

**Taksheel Solutions Ltd.****September 28, 2011**

<b>Price Band</b>	: ₹130 - 150 per share
<b>Minimum Bid Lot Size</b>	: 45 Equity Shares
<b>IPO opens during</b>	: Sept 29 – Oct 04, 2011
<b>Book Running Lead Manager</b>	: PNB Investment Services Ltd.
<b>To list on</b>	: NSE & BSE
<b>IPO Grading</b>	: 2 / 5 (CARE)
<b>PE</b>	: 7.76x (based on base price)*
	: 8.93x (based on cap price)*
<b>Market Cap post-listing</b>	: ₹327.78Cr or \$66.62mn (based on the cap price)
<b>Market Cap of Free Float</b>	: ₹172.50Cr or \$35.06mn (based on the cap price)

\*Based on FY11 EPS

**IPO of 5.5mn equity shares of ₹10each, aggregating to ₹82.5Cr or \$16.77mn (at the cap price).****Shareholding Pattern**

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters & Promoters Group	10352107	63.31%	10352107	47.37%
Body Corporate	4763750	29.13%	4763750	21.80%
QIBs (incl. Mutual Funds)	0	0.00%	2750000	12.58%
Non Institutional Investors	0	0.00%	825000	3.78%
Public	1236250	7.56%	3161250	14.47%
<b>Total</b>	<b>16352107</b>	<b>100.00%</b>	<b>21852107</b>	<b>100.00%</b>

**Executive Summary**

- Taksheel Solutions Ltd. (TSL), incorporated in September 1999 is engaged in the business of providing Information Technology services to wealth management service providers. TSL is a 100% EOU and ISO 9001: 2008 certified company.
- TSL is headquartered in Hyderabad, with an office in North America and provide professional IT services to global clients. TSL's 11 years of presence in the industry has given the company good business domain knowledge and experience in deploying services & solutions.
- The Indian IT-BPO sector has become the country's premier growth engine, crossing significant milestones in terms of revenue growth, employment generation and value creation. The sector is estimated to aggregate revenues of \$88.1bn in FY2011, with the IT software and services sector (excluding hardware) accounting for \$76.1bn of revenues. The changes in financial sector have been empowering the clients with more information and the institutions are forced to disclose more financial information than they would be willing to part with.
- The revenues of the company have grown from ₹32.02Cr for FY08 to ₹147.26Cr for FY11 in large part due to acquisition of new clients, aggressive marketing initiatives and strategies planned and executed.

## Our View

IPO of TSL priced at the post issue PE multiple 11.93x and P/BV of 3.6x FY11 earnings basis, makes it inexpensive vis-à-vis its competitors. Considering the better financials of the company, which includes higher ROE & ROCE of 30.2% and 28.4% respectively in FY11, we advise the investors **to consider subscription** for the IPO.

## Company Background

Taksheel Solutions Ltd. (TSL) was incorporated in September 1999 as “IBSS Techno-Park Private Ltd.” at Hyderabad, Andhra Pradesh. Subsequently, the name of the company was changed to “Taksheel Solutions Private Ltd.” in November 2006. Further, the company was converted into a public limited company in December 2006. TSL is engaged in the business of providing Information technology services to wealth management service providers.

The company’s aim is to provide simplified information technology for any business. It has emerged as a specialized solutions provider offering wealth management technology solutions, telecom solutions, business intelligence, data warehousing, application development and application maintenance.

## Promoters and Management

**Mr. Pavan Kumar Kuchana** is the Chairman & Managing Director of TSL having more than 16 years of experience in the tele-communications industry. Since inception of the company he has taken an active role to build a global organization with a focus on delivering value to the customers. He provides a track record in developing "go to market" models, leveraging his skills in defining market opportunities, optimizing company's resources to deliver solutions to these markets, and to build substantial barriers to entry.

**Mr. Ramaswamy Kuchana** is the core promoter of TSL. He was instrumental in setting up the offshore development center at Hyderabad, India, and in procuring the land from Government of Andhra Pradesh, for construction of the proposed development center at Warangal. His leadership skills and administrative experience were of immense help to the company, in its formative years.

