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Mumbai

CRISIL IPO grade 2/5 assigned to the IPO of Infinite Computer Solutions

CRISIL has assigned a CRISIL IPO Grade "2/5" (pronounced "two on five") to the proposed initial public offer (IPO) of Infinite Computer Solutions (India) Ltd (Infinite). This grade indicates that the fundamentals of the IPO are below average relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy/sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grading reflects Infinite's relatively smaller size in the IT services industry. The grading also factors in the company's slower revenue growth (around 12 per cent) compared to the industry's growth rate of 22 per cent from 2005 to 2009. In addition, Infinite is present in the lower margin service lines (application development and maintenance and testing services), and faces client concentration risk. The top seven clients accounted for 84 per cent of the revenues in 2008-09. Further, Infinite's revenues are largely concentrated from the United States of America (USA, 91 per cent) and are heavily dependent on the telecom sector (59 per cent).

However, Infinite's experienced management and its demonstrated ability to retain key clients over a long period is a positive factor in the grading. The company's efforts to diversify its concentrated client base, focus on higher margin businesses such as infrastructure management services and intellectual property (IP) development services and increase geographical presence is also expected to strengthen its future business position.

About the company and the issue

Infinite, promoted by Mr Sanjay Govil, was incorporated on September 6, 1999 as a private limited company. The company, which was subsequently converted into a public limited company on February 14, 2008, operates with 12 offices across the globe, including the US, the UK, India, China, Malaysia, Singapore and Australia. Its delivery centres are located in Bengaluru, Gurgaon, Hyderabad and Chennai.

The company provides various IT services such as application development and maintenance, testing services, infrastructure management services and IP leveraged solutions. Infinite is primarily focused on the telecom and media, healthcare and manufacturing sectors. The key clients of Infinite include Verizon, IBM, GE, AOL, ACS and Alcatel Lucent.

Infinite's management is headed by Managing Director, Mr Upinder Zutshi. Its board comprises six members, of whom, three are independent. The Chairman of the board is a non-executive director.

In 2008-09, the company reported a net profit of Rs 457 million on a turnover of Rs 4,900 million, translating to a net margin of 9.3 per cent. It posted an EPS of Rs 11.96 during the same period, while its book value per share stood at Rs 29.1. Infinite's return on capital employed (ROCE) and return on equity (ROE) for the year stood at 48.0 per cent and 50.5 per cent, respectively.

In August 2007, Infinite Computer Solutions Inc, USA acquired Comnet International Company (Comnet), which is a telecommunication OEM focused company. Also, in 2005-06, Infinite acquired Datagrid Services Pvt Ltd, a Business Process Outsourcing (BPO) company based in Hyderabad. However in 2007-08, Infinite sold its investments in this BPO.

The IPO proceeds are expected to fund the capacity expansion at its Gurgaon facility, repay the balance term loan and fund any future acquisition.

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