

Neoteric Infomatique Ltd (Neo)
CRISIL IPO Grade 2/5

Details of the IPO	
CRISIL IPO grade	CRISIL IPO Grade '2/5' . The grade indicates that the fundamentals of the issue are below average, relative to 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's fundamentals. (refer Page 2 for further details)
Shares offered	6,970,000
As % of post issue equity	40% of the shares outstanding (17,424,075)
Proposed IPO amount (estimated)	Neo aims to raise Rs 470 million to Rs 480 million
Lead managers	Microsec Capital Limited

Company Background

Neoteric Infomatique Ltd (Neo) is into the business of distribution of IT-hardware products. The company started as a reseller in 1991 and thereafter in 1997, commenced the business of distribution. Neo caters to the domestic market and has a network of 36 branches, 4 logistic centres and 4 additional warehouses catering to over 7,200 channel partners in 350 cities. Neo primarily operates in the domestic market. Monitors, PCs, components such as hard disks, motherboard, RAM and peripherals such as printers form its key offerings. Neo has relationship with around 20 vendors and its key vendors include Samsung, Apple, HP, Hitachi, Logitech, BenQ, Wipro, Lenovo and Moserbaer.

Grading highlights
Business prospects

- Neo is one of the top 10 distributors of IT-hardware in India
- New vendor relationship assisted in business growth in the past 3 years
- Distribution business to grow favourably on the back of IT-hardware industry growth
- Intense competition due to domination by two top distributors and several mid-sized players
- Neo's ability to improve profitability is limited due to undifferentiated product offerings and intense competition in the IT-hardware distribution industry

Financial performance

- Revenues have grown at a robust pace in the past 3 years due to increase in vendor relationships and strong volume growth in the computer hardware industry.
- Alliances with new vendors such as Wipro, Lenovo, Brother, Moserbaer, etc, to sustain the revenue growth
- Net margins to remain range-bound due to nature of business
- RoE to decline from present level due to use of equity to fund working capital requirements and purchase of the corporate assets

Management capabilities

- The promoters have successfully captured the IT distribution opportunity and were able grow the company significantly
- Promoters' contribution for growing client relationships and generating new business ideas is integral for overall business growth

Corporate governance

- The board has eight directors, of which four are independent.
- All the independent directors joined the board in April 2008.
- The independent directors of the company have the ability and willingness to exercise management oversight.

Detailed grading rationale

Overall Grading Summary (CRISIL IPO Grade 2/5)

To arrive at the overall grade, CRISIL has considered the following broad parameters:

- Business prospects and financial performance
- Management capability
- Corporate governance

CRISIL has assigned a CRISIL IPO Grade '2/5' (pronounced 'two on five') to the proposed initial public offer of Neoteric Infomatique Ltd (Neo). This grade indicates that the fundamentals of the issue are below average relative to 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 offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy / sell or hold the graded instrument, the graded instrument's future market price or its suitability for a particular investor.

The grading factors in Neo's market position as one of the top 10 IT-Hardware distributors in India and the increased relationships with some of the key IT hardware vendors in the past 3 years. The grading also takes into cognizance the favorable volume-driven growth expected in the computer hardware industry, especially in the laptops and the TFT monitors segment.

The grading is, however, constrained by the inherent risks attached to the distribution business which is characterized by thin margins and undifferentiated nature of products. In addition, the anticipated pressure on margins due to expected increase in competition and due to the underlying risk associated with technology-driven products is expected to limit the company's ability to improve profitability in the long term. The grading also reflects the crucial role played by the promoter for developing vendor relationships. Notably, also, the company's stated use of around 20-25 per cent of the IPO proceeds for setting up a corporate office might not be the optimum use of investors' money as this is likely to suppress the return on equity.

➤ ***One of the top 10 IT hardware distributors in India***

The Indian IT industry has two large and broad-based national distributors viz, Ingram Micro, Redington (with a combined sales of Rs 107.8 billion in 2006-07) and about 8-10 mid-sized distributors such as eSys, Neoteric Infomatique, Compuage Infocom, Rashi Peripherals, Savex, IRIS, SES Technologies, etc. There is a huge gap in the size of the top two players and the remaining distributors. Neoteric was the sixth largest player in 2006-07 with sales of Rs 4,885 million. Among the top 10 players, all except Ingram Micro have grown at a compounded rate of over 30-40 per cent during 2004-05 to 2006-07.

➤ ***Favourable increase in vendor relationships***

Neo's list of key vendors includes Samsung, Apple, HP, Umax, Asus, Hitachi, etc. In the past 3-4 years, the company has inked significant deals with large vendors such as HP, Lenovo, Moser Baer, Brother, Wipro, etc, which led to substantial growth in sales (40 per cent 3-year CAGR). This has assisted the company in widening its product offerings and in reducing the risk of client concentration. Neo's repeat business accounted for about 85 per cent of sales. Neoteric made its foray into the corporate channel last year. It also increased its focus on enterprise and SMB with increased focus on tapping retail business and verticals like telecom, IT, consumer electronics and large format retailers.