## Industry Overview

Over the past decade, the Indian IT-BPO sector has become the country's premier growth engine, crossing significant milestones in terms of revenue growth, employment generation and value creation. However, the industry performance was affected by recessionary headwinds as the clients cut their IT budgets, cancelled deals, delayed payments and deals, went bankrupt while others renegotiated pricing, looking for severe pricing cuts and currency volatility .

## Indian IT-BPO Performance

The sector is estimated to aggregate revenues of \$88.1bn in FY2011, with the IT software and services sector (excluding hardware) accounting for \$76.1bn of revenues. During this period, direct employment is expected to reach nearly 2.5mn, an addition of 240000 employees, while indirect job creation is estimated at 8.3mn. As a proportion of national GDP, the sector revenues have grown from 1.2% in FY98 to an estimated 6.4% in FY11. Its share of total Indian exports (merchandise plus services) increased from less than 4% in FY1998 to 26% in FY11.

## WEALTH MANAGEMENT MARKET

The changes in financial sector have been empowering the clients with more information and the institutions are forced to disclose more financial information than they would be willing to part with. Today's clients are more discerning and well informed of the financial matters than before. They are well aware of the power of consumer demand, have unique and heterogeneous financial needs, and are capable of picking and choosing from a wide array of products and services offered by the financial institutions.

There are two reasons for Taksheel focusing its attention on Wealth Management Solutions market:

- The growing size and complex needs of Wealth Management Market.
- Lack of an integrated technology framework that can address the requirements of Wealth Management Service providers.

## **Future Outlook**

The underlying theme of 2010 has been the steady recovery from recession. Worldwide GDP, which had declined by 0.6% in 2009, grew 5% in 2010 and is expected to stabilize at about 4.4% 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%. 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. Hardware is likely to grow the fastest at about 7%, led by the refresh cycle in the Government sector. Shipments of app-capable, non-PC mobile devices (smart phones, media tablets) are expected to outnumber PC shipments. IT services is expected to grow by about 3.5% in 2011 and 4.5% in 2012.

## **Business Operations**

Taksheel Solutions Ltd. (TSL) was incorporated in September 1999 at Hyderabad, Andhra Pradesh. TSL is a comprehensive IT Solution company focused on providing products and services for the companies engaged in financial services industry & telecom, which are driven by technology all over the world. TSL is a 100% EOU and ISO 9001: 2008 certified company. TSL's 11 years of presence in the industry has given the company good business domain knowledge and experience in deploying services & solutions.

The company is evolved to emerge as a specialized solutions provider offering wealth management technology solutions, telecom solutions, business intelligence, data warehousing, application development and application maintenance. Headquartered in Hyderabad, with an office in North America, TSL provide professional IT services to global clients. The revenues of the company have grown from ₹32.02Cr for FY08 to ₹147.26Cr for FY11 in large part due to acquisition of new clients, aggressive marketing initiatives and strategies planned and executed.

## **Strengths**

- **Wide Range of Wealth Management Solutions**

The company provides wealth management technology solutions to global financial institutions in serving its clients, such as banks, hedge funds, insurance companies, investment managers, brokerage firms, trusts and family offices. Wealth management solutions market is a high margin niche in BFSI sector, which is constantly improving the top-line as well as the bottom-line of the company.

- **Advantage of Early Entry**

The company is one of the few players that entered in the Wealth Management Solutions market in its early stages and remain focused on providing cutting edge technology solutions to the global clients in the market. Wealth management market is an attractive niche segment in financial services industry. With the cumulative experience and business process exposure the company is able to offer differentiated and customizable services to the clients.

- **Unique, Versatile and State of the art Telecom products**

The company is specialized in IP multimedia subsystem(IMS), Telecom Signalling Integrated Standard Digital Network (ISDN), Channel Associated Signalling (CAS), Signalling System7 (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. Its product portfolio covers enterprise IP-Telephony, Unified Communication System, Carrier Grade solutions, Wireless VOIP solutions, IVRS, Voice Loggers, Video Conferencing, NMS and other IT Solutions.

