSL. The business also suffers from high domain concentration which is adversely affected by the current global slowdown which caused declining IT spends in the BFSI sector. Added to this, intense competition and vulnerability to rupee appreciation against major currencies are key challenges for the company in sustaining growth and margin.

Annexure - I

Profit & Loss

(For the Year ended 31st March)

Rs. in Cr.

Particulars	March-09	March-08	March-07	March-06
Total Income	92.09	74.23	58.49	36.69
Total Expenditure	77.79	61.17	46.63	31.90
Operating profit	14.30	13.06	11.86	4.79
OPM %	0.16	0.18	0.20	0.13
Interest	0.23	0.07	0.11	0.05
PBDT	14.07	12.99	11.75	4.74
Depreciation	1.59	1.33	1.77	0.80
PBT	12.49	11.66	9.98	3.94
Tax	1.57	1.00	0.90	0.39
PAT	14.49	9.82	9.46	3.62

Balance Sheet

(For the Year ended 31st March)

Rs. in Cr.

	Mar-09	Mar-08	Mar-07	Mar-06
i. Net Block	3.15	2.34	1.97	1.43
ii. Cap WIP & Capital Adv	1.97	4.80	0.24	1.35
A. Total Fixed Assets (i+ii)	5.12	7.14	2.21	2.77
B. Investments	0.62	0.34	0.13	0.09
D. Current assets, loans and adv	60.03	42.00	29.10	18.41
E. Total assets (A+B+C)	65.78	49.48	31.45	21.27
F. Liabilities and provisions	17.11	12.26	8.20	6.00
Net worth (E-F)	48.67	37.22	23.25	15.27
Represented by				
Share capital	8.70	7.66	7.24	7.07
Reserves and Surplus	38.19	24.65	16.00	8.21
Total	46.90	32.32	23.25	15.27

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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★ ★
FAIR	★ ★ ★
GOOD	★ ★ ★ ★
EXCELLENT	★ ★ ★ ★ ★

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