CRISIL RESEARCH

CRISIL IER Independent Equity Research

Infinite Computer Solutions (India) Ltd

Detailed Report

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macroeconomy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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Last updated: May, 2013

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Disclaimer:

Infinite Computer Solutions (India) Ltd

Gearing up to drive non-linear growth

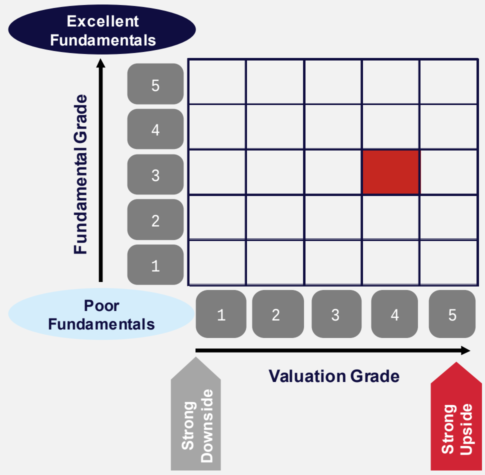
Fundamental Grade	**3/5 (Good fundamentals)**
Valuation Grade	**4/5 (CMP has upside)**
Industry	**IT Services**

CRISIL RESEARCH

March 27, 2014

Fair Value ₹163
CMP ₹138

CFV MATRIX



Infinite Computer Solutions (India) Ltd (Infinite) is a mid-sized vendor of traditional IT services as well as value-added product engineering services (PES) and mobility & messaging (M&M) services. With domain expertise in telecom and messaging services, its offerings are focused towards telecom OEMs and carriers. We expect the company to maintain 12-13% growth in the medium term based on long-standing relationship with key clients and projected growth in global IT spending. However, success of Infinite's newly developed messaging product – Rich Communication Suite (RCS) – is a monitorable as the acceptance of this product is not yet proven. We maintain the fundamental grade of **3/5**, indicating that Infinite's fundamentals are **good** relative to other listed securities in India.

IT services to continue to drive top line; PES and M&M to drive margins

While Infinite's IT services provide stable business growth at lower margins, the company is focusing on value-added PES and M&M services to garner higher margins. IT services, which constituted 73% of revenues in 9MFY14, generated only 10% margin. This is because Infinite derived 72% of its IT services revenues in 9MFY14 from IBM at low margin. Higher onsite mix, client concentration and strategy to focus on volumes have led to lower margins.

Focus on strengthening new products and services; US$12 mn slated for FY14

Infinite is focusing on developing new value-added products and services. Of the budgeted US$12 mn for building frameworks for new products and strengthening of its sales team, company has spent most of it so far in FY14. As on FY13, the company has already invested US$25 mn on building products such as RCS, EMS and PMC (see page 11 for details). Infinite's new offerings may provide significant growth in the coming years as the IT services industry is inching towards social, mobility, analytics and cloud (SMAC) based offerings. The success of RCS as a product is not yet proven as five big telecom operators in Europe did not receive the desired response after launch of similar services. Most telecom operators are still in wait-and-watch mode about their plans on RCS.

Lower margins and higher debtors compared with other mid-sized players

Given its higher onsite mix, Infinite is expected to operate at 11-13% margins which are lower than the peers' 15-20%. Infinite's debtors are also significantly higher than its peers due to higher credit terms with key clients.

Revenues estimated to grow at a three-year CAGR of 12.4%, EPS by 7.4% in FY16

Infinite's consolidated revenues are expected to increase at a three-year CAGR of 12.4% to US$362 mn in FY16 mirroring the growth of the Indian IT services exports industry. Post buyback, adjusted EPS is expected to rise at a three-year CAGR of 7.4% to ₹38 in FY16.

Valuations – the current market price has upside

CRISIL Research has used the discounted cash flow (DCF) method to value Infinite at a fair value of ₹163 per share. This fair value implies P/E multiples of 6.5x FY14E and 5x FY15E earnings. At the current market price of ₹138 per share, our valuation grade is **4/5**.

KEY FORECAST (CONSOLIDATED)

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Operating income	10,558	13,906	17,559	19,708	22,150
EBITDA	1,912	2,023	1,826	2,173	2,650
Reported net income	1,207	1,307	1,012	1,312	1,520
Reported EPS-₹	28.4	30.7	25.0	32.4	37.6
EPS growth (%)	16.3	8.3	(18.5)	29.6	15.9
Dividend yield (%)	6.7	7.1	5.9	7.7	8.9
RoCE (%)	30.6	25.4	18.7	21.5	24.6
RoE (%)	26.1	23.7	16.4	19.2	19.6
PE (x)	4.5	4.1	5.1	3.9	3.4
P/BV (x)	1.1	0.9	0.8	0.7	0.6
EV/EBITDA (x)	2.3	2.2	2.3	1.8	1.3

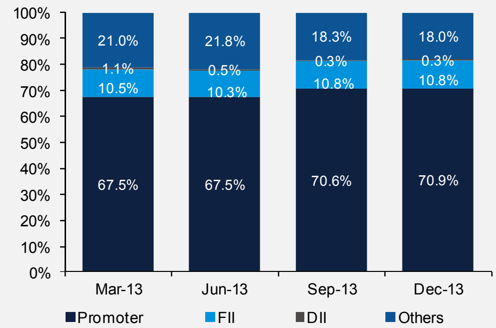
CMP: Current market price

Source: Company, CRISIL Research estimates

KEY STOCK STATISTICS

NIFTY/SENSEX	6601/22095
NSE/BSE ticker	INFINITE
Face value (₹ per share)	10
Shares outstanding (mn)	40.4
Market cap (₹ mn)/(US$ mn)	5,890/97
Enterprise value (₹ mn)/(US$ mn)	4,607/76
52-week range (₹)/(H/L)	170/76
Beta	1.36
Free float (%)	30
Avg daily volumes (30-days)	149,028
Avg daily value (30-days) (₹ mn)	19.36

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
INFINITE	5%	5%	22%	27%
CNX 500	6%	4%	14%	16%

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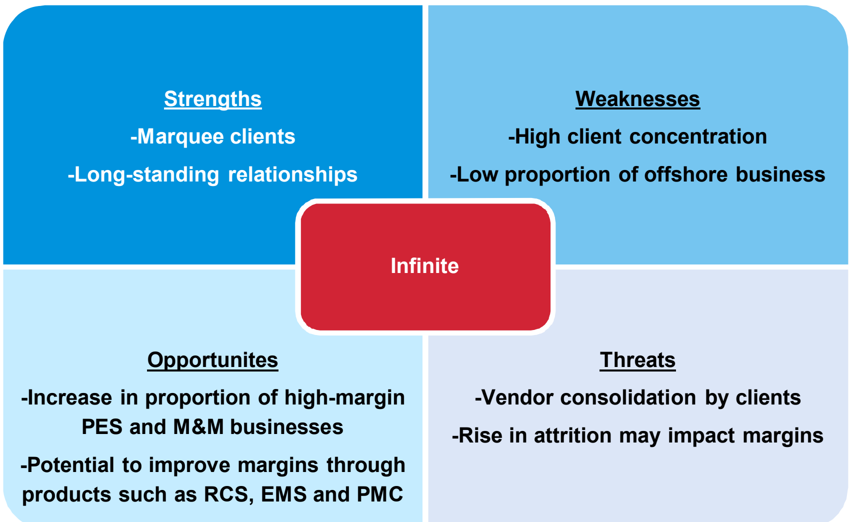
For detailed initiating coverage report please visit: www.ier.co.in
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Table 1: Infinite - Business environment

Product / segment	IT services	Product engineering services	Mobility & messaging
Revenue contribution (FY13)	69%	17%	14%
Brief description	Provides traditional IT services such as application management and infrastructure management	Provides services on client's product in the form of feature enhancement, development, maintenance and support. It usually takes ownership of client's product and provides full lifecycle support	Provides self-developed messaging products aimed at telecom operators and telecom OEMs. Also provides support services on messaging related products.
Product / service offering	■ Application management outsourcing ■ Remote infrastructure management ■ Datacenter management ■ Network management ■ Application testing ■ Enterprise analytics	■ Product design and development ■ Product manufacturing support ■ Product integration and deployment ■ Product sustenance, support and maintenance services ■ Messaging infrastructure ■ Broadband networking	■ Rich Communication Suite (RCS) ■ Enterprise Messaging Service (EMS) ■ Personal Messaging Cloud (PMC) ■ SMS / MMS center and gateway
Geographic presence	The US, Europe, APAC and India	The US, APAC and India	The US, APAC and India
Market position	Tier-II vendor for IT services; tier-I vendor to existing large clients	Tier-II vendor for IP leveraged solutions; tier-I vendor to existing large clients	Tier-I vendor to existing large client
End market	Telecom, healthcare, manufacturing and retail	Largely Telecom	Telecom, healthcare, travel & transportation
Sales growth (FY10-13 – 3-yr CAGR)	20%	28%	NA
Key competitors	**Direct:** Hexaware, Mindtree, KPIT-Tech, Persistent, Mavenir, Acision, Alcatel Lucent **Indirect:** Infosys Technologies, Tata Consultancy Services, Accenture, Cognizant, Wipro		
Key clients	IBM, Verizon, Nokia Solutions Networks, Xerox, Alcatel Lucent, Tellabs		
Key risks	■ Competition from established and large IT services players ■ Dependability on a few clients ■ Vendor consolidation by top 10 clients		

Source: Company, CRISIL Research

Figure 1: SWOT analysis



Source: CRISIL Research

Grading Rationale

Focusing on new products and services to drive growth

Towards the end of FY13, Infinite realigned its business into three segments - IT services, product engineering services (PES) and mobility & messaging (M&M) products and services - in a bid to efficiently address market opportunities. Operations have been streamlined in order to tap opportunities in various technologies independently. Infinite is focusing on high growth areas such as M&M, PES in the telecom domain, analytics, cloud services, etc. along with its bread and butter business of IT services to drive future growth and profitability.

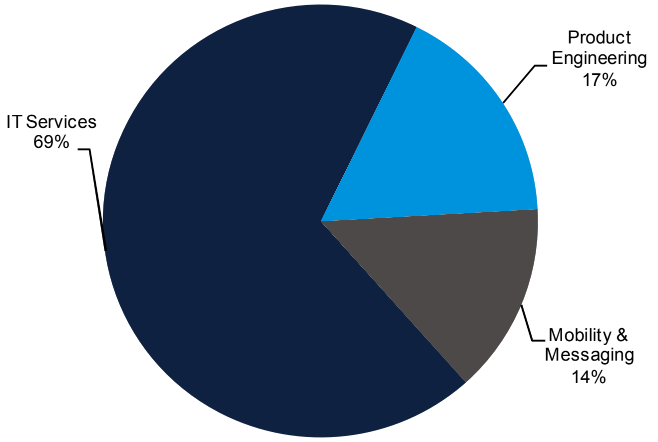
Revenues to be driven by IT services; margins by product engineering and mobility & messaging services

IT services: This segment is a stable revenue contributor but at a comparatively lower margin. IT services revenues grew at a CAGR of 20% during FY10-13 and accounted for 69% of total revenues in FY13 with margins of around 10%.

PES: This segment comprises value-added services and, thus, provides better margins compared to traditional IT services. PES revenues grew at a CAGR of 28% during FY10-13 and accounted for 17% of total revenues in FY13. Margins in this business range between 17% and 24%.

