

Radiant Info Systems Limited

CRISIL IPO Grade 1/5 (Poor)

December 23, 2009

IPO Grade

CRISIL IPO Grade '1/5': The grade indicates that the fundamentals of the issue are poor 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

Issue Details

| | |
|---|---|
| Shares offered to public | 65,07,093 |
| As per cent of post issue equity | 31.85% |
| Object of the Issue | Funding for acquisition, capital expenditure and margin money for working capital requirement |
| Amount proposed to be raised | Rs 1050-1100 million (approximate) |
| Price Band | Not available at the time of grading |
| Lead managers | IL&FS Investsmart Securities Limited, Saffron Capital Advisors Private Limited |

Company Background

Radiant Info Systems Private Ltd. was incorporated on September 25, 1997. Subsequently on January 22, 2008, the status of the company was changed to a public limited company and the name was changed to Radiant Info Systems Limited (Radiant). The company provides information technology solutions to the companies with focus on following verticals—transportation and logistics, pharma and healthcare, BFSI, telecom, manufacturing and E-governance and smart card. The company is promoted by Mr. Venu Myneni, Mr. Vinod Koduru and Mr. C. Narayanacharyulu. Radiant Info Systems is headquartered in Bangalore and one office in Hyderabad. Internationally, it has presence in New Jersey, Florida, Michigan, Texas and Connecticut in USA and also in UK through the presence of its subsidiary.

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|--|---|--|
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Grading Highlights
Business Prospects

- Radiant provides information technology solutions to the companies in various business verticals, namely—transportation and logistics, pharma and healthcare, BFSI, telecom, manufacturing and E-governance and smart card.
- Geography-wise, US region accounted for 96% of Radiant's consolidated revenues in FY09. During the same period, Radiant's US subsidiary contributed around 86% to Radiant's consolidated revenues.
- Despite the company's presence in various verticals, its high dependence on telecom vertical (~30% of its consolidated FY09 revenues) is an area of concern. Apart from telecom, the other verticals which have contributed majorly to Radiant's consolidated revenue in FY09 are pharma and healthcare (~22%), IT (~22%) and manufacturing (~18%).
- Radiant has been largely dependent on clients like AT&T, Caterpillar, Hewlett Packard for significant portion of its revenues.
- During the past few years i.e. from 2005-2009 when IT industry in India registered a CAGR of almost 27%, Radiant witnessed relatively lower revenue growth (on a consolidated basis) of 13% only.
- Although the repeat business for select clients has increased over the past few years, Radiant, on an overall basis, has witnessed a declining trend in the repeat business. Fall in repeat business ratio from 84% in FY09 to 65% in Q1FY10 is a cause of concern.

Financial Performance

- Company's revenues grew rapidly from approximately Rs 460 million in FY02 to Rs 1,793 million in FY09 registering a CAGR of approximately 21.5%. However, since its inception, about 12 years ago, Radiant has witnessed a very moderate growth in revenues barring the recent run. During the last year, the revenues grew by just 4% from Rs. 1720 Mn in FY08.
- Over the last two years, Radiant (on a consolidated basis) witnessed a decline in operating margins from 13.3% in FY08 to 8.6% in FY09. However, at the net levels, company witnessed almost flat margin of 8.8% during FY08 and 8.3% in FY09.

Management Capabilities

- The company's management has relevant experience and domain expertise.
- CRISIL Research believes that there is a high degree of dependence on the promoters for the company's for overall decision making.

Corporate Governance

- Radiant has reasonably experienced independent directors on the board.
- An assessment of the company's corporate governance practices, based on issues such as frequent ownership structure changes, level of engagement of independent directors etc, indicates significant room for strengthening and involvement by board members.