➤ ***Distribution business growth to be driven by expected growth in IT hardware industry***

The prospect of the IT hardware distributors is directly linked with the performance of IT hardware industry. Over the next 5 years, we expect a strong growth in segments such as Notebooks, TFT monitors, servers, multi-functional printers (MFPs), etc. Growth will, however, be moderate in desktop sales and desktop-linked peripherals (cabinets, keyboards) and component sales.

➤ **Promoter's contribution for building vendor relationships is integral for overall business growth**

The company's success as one of the key distributors in India can be largely attributed to the able leadership of the promoter Mr Paras Shah and his ability to develop strategic relationships, some of which have enabled the company to receive favorable mandates from few of the key vendors in the IT hardware industry. Few of the management personnel have been with the company for over 7 years and the company has further strengthened its key management over the last 3 years. However, the contribution of Mr Shah towards business development will continue to be critical for the overall business growth.

➤ **Use of funds for building an office and for working capital funding**

Neo plans to expand its distribution business and plans to utilize the IPO funds to primarily enhance its working capital and set up an owned office. The company plans to buy the fixed asset only in 2009-10, and till then they may use the proceeds for working capital. While there is immediate need to expand network for faster growth, one part of the amount raised from the IPO is kept for building a corporate office which might not be the optimum use of the investors' money from the equity perspective as it would result in depressed return on equity.

Business profile

Neoteric Infomatique Ltd (Neo) is into the business of distribution of IT hardware products. The company started as a reseller in 1991 and thereafter in 1997, commenced the business of distribution. Neoteric caters to the domestic market and has coverage of 36 branches, 4 logistic centres and 4 additional warehouses catering to over 7200 channel partners in 350 cities. Neo primarily operates in the domestic market.

The company offers IT hardware products like PCs, notebooks, peripherals, printers, scanners, plotters, PC components and peripherals (monitors, hard disks, Optical Disk Drives, motherboards), manufactured by multiple vendors. Monitors, PCs, components such as hard disks, motherboard, RAM and peripherals such as printers form its key offerings and account for about 80 per cent of sales. Neo has relationship with around 20 vendors and its key vendors include Samsung, Apple, HP, Umax, Asus, Hitachi, Logitech, BenQ, Wipro, Lenovo and Moserbaer. The top 6 vendors account for nearly 70 per cent of the company's sales.

Neo generates about 35 per cent of sales from west India while north and south India each account for around 27 per cent of the sales respectively. The east contributes to about 10 per cent of Neo's sales. Mumbai and Delhi (accounting for over 30 per cent of sales) along with other key cities such as Bangalore, Pune, Ahemdabad, Hyderabad, and Chennai contribute to over 60 per cent of the company's total turnover.

Neoteric is one of the top ten distributors in India with sales of Rs 4,885.4 million in 2006-07. In the past 3 years, the company has inked significant deals with large vendors such as HP, Samsung, Wipro, Lenovo, Moserbaer, Brother, etc.

Neo plans to utilise the IPO funds to enhance its working capital and set up an owned office. The company plans to buy the fixed asset only in 2009-10 and till then they may use the proceeds for working capital. The company also plans to expand its reach by adding 12 branches in places like Nasik, Bhopal, Aurangabad, Calicut, Salem, Vijaywada, Varanasi, Allahabad, Siliguri, etc.