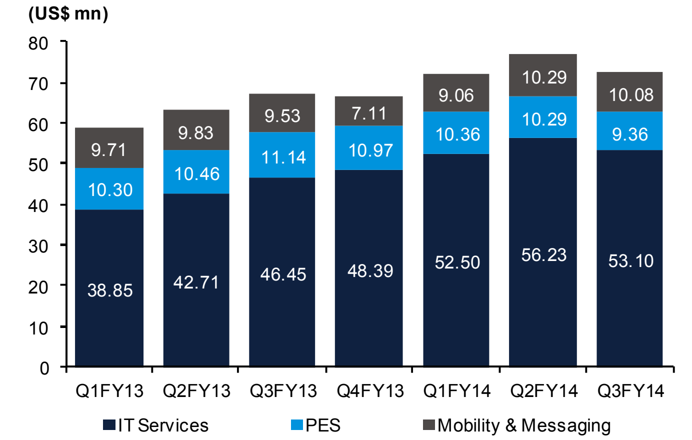
M&M: These services were started in FY10. Infinite generated 14% of its total revenues from M&M services in FY13 with margins in the range of 26% to 30%. At present, this segment's revenues are from the messaging platform which was acquired from Motorola.

Figure 2: Segmental revenue mix in FY13



Source: Company, CRISIL Research

Figure 3: Quarterly segmental revenue trend



Source: CRISIL Research

Budgeted US$12 mn in FY14 to strengthen offerings

Infinite had budgeted US$12 mn during FY14 for building framework of some new products and strengthening of its sales force across geographies and has spent most of it so far. These expenses will help the company to expand its product portfolio and to increase visibility in the market which may result in additional revenue stream in the coming years. Of the total, US$6-7 mn is a one-off expense on building technological frameworks for some new products such as patient care platform and sentiment analysis engine (see page 9 for details). The remaining US$5-6 mn, planned for the sales and marketing team, will be recurring every year.

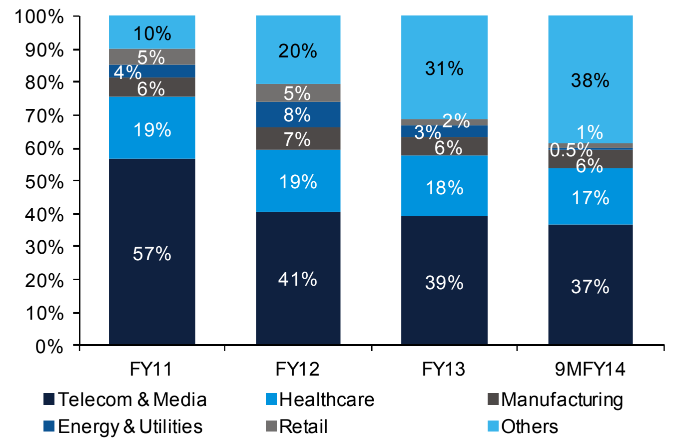
Telecom to remain key vertical; telecom services expected to grow faster y-o-y

Since inception, Infinite has been focusing on the telecom vertical. It provides traditional services such as application development and management (ADM) and remote infrastructure management (RIM) as well as specialised services such as M&M, PES and enterprise analytics to telecom OEMs/operators. Infinite's solutions to telecom operators cover the value chain of IT support for telecom services. It drives ~40% of its revenues from the telecom segment (the dip in proportion of telecom and media in FY12, as shown in figure 4, was due to a key client shifting services from outsourcing to a captive model).

According to Gartner, worldwide spending on telecom services is expected to reach US$1,694 bn by end-2014, a growth of 2.3% y-o-y

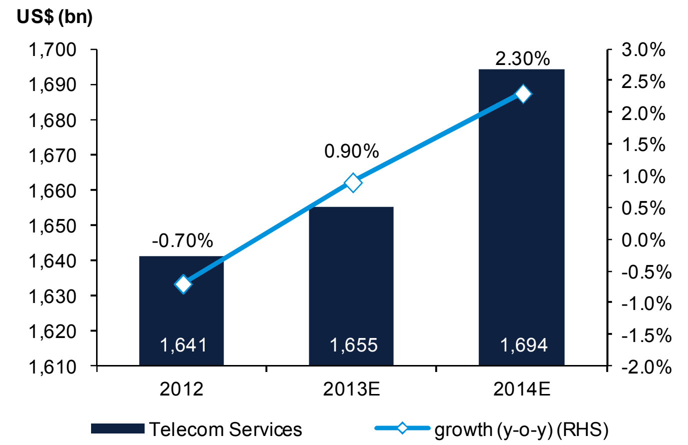
The US-based research company Gartner, Inc., expects global spending (in US$) in telecom services to register a growth of 2.3% in 2014 compared to the estimated growth of only 0.9% in 2013. This growth provides significant opportunities for players such as Infinite who already have a strong foothold in telecom services and many tier-1 global telecom operators as key clients. With its domain expertise and long-term relationships, Infinite is well positioned to tap such growth.

Figure 4: Telecom service is the biggest revenue vertical for Infinite



Source: Company, CRISIL Research

Figure 5: Global spending on telecom services expected to grow faster in 2014 compared to 2013



Source: Gartner (July 2013)

IT services to drive revenue growth but at low margin

Infinite's IT services segment is expected to grow at 12-14% over the next couple of years, largely in line with growth in the IT services industry. In addition to traditional IT services such as application management services (AMS) and infrastructure management services (IMS), emerging technologies such as cloud and analytics are expected to drive this growth. Infinite's strategy for IT services is to drive top line growth at a low margin. A large part of revenues in IT services (~72% in 9MFY14) is from IBM at a low margin; the proportion and margin from IBM in IT services are not expected to change much. Also, the onsite-offshore mix and client mix in IT services are not expected to vary much given Infinite is a mid-sized company, due to which it is unable to qualify for medium to large IT deals. Consequently, we expect a blended margin of ~10% in IT services.

IT services expected to grow at 12-14% during the next couple of years driven by growth in the IT services industry

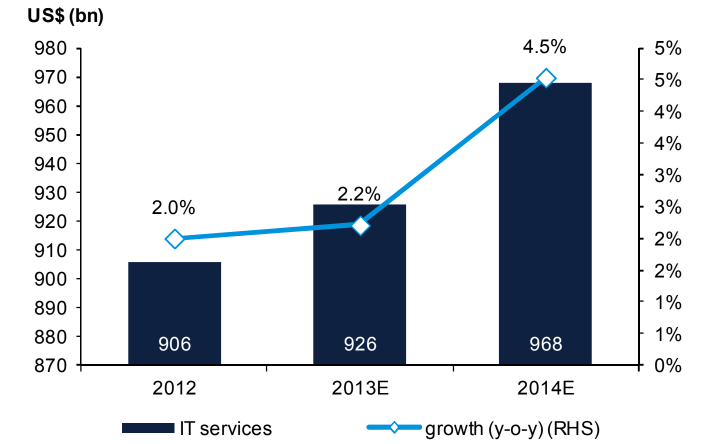
Industry IT services exports to record 14% CAGR by FY18

During the past couple of quarters, most IT services vendors have posted revenue growth of 10-15%; they had posted only 10% growth in FY13 due to a weak global macroeconomic environment. With signs of revival in the US economy and increase in worldwide spending on IT services, Indian IT services exports are expected to grow by 13-15% in FY14 and the industry is expected to grow at a 14% CAGR between FY14 and FY18.

Traditional IT services like ADMS and RIMS along with new technologies like cloud and analytics to drive overall growth in IT services

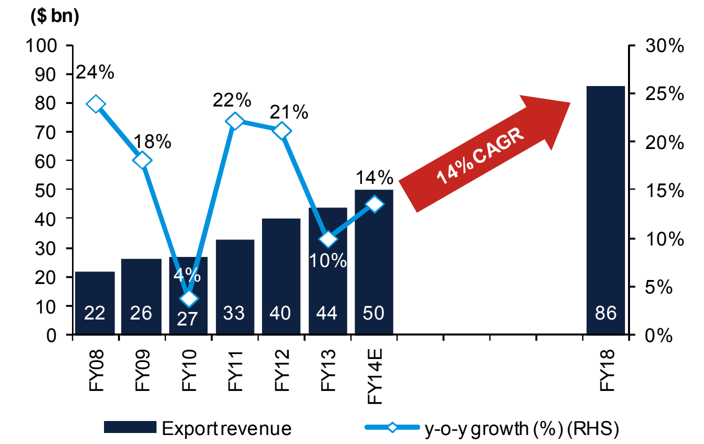
Key growth drivers would include a mature global offshore delivery model, higher ability of Indian vendors to execute bigger projects, increased focus on newer markets, better capabilities in non-traditional service lines, process innovation and cost optimisation by clients. Additionally, as mentioned, focus on service offerings via new technologies such as cloud and related applications, analytics and non-linear business models, will drive growth.

Figure 6: Global spending on IT services to grow by 4.5% in 2014 to reach US$968 bn



Source: Gartner (July 2013)

Figure 7: Indian IT services exports to grow at 14% CAGR over next four years

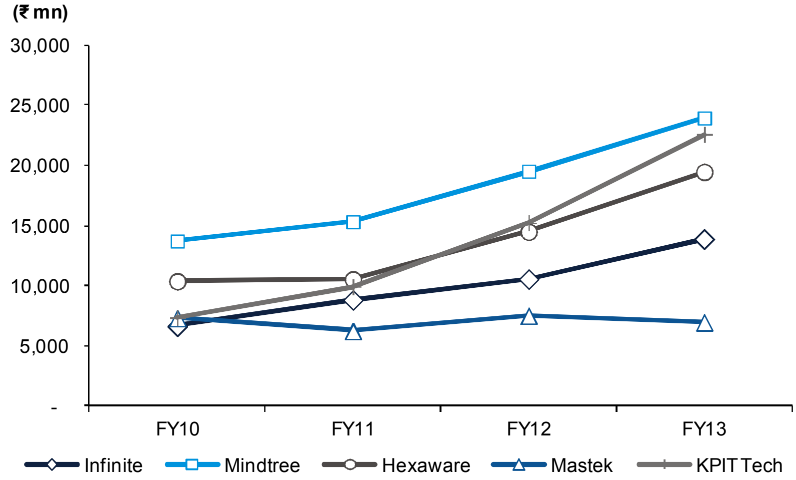


Source: Company, CRISIL Research

Infinite's growth has been reflective of IT industry's growth

IT services accounted for about 69% of Infinite's total revenues in FY13; this segment has grown at a CAGR of 20% between FY10 and FY13. Growth in IT services is largely reflective of the growth trend among mid-tier IT companies and IT industry at large. We expect this trend to persist and expect Infinite's IT services revenues in US$ terms to grow by 12-14% during FY14-16.

Figure 8: Infinite's revenue growth trajectory mirrors that of mid-tier IT companies



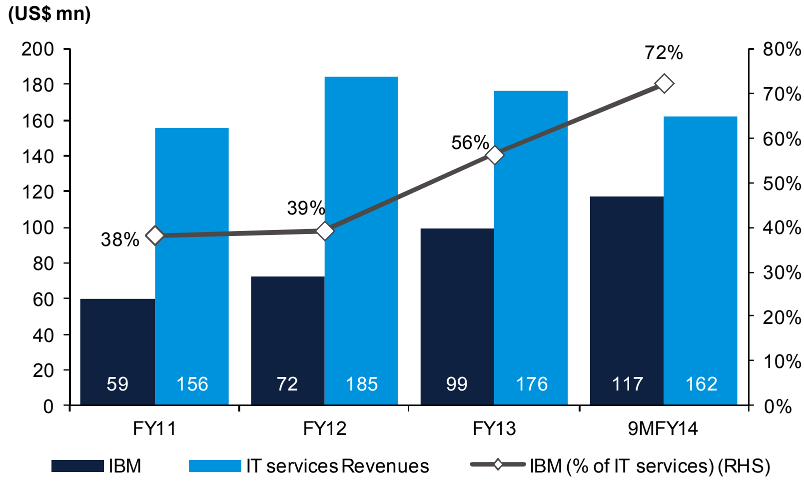
Source: Company, CRISIL Research

Top client accounts for majority of IT services revenues, at low margins

Top client, IBM, accounted for ~56% of Infinite's IT services revenues in FY13 and 72% in 9MFY14; Infinite caters to this client largely in IT services. Infinite earns low margins from IBM, which keeps the overall IT services margins low. We expect this client to account for ~70% of revenues in IT services in the coming two to three years. Accordingly, we do not expect much change in the segmental margin profile in the medium term; we expect blended margin of ~10% from IT services.