Detailed Grading Rationale

Overall Grading Summary (CRISIL IPO Grade 1/5)

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

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

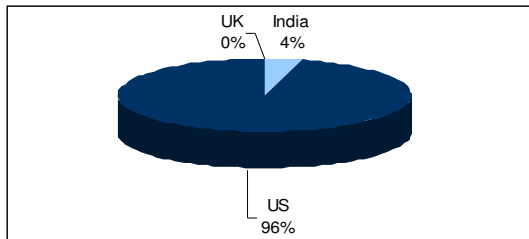
CRISIL has assigned a CRISIL IPO Grade ‘1/5’ (pronounced ‘one on five’) to the proposed Initial Public Offer of Radiant Info Systems Limited. The grade indicates that the fundamentals of the issue are poor relative to other listed equity securities in India. However, this grade is not an opinion on whether 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 IPO grade assigned to Radiant reflects the relative small size and less dominant position of the company in the industry, and the relatively severe competition prospects in most of the business verticals wherein it operates. Since its inception about 12 years ago, Radiant has been able to attain very moderate growth except for the last 5 years when it experience a sudden spur in revenues. Radiant is highly reliant on a few clients and on select business verticals for most of its revenues. Vertical wise, it is largely dependent on telecom vertical which contributes 30% of revenues followed by pharma and healthcare, IT and manufacturing which contribute 22%, 22% and 18% respectively. Client wise, AT&T contributes the most to revenues, 27% in FY08 and 24% in FY09. Geographically too, the company derives significant portion of its revenues, i.e. 96%, from the US region. The grading also takes into account the management technical capabilities driving the company and their ability to retain key clients over a long period of time. However, although the repeat business for few clients is increasing over the past few years, on an overall basis, the company’s repeat business has been falling recently. The grading factors in the huge potential in transportation and smart card business segments, there lie a dearth of any significant trigger in most of the other verticals.

Radiant Info Systems: Revenues by geography and verticals

Geographical Revenue Split

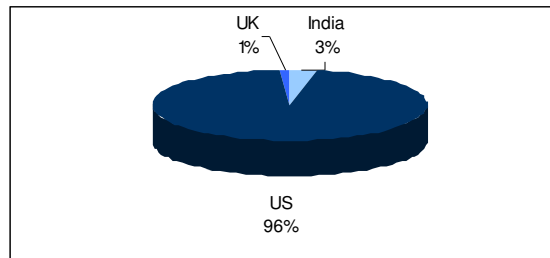
FY08



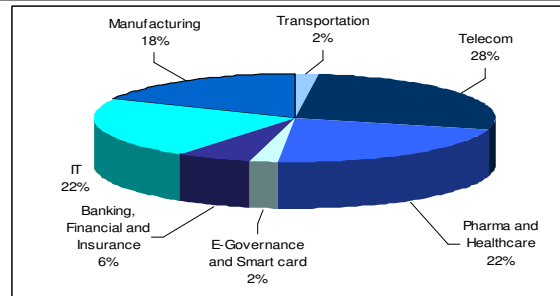
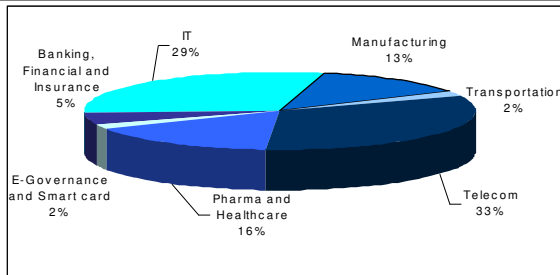
Revenue split by verticals

FY08

FY09



FY09



Source: Company

➤ **Poor track record of growth in the past**

Radiant Info Systems has been operational since the past 12 years and its US subsidiary for the past 14 years. However, in this span of time, which witnessed one of the best periods of IT industry, the company has managed to garner a top line of only Rs.1800 Mn. Moreover, over the past two years, on a consolidated basis, the company has operated at low margins- both at an operating as well at net level.

➤ **High revenue concentration from US as well as from the telecom sector**

While, the US subsidiary contributed around 86% of the consolidated revenues in FY09, geography-wise, US accounted for about 96% of the same. Despite the company's presence into various verticals like pharma, manufacturing, telecom, transportation, IT, and banking and financial services, the telecom vertical contributed about 30% of the company's revenues in FY09 (on a consolidated basis).

➤ **Heavy reliance on a few clients for significant portion of the revenues**

Over the past two years, AT&T (client in the telecom vertical) has been the major contributor to the consolidated revenues (~24 % in FY09 and ~27% in FY08). Apart from telecom, clients in pharma (like Sanofi- Aventis and Pfizer,) and the manufacturing vertical (namely Caterpillar and Hewlett Packard) have been contributing notably to the consolidated top line, in FY08 and FY09.

