

Taksheel Solutions Ltd— Too good to be true

Issue Opens	Issue Closes
29 th Sept.'11	4 th Oct.'11

Taksheel Solution is an IT Solution Company focused on providing products and services for companies engaged in financial services industry & Telecom, which are driven by technology all over the world. They have a total of 11 years of presence in the industry. Headquartered in Hyderabad, with an office in North America, Taksheel provides professional IT services to global clients in the fields of Wealth Management Technology Solutions, Telecom Solutions, Business Intelligence, Data Warehousing, Application Development and Application Maintenance.

The Company's solutions/services, in general technical areas, include the following:

- Wealth Management Solutions
- Telecom Solutions
- Application Development & Maintenance
- Data Warehousing & Business Intelligence
- Offshore Outsourcing

An Overview

Taksheel's business activities can be classified into two major segments:

- 1) Wealth Management Solutions (WMS)
- 2) Telecom & Managed services and
- 3) Information Technology Services (IT).

Under WMS offer solutions to Banks, Asset and Investment Managers, Brokerage Houses, Insurance, Hedge Funds, Trustsand Family Offices .Our complete range of IT Services and solutions addresses the needs of both technology and business requirements to help organizations towards business improvement. WMS is provided through a Service Oriented Architecture (SOA) which enables us to deploy a customized version of its solutions to help the clients manage their customers' assets, increase their sales, improve their service and generally lower their operating costs, by processing the transactions faster, reducing the scope for human errors and the need for entering data at multiple points.

Their Wealth Management Solutions provide ease of integration between portfolio management/financial planning systems, account aggregation vendors, market data providers, and CRM systems. In addition, they also have expertise in deploying, managing, maintaining and integrating front office and middle/back office services to an end-to-end solution, unifying all business processes and adding a broad range of features and functionalities.

Recommendation

Avoid ★★☆☆☆

Issue Summary

Price Band (Rs)*	130	150
Bid Lot	45 shares	
Face Value	Rs.10	
Total no of shares to be raised	15.67 cr	

Pre-issue share capital	Rs 1.63 crs	
Post-issue share capital	Rs 2.18 crs	
Issue Size	Rs 71.5 crores	Rs 82.5 crores
Post Issue Market Cap	284.1	327.8
P/E on FY11	10.3	11.9

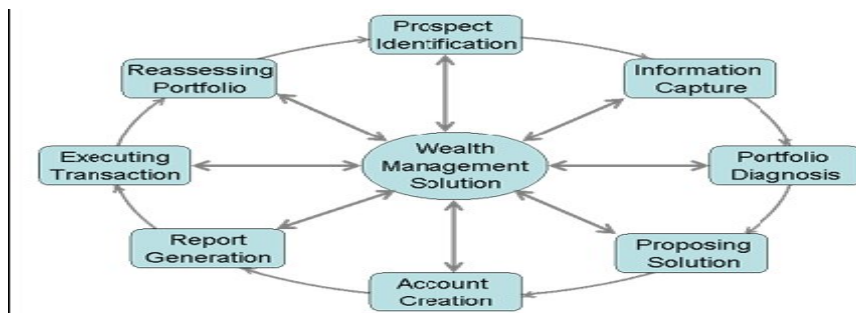
Shareissue Pattern

Net Issue	No. of Shares	%
QIB's	<= 27.5 lakhs	50%
Non Institutional	>=8.25 lakhs	15%
Retail	>= 19.25 lakhs	35%
Employees	n.a	n.a
Total	55 lakhs	100%

Book Running Lead Managers

Their wealth management solutions provided by the company is illustrated in the following figure:

- PNB Investment Services Limited



Objects of the Issue

The primary reason for raising funds is to expand into new markets and open new branches in the existing regions.

Particulars	Total fund requirement (in cr)	Estimated Deployment of Funds in Fiscal 2011	Estimated Deployment of Funds in Fiscal 2012
Setting up new development center at Hyderabad	9.14	9.14	-
Setting up new development center at Warangal	8.67	3.5	5.16
Acquisitions and Other Strategic Initiatives	20.0	20.0	-
Financing Incremental Working Capital	11.8	-	11.8
General Corporate Purpose	#	#	#
Public Issue Expenses	#	#	#

Taksheel caters mainly to clients in wealth management segment.

Investment Positives

- **Wide Range of Wealth Management Solutions** - Taksheel have rolled out a broad range of wealth management technology solutions to global financial institutions in serving their high net worth clients, such as banks, hedge funds, insurance companies, investment managers brokerage firms, trusts and family offices. Their integrated wealth management solutions approach spans across business processes like Advisory tools, Financial planning, Asset allocation, Asset aggregation, Portfolio valuation, Performance monitoring, Risk profiling, Interface with external systems. These offerings cover the entire gamut of wealth management cycle. Wealth management solutions market is a high margin niche in BFSI sector, which has constantly helped the company in improving its top-line as well as the bottom-line.
- **Advantage of Early Entry** - Taksheel is one of the few players that entered 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 and with their cumulative experience and business process exposure they are able to offer differentiated and customizable services to the clients. The early mover advantage will be of immense help to add new clients and also to generate additional sales from the existing clients.