~72% of IT services revenue in 9MFY14 was from top client - IBM

Figure 9: IT services revenues are majorly from IBM



Source: Company, CRISIL Research

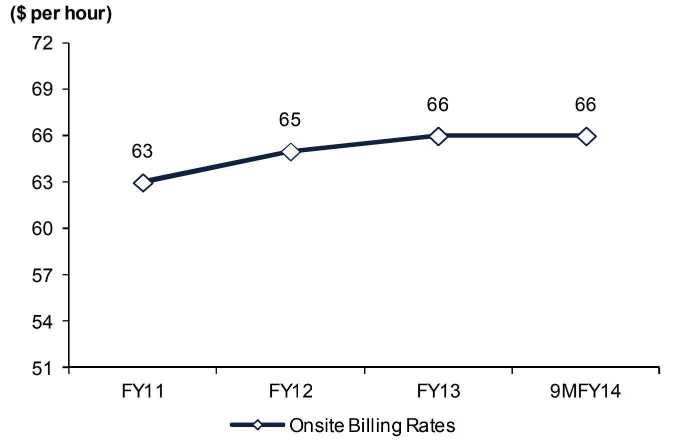
Infinite earns lower margins in IT services (~10%), compared to 15-20% for other players, due to:

a) Lower billing rates: Infinite's onsite billing rates are lower as compared to other players in the industry. Average onsite billing rate for Infinite is ~$65 per hour while for most of the other vendors it ranges between $72 and $75 per hour. Infinite's management has indicated that they do not expect billing rates to change over the medium term.

IT vendor	EBITDA margin	Period
Hexaware	18-23%	FY12-9MFY14
Mindtree	15-20%	FY12-9MFY14
KPIT Tech	15-17%	FY12-9MFY14

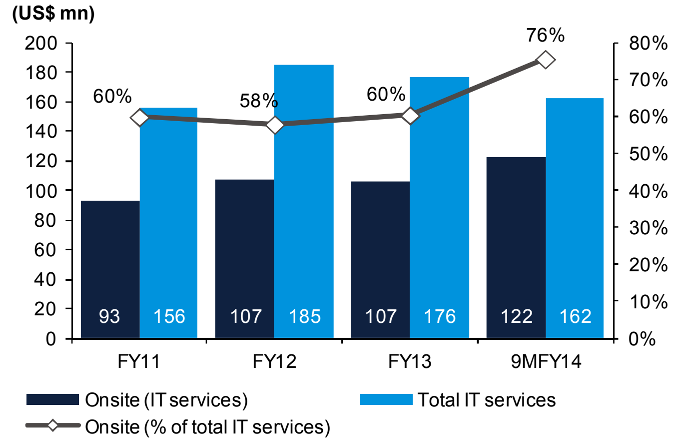
b) Higher onsite mix: More than 60% of IT services revenues are from onsite operations as against less than 53% for most of Infinite's peers. On a comparable basis, margins on onsite operations are lower due to high onsite employee cost.

Figure 10: Infinite's onsite billing rates have been stable for the past three years



Source: Company, CRISIL Research

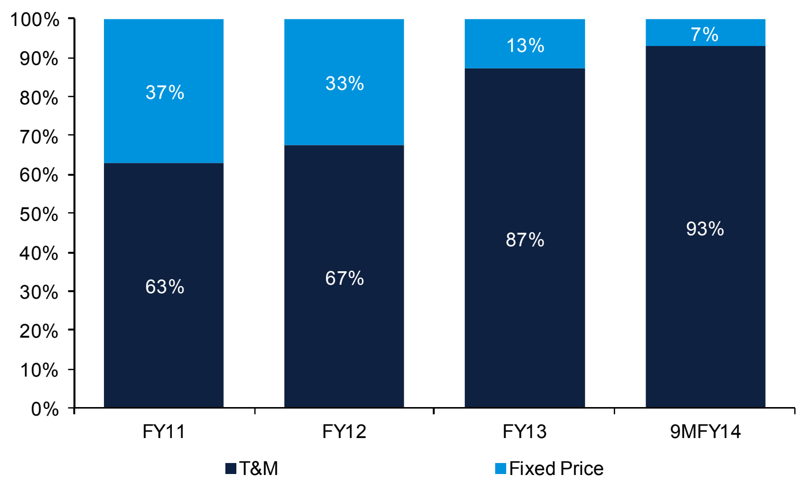
Figure 11: Most of Infinite's IT services revenues generated onsite



Source: Company, CRISIL Research

c) Decline in proportion of fixed price-base contracts: Infinite's proportion of IT services revenues based on fixed price contracts declined to 7% in 9MFY14 from 37% in FY11. Bagging a fixed price-base contract is a function of opportunity for IT vendors. These contracts provide an opportunity to vendors to improve their margins by way of better resource optimisation. A decline in their proportion arrests margin growth in IT services.

Figure 12: Proportion of fixed price-based IT services revenues declined continuously



Source: Company, CRISIL Research

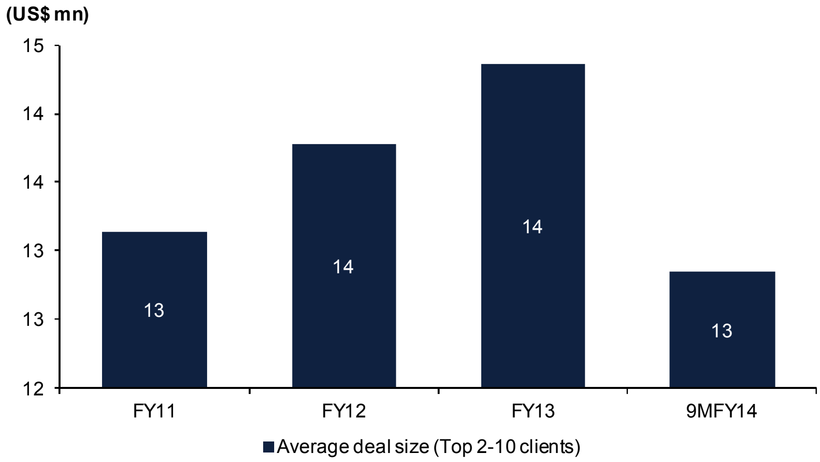
Average annual deal size for top 10 clients (ex-top client) is flat

Infinite's average annual deal size for its top 2-10 clients has been flat at US$13-14 mn since FY11. Top 10 clients accounted for nearly 90% of revenues during FY11-13. This indicates that the growth of over 16% in IT services during FY11-13 was largely from the top client. It reflects Infinite's strategy to chase volume growth in IT services at the expense of margins, as margins in business from top client are low.

Average annual deal size is around US$13-14 mn for top 2-10 clients

Average business from Infinite's top 2-10 clients remained flat during FY11-13 due to change in clients' IT outsourcing strategy. During FY12, one of the key clients moved a large chunk of business from Infinite to the client's captive centre. Similarly, during FY13, another key client did not exercise the option to continue its project with Infinite.

Figure 13: Average annual revenue per deal for top 2-10 clients have been flat for the past three years



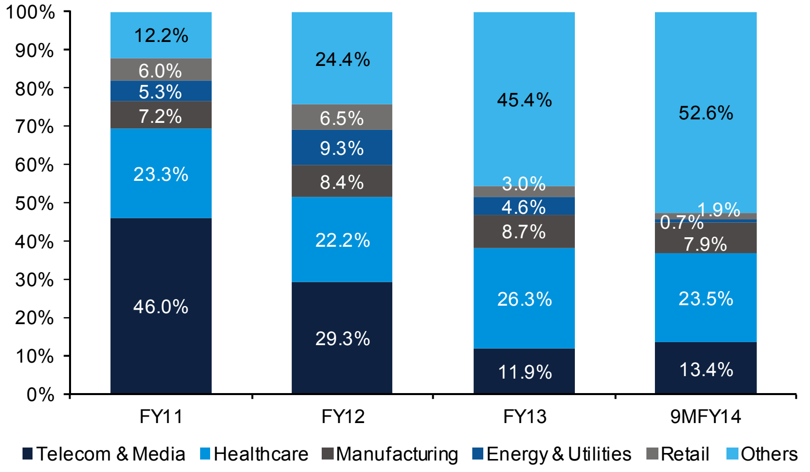
Source: Company, CRISIL Research

IT services cater primarily to healthcare and telecom

Healthcare accounted for ~23% of IT services revenues in 9MFY14; largely the same since FY11. Telecom, which is another key vertical, accounted for nearly 13% of IT services revenues in H1FY14 as compared to 46% in FY11. The decline in contribution of telecom over the past couple of years is mainly due to scaling-down of IT services business of a key client who is a tier-1 telecom operator in the US. While BFSI is the top vertical for IT services for most of the tier-1 and tier-2 IT vendors, Infinite has not yet been able to make a breakthrough in this segment. The management indicated that they are trying to pitch-in for services in the BFSI sector and have hired IT professionals who have experience in this sector.

Proportion of IT services to telecom sector declined to ~13% due to scaling down of a key client in the telecom sector

Figure 14: A major proportion of IT services revenues is generated from healthcare and telecom sectors



Source: Company, CRISIL Research

Focusing on cloud and analytics to remain competitive

Global cloud-based market is expected to grow at 30-35% over the next five years as estimated by NASSCOM

Lately, Infinite has started to focus on fast growing technologies such as cloud services and analytics. The company has built platforms and capabilities in these areas such as iTaaS (infinite Techsupport as a Service) and enterprise analytics. The company had budgeted US$3 mn in FY14 for building framework of new offerings such as patient care platform for healthcare industry (it will help insurers to continuously monitor their clients and to alert them in advance of a significant decline in health, thereby reducing insurance claims) and sentiment analysis engine for real-time sentiment analysis (it will help companies to identify user sentiments about a product/company/offer etc., by aggregating & analysing relevant information from the web). It spent another US$2 mn on strengthening its sales and marketing for IT services in FY14. Offering higher value services will help Infinite cover the value chain of IT services.

iTaaS is Infinite's cloud-based infrastructure management platform providing services in a different way. The services provided can be shared by multiple clients at the same time and the billing is on pay-per-use basis. Infinite has deployed this platform and is already providing services to its top client.

Enterprise analytics is a fast emerging area in which Infinite has started offering services such as business intelligence and information management. These services help clients to analyse their large database to identify key trends. This in turn helps Infinite's clients in devising strategies to serve their customers in a better way. According to International Data Corporation (IDC), the world-wide business analytics market is expected to grow at a CAGR of 9.3% between 2013 and 2017.

Though the addressable market is huge and Infinite is spending on building technology and capabilities, its ability to launch a product and/or service that proves to be commercially successful is a key monitorable.

PES supports overall margins

PES is focused on telecom device manufacturers/operators and covers the value chain of IT-related services for the telecom vertical. Infinite's PES operations are legacy based, i.e. it usually takes ownership of the legacy product/platform of tier-1 telecom OEM/operators under a licensing agreement and provides entire support & services for the product over a fixed price-based contract. The services are provided in the form of enhanced features, product development, platform optimisation and support. Infinite has four labs, one each in Chicago, Boston, Chennai and Bengaluru to support these services. The company also provides software product development services ranging from development and customisation of new product to support and maintenance services of these products.

