

**Mr. Rakesh Bhatia,**  
**Chairman and Managing Director,**  
**Bharatiya Global Infomedia Ltd.,**  
B-60, Sector 57, Noida  
201 301

## CREDIT ANALYSIS & RESEARCH LTD.

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April 18, 2011

Dear Sir,

### IPO Grading

Please refer to our letter dated March 14, 2011 on the above subject.

2. The rationale for the grading is attached as **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
3. A write-up on the above grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as **Annexure - II**.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



**[Sharmila Jain]**  
**Manager**

**Annexure-I**

**Grading Rationale**

**Bharatiya Global Infomedia Ltd. (BGIL)**

**Grading Assigned**

Particulars	Number of equity shares	Grading <sup>1</sup>	Remarks
IPO Grade	67,20,000 equity shares of face value Rs.10 each	'CARE IPO Grade 2' [Two]	Assigned

**Grading Rationale**

*The grading is constrained by the emerging technologies based service offerings, average order book position, limited size of operations, stressed liquidity position due to long operating cycle as well as low entry barriers coupled with intense competition in the industry. The grading also factors in the past history of delays in payment of statutory dues as well as debt obligations. However, the grading draws strength from BGIL's experience in providing Radio Frequency Identification (RFID) based solutions and repeated contracts from the large automation players.*

**Background**

Bharatiya Global Infomedia Ltd. (BGIL) was initially promoted as Bhartiya Global Financial & Allied Services Ltd in 1994 and subsequently its name was changed to Bhartiya Global Software Fintec Ltd. in 1999 and thereafter to Bhartiya Global Software Ltd. in 2001 and then to its present name in 2003. Mr Rakesh Bhatia after being appointed as MD in 2004 acquired the shares of BGIL from erstwhile promoters and became the promoter of BGIL. In 2005, BGIL acquired the business of two entities - VTV Network Ltd and STV Enterprises Ltd. and established a digital post production studio.

BGIL is in the business of providing information technology-based security and compliance automation systems, majorly based on RFID platform (IT division) and has a technology-based digital post production service (entertainment division). The IT division contributed

<sup>1</sup> Complete definition of the grading assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

about 94% of revenues in FY10 and the balance 6% was contributed by the entertainment division.

### **Management**

Mr Rakesh Bhhatia, the main promoter, is a Company Secretary by qualification and has business interests in varied fields of information technology, financial consultancy, entertainment, and related activities. In 1996, Mr Rakesh Bhhatia was associated with SRG Infotec Ltd. (SIL) (a listed entity), as a Managing Director. Mr Bhhatia resigned from the Board of SIL in 1996. Mr Bhhatia was the main promoter and CMD of Visesh Infotechnics Ltd.(VIL) and the company came out with an IPO in 1999. However, he completely disassociated himself from VIL in 2004. Further, in 2005, Mr Bhhatia along with BGIL acquired Nam Credit and Investment Ltd. a Category I Merchant Banker listed on BSE and renamed the company as BGIL Films & Technologies Ltd (BFTL), and changed the main business of BFTL to producing & distribution of films. The promoter group holding stands at 88.66% as on November 06, 2010 and the same will fall to 51.06% post IPO.

### **Corporate Governance**

BGIL has complied with the corporate governance code in accordance with Clause 49 of the listing agreement (as applicable) in relation to appointment of Independent Directors to its Board and constitution of the audit committee, remuneration committee and shareholders'/investor's grievance committee. Currently, the Board has seven Directors, with the Chairman being an Executive Director, and in compliance with the requirements of Clause 49 of the listing agreement, the company has four independent Directors on its Board.

### **Operations**

The IT division operations of BGIL are carried out from Noida and Mumbai branch office and the entertainment division operations are carried out from the Mumbai-based digital post production studio. The IT division applications of the BGIL are majorly built on the RFID platform. The technology allows a tagged object to be identified when it comes in the radius of the RFID reader. The technology is used for automation of toll booths, parking management and asset tracking. Apart from RFID technology, BGIL provides the automation solutions based on technologies such as smart cards, bar code, biometrics etc. BGIL has developed the Token-less Two Factor Authentication (TTFA) which enables the financial transactions on the online platform and the same is under testing. Further, BGIL is

developing various mobile applications which are also under final stages of testing. BGIL procures the hardware equipments required in building the automation system and uses in-house developed software to deliver the systems to customer. The hardware supplies accounted for about 75% of FY10 sales of the IT division.

