

Rationale**Excel Infoways Limited****IPO Grading****CARE IPO Grade 1**

CARE has assigned a 'CARE IPO Grade 1' to the proposed IPO of Excel Infoways Limited (Excel). 'CARE IPO Grade 1' indicates **Poor Fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer. Excel proposes an initial public offering of its 57, 00,000 equity shares.

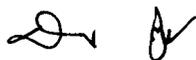
The assigned grading is largely governed by Excel's small sized operations with a short track record, position at the lower end of Indian BPO industry which faces intense competition due to mushrooming of a large number of small players. The grading is also constrained by its low level of competitiveness with limited service offerings, high revenue concentration risk and evolving corporate governance practices. The risk associated with the outsourcing policy of the developed countries also constrained the grading. The grading however, factors in Excel's profitable operations and low debt level.

Background

Promoted by Shri Lakhmendra Khurana and his family, Excel was incorporated in January 2003. It commenced operations in September 2003, as a telemarketing company with an initial capacity of 50 seats. It subsequently converted into a public limited company in August 2006. Currently, it operates as a telecom fulfillment service provider (call center) in Andheri, Mumbai with 150 seats. The proposed issue is for setting up two new facilities and making strategic investments in India and abroad.

Promoters & Management

Shri Lakhmendra Khurana, Chairman and Managing Director, looks after overall operation of company and he has over 30 years of experience mainly in garments export business. In Excel, he is supported by technical and commercial people who have very limited operational experience and industry exposure. Management and ownership have close linkages in Excel. . The same may act as a hindrance for achieving planned organic and inorganic growth in a highly competitive BPO industry.



Operations

At present, Excel operates as a telecom fulfillment service provider (call center) at a single location at Laxmi Industrial Estate, Andheri (W), Mumbai, exposing it self to risk associated with the single location *vis-à-vis* other players who operates from multiple locations. With a small set up of 150 seats, the operations are significantly smaller as compared to the top players in the IT-BPO industry. Excel will have to strive hard to achieve planned growth due to high level of competition at the lower end of the industry and routing of business through out sourcing companies and not receiving it directly from the clients. . The operations are run only on a single night shift, exposing Excel to high risk associated to attrition of man power.

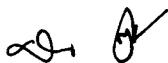
More than 90% of the revenues over the last two years have been from the top three customers. Also, changes have been observed in the top three clients over the last 3 years. This reflects a high concentration risk considering the global economic slowdown affecting the business in these verticals throughout the industry. There is also high concentration risk in terms of being dependent on a single geographic area, i.e. USA. With the economic downturn in US market coupled with the changing policies of the US Government with respect to outsourcing, there is a major threat to the sustainability of the business.

Planned Capex from IPO proceeds

Excel is expanding operations with two new facilities in Mumbai with an aggregate seating capacity of 300 seats. The cost for these projects is estimated to be Rs. 47.28 crore (*to be funded by Rs.27 crore of IPO proceeds and balance through cash generation from operations*). Till March 2009, Excel has paid booking advance of Rs.18.09 crore towards proposed premises. It expects the possession of the premises at Borivali with area of 12,000 sq. ft. by April 2010 which it envisages to put to use by August 2010. For the premises at Kandivali with the area of 12,000 sq. ft., they expect to get possession by April 2011 and put to use by September 2011. Looking at the current real estate industry scenario, Excel is exposed significantly to the risk associated with the delay in getting possession of these properties.

Excel is also planning to utilize Rs.30 crore of the issue proceeds for strategic investments and overseas acquisitions for which the targets are yet to be identified.

The brief about above capex plan is given below:



(Rs. crore)

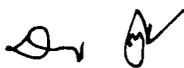
Particulars	Incurred till March 2009	Proposed	Total Cost
Cost of Project			
Premises Cost	* 18.09	8.02	26.11
Technology Equipment	-	17.09	17.09
Interior & Furnishing Cost	-	4.08	4.08
Issue Exps./Misc. Exps.	0.75	3.75	4.50
Working Cap. Margin / Gen. Corporate purpose	-	1.00	1.00
<i>Sub. Total (New Facilities)</i>	18.84	33.94	52.78
Strategic Investment / Joint Venture	-	30.00	30.00
Total	18.84	63.94	82.78
Means of Financing			
Proposed IPO	-	57.00	57.00
Internal Cash Accruals	18.84	7.27	25.78
Total	18.84	63.94	82.78

