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Mumbai

CRISIL IPO grade 1/5 assigned to the IPO of Radiant Info Systems Ltd.

CRISIL has assigned a CRISIL IPO Grade "1/5" (pronounced "one on five") to the proposed initial public offer (IPO) of Radiant Info Systems Ltd (Radiant). This grade indicates that the fundamentals of the IPO are poor 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 Radiant's relatively smaller scale of operations in the IT services industry, which, in turn, presents a highly competitive business environment. The grading also factors in the company's topline performance, which compares unfavourably with the industry's growth rate over the last 12 years, since its inception in 1997. Despite a wide client base and presence across several segments, Radiant's dependence on a few clients in select verticals for a significant portion of its revenues is high. A large share of the company's revenues comes from the telecom sector (accounting for 30 per cent of consolidated revenues in FY09), followed by the pharmaceuticals and healthcare, manufacturing and IT sectors. Further, almost 96 per cent of the company's revenue (geography-wise, on a consolidated basis) is derived from the United States. Despite increased repeat business from some key clients, the company's overall repeat business has declined in recent times. The grading also reflects high debtors, declining employee strength and potential foreign exchange risk exposure, since the company does not follow a formal practice of hedging.

Radiant has a fairly experienced management, which has, over the years, reasonably diversified operations and entered new and potentially growing sectors such as transportation and smart cards. Moreover, according to CRISIL Research, the degree of dependence on the promoters for the company's overall operations is relatively high. From the perspective of corporate governance practices, aspects such as frequent changes in the ownership structure within the group and level of engagement of independent directors indicate scope for strengthening.

About the company and the issue

Radiant Info Systems Private Ltd was incorporated on September 25, 1997. On January 22, 2008, the company became a public limited company, and its name was changed to Radiant Info Systems Ltd. The company has been promoted by Mr Venu Myneni, Mr Vinod Koduru and Mr C. Narayanacharyulu. Radiant is headquartered in Bangalore and has another office in Hyderabad. The company also has a presence in New Jersey, Florida, Michigan, Texas and Connecticut in the US, besides operating in the UK through its subsidiary.

The company provides IT solutions to companies across the globe, and across verticals, including telecom, pharma and healthcare, IT, manufacturing, banking, finance and insurance, transportation, e-governance and smart card. AT&T, Sanofi-Aventis, Pfizer, Caterpillar and Hewlett Packard (HP) are some of the company's key clients.

Radiant's board comprises six members, of whom three are independent. The chairman of the board is the Managing Director, Mr Venu Myneni, who is also the company's executive director.

The company's consolidated revenues grew by 4% y-o-y in 2008-09, from Rs 1,720 Mn in 2007-08 to Rs 1,793 Mn in 2008-09. However, during this period, its operating margins fell from 13.3% in 2007-08 to 8.6% in 2008-09, while net margins remained almost flat at 8.8-8.3%. Radiant's return on capital employed (RoCE) and return on equity (RoE) for the year ended March 31, 2009 stood at 33.5 per cent and 44.1 per cent, respectively .

The IPO proceeds are expected to fund the capital expenditure (for setting up a software development park) planned at Gowribidanur (80 kms from Bangalore) and fund future acquisitions, if any. A part of the IPO proceeds are also proposed to be used as margin money to meet the company's working capital requirements.

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CRISIL IPO (initial public offering) Grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security, nor is it a recommendation to invest or not to invest in the graded security.

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