

Vishal Information Technologies Ltd.

Price Band	: Rs140 - 150 per share	July 15, 2008
Issue open between	: July 21 - 24, 2008	
Recommendation	: None*	
Book Running Lead Managers	: Keynote Corporate Services, IDBI Capital Market Services	
To list on	: NSE & BSE	
Grading (CARE)	: 3 / 5	
Market Cap post-listing	: Rs160Cr (\$37mn)	

(* Being the associate of the Book Running Lead Managers to this IPO, we are unable to give a recommendation; also read disclaimer on page 7)

IPO of 2.8mn equity shares of Rs10 each, aggregating to Rs41.85Cr or \$10mn, consisting of an offer for sale of 1mn shares (Rs15Cr) and fresh equity issue of 1.8mn shares Rs26.85Cr (at the cap price)

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters	45,79,062	51.5%	45,79,062	42.9%
Pre - IPO investors				
- IDBI Capital Market Services	3,10,000	3.5%	3,10,000	2.9%
- Others	40,00,938	45.0%	30,00,938	28.1%
QIBs excluding Mutual Funds	-	0.0%	13,25,250	12.4%
Mutual Funds	-	0.0%	69,750	0.7%
Non Institutional Investors	-	0.0%	4,18,500	3.9%
Public	-	0.0%	9,76,500	9.1%
Total	88,90,000	100.0%	1,06,80,000	100.0%

Executive Summary

- Vishal Information Technologies Ltd. (VITL) is a Chennai based ITES company, promoted by established Tutis Technologies Ltd. The company provides services of data digitization, E-publishing, digital library, E-accounting and fund accounting. The company also specializes in the production of large print files specially aimed for the visually impaired.
- Indian exports of software and services valued at \$31.4bn. It includes exports of BPO and IT enabled services of \$8.4bn. In FY07, the ITES and BPO exports recorded a growth of 33.5%.
- NASSCOM expects the growth trajectory to continue, going forward. It estimates the segment to grow at 32% in FY08.
- Globally, the size of digital publishing industry is estimated at \$430bn. With growing usage of internet the data digitization and digital versions of books are becoming popular. In 2006, Microsoft and the British Library announced a partnership to digitize 25mn pages from 100,000 out-of-copyright books in the British Library's collection. China also decided to supply e-reader to 165mn students in order to avoid all the physical costs associated with textbooks.
- Indian publishing industry which is worth of Rs80bn is growing at 15%. Due to large pool of English knowing people, India became the big beneficiary of digitization in terms of outsourcing. Major international book and journal publishers which include Oxford, Cambridge University Press, Prentice Hall, Macmillan, Elsevier and Springer outsource a large chunk of business to India. This involves cost advantage of content transformation upto 40%.
- VITL has a strong track record of 14 years and well placed to tap the growing opportunities in data digitization, E-Publishing, Digital Liabrary space. In Financial terms, the company showed decent performance. Its revenue grew at a CAGR of 25.2% over FY05-08. VITL also maintained EBITDA margin in the range of 34%-37% for last 5 years in the competitive ITES and BPO industry.

- VITL's subsidiary Basiz Fund Accounting Services Pvt. Ltd. (Basiz) provides services to Hedge funds, Mutual funds, Private Equity, Family offices, Insurance portfolios and managed accounts.
- VITL's proposed plans involve expansion in Chennai facilities, new Assurance Center and Marketing office in Mumbai, and subsidiaries in the UK and USA. The whole expansion exercise is schedule to complete by March 2009. In March 2008, the company raised Rs3.72Cr from IDBI Capital Market Services Ltd. @ Rs120 per share.
- The IPO is priced at 12.6x based on pre-issue weighted average EPS and 11.1x based on FY08 pre-issue EPS.

Company Background

Incorporated in 1994, VITL is a subsidiary of Tutis Information Technologies Ltd. (TTL), formerly known as Amex Information Technologies Ltd. TTL provides IT enabled services and biometric solutions to companies like Wipro, Siemens Information Technologies, HCL Infosys, L&T, etc.

VITL has expertise in data digitization, E-publishing, digital library, E-accounting and fund accounting. It covers almost the entire range in IT enabled services other than voice call center. The company also specializes in the production of large print files specially aimed for the visually impaired.

Industry Overview - IT/ITES & BPO

India's software and services exports were worth of \$31.4bn in FY07 consisting of exports of BPO and IT enabled services exports of \$8.4bn. The ITES and BPO segment grew at 33.5% in FY07. NASSCOM estimates the ITES and BPO segment to grow at 32% in FY08.

Business scale-up, increasing depth of existing service lines, and entry in the newer verticals are the major growth drivers of the industry, going forward.

Key growth areas

- Finance & Accounting
- Customer Interaction Services
- Human Resource Administration

Key challenges

- Human resources sourcing
- Information security
- Continuous pressure on scaling up business

For past 3 years, the sector recorded growth at 39% CAGR. The sector employs 0.55mn people (1/3rd of the total workforce in IT/ITES services). India exports software and services to more than 95 countries around the world.