BGIL bags sub-contracts from bigger automation players like Honeywell Automation Ltd. and Siemens Building Technologies Ltd. Apart from the said sub-contracts, BGIL derives revenues from relatively smaller contracts won directly from the end customers.

As on March 12, 2011, BGIL has total order book position of Rs.27.84 crore.

BGIL has elite clientele in the entertainment division and has been associated with few successful movies in the past. The revenue contribution from the entertainment division was 6% of the total revenues for FY10.

### **IPO Issue Details**

BGIL intends to issue 67,20,000 equity shares of face value Rs.10 each, constituting 42.42% of fully diluted post issue paid-up capital of the company. BGIL proposes to utilise the net proceeds from the IPO for the following objects:

- i. To set up its owned corporate office at Noida for Rs.3.96 crore. BGIL has entered into MoUs with M/s Gadeo Electronics to take over the said firm having immovable property at Noida for total consideration of Rs.5.96 crore. Out of the said sum, BGIL has already allotted 2,00,000 shares at a price of Rs.100 each as part consideration. The balance Rs.3.96 crore will be paid in cash through the IPO proceeds.
- ii. To buy a 4000-5,000 sq ft branch office premises between Vile Parle (W) and Jogeshwari (W) in Mumbai at an estimated cost of Rs.5.94 crore.
- iii. To buy machineries i.e. computer hardware and software for the Digital Post Production Studio at Mumbai at an estimated cost of Rs.13.60 crore.
- iv. To expand the IT division at Mumbai and Noida at an expected cost of Rs.8.33 crore.
- v. To expand the R&D center with estimated investment of Rs.6.51 crore.

vi. To repay the bank borrowings and meet long-term working capital requirements, Rs.7.46 crore.

### **Financial Analysis**

The net sales of the BGIL grew by 37.76% during FY10 after declining by 1.72% during FY09. The growth in net sales was mainly due to growth in the product offerings in the form of new automated solutions like toll management systems, traffic management systems, asset management system etc. BGIL has been able to generate healthy PBILDT margins with supply of in-house developed software to integrate with the procured hardware. The PAT margins for FY09 were low due to the provision for the deferred tax liability of Rs.1.60 crore. The operating cycle of BGIL was high mainly due to high collection period on account of delayed realization. As such, the liquidity position of the company has been under stress with working capital borrowings not keeping pace with the growth in the business operations.

The gearing level has been low for BGIL with majorly working capital borrowings and interest coverage ratio has been comfortable despite high rate of interest on working capital borrowings. The EPS and return on networth took dip in FY09 mainly due to sharp fall in profitability. However, the same improved in FY10.

As per provisional results for 9MFY11, BGIL recorded net sales of Rs.39.62 crore and a PAT of Rs. 4.58 crore.

As on March 31, 2010, the service tax for the period October 2007 to March 2010 aggregating to Rs.0.89 crore was outstanding to be paid to the service tax authorities. The said sum increased to Rs.0.96 crore as on September 30, 2010. However, the same was subsequently paid in tranches till November 04, 2010. The Auditor has qualified the CARO report for FY09 and FY10 for non-payment of the service tax for more than six months.

### **Industry Review**

Radio frequency identification is an enabling technology, which enables companies to develop applications based on RFID platform. Its advantages are that it requires no human intervention, tags can usually be read even when a tag is not facing a reader antenna (tags cannot be read through metal and some other materials) and the information can be

transmitted to computers in real time. Supply chain, asset tracking, retailing, manufacturing, payment systems, security systems can be developed around the RFID technology.