➤ **Falling repeat business**

Although the repeat business from select clients has increased over the past few years, Radiant, on an overall basis, has witnessed a declining trend of the repeat business ratio. Company's repeat business was 78% in FY08, which increased to 84% in FY09 and saw a significant dip to just 65% repeat business in Q1FY10. This is very low as compared to other players in the IT industry. However, the fall in repeat business is also a factor of company's presence in products business wherein revenues get booked only once i.e. on the sale of product.

➤ **High receivable days**

The company's receivables (on a consolidated basis) were around 34% of the company's sales in FY09. Radiant witnessed significantly high receivables ~124 days of revenues in FY09, while its US subsidiary had around 106 days receivables during the year. Moreover, two of Radiant's group companies formed a part of the company's top 15 debtors in FY09.

➤ **Constantly declining employee number**

While the number of employees have fallen from 703 in FY07 to 491 in Q1FY10 (a fall of ~ 30%), the employee costs have not decreased proportionately. In fact, the cost per employee has increased in FY09 as compared to FY08 (by ~ 27%), even though there was a ~26% decline in the number of employees in FY09.

➤ ***Exchange rate risk***

Almost 96% of the consolidated revenues are contributed by the US region while the US subsidiary contributed ~86% of the revenues in FY09. As indicated by the company, there is no hedging policy in place subjecting part of its revenues open to currency fluctuation risk.

➤ ***Highly competitive industry scenario***

Radiant faces severe competition from large MNC giants like IBM, Accenture which have delivery centers in India, number of Tier – I & midsize Indian companies. Even though a large part of the company's business is centered through US, the company has indicated that Indian companies, with a presence in the US, still remain a major competition for them.

➤ ***High dependence on the promoters***

In our opinion, there exists a high dependence on the promoters for the company's overall business.

➤ ***Group companies comprise of company's client list***

Radiant's group companies, primarily- Radgov Inc. and Ateeca, Inc are clients of the company. The group companies have contributed ~11% to the company's consolidated revenues in Q1FY10. Also, these group companies form a part of the firm's top 15 debtors (on a consolidated basis) in FY09.

➤ ***High frequency of share transfers leading to interchangeability of holding and subsidiary company***

Over the past 9 years, there has been a few transfer of shares, which has led to Radiant Info Systems, India and Radiant Inc. US, interchangeably becoming the holding and the subsidiary companies.

➤ ***Corporate governance leaves room for further strengthening***

An assessment of the company's corporate governance practices, based on issues such as frequent ownership structure changes, level of engagement of independent directors etc, indicates significant room for strengthening.

➤ ***Radiant continued to enjoy moderate client stickiness***

Radiant (on a consolidated basis) has been able to maintain its main clients in select verticals for the past two years-FY08 and FY09. The main clients for the company are AT&T in telecom vertical, Sanofi-Aventis and Pfizer in pharma and healthcare; Caterpillar and Hewlett Packard in manufacturing vertical.

➤ ***Higher focus on transportation vertical***

The transportation vertical contributed 3% and 2% to Radiant's consolidated revenues in FY08 and FY09 respectively. Radiant has implemented online passenger reservation service for some states. Further, in 2008, the company has entered into an agreement with CIRT (Central Institute of Road Transport) for designing and developing a standard framework for offering online reservation services for the use of all STUs (state transport units) who entered agreement with CIRT (referred to as "Bus India"). As per our discussion with the company, this vertical would remain a key area to watch going forward. Also, competition from other IT companies will be a key monitorable.

➤ ***Increased focus in E-governance and smart card vertical***

While this vertical contributed negligibly to Radiant's consolidated revenues in FY09, it had contributed 2% to the same in FY08. The company has indicated that it had conducted pilot projects in selected areas under the National ID card project, in partnership with BEL, where Radiant was concentrating mostly on the back end part of the project. As per our discussion with the management, the company is exploring the opportunity in e-governance and smart card in India. As this domain is still in the nascent stage of development, the company's plans as well as the competition from other IT companies in this vertical, going forward, remain a key monitorable.