Digital publishing industry

Globally, digital publishing is a \$430bn industry. In the west, digitization has witnessed a revolutionary growth. Microsoft and the British Library announced a partnership to digitize 25mn pages from 100,000 out-of-copyright books in the British Library's collection in 2006.

New tech products such as iPods, PDAs, e-readers, etc. facilitate services like 'anywhere reading', providing an impetus to the online book publishing. China decided to supply 165mn students with an e-reader in order to avoid all the physical costs associated with textbooks.

India is a major beneficiary of digitization in terms of outsourcing. Many major international book and journal publishers, including Oxford, Cambridge University Press, Prentice Hall, Macmillan, Elsevier and Springer outsource a lot of business to India. The content transformation has a price advantage of 40%.

The Indian publishing industry, which is Rs80bn, grew by over 15% this fiscal year. Interestingly, 45% of total titles produced are in English, which puts India at third place in the production of English books, after US and Britain.

Key growth drivers for ITES and BPO segments in India

- Abundant availability of talented manpower
- Cost competitiveness
- Focus on quality
- Information security environment
- Rapid growth in key infrastructure such as telecom, roads and real estate

Business Overview

VITL provides KPO services from its offices located in Chennai and Mumbai. The company has expertise in converting normal fonts into Braille script and creating larger font for the visually handicapped. The company, till date, has converted approx. 8,000 books. The company can handle 2.5 lac pages of digitization a month.

VITL's product portfolio

Data digitization (Year of Launch: 2000)

The company provides two services viz., text conversion and e-book conversion.

1. Text Conversion

- conversion of typed and handwritten text into SGML/HTML/XML, CD Publishing, image processing (scanning, cropping, labeling, masking),
- data-base entry,
- other mark-ups to XML conversion, Quark Express to XML conversion,
- SGML conversion with handwritten mark-ups, TeX and LaTeX, SGML & DTD making and
- CD publications with software, paper case/ images to electronic conversion,
- Optical Character Recognition (OCR), intelligent character recognition (ICR), microfilms and microfiche conversion.

2. E-book Conversion

PDF for Acrobat E-book reader, E-book conversion LIT for Microsoft Ebook reader, Quark Express Formatting and conversion through Mac.

E-Publishing (Year of Launch: 2006)

E-Publishing consists of typesetting and pagination in Framemaker.3B2, Quark, etc. This activity is especially oriented towards large publishing houses, financial institutions, etc. where the work involves large volume books conversion of smaller fonts to larger fonts to encompass visually impaired, PDF files to XML for the visually impaired, word files to LaTeX for a college in the UK, converting of annual returns and prospectus into ASCII/word format, Edgar conversion of annual returns and prospectus as per SEC compliance to a financial printer in the UK.

The company has gained expertise in E-publishing which includes typesetting in Indesign and Quark and delivering Adobe PDF high resolution files. It is also proficient in content management and provides back up support service. Its editorial services include services like abstracting, indexing, content creation, content enhancement and research and data mining. VITL caters to renowned publishing houses, globally.

- **Microfilming and Microfilm Scanning**

VITL handles microfilming in the form of roll films, microfiche and aperture cards. Its production labs are equipped with state-of-the-art scanners and licensed image enhancement software. It also offers web-enabled content development with keywords, key phrases, meta descriptions, titles and specialized Indexing of Scientific Reports and Journals etc.

Digital Library (Year of Launch: 2007)

Creation digital library involves conversion of reading material like a book into a readable electronic format, which can be downloaded by the end user to read/refer at leisure. The company mainly caters to the reading needs of the visually impaired in the UK.

VITL loads the large print versions in the digital library. The revenues generated by digital library are through direct sales of print version, direct online sales of the print version and through downloads from its website.

VITL has entered into a contract with one of the world's largest Print on Demand (POD) companies, to convert their publisher's popular titles from small print to large print. These converted titles are sold online through an arrangement with amazon.com and other similar sites with the POD company.

Subsidiary: Basiz Fund Accounting Services Pvt. Ltd. (Basiz)

Incorporated in 2006, VITL holds a stake of 86.9% in Basiz, located in Chennai. VITL invested Rs4.47Cr. Mauritius based NEA Indo-US Venture Capital LLC is also an investor in Basiz.

The company is into the business of sub fund accounting and administration KPO. It primarily focuses on servicing Hedge funds, Mutual funds, Private Equity, Family offices, Insurance portfolios and managed accounts. It involves back-office function that begins once trade is struck and ends when information is sent to investors/ broker dealers. This service covers uploads, trade validation, trade processing & valuations, maintenance, quarterly results, annual activities.

Competitive Strengths

- Ability to implement end-to-end solutions
- Deep domain knowledge
- Well entrenched management

Issue Details

The company plans to raise Rs26.85Cr to fund its expansion project. The expansion projects consists of the expansion in Chennai facilities, new Quality Assurance Center and Marketing office in Mumbai, and floating subsidiaries in the UK and USA. In March 2008, the company raised Rs3.72Cr from IDBI Capital Market Services Ltd. @ Rs120 per share.