The application of the RFID technology is finding its way in the toll management system and the parking management systems for buildings. Of the central programmes, the Rs.3,31,400 crore National Highways Development Project (NHDP) undertaken by Government of India (GoI) through NHAI provides a significant opportunity for the development of national highways including construction of bridges, flyovers and elevated structures. Spread across seven phases, the project includes upgradation of more than 50,000 km of national highways. The Media and Entertainment industry grew at a Compounded Annual Growth Rate (CAGR) of 8% over the last three years (CY2007-10) and is expected to grow at a CAGR of 14% over the next five years (CY2010-15). Rising digitalisation (as content creation and as a distribution platform), increase in penetration of media segments & new media, narrowcasting (niche segmentation of target audience), regionalization (strategy to capture untapped potential of tier 2 and tier 3 cities), consolidation, expanding international markets for Indian content and entry of foreign players, organized funding and deregulation would be the key growth drivers for the industry.

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## Financial Performance

	(Rs. Cr)		
<i>For the period ended / as at Mar.31,</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
<b><u>Working Results</u></b>			
Net Sales	34.19	33.60	46.29
Total Operating income	34.19	33.60	46.29
PBILDT	4.84	4.86	7.72
Interest	0.37	0.84	0.91
Depreciation	1.40	2.00	2.77
PBT	3.07	2.02	4.09
PAT (after deferred tax)	3.28	0.12	2.78
Gross Cash Accruals	4.10	3.72	6.01
<b><u>Financial Position</u></b>			
Equity share capital	6.64	6.64	6.84
Networth	22.68	24.39	29.56
Total capital employed	27.15	31.62	37.02
<b><u>Key Ratios</u></b>			
<i>Growth</i>			
Growth in Total income (%)	15.87	-1.75	37.76
Growth in PAT (after D.Tax) (%)	28.99	-96.37	High
<i>Profitability</i>			
PBILDT/Total Op. income (%)	14.16	14.45	16.69
PAT (after deferred tax)/ Total income (%)	9.60	0.35	6.01
ROCE (%)	13.89	9.73	14.58
RONW (%)	15.42	0.51	10.32
EPS (Rs.)	4.94	0.18	4.07
<i>Solvency</i>			
Long Term Debt Equity ratio (times)	0.01	0.03	0.01
Overall gearing ratio(times)	0.16	0.26	0.22
Interest coverage(times)	13.06	5.81	8.45
Term debt/Gross cash accruals(years)	0.40	0.63	0.43
<i>Liquidity</i>			
Current ratio(times)	2.82	1.83	1.85
Quick ratio(times)	2.10	1.29	1.65
<i>Turnover</i>			
Average collection period (days)	93	105	128
Average creditors (days)	25	45	65
Average inventory (days)	75	72	48
Operating cycle (days)	144	132	111

### Disclaimer

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

**Annexure II**

**Press Release**

**CARE assigns ‘CARE IPO Grade 2’ to the Initial Public Offering of Bharatiya Global Infomedia Limited (BGIL)**

**Grading Assigned**

<b>Particulars</b>	<b>Number of equity shares</b>	<b>Grading<sup>1</sup></b>	<b>Remarks</b>
IPO Grade	67,20,000 equity shares of face value Rs.10 each	‘CARE IPO Grade 2’ [Two]	Assigned

**Grading Rationale**

The grading is constrained by the emerging technologies based service offerings, average order book position, limited size of operations, stressed liquidity position due to long operating cycle as well as low entry barriers coupled with intense competition in the industry. The grading also factors in the past history of delays in payment of statutory dues as well as debt obligations. However, the grading draws strength from BGIL’s experience in providing Radio Frequency Identification (RFID) based solutions and repeated contracts from the large automation players.

**Company Profile**

BGIL is in the business of providing the information technology-based security and compliance automation systems majorly based on RFID platform (IT division) and has a technology-based digital post production service (entertainment division). BGIL intends to issue 67,20,000 equity shares of face value Rs.10 each, constituting 42.42% of fully diluted post issue paid-up capital of the company.

BGIL recorded net sales of Rs.46.29 crore in FY10 and earned a PAT of Rs.2.78 crore. As per provisional results for 9MFY11, BGIL recorded net sales of Rs.39.62 crore and a PAT of Rs.4.58 crore.

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**Analyst Contact**

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<sup>1</sup> Complete definition of the grading assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

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