Financial Profile

- Radiant Info System's consolidated revenues demonstrated a y-o-y growth of 4% from Rs. 1720 Mn in FY08 to Rs 1793 Mn in FY09. The company provides IT solutions across six verticals, of which telecom vertical remained the highest revenue contributor in FY09 (contributed 30% in FY09 from 32% in FY08). This is followed by the pharma and healthcare and the IT verticals. While both of these verticals contributed 22% to the revenues in FY09, the contribution of pharma vertical increased from 16% in FY08, while that of IT vertical decreased from 28% in FY08. The share of the manufacturing vertical to the total revenues increased from 13% in FY08 to 18% in FY09.
- Apart from contribution by the main verticals, balance amount of revenues are contributed by verticals like Banking, financial and Insurance vertical (contributing 6% to total revenues in FY09 from 5% in FY08), transportation (contributing 2% to total revenues in FY09 from 3% in FY08) and E-governance and smart card (contributing negligibly to the revenues in FY09 from 2% in FY08).
- Radiant's operating income (as per CRISIL Research classification) has demonstrated degrowth of around 33% y-o-y in FY09. However, due to the interest and finance income (due to the exchange rate profit) mitigating degrowth in operating margins, the net margins have dipped by ~50 bps in FY09.
- Geography-wise, the US region accounted for 96% of Radiant's revenues in FY09, marginally up from 95% in FY08.

Financial performance snapshot

| | | FY05 | FY06 | FY07 | FY08 | FY09 |
|----------------------|----------|--------|--------|--------|--------|--------|
| | | Actual | Actual | Actual | Actual | Actual |
| Operating Income | Rs. Mn. | 43 | 73 | 162 | 1,728 | 1,794 |
| Operating Margins | Per cent | 12.5 | 10.9 | 24.8 | 13.3 | 8.6 |
| Net Profits | Rs. Mn. | 3 | 2 | 28 | 152 | 148 |
| Net Margins | Per cent | 6.1 | 2.8 | 17.4 | 8.8 | 8.3 |
| ROCE | Per cent | 47.0 | 26.5 | 71.1 | 97.2 | 33.5 |
| RONW | Per cent | 44.6 | 27.4 | 74.2 | 103.6 | 44.1 |
| Basic EPS | Rs | 0.0 | 0.0 | 6.9 | 10.9 | 10.6 |
| Diluted EPS | Rs | 0.0 | 0.0 | 6.9 | 10.9 | 10.6 |
| No. of equity shares | Mn. | 0 | 0 | 4 | 14 | 14 |
| Net worth | Rs. Mn. | 7 | 8 | 68 | 225 | 446 |
| Current Ratio | Times | 1.0 | 0.9 | 1.5 | 2.0 | 2.5 |
| Source: DRHP | | | | | | |

*Note 1. The actual numbers for FY08 and FY09 are on a consolidated basis, while previous years are on a standalone basis.

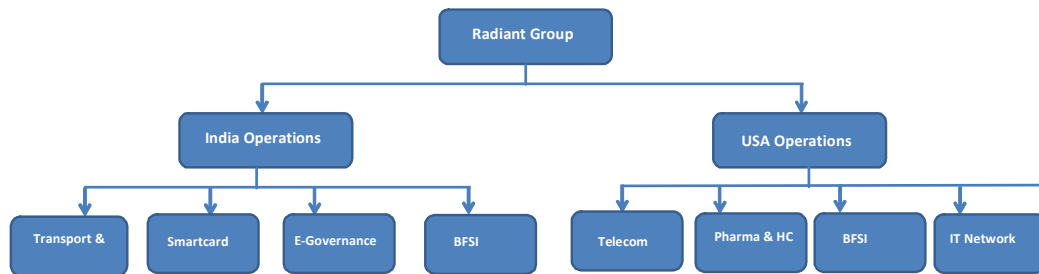
2. Numbers have been reclassified as per CRISIL standards

Business Profile

Radiant Info Systems is promoted by Mr. Venu Myneni, Mr. Vinod Koduru and Mr. C. Narayanacharyulu. It is headquartered in Bangalore, has an office in Hyderabad and has presence across five locations in US and also in UK through its subsidiary. The company employees around 490 employees as on June 2009. Promoter (& promoter group companies) currently own 78% of the shares in the company which is expected to come down to 53% post IPO.

