

Infinite Computer Solutions (India) Limited

CRISIL IPO Grade 2/5 (Below average)

October 05, 2009

IPO Grade

CRISIL IPO Grade '2/5': The grade indicates that the fundamentals of the issue are below average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals

Issue Details

Shares offered to public	1,15,03,000
As per cent of post issue equity	26.17%
Object of the Issue	Funding for acquisition, capital expenditure and repayment of debt
Amount proposed to be raised	Rs 675 million (approximate)
Price Band	Not available at the time of grading
Lead managers	SPA Merchant Bankers Limited India Infoline Limited

Company Background

Infinite Computer Solutions (India) Limited, promoted by Mr. Sanjay Govil, was incorporated on September 6, 1999, as a private limited company and later on February 14, 2008 was converted into a public limited company. Infinite operates with 12 offices across globe including offices in US, UK, India, China, Malaysia, Singapore and Australia. The company has delivery centers in Bangalore, Gurgaon, Hyderabad and Chennai.

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Grading Highlights

Business Prospects

- Custom application and development (CAD), which grew by 22% CAGR over the FY05-09 period, forms a major portion of revenues for Indian IT service companies. This segment is projected to grow at a muted 8% CAGR growth over FY09-14. Within the array of IT services, CAD offers relatively lower margins.
- Infinite derives significant portion of its revenues, ~73% in FY09, from application development and maintenance and testing services.
- Indian IT players, including Infinite, are incrementally focusing on Infrastructure Management Services (IMS) as this service line attracts higher billing rate and hence higher margins. It also provides the companies an opportunity to move up the value chain. CRISIL Research expects IMS to grow from 15% of total IT services in FY09 to 24% by FY14. Infinite derived 8 % of its total revenues from IMS in FY09 as well as in FY08.
- Infinite acquired Comnet, in August 2007 which helped it obtain Intellectual Property (IP) domain expertise. IP development is often coupled with revenue sharing model which is a high risk high return proposition.
- Historically, Infinite has been heavily dependent on few clients for most of its revenues. Geographically also, revenues are highly concentrated from the US region (almost 90 per cent in FY09).
- Infinite witnessed moderate revenue growth vis-à-vis IT services industry clocking strong revenue growth. The company has entered into agreement with two news clients which is expected to contribute to most of its incremental growth in revenues.

Financial Performance

- Infinite's revenues grew at a 12% 4-year CAGR from FY05-09. The company witnessed 25% increase in revenues in FY09 itself. With in these years, Infinite witnessed almost flat revenues in FY06 and FY07.
- Historically the net margins for Infinite have been erratic. In FY06, Infinite reported a loss at net levels. In FY09, Infinite earned 9% net margins compared to 6% in FY08.

Management Capabilities

- Infinite has well defined management structure in place and individual roles and responsibilities are adequately defined
- The senior management team, on an average, has around 15 years of relevant work experience.

Corporate Governance

- Infinite has well experienced independent directors on the board.
- Based on our interactions it appears that the level of engagement of the Independent directors with the company affairs is reasonably good

Detailed Grading Rationale

Overall Grading Summary (CRISIL IPO Grade 2/5)

To arrive at the overall grade, CRISIL has considered the following parameters:

- Business prospects and financial performance
- Management capability
- Corporate governance

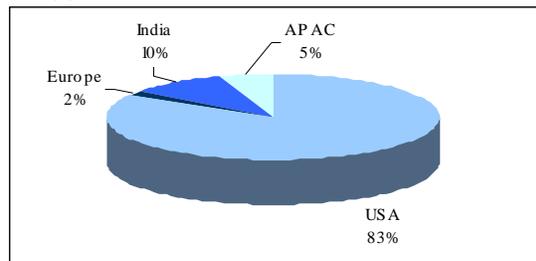
CRISIL has assigned a CRISIL IPO Grade ‘2/5’ (pronounced ‘two on five’) to the proposed Initial Public Offer of Infinite Computer Solutions (India) Limited. The grade indicates that the fundamentals of the issue are below average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy / sell or hold the graded instrument, the graded instrument’s future market price or its suitability for a particular investor.

The IPO grade assigned to Infinite reflects the relative small size and less dominant position of the company in the IT services industry, and the relatively severe competition prospects in the service lines in which the company operates. While the industry witnessed healthy growth from 2005 to 2009, Infinite’s growth was moderate. Infinite is largely present in lower margin service lines (application development and maintenance and testing services) and has been heavily reliant on top few clients for most of its revenues. Infinite’s revenues are also largely concentrated from the US region. Vertical wise too, it is heavily dependent on Telecom sector. The grading also takes into account company’s experienced management and its demonstrated ability to retain key clients over a long period of time. The company’s efforts to diversify currently concentrated client base and geographical presence is a positive. The grading also factors Infinite’s focus on higher margin businesses like infrastructure management services and IP development services.