With margins in the range of 17%-25%, PES supports the bottom line

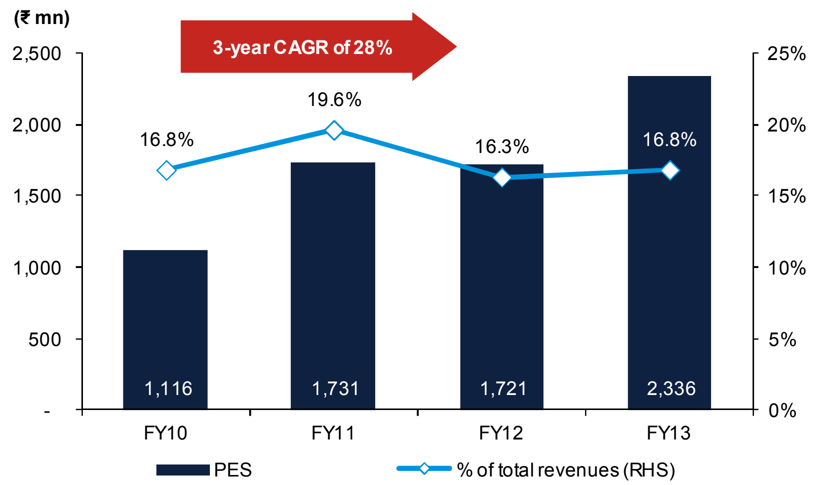
Table 2: PES - Legacy products

Product	Client	Year
Acquisition of an edge switching product	Tier-1 telecom OEM	2012-13
Acquisition of a push-to-talk product	Tier-1 telecom OEM	2012-13
Acquisition of a optics product	Tier-1 telecom OEM	2012-13
Acquisition of a provisioning product	Tier-1 telecom OEM	2012-13

Source: Company

Infinite generated around ₹2.3 bn from PES in FY13 at a CAGR of 28% during FY10-13. With margins in the range of 17% to 25%, this segment provides support to overall margins and, thus, to the bottom line.

Figure 15: Revenues from PES showed healthy growth



Source: Company, CRISIL Research

Betting big on M&M services

Infinite has identified M&M as one of its key growth areas. This segment started with the acquisition of Motorola's (now Nokia Solutions & Networks) messaging platform in 2010 with a revenue sharing agreement between the two companies for 10 years. Revenues from this division touched ₹2 bn in FY13 and currently provide good visibility over the next 3-4 years. Infinite leveraged this platform to build messaging-related platforms and products aimed at companies as well as telecom operators. It invested US$25 mn during 2011-13 for

Infinite's messaging platform supports >130 mn subscribers and carries >900 bn messages annually, accounting for over 40% of messaging traffic in the US

development of new products/platforms and launched three messaging products – Rich Communication Suite (RCS), Enterprise Messaging Service (EMS) and Personal Messaging Cloud (PMC). Infinite's flagship messaging product, RCS, is more advanced than applications such as Whatsapp, Skype etc. RCS allows inter-operator messaging, irrespective of network and devices unlike Whatsapp etc. where the same apps have to be installed for sending/receiving messages.

Figure 16: Description of key M&M products

	RCS	EMS	PMC
Service	RCS offers feature rich inter-operator messaging capabilities to telecom operators	EMS offers real time and interactive messaging services between enterprises and their stakeholders	PMC offers extended mobile messaging capabilities to tablets and PCs, irrespective of device, using a cloud base
Target	RCS is a product aimed at telecom operators who are losing revenue to over-the-top (OTT) applications such as WhatsApp, Skype, Viber, etc.	EMS is aimed at enterprises especially in banking, healthcare and hospitality which continuously need to remain connected with their clients, employees and business partners	PMC is aimed at small telecom operators who need to offer same quality of messaging service as major carriers
Features	RCS is a one-stop product offering services such as messaging, group chat, file transfer, video call, content sharing etc in a more secured way as compared to OTT applications	EMS offers alerts, reminders, updates, status and critical information that need to be passed to end users	Messages sent to/from any device get stored on the PMC. It can be accessed using a web portal or mobile network which enables synchronisation of the content between PMC and user device
Current Status	Presently, the product is in advanced stage of trials with a tier-1 carrier in the US	The product has been deployed with a couple of clients in India and APAC	The product has been deployed with a US-based client
Target Market	The US, Europe and APAC	The US, Europe, APAC and India	The US, Europe and APAC

Source: Company, CRISIL Research

Success of newly launched products holds key to segment's growth

Infinite's future segmental growth significantly depends on the success of M&M products, particularly RCS. These products are targeted at various customers and are in different stages of testing/deployment. While RCS is undergoing trials with potential telecom operators in the US and is expected to be commercially launched in Q1FY15, EMS has been commercially launched and is being used by a few clients in India and Asia. PMC is also being used by a client in the US.

Hurdles for RCS: Competition from OTT apps, slow deployment by operators

Despite Infinite's strong foothold in RCS, we are cautious about its success due to fierce competition from similar OTT applications such as WhatsApp, Viber, etc. Out of around 800+ telecom operators worldwide, only 80-85 operators have committed to deploy RCS of which less than 10 have actually deployed it. This indicates that operators are still skeptical about the acceptance of RCS by their subscribers and, thus, have limited interest in deploying this service. We believe that this wait-and-watch approach is a bottleneck in the deployment of RCS and it may take few years for it to gain scale.

Out of over 800 telecom operators globally, less than 10 have deployed RCS

Acceptability holds key to success; poor revenue visibility as of now

Currently, RCS is offered by a handful of carriers - Vodafone, Deutsche Telekom, Telefonica and Orange in Europe; Sprint and MetroPCS in the US; and SK Telecom in South Korea. GSMA's Joyn brand of RCS was launched in 2012. Currently, RCS is offered free to users as a service bundled into existing data plans of telecom operators. Despite RCS being free, the initial response from end-users is not overwhelming which is evident as the operators are still not confident about their future strategy on RCS.

We believe RCS is at a nascent stage and it is difficult to forecast revenues due to uncertainty over acceptability of RCS by end-users. Therefore, we have not considered the benefit from RCS business in our valuation.

Experience in messaging services, strategic tie-up and cost advantage in RCS make Infinite a preferred RCS vendor

Infinite's RCS development leveraged the same platform which the company acquired from Motorola. As the platform is already up and running, it has a significant cost advantage as compared to its rivals in the RCS space. Also, the company is proposing various engagement models for RCS (such as revenue sharing, based on user subscription, based on messaging volumes, etc.) to its clients depending upon their needs. All these make Infinite a preferred vendor for RCS. Hence, the success of Infinite's RCS also depends upon the management's ability to close deals with tier-1 telecom operators and, thus, will be a key monitorable.

Infinite to be a preferred RCS vendor given its cost advantage and experience in handling messaging platform

Infinite has partnered with Nokia Solutions & Networks (NSN) to address the potential market for RCS. NSN is offering Infinite's RCS to all its clients by packaging the product with its IP Multimedia Subsystem (IMS) core in exchange for a share of revenues generated from RCS.

Infinite faces competition from vendors such as Mavenir Systems, Acision and Alcatel Lucent in the RCS space. RCS development is standardised by the specifications set by the GSMA. Vendors such as Infinite have to develop RCS in accordance with these specifications. The scope for any vendor to add a new distinguishing feature to their RCS version is very limited, which results in almost similar products offered by IT vendors.

Mavenir Systems, Inc., a provider of RCS and networking solutions in mobile communications, recently got listed on NYSE in November 2013

Rich Communication Services (RCS) provides a new way to inter-operator messaging

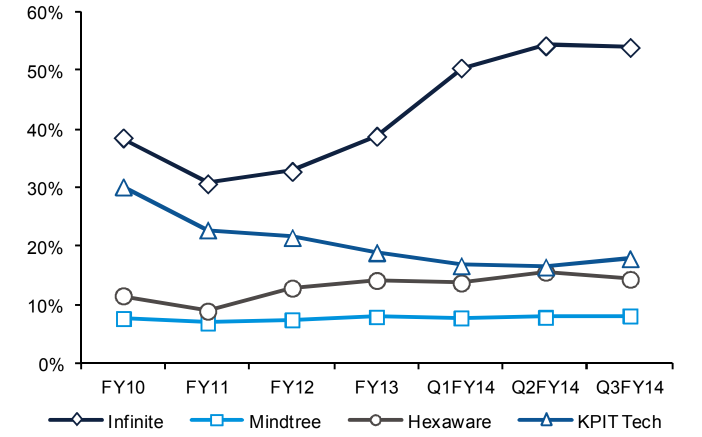
RCS offers rich messaging features such as chat, group chat, file transfer, IP-based voice call, social presence information, video call and geo location exchange in a secured and comprehensive way. It was first introduced in 2011 by the GSM Association (GSMA), an association of mobile operators and related companies, as a counter measure to address loss of messaging revenues by telecom operators to over-the-top (OTT) messaging applications like WhatsApp, Skype, Viber, etc.

OTT apps such as WhatsApp, Skype, Viber, etc. gained popularity among users due to additional messaging features such as group chat, file share, voice call over IP, video call, etc., which were missing in conventional messaging through SMS. Additionally, OTT apps offer these services free. Users can simply download these free apps using internet on their cell phones and can start messaging using their data services. By 2012, there were around 600 mn users of these free OTT apps compared to 3.5 bn users of SMS globally. But OTT traffic has surpassed SMS in terms of messaging volumes, as around 19.1 bn OTT messages were sent daily in 2012 compared to 17.6 bn messages via SMS.

GSMA standardised the development of RCS to make it interoperable. Infinite, along with other vendors, was quick to identify this emerging opportunity and it developed and launched its own version of RCS in 2012-13. The company is leveraging its experience of running Motorola's messaging platform to market the product. With a subscriber base of over 130 mn, this messaging platform is processing over 900 bn SMS/MMS annually and accounts for more than 40% of the messaging traffic in the US.

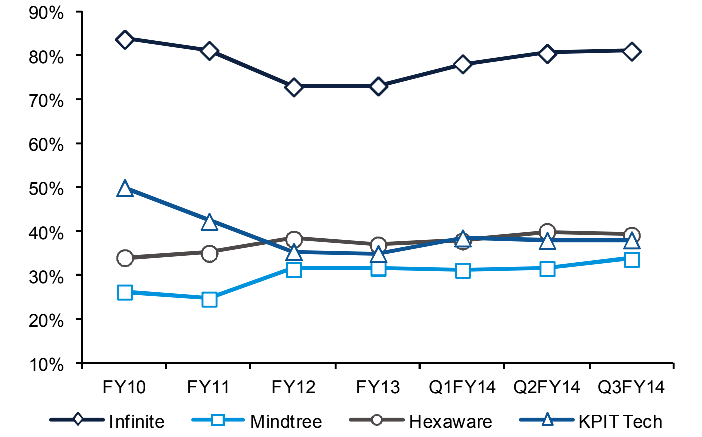
Infinite vis-à-vis peers

Figure 17: Top client concentration has been increasing consistently for Infinite; relatively flat for peers



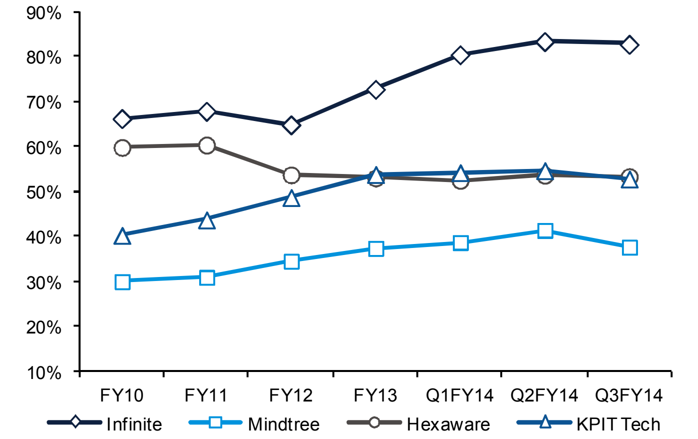
Source: Company, CRISIL Research

Figure 18: Top 5 clients account for >70% of revenues for Infinite; less than 40% for peers



