

August 16, 2011

Mr. Pavan Kumar Kuchana
Chairman & Managing Director
Taksheel Solutions Limited,
Laneo Hills Technology Park Pvt. Ltd.,
Survey No. 201, Manikonda Village,
Rajendra Nagar Mandal,
Hyderabad- 500089.

Confidential

Dear Sir,

Grading of Initial Public Offering (IPO)

Please refer to our letter dated August 03, 2011 on the captioned subject.

1. The rationale for the grading is attached as *Annexure - I*. Please note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
2. A write-up on the above grading is proposed to be issued to the press shortly. A copy of the press release is enclosed for your perusal as *Annexure - II*.
3. The explanatory notes regarding the grading symbols of CARE for IPO grading are given in *Annexure - III*.

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

Yours faithfully,

Thanking you,



(Sajan Goyal)
Manager



(Rahul Patni)
Assistant General Manager

Encl. As above

Rationale

Grading Assigned

Grading Type	Size of the issue	Ratings ¹	Remarks
IPO Grading	55 lakh equity shares of Rs.10 each	'CARE IPO Grade 2' (Grade Two)	Assigned

Grading

The grading is constrained by the revenue concentration risk in terms of geography, verticals and number of clients, high reliance on onsite service delivery model through subcontracting coupled with absence of adequate development setup in India, growing protectionist trend in US which might reduce prospects for outsourcing, significantly high level of debtors leading to negative cash flow from operations in recent past, delays in payment of statutory dues by the company and past instances of failure by the company to comply with certain FEMA regulations. The grading is however, underpinned by the rich experience of the promoter with considerably long and successful track record, professional management team, wide range of wealth management solutions with advantage of early entry, comfortable gearing & interest coverage, and increasing proportion of repeated business.

Company Background

Taksheel Solutions Limited (Taksheel) is a specialised solutions provider offering Application services, Data Warehousing & Business Intelligence and Offshore Outsourcing. Taksheel was incorporated as IBSS Techno-Park Private Limited at Hyderabad in 1999. Subsequently, the name of the Company was changed to Taksheel Solutions Private Limited in November 2006. The company was converted into a public limited company in December 2006.

¹ Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

In 2007, Taksheel acquired clients of Dataformix Technologies Inc. which enabled it to establish its foothold in Data Warehousing & Business Intelligence business. In 2009, Taksheel acquired telecom software products from Verisoft Business Solutions Pvt. Ltd. Taksheel has acquired products in IP multimedia system (IMS), Telecom Signalling Integrated Standard Digital Network (ISDN), Channel Associated Signalling (CAS), Signalling System 7(SS7), Short Message Service Centre (SMSCs), Least Cost Routing system (LCR), Optimal Routing Solutions (ORS), Voice Mail Servers (VMS) and other Value Added Services (VAS) content delivery platforms.

Promoters

Taksheel is jointly promoted by two individuals, Mr. Pavan Kumar Kuchana (Chairman & Managing Director) & Mr. Ramaswamy Kuchana (father of Mr. Pavan Kumar Kuchana). The promoters directly hold 3.11% & 1.65% stake respectively in addition they holds stake through Lexicon Private Limited (LPL), a holding company 100% owned by Mr. Pawan Kumar Kuchana. LPL holds 56.54% stake in Taksheel.

Mr. Pavan Kumar Kuchana, is a technocrat with over 20 years of experience in the information technology industry. Prior to the formation of Taksheel, he founded IBSS Inc in New Jersey, USA in 1995. Post IPO, the promoter group is likely to have 47.37% holding in the company.

Management

Taksheel is managed by a five member Board of Directors (BOD). The board comprises of two members from the promoters' family, and three independent non executive directors. The day-to-day affairs of the company are managed by Mr. Pavan Kumar Kuchana, duly assisted by a team of qualified professionals having experience in the IT industry.

Corporate Governance

All the independent Non-Executive Directors have rich industrial experience. The company is, by and large, in compliance with the applicable provisions of the listing agreement and clause 49 of the same pertaining to corporate governance. Taksheel has formed different committees of the Board such as the Audit Committee, the Remuneration Committee, Share Transfer and Investors' Grievance Committee.

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In past, Taksheel has failed to comply with the regulations pertaining to certain mandatory requirements under the relevant regulations of FEMA in relation to issue of shares to foreign entity by way of share swap, investment in overseas subsidiary, capitalization of export receivables and issue of shares to Lexicon Private Limited. However the RBI/FIPB has granted ex-post facto approval for the said non compliances and referred the company to approach RBI for compounding of the offence. In few cases RBI has levied a penalty which company has duly paid and in certain cases the company is awaiting response from the compounding authority from the said agencies.