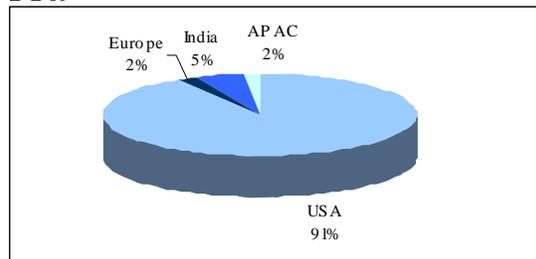
Infinite Computers: Revenues by geography and service line

Geographical Revenue Split

FY08

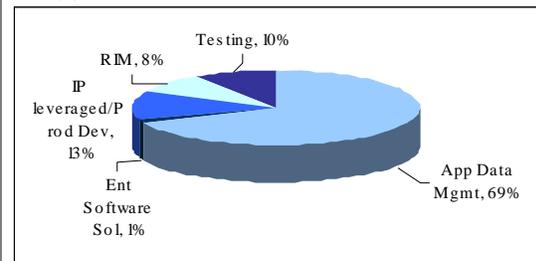


FY09

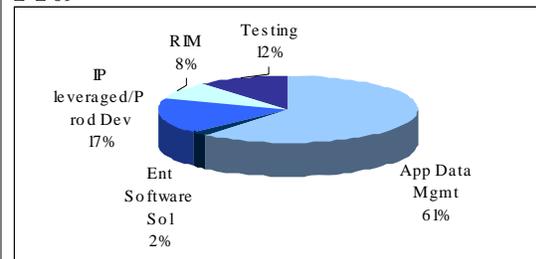


Revenue split by service line

FY08



FY09



Source: DRHP

➤ **Moderate track record of growth in the past**

Infinite witnessed a relatively moderate 12% 4-year CAGR in revenues during FY05-09, at a time when the IT services industry grew at a much higher rate of 27% CAGR on an average. During the same time, Infinite witnessed stagnant revenues in two consecutive years - FY06 to FY07, when it earned \$ 77.3 million and \$ 77.1 respectively.

➤ **Highly competitive industry scenario**

Infinite faces severe competition from large MNC giants like IBM, Accenture which have delivery centers in India, number of Tier – I & midsize Indian companies. In India, Tier – I companies occupy almost 60% of the market share and around 6,200 midsize and small companies seek share in balance 40% market, representing a severe competition scenario. While Infinite's counts in the top-half among the mid- small sized IT companies, the intense competition in this segment is nevertheless a continuing risk factor and an area of vulnerability. Further, IT service companies also face competition from other offshore service companies based in China and some East European countries which can offer cost arbitrage like India. Vendor consolidation in the industry, if any, may also have an impact on smaller players.

➤ **Presence in lower value added services and low margin service lines**

Infinite earns more than 60% of its revenues from application maintenance services. Although, the contribution of this service has reduced from 69% in FY08 to 61% in FY09, we feel that presence in these service lines lends Infinite low bargaining power in terms of billing rate. However, to improve margins as well as to increase client stickiness, the company plans to focus more on higher value added services like IP development and Infrastructure Management services going ahead.

➤ **Heavy reliance on very few clients for most of its revenues**

Verizon has been one of the major clients for Infinite since its inception. Over the years, Verizon has contributed ~40% of Infinite's revenues. However, Infinite's incremental engagement with the new clients may be a step to reduce revenue concentration on Verizon. Further, the top 5 clients of Infinite contribute more than 80% of the company's revenues.

➤ **Infinite operates at a much lower net margins compared to its peers**

Net margins for Infinite have been quite erratic in nature over the past few years for various reasons. In FY09, Infinite's net margin improved to 9% from 6% in FY08. However, this is lower compared to other Tier – II companies which operate at net margins in range of 12-14%. Infinite is making efforts to improve the margins mainly by incrementally focusing on higher value added services like infrastructure management and IP development and increasing the offshore component of the engagements.

➤ **Infinite continued to enjoy high client stickiness**

Infinite has been able to maintain same clients in its portfolio. Verizon and IBM have been with the company almost since inception and still continue to grow at a moderate pace. Also, with acquisition of Comnet, Alcatel-Lucent became Infinite's client later in 2007 and continues to remain with Infinite.