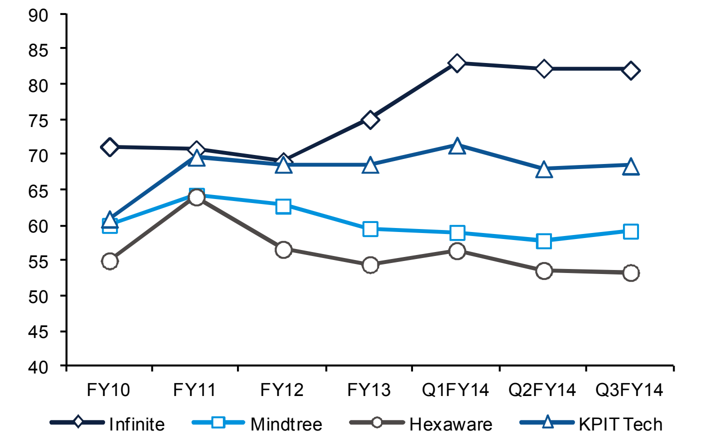
Source: Company, CRISIL Research

Figure 19: Infinite derives >60% of IT services revenues from onsite as compared to less than 53% for peers



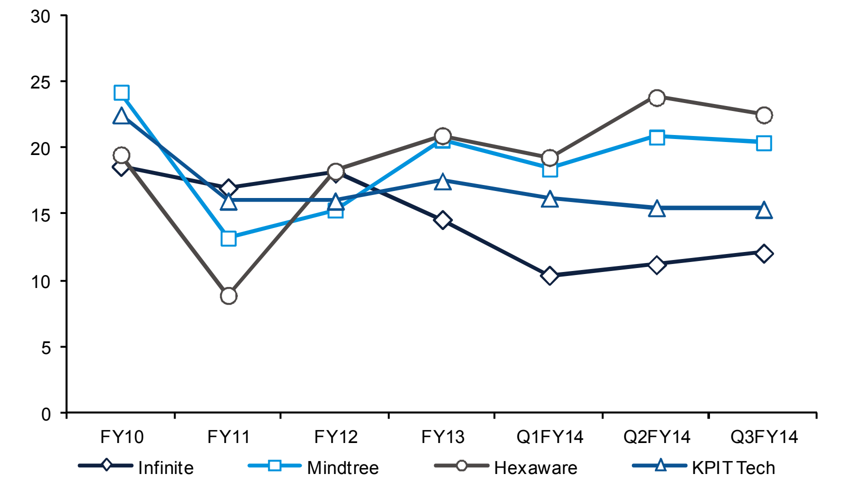
Source: Company, CRISIL Research

Figure 20: Employee cost as a % of sale is higher for Infinite compared to other mid-sized players



Source: Company, CRISIL Research

Figure 21: Infinite operates at lower EBITDA margin than peers



Source: Company, CRISIL Research

Table 3: Onsite billing rates are lower for Infinite compared to other players

		Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Infinite	$/hr	63.0	65.0	66.0	68.0	65.0	66.0	63.0	64.0	65.0
Mindtree	$/hr	71.7	76.7	73.9	75.9	74.2	74.9	75.3	74.0	71.0
Hexaware	$/hr	72.5	73.0	73.9	73.5	73.5	74.3	73.6	73.1	n.a.
Wipro	$/hr	70.9	73.0	73.2	72.5	73.9	76.6	74.0	n.a.	n.a.
Infosys	$/hr	74.7	75.6	75.3	72.4	72.2	75.0	73.5	72.8	73.9

n.a. – not available

Source: Company, CRISIL Research

Table 4: Infinite's debtor days are higher than that of its peers

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Infinite*	115	114	102	102	110	118	104	101	113
Mindtree	72	73	73	73	73	70	77	74	77
Hexaware	72	72	66	77	77	71	63	69	63
KPIT Tech	68	76	75	75	70	75	77	75	76

*Excluding pass-through business and including unbilled receivables

Source: Company, CRISIL Research

Key Risks

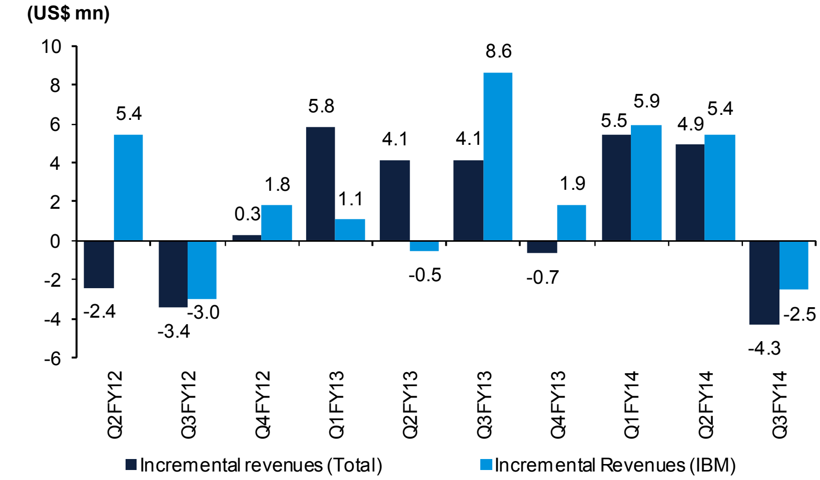
High client concentration; revenue growth largely from top client

Infinite's top five clients continue to account for a major chunk of its revenues and expose the company to high risks. Top five clients accounted for nearly 80% of revenues in 9MFY14 compared to 73% in FY13. The company could lose a significant proportion of revenues if even a single client among the top five moves away. Though Infinite's top-most client IBM accounted for nearly 53% of revenues in 9MFY14 compared to 39% in FY13, the risk associated with this client is lower than with others. Here's why: Infinite is a vendor to IBM across six different geographies and across all IBM's business segments. Also, a significant proportion of revenues from IBM is through sub-contracting. The depth and breadth of engagement with IBM reduces possibility of loss. Further, given the low margins, we believe IBM may not gain much by walking out of this relationship and deploying any other vendor.

Top client accounted for 39%, while top five clients accounted for 73% of revenues in FY13

Infinite's revenue growth from its top client outpaced its total revenue growth in six of the last nine quarters, which is a concern. In addition to this growth, margins earned on this client account are low as compared to margins on other client accounts. Hence, any increase in proportion of revenues from this client will pull down overall EBITDA margin.

Figure 22: Incremental revenues largely from the top client



Source: Company, CRISIL Research

Attrition expected to increase due to extensive hiring plans by tier-1 Indian IT companies

After a single-digit attrition rate until Q2FY11, Infinite has begun to face employee attrition pressure with the current level at 16.4%. Infinite employs computer science graduates in its technical workforce. With the signs of revival in the IT services industry and strong growth outlook in the next couple of years, many tier-1 vendors (such as TCS and Infosys) have already announced extensive hiring plans for the next year. Therefore, retaining quality resources, especially with Infinite's policy on lateral hiring (campus recruitments are very low compared to peers), could be a challenge. Infinite's ability to improve profitability while managing attrition and wage inflation are key monitorables.

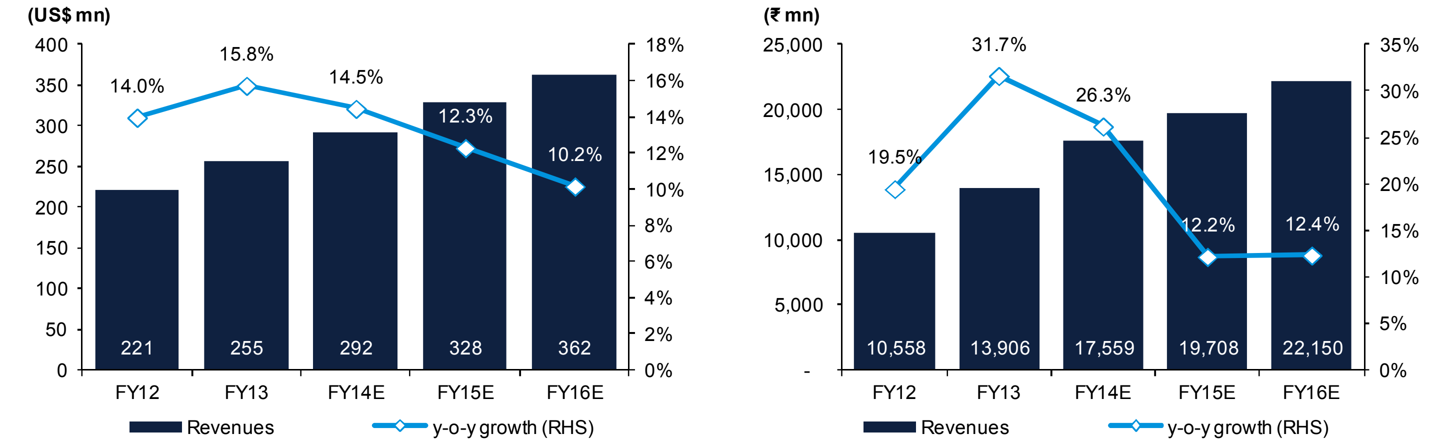
Financial Outlook

Revenues to grow at three-year CAGR of 12.4% in US$

Consolidated revenues are expected to increase at a three-year CAGR of 12.4% to US$362 mn and at a three-year CAGR of 16.8% to ₹22.2 bn in FY16. Growth is expected to be driven by the messaging platform, which was acquired from Motorola, and Infinite's staple IT services business.

Revenues estimated to grow at a three-year CAGR of 12.4% to US$362 mn in FY16

Figure 23: Revenue growth in dollar and rupee terms



Source: Company, CRISIL Research

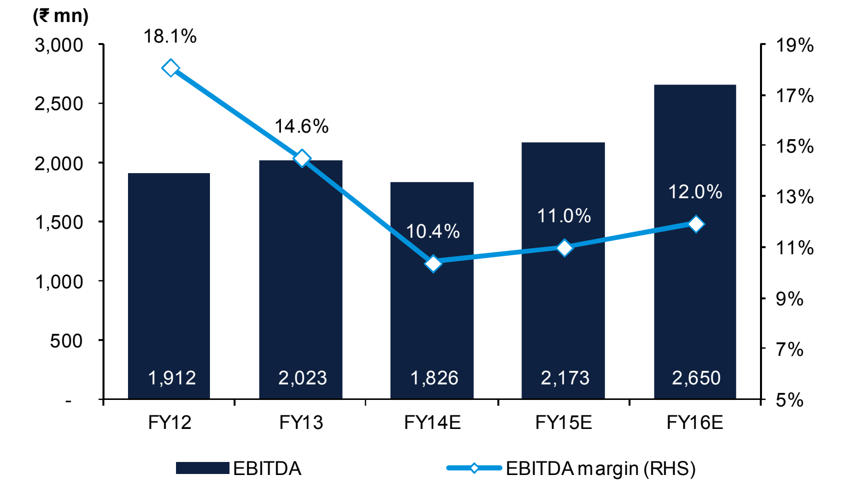
Source: Company, CRISIL Research

EBITDA margin to decline in FY14; bounce back in FY15

Infinite's EBITDA margin is expected to decline from 14.6% in FY13 to 10.4% in FY14 due to expenses of US$12 mn, which the company is incurring on building technological framework and strengthening of sales force during the year. Of these expenses, US$6-7 mn will be one-off and US$5-6 mn will be recurring. EBITDA margin is expected to improve over the next couple of years by 60-160 bps as no one-off expense is planned for these years.