- **Depth of experience and knowledge in targeted industry segments**

The company has invested in building a team of industry specialists who have an understanding of the industries in which customers operate and the competencies that they require. It has established competency centers, across domain, product engineering and platform expertise that are cross-functional teams which develop capabilities to differentiate, support and promote core businesses.

**Objects of the Issue**

The objects of the issue are:

- Capital expenditure for setting up a new SEZ software development center at Hyderabad.
- Capital expenditure for setting up a new SEZ software development center at Warangal.
- Acquisitions and Other Strategic Initiatives.
- Financing the Working Capital requirements.
- General Corporate Purpose.

**Utilization of net proceeds**

(₹Cr)

Particulars	Total fund requirement	Estimated Deployment of Funds in 2011-2012	Estimated Deployment of Funds in 2012-2013
Setting up a new SEZ development center at Hyderabad	9.15	9.15	-
Setting up new SEZ development center at Warangal	8.66	3.50	5.16
Acquisitions and Other Strategic Initiatives	22.00	22.00	-
Financing Incremental Working Capital	12.80	12.80	-
General Corporate Purpose	[•]	[•]	[•]
Public Issue Expenses	[•]	[•]	[•]
<b>Total</b>	<b>[•]</b>		

**Investment Risks**

(Please refer to the RHP for a complete listing of risk factors)

- The company has negative operating cash flow for two out of last five years, if it is not able to generate sufficient cash flows, it may adversely affect the business and financial operations.
- The IT services market is characterized by rapid technological changes, evolving industry standards, changing client preferences and new product and service introductions. The future success of the company will depend on its ability to anticipate these developments and the company is successful in maintaining the same. However, going forward it may not be successful in anticipating or responding to these advances on a timely basis or, if company does respond, the services or technologies it develops may not be successful in the marketplace.
- Discretionary spending on IT products and services in most parts of the world has significantly decreased due to a challenging global economic environment. This may result in cancelled, reduced or deferred expenditures for IT services, resulting in lower gross and operating income of the Company.
- The company has entered into the agreement with one of the investor at the cost of ₹10Cr for acquiring 1mn shares of the company. As per the terms, the company is required to buy back all the shares at ₹17Cr and also come up with an IPO within 18 months from the date of allotment. However, the company has failed in doing so and the investor still has not exercise the option. The company has the liability to buy back the shares & pays the said amount or else the investor can sell the shares to any other person by mutual agreement at any amount and the company has to pay the difference in the said amount.
- The Company doesn't own the premises where its registered office is situated and legal formalities for execution and registration of lease deed are yet to be completed. Any termination or dispute in relation to these leases may have a material adverse effect on the business operations and results thereof.

# KEYNOTE

## Restated Profit & Loss Statements

(₹Cr)

Particulars	FY07	FY08	FY09	FY10	FY11
<b>Total Revenues</b>	<b>11.69</b>	<b>31.72</b>	<b>33.19</b>	<b>49.50</b>	<b>147.26</b>
<b>Total Expenditure</b>	<b>3.63</b>	<b>15.52</b>	<b>32.17</b>	<b>40.81</b>	<b>118.97</b>
Software Development and Operating expenses	0.82	11.82	29.45	32.77	109.12
Employees Cost	1.91	1.44	1.99	1.18	1.45
Managerial Remuneration	0.00	0.05	0.07	0.07	0.21
Admin & Other Expense	0.90	2.21	0.66	6.79	8.19
<b>Gross Profit</b>	<b>8.06</b>	<b>16.20</b>	<b>1.02</b>	<b>8.69</b>	<b>28.29</b>
Other Income	0.19	0.31	2.23	0.00	0.00
<b>EBIDTA</b>	<b>8.25</b>	<b>16.51</b>	<b>3.25</b>	<b>8.69</b>	<b>28.29</b>
Depreciation	0.14	0.31	0.32	0.06	0.07
Interest	0.17	0.34	0.51	0.54	0.81
<b>Earnings before Tax before extra item</b>	<b>7.94</b>	<b>15.86</b>	<b>2.42</b>	<b>8.09</b>	<b>27.41</b>
Prior Period Expense	0.03	0.00	0.02	0.00	0.00
<b>Earnings before Tax</b>	<b>7.91</b>	<b>15.86</b>	<b>2.40</b>	<b>8.09</b>	<b>27.41</b>
Tax	0.01	1.82	0.01	0.00	0.00
<b>Profit After Tax</b>	<b>7.90</b>	<b>14.04</b>	<b>2.39</b>	<b>8.09</b>	<b>27.41</b>