➤ **Incremental share of infrastructure management services may be positive for margins**

Increasing focus on the infrastructure management services (IMS) may positively contribute to the margins.

Contribution of IMS has been around 8% in FY08 and FY09. Most of the work from the new client is expected to be in this space hence increasing the overall share of IMS in total revenues.

Financial Profile

- The company's revenues grew at a 4-year CAGR of 12% to Rs 4.9 billion at FY09. Of the total service line portfolio, application development and maintenance (ADM) contributed the most i.e. around 61% in FY09. However, its share has reduced from 75% in FY05. This was followed by Product development & IP leveraged solutions and testing services which formed 17% and 12% respectively in FY09. Share of Product Development & IP leveraged solutions has increased from 8% in FY05.
- The net income of Infinite has improved from Rs 0.07 billion in FY05 to Rs 0.5 billion in FY09. The net margins have improved from 2.2% in FY05 to 9% in FY09 after witnessing a 0.1% loss in FY06.
- Telecom & Media sector contributed around 60% of revenues in FY09, 58% in FY05. This is followed by healthcare segment which contributed 17% revenues in FY09 compared to 12% in FY05. Balance revenues for Infinite come from Manufacturing, Government and Retail sectors.
- Geographically, the US contributed to 91% of Infinite's revenues in FY09, up from 86% in FY05. Onsite revenues form 72% of the total revenues.

Financial performance snapshot

		FY05	FY06	FY07	FY08	FY09
		Actual	Actual	Actual	Actual	Actual
Operating Income	Rs. Mn.	3,023	3,412	3,473	3,409	4,900
Operating Margins	Per cent	2.5	1.0	4.7	8.5	11.9
Net Profits	Rs. Mn.	65	-5	101	201	457
Net Margins	Per cent	2.2	-0.1	2.9	5.9	9.3
ROCE	Per cent	0.0	0.0	15.9	32.5	48.0
RONW	Per cent	0.0	0.0	11.6	24.8	50.5
Basic EPS	Rs	1.3	-0.1	2.4	5.3	12.0
Diluted EPS	Rs	1.3	-0.1	2.4	5.3	12.0
No. of equity shares	Mn.	32	34	37	38	38
Net worth	Rs. Mn.	837	837	917	701	1,111
Book Value (FV Rs 10)	Rs	26.0	24.6	24.6	18.4	29.1
Current Ratio	Times	1.5	1.3	1.4	1.2	1.3

*Note: Numbers have been reclassified as per CRISIL standards

Business Profile

Infinite, promoted by Mr. Sanjay Govil, operates via four delivery centers in India and employs more than 2,300 employees as on March 2009. Promoter (& promoter group companies) currently own 78% of the shares in the company which is expected to come down to 64% post IPO.

The company engages itself into rendering of various IT services like Application Development and Maintenance, testing services, infrastructure management services and intellectual property (IP) leveraged solutions. Infinite is mainly focused on telecom & media, healthcare and manufacturing sectors. The main clients of Infinite include: Verizon, IBM, GE, AOL, ACS and Alcatel Lucent.

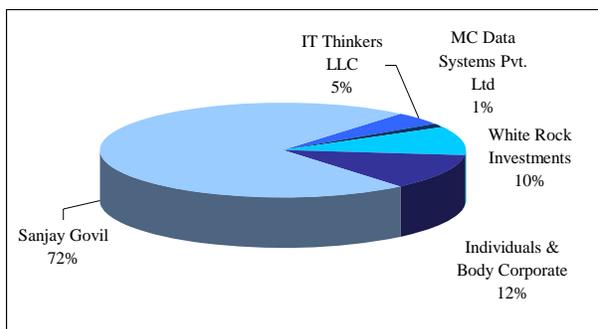
All the client engagements are typically governed by a Master Service Agreements (MSA) with Statement of Work (SoW) for each individual projects. The partnership models followed by Infinite are:

- (a) Revenue sharing contract: In this model, Infinite invests in the research and development of the product and support for the products. The client (Customer) is responsible for the pricing as well as sales. The revenue from product and ongoing maintenance is shared. (5% of revenues in FY09)
- (b) Time & Material contract: In this contract, client is charged based on the resources utilized for a particular assignment. The billing rate depends on the type of skill set used for the project as well as on the duration of the project. (52% of revenues in FY09)
- (c) Fixed price contract: This is productivity based pricing model wherein client pays Infinite on milestone basis agreed between them. This revenue model lends flexibility to manage the operating levers and hence the margins. (43% of revenues in FY09)