EBITDA margin to expand by 60-160 bps in FY15-FY16

Figure 24: EBITDA margin to decline in FY14; bounce back in FY15

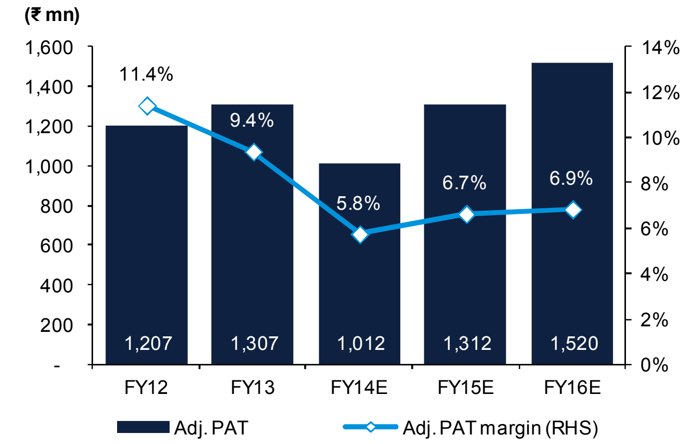


Source: Company, CRISIL Research

Adjusted PAT and EPS to improve in FY16

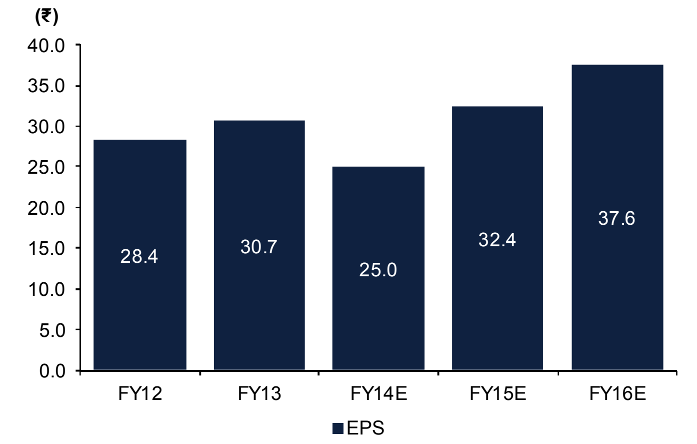
Infinite's adjusted PAT is expected to grow at a three-year CAGR of 5.6% to ₹1.54 bn in FY16. Adjusted PAT margin is expected to decrease to 5.8% in FY14 from 9.4% in FY13 mainly due to strategic expenses as mentioned earlier. PAT margin is expected to expand 90-120 bps in the next couple of years. Post buyback, adjusted EPS is expected to increase at a three-year CAGR of 7.4% to ₹38 in FY16 from ₹30.7 in FY13.

Figure 25: Adjusted PAT and PAT margin



Source: Company, CRISIL Research

Figure 26: EPS to improve in FY15



Source: Company, CRISIL Research

Outstanding shares may remain 40.4 mn post completion of buyback

As on March 25, 2014, Infinite spent ₹229 mn to buy back 2.12 mn shares through the open buyback offer, reducing its outstanding share base by ~5% from 42.56 mn (prior to start of buyback) to 40.4 mn as on date. The maximum price at which the company would buy back shares is ₹120. As the current share price is above the maximum buyback price, it will limit further buyback. We expect the post buyback outstanding share base to remain at 40.4 mn. The company intends to close the buyback by June 20, 2014.

The current market price is above the maximum buyback price which has restricted further buyback

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Top positions held by highly experienced personnel

Infinite's management is headed by Mr Upinder Zutshi, managing director and CEO, who has more than two decades of experience in the IT industry. He has been associated with Infinite for more than 10 years and has been instrumental in the company's growth and its ability to serve blue chip clients. Infinite's service verticals are headed by separate business heads with strong domain expertise. All key management personnel have experience of over two decades in the IT industry and have served key positions of many other tier-1 IT services vendors in the past. Overall, the top management's level of experience befits their respective positions.

Highly experienced management with experience of over 20 years in the IT industry

Table 5: Profile of key management personnel

Name	Designation	Years of experience	Past experience	Profile
Mr Anurag Lal	CEO of Infinite Convergence Solutions Inc., USA (a wholly owned subsidiary of Infinite)	Over 20 years	Director of the United States National Broadband Taskforce	Responsible for the M&M platform and other IP-leveraged products
Mr Amit Srivastav	Business Head – IT Services	Over 20 years	HCL, 3i InfoTech, Microsoft	Responsible for overall IT services business across all regions
Mr K.S. Rao	Sr. VP & Business head - Product Engineering	Over 20 years	L&T Infotech, TCS	Responsible for new product development and for extending the lifecycle of clients' products
Mr Sheppard Lyngdoh	Sr. VP - IT Services	Over 22 years	Wipro, Infosys, TCS & Godrej	Responsible for global delivery of IT services across all regions
Mr Sunder Rajan	Sr. VP Human Resources	Over 25 years	Aricent, Sasken	Responsible for human resource management

Source: Company, CRISIL Research

Key business risk still high

Infinite's management has so far been unable to mitigate the client concentration risk. The company has not been able to achieve a better mix within the top 10 clients. Though the management was able to diversify the service vertical concentration risk to some extent, geographical diversification is still work in progress; the company set up its European headquarters in Germany and hired sales force in Europe and APAC during H1FY14.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Infinite has maintained good corporate governance practices with regards to the board constitution and the presence of audit and other committees, which support board processes. The attendance of independent directors and their level of engagement in company affairs are fairly high.

Cmde. Navin Chandra (executive director) resigned from the board w.e.f. May 01, 2013 due to health reasons

Board composition

Infinite's board comprises five members, of whom three are independent directors, which is more than the requirement under Clause 49 of SEBI's listing guidelines. All the directors have good industry experience and are highly qualified. Given the diverse background of directors, we believe that the board is experienced. The independent directors have a fairly good understanding of the company's business and its processes.

Table 6: Profile of board of directors

Name	Category	Profile
Mr Sanjay Govil	Non-executive Director, Promoter & Chairman	He founded Infinite in 1999. Based in the US, he provides strategic direction to the company and is a key person in maintaining long-term relationships with marquee clients
Mr Upinder Zutshi	Executive Director, MD & CEO	He has been instrumental in setting the vision for Infinite to be positioned as a full service provider, vertically well integrated; thus, moving the company up the value chain
Mr Ravindra Rama Rao Turaga	Independent Director	He is a C.A. by profession and provides guidance on company law, taxation, investments, audits and finance
Mr Narendra Kumar Agrawal	Independent Director	Holds extensive experience in people management and strategic decision making. He was chairman of Hindustan Cables Ltd and FIITJEE
Mr Ajai Kumar Agrawal	Independent Director	He provides guidance on the company's corporate planning and management decisions. Earlier, he was associated with Tata Motors and served key management roles

Board's processes

The company's quality of disclosure is good as judged by the level of information and details furnished in the annual report, websites and other publicly available data. The company has all the necessary committees – audit, remuneration and investor grievance – in place to support corporate governance practices. Board and committee meetings were carried out at least once a quarter with almost full attendance by the committee members.

Valuation   Grade: 4/5

DCF-based fair value estimated at ₹163 per share

We have used the discounted cash flow (DCF) method to value Infinite and arrived at a fair value of ₹163 per share. This fair value implies P/E multiples of 6.5x FY14E and 5x FY15E earnings. The stock is currently trading at ₹138 per share. Consequently, the valuation grade is **4/5**, indicating that the market price has **upside** from the current levels.

Key DCF assumptions

- We have considered the discounted value of the firm's estimated free cash flows from FY15 to FY23.
- We have assumed a terminal growth rate of 3% beyond the explicit forecast period until FY23.
- We have used cost of equity of 18.3%.

		Terminal growth rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
Terminal WACC	16.3%	166	168	171	174	177
	17.3%	163	165	167	169	172
	18.3%	160	161	**163**	165	167
	19.3%	157	159	160	162	164
	20.3%	155	156	158	159	160

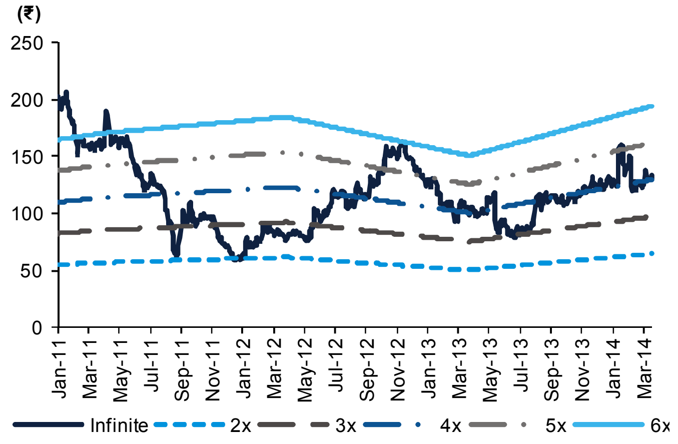
Peer comparison

Companies	M.cap (₹ mn)	EPS (₹) FY13	EPS (₹) FY14E	EPS (₹) FY15E	P/E (x) FY13	P/E (x) FY14E	P/E (x) FY15E	P/B(x) FY13	P/B(x) FY14E	P/B(x) FY15E	RoE (%) FY13	RoE (%) FY14E	RoE (%) FY15E
Mid-cap companies													
Infinite*	**5,890**	**30.7**	**25.0**	**32.4**	**4.5x**	**5.5x**	**4.3x**	**1.0x**	**0.9x**	**0.8x**	**23.7**	**16.4**	**19.2**
Mindtree Ltd	64,747	78.5	104.6	116.3	19.8x	14.9x	13.4x	4.7x	4.0x	3.1x	27.5	28.5	26.3
Hexaware Technologies Ltd	39,539	12.7	14.2	n.a.	10.4x	9.3x	n.a.	2.8x	2.3x	2.0x	28.3	26.8	n.a.
Persistent Systems Ltd	39,538	48.6	61.1	77.0	20.3x	16.2x	12.8x	3.9x	3.2x	2.8x	20.2	26.9	29.8
Polaris Financial Technology Ltd	13,762	20.2	n.a.	n.a.	6.8x	n.a.	n.a.	1.0x	n.a.	n.a.	15.8	n.a.	n.a.
KPIT Technologies Ltd	33,500	10.9	6.0	6.9	15.9x	28.7x	25.2x	3.2x	3.3x	2.9x	22.8	14.3	14.9
Large cap companies													
Tata Consultancy Services Ltd	4232126	71.0	94.4	111.9	30.4x	22.9x	19.3x	11.0x	8.0x	6.3x	40.9	39.0	36.2
Infosys Ltd	2045027	165.0	182.6	214.6	21.6x	19.5x	16.6x	5.4x	4.4x	3.7x	27.2	23.9	23.9
HCL Technologies Ltd	870771	58.1	80.5	90.0	21.4x	15.5x	13.9x	6.6x	4.7x	3.7x	35.1	33.9	29.5
Wipro Ltd	1368606	27.0	n.a.	n.a.	20.5x	n.a.	n.a.	4.8x	n.a.	n.a.	23.3	n.a.	n.a.
Tech Mahindra Ltd	433954	100.9	n.a.	n.a.	18.5x	n.a.	n.a.	4.4x	n.a.	n.a.	27.2	28.5	24.0

* CRISIL Research estimates; n.a.: not available

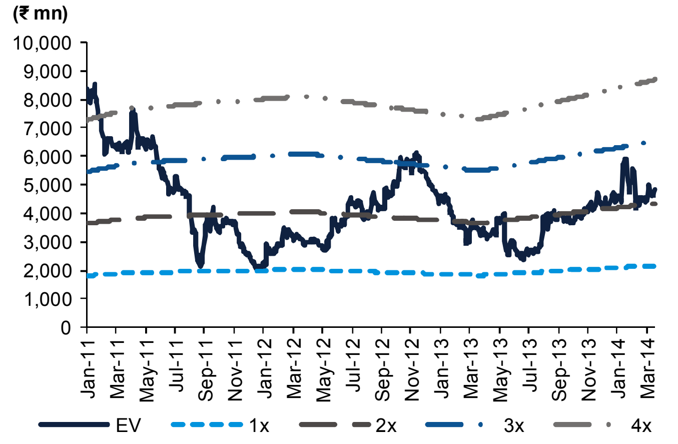
Source: CRISIL Research, Industry sources

