

IPO Grading

The Company has appointed ICRA Limited for IPO grading. ICRA has assigned a "IPO Grade 2" to the proposed Initial Public Offering-cum Offer for Sale of the Company. "IPO Grade 2" indicates below average fundamentals. ICRA assigns IPO grades on a scale of Grade 5 to 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. ICRA has assigned the grade vide their letter dated, August 17, 2009.

IPO Grading rationale

ICRA has assigned IPO Grade 2, indicating below-average fundamentals, to the proposed public issue by Thinksoft Global Services Limited ("Thinksoft" / "the Company"). ICRA assigns IPO grading on a scale of IPO Grade 5 through IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

Thinksoft is a software testing company. Independent software testing business enjoys favourable prospects over the long term by virtue of its growing acceptance among users. The Company has a reasonably diversified geographical presence, though its business concentration in Europe remained significant at 54 per cent of revenues in 2008-09. The Company has recorded healthy growth in revenues during the period 2004-09, albeit on a small base. The financial profile is characterized by sound profitability and debt-free capital structure.

Thinksoft's relatively modest size of operations limits economies of scale and accentuates challenges like securing large orders and managing attrition. Thinksoft operates only in the Banking, Financial Services and Insurance (BFSI) vertical, implying high concentration on a single domain. Also, the BFSI segment has been adversely affected by the current global economic slowdown. The expected reduction in IT spend in the BFSI segment is likely to impact Thinksoft's business over the short-to-medium term. During 2008-09, contribution to revenues from the largest customer was 26 per cent while 93 per cent of revenues were from the top 10 customers, indicating high level of customer concentration. Such high domain and client concentration heightens the impact of any order volatility on revenue growth. Going forward, slowdown in the BFSI segment in developed economies, intense competition and vulnerability to rupee appreciation against major currencies are key challenges to sustaining growth and margin.

The Company proposes a public issue of 3.65 million equity shares, comprising fresh issue of 1.35 million equity shares and offer for sale of 2.30 million equity shares by certain existing investors. The Company enjoys tax holiday on its export earnings till the financial year 2009-10. Thinksoft intends to set up a delivery centre in a Special Economic Zone (SEZ). The cost of setting up the unit is estimated at Rs.160.9 million, which is expected to be financed through the fresh issue of equity. Setting up of the unit in SEZ would bestow tax benefits to Thinksoft.

Trustees

As the Issue is of equity shares, the appointment of Trustees is not required.

Appraisal of the Project

No bank or financial institution has appraised the expansion plans of the Company. The funds requirement has been estimated by the management of the Company.

Monitoring Agency

There is no requirement for a monitoring agency in terms of Clause 8.17 of the SEBI Guidelines. The Audit Committee of the Company will monitor the use of the proceeds of the Issue.

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