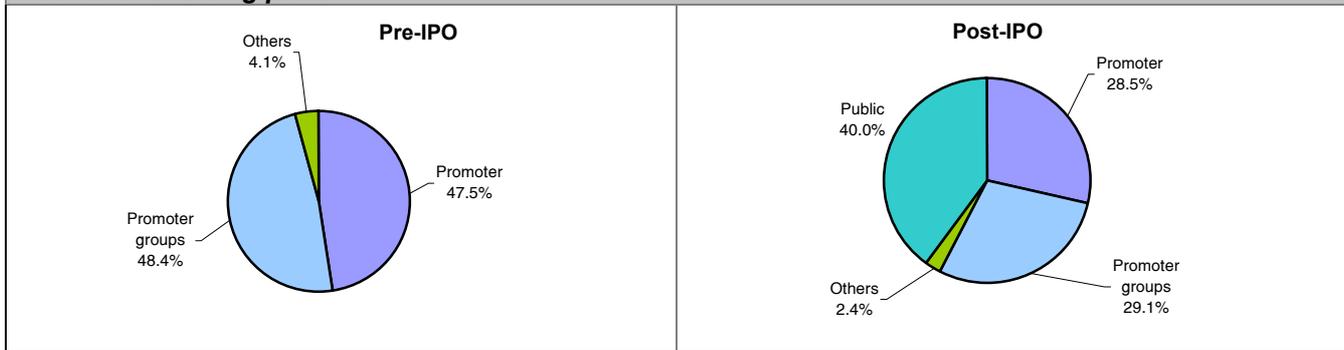
Financial profile

Neo's revenues grew at a compounded rate of 40 per cent between 2004-05 and 2006-07. This was largely driven by the growth in volumes of computer hardware products and also due to the increase in the number of relationships with some of the key IT hardware vendors. In 2006-07, the company reported a net profit of Rs 36.8 million on a turnover of Rs 4,885.4 million. The company's return on capital employed (RoCE) and return on equity (RoE) was 28.4 per cent and 28.6 per cent, respectively, in 2006-07.

Financial performance snapshot			
Particulars	Unit	2005-06	2006-07
Operating income	Rs million	3,637.1	4,885.4
Operating margins	Per cent	2.2	2.6
Net profits	Rs million	17.0	36.8
Net margins	Per cent	0.5	0.8
RoCE	Per cent	22.1	28.4
Return on equity	Per cent	18.7	28.6
No. of equity shares	Million	3.0	3.0
Net worth	Rs million	109.6	148.0
Basic earnings per share	Rs	5.7	12.3
Diluted earnings per share	Rs	5.7	12.3
Book value	Rs per share	36.5	49.3
Gearing	Times	2.2	2.4

Note: The above figures have been reclassified as per CRISIL standards; DRHP

Neo: Shareholding pattern



Source: DRHP

Profile of management and board

Neo’s business direction and vision is governed by its promoter, Mr Paras Shah, who is supported by Mr Satya Prasan Rajguru and senior personnel such as Mr Sanjay Zadoo (VP-sales & marketing), Mr Sushil Sancheti (VP-finance) and Mr Kaushal Khandhor (VP-corporate). In addition, some of the company’s key personnel have been with the company for over 7 years.

There are eight directors on the board of Neo, and it includes two promoters, two non-executive directors, and four independent directors. All the independent directors are qualified professionals having relevant professional background. No independent director is related to the promoters. All the independent directors joined the board on April 2, 2008. Most of the independent directors have attended around 1-2 board meetings. During the interactions, it appeared that they are in a position to exercise adequate management oversight.

Annexure: Profile of the Directors

Name of Directors	Designation	Age	Qualification	experience (years)	Previous Employment	Key position held
Mr Harshad D Shah	Non-executive chairman & non-independent director	72	Intermediate (Std XII)	> 40	Worked with Automotive Bearing Corporation, Mumbai	Director of Spectrum Global Pte Ltd (Singapore)
Mr Paras H Shah	CEO & managing director	40	Computer engineer from Case Western Reserve University, USA	15	Dealer of IT hardware products	Director of Spectrum Global Pte Ltd (Singapore), Neoteric HK Ltd (Hong Kong)
Mr Satya Prasan Rajguru	Non-executive and non-independent director	52	Business & Law Graduate	21	Chief operating officer - Ingram	Director of V5 Global Services Pvt Ltd, Changemasters Management Consulting Pvt Ltd
Mr Srinivasan Ramswamy	Non-executive and non-independent director	55	MBA from XLRI & Doctoral Scholar of BITS, Pilani (Raj)	30+	Worked in diverse industries (incl Oil & Gas, IT, Steel, Construction and consumer goods)	NIL
Dr Anil Shivram Lamba	Independent director	49	ACA, LLB, BCom and Doctor of Philosophy (PhD)	N.A.	Own practice	Director of Lamcon Finance & Management Services P Ltd, Lamcon School of Management Services P Ltd, Mindspring Consultancy & Training P Ltd
Mr Jayant Rastogi	Independent director	42	BE (Mech.) from Government Engineering College, Jabalpur (MP)	20	Sales director – Asean and Indian subcontinent for Novell, earlier worked with Godrej and HCL	Country head & sales director, India for Motorola India Pvt Ltd
Mr Hemant Nerurkar	Independent director	46	Master of Science in Electrical Engineering from Newark College of Engineering, New Jersey	20	Worked with Cap Gemini America, AT&T Bell Labs, AT&T Capital Corporation (now a part of the CIT group) & AC Nielsen	Director of Mindcraft Software Pvt Ltd, Pine Tree Software & Technologies Pvt Ltd
Mr Kumar Rajagopalan	Independent director	41	BCom, ACA	13	Worked with Shoppers Stop Ltd	Currently heads the Retail Segment Solutions at IBM (India)

Disclaimer

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