One-year forward P/E band



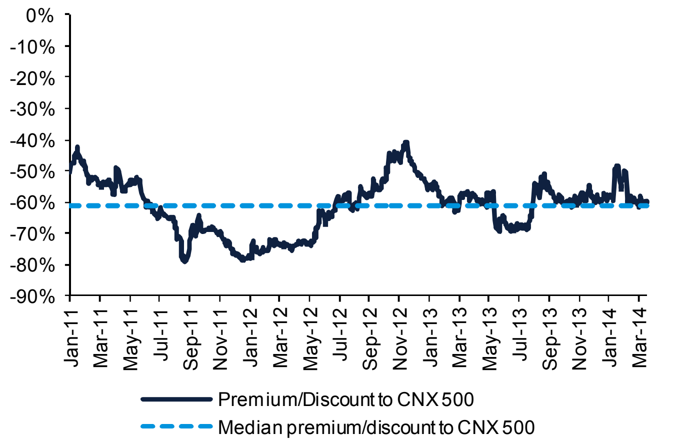
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



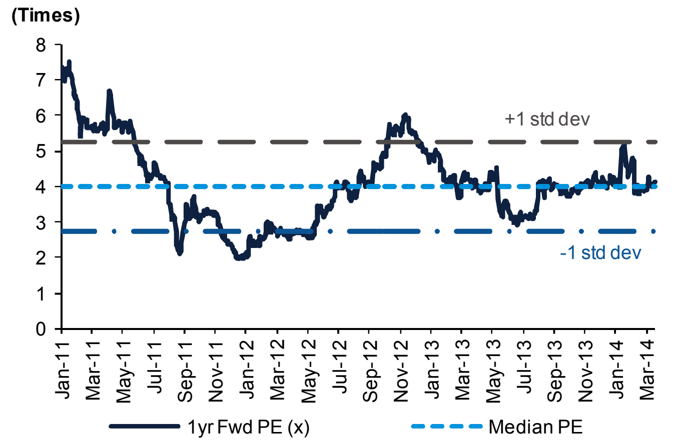
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



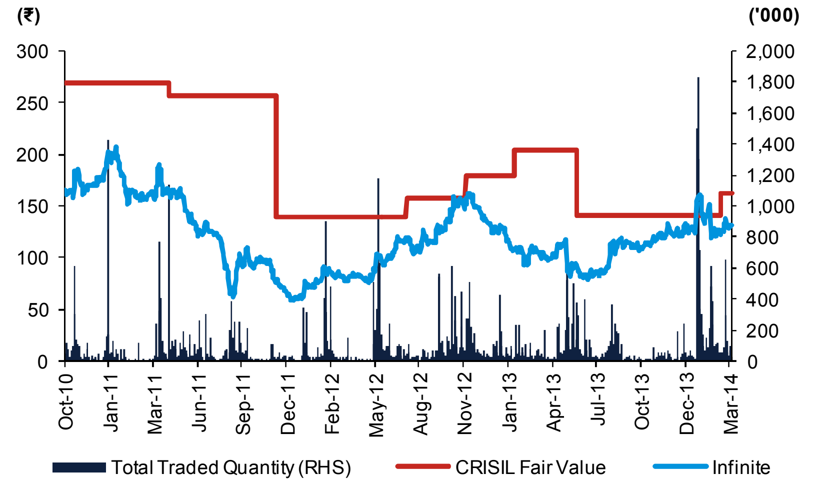
Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

Fair value movement



Source: NSE, BSE, CRISIL Research

CRISIL IER reports released on Infinite Computer Solutions (India) Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
14-Oct-10	Initiating coverage	3/5	₹269	5/5	₹165
04-Nov-10	Q2FY11 result update	3/5	₹269	5/5	₹183
03-Feb-11	Q3FY11 result update	3/5	₹269	5/5	₹180
11-May-11	Q4FY11 result update	3/5	₹256	5/5	₹165
10-Aug-11	Q1FY12 result update	3/5	₹256	5/5	₹93
22-Nov-11	Q2FY12 result update	3/5	₹139	5/5	₹78
27-Feb-12	Q3FY12 result update	3/5	₹139	5/5	₹90
06-Sep-12	Detailed report	3/5	₹157	5/5	₹116
10-Dec-12	Q2FY13 result update	3/5	₹180	5/5	₹141
12-Mar-13	Q3FY13 result update	3/5	₹204	5/5	₹107
07-Jun-13	Q4FY13 result update	3/5	₹140	5/5	₹92
12-Sep-13	Q1FY14 result update	3/5	₹140	4/5	₹115
5-Dec-13	Q2FY14 result update	3/5	₹140	4/5	₹129
04-Mar-14	Q3FY14 result update	3/5	₹163	5/5	₹123
27-Mar-14	Detailed Report	3/5	₹163	4/5	₹138

Company Overview

Infinite was incorporated as Infinite Computer Solutions (India) Pvt. Ltd in September 1999. In February 2008, it was renamed Infinite Computer Solutions (India) Ltd. The company got listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) in 2010 through an IPO of ₹1.9 bn.

Infinite is a mid-sized global provider of IT services, product engineering solutions and mobility & messaging products and services. Revenues in rupee terms grew at a CAGR of 28% during FY10-13. As per FY13 revenue share, the US is Infinite's largest market (85%) followed by India (9.5%), APAC (5.4%) and Europe (0.1%). It focuses mainly on telecom, media, healthcare, manufacturing and retail industries.

Business snapshot

Service offering - revenues (%)	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
IT services	67.8	69.2	72.8	73.0	73.2	73.2
PES	16.6	16.6	16.5	14.4	13.4	12.9
M&M	15.6	14.2	10.7	12.6	13.4	13.9

Service verticals - revenues (%)	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Telecom & media	41.0	38.5	35.1	36.0	36.5	37.5
Healthcare	15.4	18.2	20.6	18.1	16.8	16.7
Manufacturing	6.0	5.9	6.2	6.1	5.6	5.6
Retail	2.2	2.0	1.8	1.5	1.3	1.4
Energy & utilities	8.9	0.9	1.8	0.8	0.5	0.2
Others	26.6	34.5	34.5	37.5	39.3	38.6

Onsite – offshore - revenues (%)	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Onsite	67.7	74.5	74.3	80.4	83.3	82.7
Offshore	32.3	25.5	25.7	19.6	16.7	17.3

Engagement model - revenues (%)	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
T&M	57.7	60.6	62.0	66.1	68.7	68.9
Fixed price	24.4	22.6	24.7	18.7	15.7	14.3
Revenue sharing	17.9	16.8	13.3	15.2	15.6	16.8

Region - revenues (%)	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
The US	78.6	87.4	88.0	89.5	90.4	89.0
India	15.5	7.7	7.8	6.1	5.1	5.6
APAC	5.9	4.9	4.2	4.3	4.4	5.3
Europe	0.0	0.0	0.1	0.1	0.1	0.1

Annual deal size – no. of clients	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
$1-$5 mn	18	17	16	16	15	15
$5-$10 mn	11	11	11	11	09	09
$10-$20 mn	05	06	07	07	07	07
>$20 mn	04	04	04	03	02	02

Source: Company, CRISIL Research

Service verticals

IT services

Infinite mainly provides traditional IT services to clients. The company has development/delivery centers in India and the US where it provides IT services through a mix of onsite and offshore service delivery methods like other Indian IT companies. IT services include:

Offers traditional IT services such as application management and infrastructure management

- Application management: Infinite provides application management outsourcing services which include management, development and maintenance of in-house software applications of its clients.
- Packaged application services: Infinite's packaged application services include package evaluation, selection, implementation, post-implementation support and development, version upgrades and data management services.
- Independent validation and verification of software: Infinite provides independent software testing services for functionality, performance, compatibility and other aspects of software applications.
- Remote infrastructure management: Infinite provides remote telecom/IT infrastructure management to enterprises in order to help them reduce their cost of operations. It also provides continuous monitoring and management services. The service offerings include network deployment turnkey contracts, server and backup management, database management, messaging system administration, desktop management, storage management and helpdesk services.

Product engineering services

In this vertical, Infinite takes ownership of the customer IP under a licensing agreement and provides full lifecycle R&D support in exchange for a fixed price. The products that are either developed by Infinite or acquired from clients usually target telecom OEMs/ISVs, service providers, content distribution enterprises, healthcare providers and technology companies. The company also provides software product development services ranging from new product development and customisation to support and maintenance services.

Product engineering and mobility & messaging services are focused on the telecom sector

Mobility & messaging products and services

Infinite operates in this vertical through its US-based wholly owned subsidiary – Infinite Convergence Solutions, Inc. It offers messaging products such as Rich Communication Suite (RCS), Enterprise Messaging Services (EMS) and Personal Messaging Cloud (PMC) to telecom operators and telecom OEMs. It also provides professional as well as value-added services such as product platform support, product lifecycle management, consulting, development of operational support system and personalised messaging service to telecom operators.

Milestones

1999	Infinite Computer Solutions (India) Pvt. Ltd was incorporated
2000	The company started its US operations
2002	Listed in NASSCOM Top 20 Indian IT Companies
2003	Started its UK operations
2004	Started operations in Malaysia and China
2006	Acquired Datagrid Services Pvt. Ltd, a Hyderabad-based BPO company and renamed it Infinite BPO Pvt. Ltd
2007	Acquired Comnet International Co. USA, a telecom product development company
2008	Divested its investment in Infinite BPO Pvt. Ltd
2010	Got listed on the BSE and the NSE through an IPO of ₹1.9 bn (₹0.9 bn through fresh issue of shares and balance through offer for sale) Acquired messaging platform from Motorola (now Nokia Solutions Networks)
2012	Listed in NASSCOM Top 20 Players in IT Services
2013	Established its European headquarters in Munich, Germany Added a tier-1 telecom operator in the US as a client Announced offer to buy back a maximum of 3 mn shares

Source: Company, CRISIL Research

Annexure: Financials (Consolidated)

Income statement

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Operating income	**10,558**	**13,906**	**17,559**	**19,708**	**22,150**
EBITDA	**1,912**	**2,023**	**1,826**	**2,173**	**2,650**
EBITDA margin	**18.1%**	**14.6%**	**10.4%**	**11.0%**	**12.0%**
Depreciation	329	433	523	574	630
EBIT	**1,584**	**1,590**	**1,303**	**1,599**	**2,021**
Interest	34	40	44	35	26
Operating PBT	**1,549**	**1,550**	**1,259**	**1,564**	**1,995**
Other income	57	74	38	118	116
Exceptional inc/(exp)	-	-	-	-	-
PBT	**1,607**	**1,624**	**1,297**	**1,682**	**2,111**
Tax provision	400	317	285	370	591
Minority interest	-	-	-	-	-
PAT (Reported)	**1,207**	**1,307**	**1,012**	**1,312**	**1,520**
Less: Exceptionals	-	-	-	-	-
Adjusted PAT	**1,207**	**1,307**	**1,012**	**1,312**	**1,520**

Ratios

	FY12	FY13	FY14E	FY15E	FY16E
Growth					
Operating income (%)	19.5	31.7	26.3	12.2	12.4
EBITDA (%)	27.8	5.8	(9.7)	19.0	22.0
Adj PAT (%)	12.6	8.3	(22.6)	29.6	15.9
Adj EPS (%)	16.3	8.3	(18.5)	29.6	15.9
Profitability					
EBITDA margin (%)	18.1	14.6	10.4	11.0	12.0
Adj PAT Margin (%)	11.4	9.4	5.8	6.7	6.9
RoE (%)	26.1	23.7	16.4	19.2	19.6
RoCE (%)	30.6	25.4	18.7	21.5	24.6
RoIC (%)	32.5	30.5	20.6	25.1	25.7
Valuations					
Price-earnings (x)	4.5	4.1	5.1	3.9	3.4
Price-book (x)	1.1	0.9	0.8	0.7	0.6
EV/EBITDA (x)	2.3	2.2	2.3	1.8	1.3
EV/Sales (x)	0.4	0.3	0.2	0.2	0.2
Dividend payout ratio (%)	30.0	29.3	30.0	30.0	30.0
Dividend yield (%)	6.7	7.1	5.9	7.7	8.9
B/S ratios					
Inventory days	-	-	-	-	-
Creditors days	53	51	45	44	42
Creditors days (ex-pass through)	21	31	30	30	30
Debtor days	147	140	136	134	132
Debtor days (ex-pass through)	111	120	120	120	120
Working capital days	41	39	44	52	60
Gross asset turnover (x)	4.3	4.5	4.9	4.8	4.7
Net asset turnover (x)	5.8	6.7	8.1	9.2	10.3
Sales/operating assets (x)	5.2	6.0	7.3	8.6	10.0
Current ratio (x)	1.8	1.9	1.8	2.0	2.2
Debt-equity (x)	0.1	0.1	0.1	0.1	0.0
Net debt/equity (x)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
Interest Coverage					
-EBITDA/Interest	55.8	50.2	41.9	62.6	102.8
-EBIT/Interest	46.2	39.4	29.9	46.1	78.4