The Auditor in its report for FY10 & FY11 has qualified that the company is not regular in depositing undisputed statutory dues such as income tax liability for a period more than six months.

Purpose of the Issue

Taksheel is expecting to raise about Rs 77.00 cr from the proposed IPO. The details of utilization of proceeds of issue are as per the table set forth below:

Particulars	Total Expenditure (Rs Cr)
Setting up new development center at Hyderabad	9.15
Setting up new development center at Warangal	8.66
Acquisitions and Other Strategic Initiatives	22.00
Financing Incremental Working Capital	12.80
General Corporate Purpose	--
Public Issue Expenses	--
Total	52.61

Operations

Taksheel is a specialised solutions provider offering Application services, Data Warehousing & Business Intelligence and Offshore Outsourcing. As on March 31, 2011, company derived 82% of its revenue from Application services, 9% from Data Warehousing and Business Intelligence and the rest from offshore outsourcing. Majority of the company's revenue (71% as on March 31, 2011) was from wealth management vertical of application services. Company offer solutions to Banks, Asset and Investment Managers, Brokerage Houses, Insurance companies, Hedge Funds, Trusts and Family Offices. It is provided through a Service Oriented Architecture

(SOA) which enables company to deploy a customized version of its solutions to help its clients.

Taksheel derives revenue on a skill and man hour based approach. The billing rate is a function of the level of complexity involved in the project and working hour employed on-site and off-site on a particular project. Majority of the Application services work is delivered on site. Taksheel outsources on-site job to third parties and is yet to establish full fledged off site development centre in India.

Taksheel's sales and marketing team is organized by region and report to the business heads. Company has the marketing support team based in India that coordinates the production and distribution of marketing materials, such as product brochures and market reports. In addition to the sales and marketing executives, company has industry experts, sales specialists and solution architects who complement sales teams' efforts by providing specific industry and service offering expertise. Company's senior management is actively involved in maintaining client relationships and business development through interaction with different levels in the client organization.

Taksheel is exposed to concentration risk in terms of geography and number of clients. Company caters to clients based only in United States of America and top 10 clients contributed about 85% of the sales during FY11.

As on March 31, 2011, Company had a resource base of 40 employees, which is relative low as company outsourced all on-site jobs to third parties.


Financial Performance

The total income of Taksheel registered a y-o-y growth rate of around 197% during FY11 over FY10, primarily due to addition of five new clients during the same period in wealth management solutions vertical. The revenue contribution from the wealth management solutions has grown from 51% of total income in FY10 to 71% of total income in FY11. The PBILDT, in absolute terms, had improved during FY11 in line with the increase in top line. However PBILDT margin has declined significantly in FY11 due to higher administrative expenses resulting from consultancy charges of Rs 5.62 cr being paid for acquiring new clients in FY11. PBILDT levels were low in FY09 on account of the foreign exchange losses during that period. Interest cost has increased in FY11 on account of the higher working capital utilization during the

same period to fund incremental business requirements, which also resulted in higher overall gearing as on March 31, 2011. However overall capital charges have grown at much lower rate compared to the growth in company's top line during FY11 primarily due to the similar level of depreciation. Taksheel's depreciation is on the lower side on account of smaller asset base of the company. Company's skeleton development centre in Hyderabad is on lease. PAT margins have improved in FY11 in spite of the decline in PBILDT margins on account of relatively lower growth in capital charges. High current ratio during the last three years is mainly due to higher levels of debtors along with loans and advances to the subcontracting firms. Taksheel's operating cycle has improved significantly in FY11 on account of significant decline in debtor levels. Taksheel realizes last installment of payment once the project is completed. As company completed few of its running projects during FY11, debtor levels declined significantly which resulted in improved collection period. However operating cycle still remains on higher side.