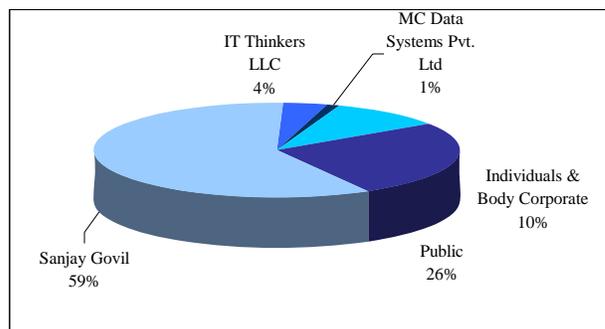
In August 2007, Infinite Computer Solutions Inc, USA acquired Comnet International Company. Comnet has a delivery centre in Chennai, India and is a telecommunication OEM focused company. Also during FY06, Infinite acquired Datagrid Services Pvt Ltd, a BPO company based in Hyderabad, to diversify its businesses and renamed it Infinite BPO Private Limited. However later in FY08, Infinite decided to divest its investment in the BPO and subsequently sold it in that year.

Infinite Computers: Shareholding Pattern

Pre-IPO



Post-IPO



Source: DRHP

Profile of Management and Board

Promoter, Mr. Sanjay Govil holds the position of a Non-executive Chairman of the board. Prior to floating Infinite, he had worked with companies like Verizon and IBM. Infinite’s board is headed by Mr. Upinder Zutshi, MD. The engineering bachelor from BITS, Pilani has over 20 years of work experience in IT services industry and worked with companies like CMC Ltd and ESS in the past. He has been with Infinite almost since its inception and is also on board of eight of its subsidiaries. He heads a team of fairly experienced senior management and key management personnel who have rich domain expertise. The senior management includes, Mr. Navin Chandra (Whole time Director) with over 45 years of experience and has worked with Indian Navy. The key management personnel of Infinite have more than 15 years of work experience and all have been with Infinite for at least 3 to 4 years. The Infinite Board has three independent directors. All the independent directors have extensive work experience in relevant fields.

Annexure: Profile of the Directors

Name of Directors	Designation	Age	Qualification	Experience (years)	Previous Employment	Directorships / partnership in other entities
Mr. Sanjay Govil	Non-Executive Chairman	43	B.Sc.(Electrical Engineering) from Auburn University and M.Sc.(Electrical Engineering) from Syracuse University.	N.A	Worked with IBM and Verizon Communications.	Mumal Mining Pvt. Ltd., I. T. Thinkers LLC, International Computer Solutions (USA), Infinite Computer Solutions Inc., Comnet International Co. (USA).
Mr. Upinder Zutshi	Managing Director	47	Bachelor of Engineering (Honours) from the Birla Institute of Technology & Science, Piani, Rajasthan	20+	Worked with CMC Ltd., ESS	India Comnet International Pvt. Ltd., Comnet International Co., USA, Infinite Computer Solutions Ltd. U.K, Infinite Australia Pte. Ltd., Infinite Computer Solutions (Shanghai) Co., Ltd., Infinite Data Systems Private Limited., Infinite Infosoft Services Private Limited., Infinite Data Systems UK Limited.

Mr. Navin Chandra	Whole Time Director	71	M.Sc, B.E. (Elec), DIM F.i.E.T.E.	46	Worked with Indian Navy, Naval Shipyard at Vishakhapatman	NC Data Systems Pvt. Ltd., , MC Data Systems Pvt. Ltd., Infinite Data Systems Pvt. Ltd., Infinite Manganese (India) Pvt. Ltd., Infics Infrastructure Pvt. Ltd., Mumal Mining Pvt. Ltd., Infinite Computer Solutions Ltd., U.K., Infinite Computer Solutions SDN.BHD.,, Malaysia, Infinite Computer Solutions (Shanghai) Co. Ltd., Infinite Computer Solutions Pte. Ltd., Singapore, India Comnet International Private Limited.
Mr. Ravindra R Turuga	Director	61	Chartered Accountant	28	Practicing Chartered Accountant	Venkatadri Resorts Pvt. Ltd.
Mr. N. K. Agrawal	Director	67	B Sc., B E Honours	40+	Chairman & MD, Hindustan Cables and CCIL	Nil
Mr. Ajai K. Agrawal	Director	47	Bachelors degree in Mechanical Engineering and Post graduate degree in Management	17+	Worked with Telco, etc. Currently runs 3 firms providing IT services	B. M. Project Engineers Pvt. Ltd., IYC World Softinfrastucture Pvt. Ltd., Agroecommerce Network Pvt. Ltd.
Source: DRHP						

Disclaimer

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