Per share

	FY12	FY13	FY14E	FY15E	FY16E
Adj EPS (₹)	28.4	30.7	25.0	32.4	37.6
CEPS	36.1	40.9	38.0	46.6	53.1
Book value	119.6	140.1	158.1	179.2	203.7
Dividend (₹)	8.5	9.0	7.5	9.7	11.3
Actual o/s shares (mn)	42.6	42.6	40.4	40.4	40.4

Balance Sheet

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Liabilities					
Equity share capital	426	426	404	404	404
Reserves	4,664	5,537	5,989	6,843	7,834
Minorities	-	-	-	-	-
Net worth	**5,089**	**5,963**	**6,393**	**7,248**	**8,239**
Convertible debt	-	-	-	-	-
Other debt	591	859	709	539	389
Total debt	**591**	**859**	**709**	**539**	**389**
Deferred tax liability (net)	29	193	149	149	149
Total liabilities	**5,710**	**7,014**	**7,251**	**7,935**	**8,776**
Assets					
Net fixed assets	1,958	2,198	2,125	2,150	2,171
Capital WIP	233	239	239	89	(0)
Total fixed assets	**2,191**	**2,437**	**2,364**	**2,239**	**2,171**
Investments	**12**	**12**	**14**	**14**	**14**
Current assets					
Inventory	-	-	-	-	-
Sundry debtors	4,263	5,316	6,530	7,237	8,040
Sundry debtors (ex-pass through)	3,214	4,558	5,773	6,479	7,282
Loans and advances	397	508	702	788	886
Cash & bank balance	1,502	1,646	1,610	1,586	1,886
Marketable securities	105	73	73	73	73
Total current assets	**6,267**	**7,542**	**8,915**	**9,683**	**10,884**
Creditors	1,256	1,662	1,959	2,107	2,268
Creditors (ex-pass through)	501	997	1,293	1,441	1,603
Total current liabilities	**3,581**	**3,925**	**4,890**	**4,749**	**4,939**
Net current assets	**2,686**	**3,617**	**4,026**	**4,934**	**5,944**
Intangibles/Misc. expenditure	**821**	**947**	**847**	**747**	**647**
Total assets	**5,710**	**7,014**	**7,251**	**7,935**	**8,776**

Cash flow

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	1,607	1,624	1,297	1,682	2,111
Total tax paid	(397)	(153)	(329)	(370)	(591)
Depreciation	329	433	523	574	630
Working capital changes	234	(820)	(443)	(933)	(710)
Net cash from operations	**1,772**	**1,084**	**1,048**	**953**	**1,439**
Cash from investments					
Capital expenditure	(950)	(806)	(350)	(350)	(461)
Investments and others	52	32	(2)	-	-
Net cash from investments	**(898)**	**(774)**	**(352)**	**(350)**	**(461)**
Cash from financing					
Equity raised/(repaid)	(163)	(0)	(229)	-	-
Debt raised/(repaid)	74	267	(150)	(170)	(150)
Dividend (incl. tax)	(421)	(446)	(353)	(457)	(530)
Others (incl extraordinaries)	303	12	-	0	1
Net cash from financing	**(207)**	**(167)**	**(731)**	**(627)**	**(679)**
Change in cash position	668	143	(35)	(24)	300
Closing cash	1,502	1,646	1,610	1,586	1,886

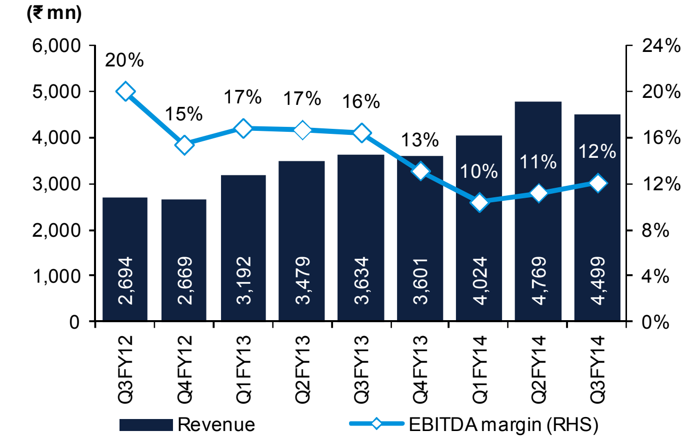
Quarterly financials

(₹ mn)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Net Sales	**3,634**	**3,601**	**4,024**	**4,769**	**4,499**
Change (q-o-q)	4%	-1%	12%	19%	-6%
EBITDA	**597**	**472**	**418**	**533**	**543**
Change (q-o-q)	3%	-21%	-11%	28%	2%
EBITDA margin	**16.4%**	**13.1%**	**10.4%**	**11.2%**	**12.1%**
PAT	343	298	246	262	244
Adj PAT	**343**	**298**	**246**	**262**	**244**
Change (q-o-q)	10%	-13%	-18%	7%	-7%
Adj PAT margin	**9.4%**	**8.3%**	**6.1%**	**5.5%**	**5.4%**
Adj EPS	**8.0**	**7.0**	**5.8**	**6.3**	**6.0**

Source: Company, CRISIL Research

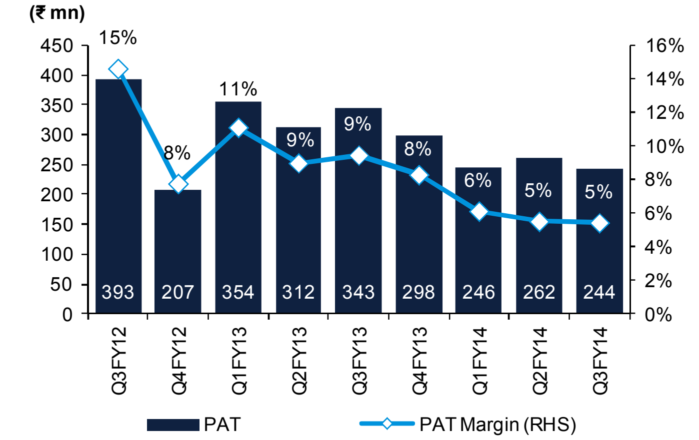
Focus Charts

Quarterly revenue and EBITDA margin



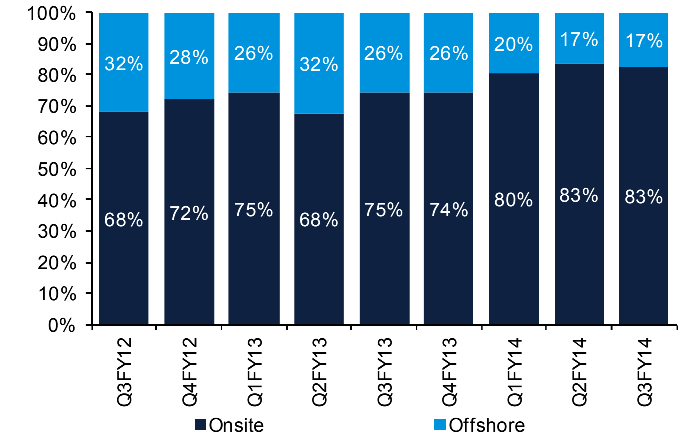
Source: Company, CRISIL Research

Quarterly PAT and PAT margin



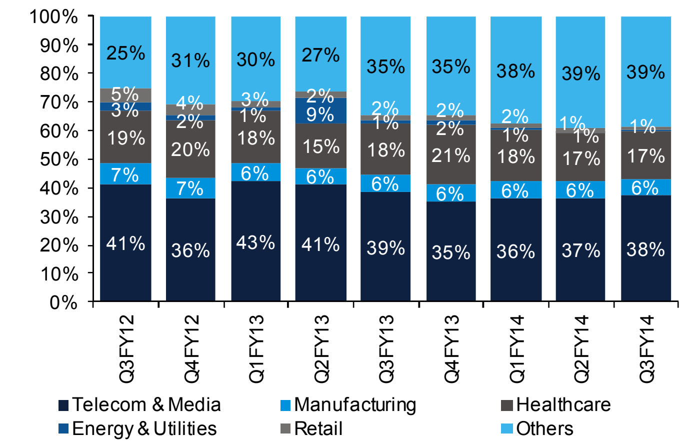
Source: Company, CRISIL Research

Onsite-offshore revenue mix



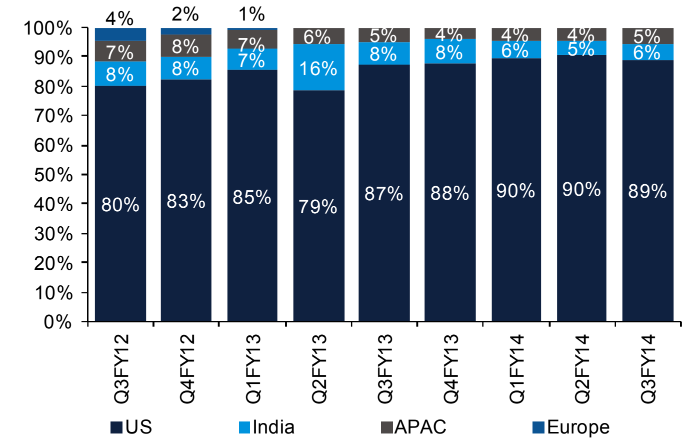
Source: Company, CRISIL Research

Revenue distribution across verticals



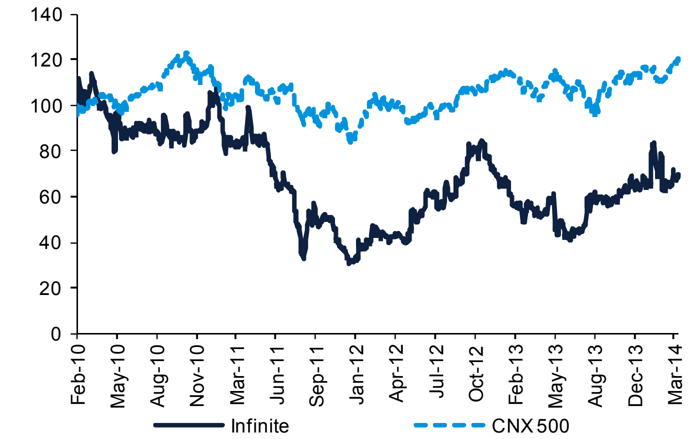
Source: Company, CRISIL Research

Geographical segmentation of revenues



Source: Company, CRISIL Research

Share price movement since initiation



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Source: Company, CRISIL Research

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Our Capabilities

Making Markets Function Better

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- Value more than ₹53 trillion (US$ 960 billion) of Indian debt securities, comprising outstanding securities
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- Ranking of Indian mutual fund schemes covering 70 per cent of assets under management and ₹4.7 trillion (US$ 85 billion) by value
- Retained by India's Employees' Provident Fund Organisation, the world's largest retirement scheme covering over 60 million individuals, for selecting fund managers and monitoring their performance

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- Assigned the first IPO grade in India

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