Industry outlook

The underlying theme of 2010 has been the steady recovery from recession. Worldwide GDP, which had declined by 0.6 per cent in 2009, grew 5 per cent in 2010 and is expected to stabilise at about 4.4 per cent in 2011. Developing nations continue to grow faster than the developed countries by at least three times. IT spend is directly linked to growth in GDP and in line with this trend, IT spend in 2011 is expected to grow nearly 4 per cent. Worldwide IT spending will also benefit from the accelerated recovery in emerging markets, which will generate more than half of all new IT spending worldwide in 2011. In 2011, growth will reflect new demand for IT goods and services, not pent-up demand from prior years. 2011 will also see a major surge in the use of private and public cloud and mobile computing on a variety of devices and through a range of new apps. IT services is expected to grow by about 3.5 per cent in 2011 and 4.5 per cent in 2012. While focus on cost control and efficiency/productivity remain, customers are also evaluating how investments in IT impact can further business goals – ROI led transformation - leading to an increase in project-based spending. Services such as virtualisation, consolidation, and managed services that focus on ROI in the short term will drive opportunities in the market. Emerging Asian enterprises across multiple industries will continue to accelerate services spending in

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their efforts to challenge existing global MNCs. Organisations will look for alternative IT models - Cloud, on-demand services and SaaS – in order to reduce hardware infrastructure costs and provide scalability on demand. Worldwide packaged software revenue is estimated to reach USD 297 billion in 2011, a Y-o-Y growth of over 5 per cent, led by emerging regions, such as APAC and LATAM. These regions are expected to invest heavily in enterprise software initiatives as they continue to round out the IT infrastructure necessary to do business. Business Process Outsourcing spending is expected to be driven by analytical services, F&A and industry-specific BPO solutions.

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Financial Results
(Rs. crore)

For the year ended Mar.31,	2009	2010	2011
	<i>Audited</i>		
Total Income	33.20	49.50	147.26
PBILDT	1.02	12.91	29.63
Depreciation	0.32	0.06	0.07
Interest	0.51	0.54	0.81
PBT	2.43	8.09	27.42
PAT	2.42	8.09	27.42
Gross Cash Accruals	2.70	8.15	27.49
Financial Position			
Equity Share capital	11.35	16.35	16.35
Net Worth	45.23	63.32	90.61
Total Debt	3.87	3.73	8.59
Key Ratios			
Growth ratios (%)			
Increase in Total Operating income	4.66	49.12	197.49
Increase in PBILDT	(93.67)	1160.72	129.45
Increase in PAT	(82.75)	233.94	238.88
Profitability (%)			
PBILDT / Total Income	3.09	26.09	20.12
PAT / Total Income	6.84	16.34	18.62
ROCE	1.49	22.13	30.14
RONW	5.51	14.91	29.82
Solvency			
Long Term			
Debt Equity Ratio	0.00	0.00	0.00
Overall Gearing	0.09	0.06	0.09
Interest coverage (times)	2.01	23.92	36.78
Term Debt/GCA	0.00	0.01	0.00
Total Debt/GCA	1.43	0.46	0.31
Liquidity			
Current ratio	6.93	7.02	6.59
Quick ratio	6.93	7.02	6.59
Avg. Collection Period (days)	229	266	98
Average Creditors (days)	38	45	18
Operating cycle	191	222	80
Earnings Ratio			
EPS	2.13	4.95	16.77
Book Value	38.73	33.19	56.22

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.

Press Release

CARE assigns 'CARE IPO Grade 2' grading to the proposed Public Issue of Equity shares by Taksheel Solutions Limited (Taksheel).

Grading

Grading Type	Size of the issue	Ratings ²	Remarks
IPO Grading	55 lakh equity shares of Rs.10 each.	'CARE IPO Grade 2' (Grade Two)	Assigned

Grading Rationale

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Company Profile

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Dataformix Technologies Inc., a data warehousing company and telecom software products from Verisoft Business Solutions Pvt. Ltd. respectively. Taksheel is jointly promoted by two individuals, Mr. Pavan Kumar Kuchana (Chairman & Managing Director) & Mr. Ramaswamy Kuchana (father of Mr. Pavan Kumar Kuchana). The promoters directly hold 3.11% & 1.65% stake respectively and in addition to this they hold stake through Lexicon Private Limited (LPL). LPL holds 56.54% stake in Taksheel. Mr. Pavan Kumar Kuchana, is a technocrat with over 20 years of experience in the information technology industry. Prior to the formation of Taksheel he founded IBSS Inc in New Jersey, USA in 1995. Post IPO, the promoter group is likely to have 47.37% holding in the company.

Taksheel earned a PAT of Rs. 27.42 crore on a total income of Rs. 147.26 crore during FY11.

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE IPO grading Scale

CARE IPO grade	Evaluation
CARE IPO Grade 5	Strong fundamentals
CARE IPO Grade 4	Above average fundamentals
CARE IPO Grade 3	Average fundamentals
CARE IPO Grade 2	Below average fundamentals
CARE IPO Grade 1	Poor fundamentals

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