## Ratios

Particulars	FY07	FY08	FY09	FY10	FY11
EBIDTA Margins	70.6%	52.0%	9.8%	17.6%	19.2%
EBT Margins	67.7%	50.0%	7.2%	16.3%	18.6%
PAT Margins	67.6%	44.3%	7.2%	16.3%	18.6%
RONW %	55.3%	22.4%	4.3%	12.8%	30.2%
ROCE %	47.5%	24.7%	5.0%	12.9%	28.4%
Book Value	24.64	55.44	48.73	38.77	55.59
EPS	13.61	12.42	2.11	4.96	16.81
PE	11.02	12.08	71.22	30.25	8.93
BV/Price	6.09	2.71	3.08	3.87	2.70

**Restated Balance Sheets****(₹Cr)**

<b>Particulars</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>
Gross Block	1.84	2.71	2.72	0.46	0.51
Less: Accumulated Depreciation	0.74	1.04	1.36	0.06	0.13
<b>Net Block</b>	<b>1.10</b>	<b>1.67</b>	<b>1.36</b>	<b>0.40</b>	<b>0.38</b>
Capital WIP	0.65	1.45	1.61	11.74	11.80
Goodwill	0.00	19.95	9.98	0.00	0.00
<b>Total Fixed Assets (A)</b>	<b>1.75</b>	<b>23.07</b>	<b>12.95</b>	<b>12.14</b>	<b>12.18</b>
<b>Investments(B)</b>	<b>2.67</b>	<b>2.67</b>	<b>2.67</b>	<b>0.00</b>	<b>0.00</b>
Inventories	0.00	0.00	0.00	0.00	0.00
Sundry Debtors	4.06	11.89	29.76	42.52	36.31
Cash & Bank Balance	0.01	0.98	1.38	0.12	6.05
Loans & Advances	8.16	29.84	15.80	17.76	50.61
Other Current Assets	1.05	0.42	0.11	0.08	0.08
<b>Total Current Assets (C)</b>	<b>13.28</b>	<b>43.13</b>	<b>47.05</b>	<b>60.48</b>	<b>93.05</b>
Secured Loans	2.80	3.02	3.20	3.09	8.13
Unsecured Loans	0.00	0.00	0.80	0.77	0.46
Current Liabilities	0.62	3.19	3.59	5.58	6.03
<b>Total Liabilities (D)</b>	<b>3.42</b>	<b>6.21</b>	<b>7.59</b>	<b>9.44</b>	<b>14.62</b>
<b>Net Worth(A+B+C-D)</b>	<b>14.28</b>	<b>62.66</b>	<b>55.08</b>	<b>63.18</b>	<b>90.61</b>
Represented by:					
1.ShareCapital	5.79	11.35	11.35	16.35	16.35
2.ShareApplicationMoney	1.49	0.00	0.00	0.00	0.00
3.Reserves&Surplus	7.01	51.30	43.72	46.84	74.26
<b>Net Worth (1+2+3)</b>	<b>14.29</b>	<b>62.65</b>	<b>55.07</b>	<b>63.19</b>	<b>90.61</b>

**Keynote Capitals Ltd.**

**Member**

Stock Exchange, Mumbai (INB 230930539)  
National Stock Exchange of India Ltd. (INB 010930556)  
Over the Counter Exchange of India Ltd. (INB 200930535)  
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

**Registered Office**

4th Floor, Balmer Lawrie Building,  
5, J. N. Heredia Marg,  
Ballard Estate, Mumbai 400 001.  
Tel Nos. 022-2269 4322 / 24 / 25

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