Expansion Project and funds deploying plan

	(RsCr)
Expansion in Chennai	16.05
Expansion in Mumbai	5.44
Subsidiaries in UK and USA	6.00
General Corporate Purposes & Issue expenses	[-]
Total	[-]

Proposed Expansion

	Seating Capacity (Nos)	
	Present	Proposed
Data digitalization	250	450
E-publishing	150	250
Digital Library	75	100

Schedule of Completion

	Commencement	Completion
Chennai Expansion	July 2008	December 2008
Mumbai Expansion	July 2008	December 2008
Subsidiaries in UK and USA	July 2008	March 2009

Peer Comparison

(RsCr)

Company Name	Core Projects	FCS Software	Datamatics Tech	eClerx Services	CSS Tech.	VITL
Sales Turnover	445.96	204.18	144.39	121.66	26.62	40.87
Adjusted Net Profit	84.48	32.41	9.19	44.58	4.26	12.36
Paid-up Equity Capital	16.59	14.43	20.36	18.87	5.47	10.68#
Price Rs (14-July-2008)	180.70	79.00	25.70	192.65	30.10	150.00
Market Cap	1499	114	105	364	16	160
EPS (Rs)	10.18	22.46	2.26	23.62	7.79	11.57
Book Value (Rs)	38.81	83.60	62.14	70.02	34.04	76.13
P/E (x)	17.7	3.5	11.4	8.2	3.9	13.0
P/B (x)	4.7	0.9	0.4	2.8	0.9	2.0
P/S (x)	3.4	0.6	0.7	3.0	0.6	3.9
EBITDA margin	22.0%	20.3%	6.6%	39.8%	26.8%	36.4%
52 Week High (Rs)	464	145	65	516	120	-
52 Week Low (Rs)	119	51	24	192	26	-
FVPS (Rs)	2	10	5	10	10	10

Post - issue equity capital

Risks

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

- 56% of revenues contributed by 3 clients
- Premises in Chennai and Mumbai are yet to be identified
- Subsidiary Basiz has reported a loss
- Industry factors such as retention of talent and wage inflation

Profit and Loss Statements**(RsCr)**

For year to	31.3.04	31.3.05	31.3.06	31.3.07	31.3.08
Net Sales	13.88	20.82	25.64	31.44	40.87
Expenditure					
Operating Expenses	7.69	12.91	15.36	17.35	21.82
Admin Exps	1.15	0.78	1.34	2.94	4.18
Total Expenditure	8.84	13.68	16.70	20.29	26.00
EBITDA	5.04	7.14	8.94	11.15	14.87
Other Income	0.01	0.00	0.00	0.00	0.02
Interest	0.13	0.15	0.10	0.05	0.08
PBDT	4.91	6.99	8.85	11.10	14.81
Depreciation	0.52	0.61	0.63	0.76	0.72
Profit Before Tax	4.39	6.38	8.22	10.34	14.08
Tax	0.19	0.00	0.00	0.13	1.72
Profit After Tax	4.21	6.38	8.22	10.21	12.36
EBITDA margin	36.3%	34.3%	34.9%	35.5%	36.4%
EPS (Rs)	8.42	7.43	9.58	11.60	13.56
Book Value (Rs)	23.79	23.31	32.81	43.84	59.99
Paid-up Equity Cap	5.00	8.58	8.58	8.80	9.11

Balance Sheets**(RsCr)**

As at	31.3.04	31.3.05	31.3.06	31.3.07	31.3.08
Sources of funds					
Share Capital	5.00	8.58	8.58	8.80	9.11
Reserves and Surplus	6.90	11.42	19.57	29.79	45.56
Total Shareholders funds	11.90	20.00	28.15	38.60	54.68
Loan Funds					
Secured Loans	1.09	1.00	0.51	0.06	0.49
Unsecured Loans	0.42	0.23	0.00	0.08	0.00
Total Debt	1.51	1.23	0.51	0.13	0.49
Total Liabilities	13.40	21.23	28.66	38.73	55.16
Application of funds					
Gross Block	4.90	4.90	4.98	9.89	10.28
Less Depreciation	1.74	2.36	3.06	3.82	4.44
Net Block	3.16	2.55	1.92	6.07	5.85
Investments	0.00	0.00	4.47	0.00	0.25
Curr. Assets, Loans and Adv.					
Inventories	1.55	3.86	4.23	4.08	8.06
Sundry Debtors	5.47	12.35	14.31	24.60	29.59
Cash and bank balances	0.46	0.50	0.47	1.50	4.87
Loans and Advances	1.66	1.08	2.55	3.03	6.60
Total Current Assets	9.14	17.80	21.56	33.21	49.11
Curr.Liabilities and prov.					
Current Liabilities	0.25	0.28	0.27	1.23	0.43
Provisions	0.24	0.24	0.24	0.26	0.32
Total Current Liabilities	0.48	0.51	0.50	1.48	0.75
Net current assets	8.66	17.29	21.05	31.72	48.36
Deferred Tax Liability	-0.09	-0.09	-0.09	-0.20	-0.23
Misc. Expenditure	1.67	1.48	1.30	1.13	0.94
Total Assets	13.40	21.23	28.66	38.73	55.16

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)

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Disclaimer

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