- **Unique, Versatile and State of the art Telecom product** – Taksheel also has specialized and developed products in IP multimedia subsystem(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. Their 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** - Taksheel have invested in building a team of industry specialists who have an understanding of the industries in which their customers operate and the competencies that they require. They have established competency centers, across various domains, product engineering and platform expertise that are cross-functional teams which develop capabilities to differentiate, support and promote their core businesses enabling them to cater better to their clients.
- **Ability to Manage and Establish Enduring Relationship with Large Clients** – Taksheel has a proactive CRM approach to discover and meet the clients' needs and expectations on a regular basis. They have dedicated account managers for large clients to forge long, sustained and mutually beneficial relationships with the clients. Their ability to respond quickly to clients' needs, be always accessible to the clients, have flexible approach to problem solving, and provide customized services have contributed to high levels of satisfaction of clients.

Concerns

- **Tough macro environment for BFSI clients** – Some of these competitors have substantially larger financing resources or greater debt financing opportunities.
- **High client concentration** - The top 2 clients of Taksheel contributes 28% of its revenue while the top 5 customers contributed 52.1% to the total revenue in FY11 and top 10 customers accounted for 80.2% of its total revenue. Any loss of business or significant reduction in the volume of work from the top 10 customer could adversely affect the revenues and profitability of the company.

- **Compliance issues** - Taksheel has been facing compliance issues pertaining to certain mandatory requirements under the FEMA in relation to issue of shares to foreign entity by the way of share swap, investment in overseas subsidiary, capitalisation of export receivables and issue of shares to Lexicon Private Ltd. In few cases, RBI has levied a penalty, which the company has paid and in some cases the company is awaiting response from the compounding authority.
- **Risky investors on board** – The management of Taksheel has entered into Share Purchase Agreement dated 24th November, 2007 (“SPA”) with Mr. Dinesh Kumar Singhi, in terms of which the said Mr. Dinesh Kumar Singhi subscribed to 10,00,000 shares of the Company constituting 6.12% of the then share capital of the Company at a price of Rs.100/- per equity share. The total amount invested by the said Mr. Dinesh Kumar Singhi was Rs. 10 crores. As per the terms agreed in the SPA, in case the Company fails to conclude IPO within 18 months from the date of allotment, then the Company is required to buy back the shares held by the said Mr. Dinesh Kumar Singhi at Rs. 170/- per equity share aggregating to Rs. 1700 lacs. In case the Company cannot buy back the shares from the said Mr. Dinesh Kumar Singhi then the shares may be sold to a person mutually agreed. If the purchase price paid by the third party purchaser is less than the Rs. 170/- per equity share then in that event the Company shall be liable to pay the difference to the said Mr.Dinesh Kumar Singhi. The period of 18 months has elapsed. However, the said Mr. Dinesh Kumar Singhi has not exercised the rights available to him under the SPA.

We recommend an ‘Avoid’ on the IPO .

Peers Comparison

Company name	FV (Rs.)	EPS	RONW (%)	NAV	P/E
Aurionpro Solutions	10	2.1	1.7	144.2	62.7
GSS America	10	9.8	12.7	200.2	35.7
Nucleus Software	10	10.3	15.4	71.9	12.7
Taksheel Solutions	10	12.6	12.8	38.7	10.3

Financials

Profit and Loss Account (Rs in cr)

Particulars	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Software & Consultancy Services	6.8	11.7	31.7	33.2	49.5	147.3
Other Income	0.0	0.2	0.3	2.2	0.0	0.0
Total Income	6.8	11.9	32.0	35.4	49.5	147.3
Expenditure						
S/w dev. & op. expense	1.2	0.8	11.8	29.5	32.8	109.1
Employee remuneration	2.8	1.9	1.5	1.9	1.2	1.5
Loss of fixed assets	0.0	0.0	0.0	0.0	1.3	0.0
Administrative Expenses	0.1	0.1	0.1	0.1	1.2	6.8
Forex fluctuations	0.0	0.0	1.6	0.0	4.2	1.3
Finance charge/ Interest cost	0.1	0.1	0.1	0.1	0.1	0.8
Depreciation	0.1	0.2	0.3	0.5	0.5	0.1
Deferred rev.exp written off	1.7	0.0	0.0	0.0	0.0	0.0
Total expenditure	6.0	3.9	16.2	32.9	41.4	119.9
PBT	0.8	7.9	15.9	2.4	8.1	27.4
Tax	0.1	0.1	0.0	0.1	0.0	0.0
PAT	0.7	7.9	14.0	2.4	8.1	27.4
EPS (Pre Issue)	0.43	4.84	8.58	1.47	4.97	16.8
EPS (Post Issue)	0.32	3.62	6.42	1.10	3.71	12.6

Our View

Though Taksheel has shown tremendous improvement in its top and bottom line in the last couple of years, we believe the current situation is not right to invest in small IT companies—especially those that caters to the BFSI vertical. We also remain highly sceptical whether Taksheel will be able to repeat its almost unbelievable growth of FY11 in the coming years—that too with a minimal employee base of 70. We also believe the investment by Mr.Singhi poses a serious risk to the company. The number of times that it has failed to comply with regulatory issues also do not give us much comfort. We would therefore recommend an ‘Avoid’ on the Taksheel IPO.

We recommend investors to ‘Avoid’ the Taksheel IPO.

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Risk Factors:

Mutual Funds and all securities investments are subject to market risks and there is no assurance or guarantee that the Fund's objectives will be achieved. As with any investment in securities, the NAVs of the units issued under the schemes can go up or down depending upon the factors and forces affecting the securities market. Past performance of the sponsor/Mutual Fund does not guarantee the future performance of the schemes of the Mutual Fund. The names of the schemes do not in any manner indicate either the quality of the schemes, its future prospects or its returns. The NAV of the schemes may be affected by settlement periods and transfer procedures. Trading volumes may restrict the liquidity of the scheme's investments. Before investing, please read the Offer Document for details and risk factors.

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