* Booking advance

Financials

(Rs, Crore)

For the period ended / as on Mar. 31,	2006	2007	2008	2009
	[12m, A]	[12m, A]	[12m, A]	[12m, P]
Working results				
Income from Operations	10.15	19.79	22.62	18.06
PBILDT	6.47	15.92	17.18	14.17
Depreciation	0.19	0.26	0.75	0.83
Interest	0.00	0.00	0.01	0.03
PBT	6.28	15.67	16.49	13.33
PAT	6.25	15.43	14.34	11.59
Gross cash accruals	6.50	15.97	15.45	12.59
Financial Position				
Equity share capital	1.28	5.12	15.44	15.80
Networth	7.38	22.39	37.44	49.07
Total capital employed	7.62	22.90	38.16	50.09
Key Ratios				
Profitability				
PBILDT / Total income (%)	63.74	80.47	75.97	78.48
PAT / Total income (%)	61.59	77.98	63.39	64.20
ROCE (%)	139.77	102.68	53.85	30.23
Solvency				
Long-term debt equity ratio	0.03	0.02	0.02	0.02
Overall gearing ratio	0.03	0.02	0.02	0.02
Total debt / Net cash accruals	0.04	0.03	0.05	0.08



Current ratio	15.02	23.93	5.59	4.79
Turnover				
Working capital turnover ratio	2.87	1.84	1.63	1.80
Capital turnover ratio	2.26	1.43	1.01	0.72
Equity Share related				
Book Value (per Rs.10 share)	57.69	43.73	24.25	31.06
EPS	48.83	30.14	6.84	6.59

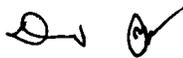
Total income, which grew at a CAGR of 49% for last two years till FY08 on a very small income base, had declined in FY09 as per the provisional financials. The high client concentration and the vulnerable business model of those clients is getting reflected in the decline in total income despite on a smaller base.

Though Excel has been reporting high PBILDT & PAT margins, which were sustained high at 75.97% & 63.39% respectively in FY08 (Audited), the same may not be sustainable looking at the nature of industry and its operational competitiveness vis-à-vis industry leaders.

Overall, debt level of Excel has remained low during last four years. Higher profitability has boosted its small net worth base from Rs.7.62 crore as on March 31, 2006 to Rs.37.44 crore as on March 31, 2008. Increasing share capital through aggressive pre-issue bonus shares has resulted in gradual decline in EPS.

Corporate Governance

Excel has been a family controlled company and corporate governance practices have been evolving over the past few years. The top management is family centric and has limited exposure to the industry, making Excel's ambitious growth plans a challenging one. The action plan to achieve future revenue growth, strategic investment, and sustain high margins, which are almost three times the highest margin reported amongst industry majors have to be carefully drawn up.



Industry Scenario

The Indian BPO industry grew at approximately the same rate of 12 per cent as the worldwide BPO industry in FY09. IT-BPO exports (including hardware exports) recorded a growth of 16 per cent. While the US with a 60 per cent share remains the largest export market for Indian IT-BPO services, incremental growth is being driven by the European market with major focus on UK and Continental Europe. In such a scenario, Indian players getting stable business from UK & Europe will be at an advantage.

With pricing pressures along with contract negotiations in the recessionary environment, the BPO industry is required to focus more on cost and operational efficiencies. This is because of the economic uncertainty and lack of business opportunities as foreseen by companies. In order to enhance their value proposition, the Indian BPOs will be required to maintain better relationships with the clients, develop in-depth domain knowledge and provide customized solutions.

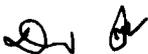
Another risk to the future business prospects may be the policy of US Government to end tax incentives for US companies that outsource jobs to countries like India. The industry will be required to diversify in terms of geographies, verticals and service lines. Service providers are expected to enhance focus to domestic market to de-risk business and tap the local growth opportunities.

Prospects

The prospects of Excel is expected to be governed by its ability to achieve growth through expanding its operations and diversifying both client base and product offerings on a sustainable base, in a highly competitive BPO industry, which is also facing slow down. The strengthening of corporate governance practices by inducting professional and experienced team of professionals, who are independent of promoters, is the areas which need to be improved to protect interest of minority shareholders.

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.

Handwritten initials, possibly "D" and "A", in black ink.