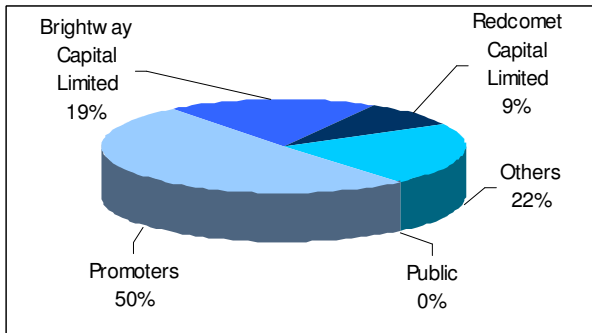
The company business comprises of providing IT solutions to companies, with focus on the following verticals- Telecom, Pharma and Healthcare, IT, Manufacturing, Banking Financial and Insurance, Transportation and E-Governance and Smart card.

Radiant Info Systems has a wholly-owned subsidiary by the name, Radiant Inc, US, contributing ~ 86% to the company's consolidated revenues in FY09. Further, Radiant Systems, Inc. USA and two subsidiaries namely- Radiant Info Limited, UK and Redwood financial Technologies LLC, USA. Radiant's management has indicated that Redwood financial technologies LLC, USA was shut down in the beginning of the year, as its operations could be sustained no more.

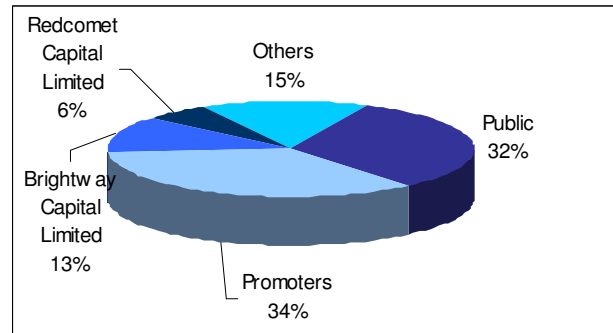


Radiant Info systems: Shareholding Pattern

Pre-IPO



Post-IPO



Source: DRHP

Profile of Management and Board

Mr. Venu Myneni, Mr. Vinod Koduru and Mr. C. Narayanacharyulu are the promoters of Radiant Info Systems. Mr. Venu Myneni is the Chairman and Managing Director of the company. He has completed his engineering; post which he has completed his Master of Engineering, both in mechanical stream. He has earlier worked with companies like Hindustan Aeronautical Limited, Instrumentation Engineers, Automated Concepts, Inc, before setting up his own company. He is overall in charge and oversees the strategic and business development functions of the organization. Mr. Vinod Koduru, aged 39 years, is the Vice-Chairman and Executive Director of the company. Post his graduation in electronics engineering; he completed his MS in Computer Science. He is overall in charge of project execution and the technical aspects. Mr. Vinod along with Mr. Venu co-founded Radiant Systems, Inc. in 1995, and later in 1997 co-promoted Radiant Info Systems Limited. Mr. C. Narayanacharyulu is the promoter director of the Company. He has completed both bachelors as well as Masters degree in engineering. He has over 17 years of experience in multi-function roles including IT Software Product Sales, System Integration sales, and Project Management. He is experienced in handling and coordinating turnkey projects involving both hardware and software. He has been associated with the company since 1997.

The Radiant Board has three independent directors. All the independent directors are fairly experienced, though not in relevant fields.

Annexure: Profile of the Directors

| Name of Directors | Designation | Age | Qualification | Exp. (years) | Previous Employment | Directorships / Partnership in other entities |
|-------------------|------------------------------|-----|---|--------------|---|---|
| Mr. Venu Myneni | Chairman & Managing Director | 44 | i) Bachelors degree in Engineering ii) Master of Mechanical Engineering from City College Grove School of Engineering, New York in 1995. | 22 | i) Worked with Hindustan Aeronautical Limited, Instrumentation Engineers, Automated Concepts Inc. ii) Served on Board of New Jersey Technological Council iii) Co-Chairman of Chief Information Officers' Council, US | Radiant Systems Inc. Redwood Financial Technologies LLC. Azoop Inc. Radiant Info Limited UK. Myneni Foundation Inc. Myneni Inc. Six Sides Properties LLC. Brightway Capital Limited. Redcomet Capital Limited. Futureway Capital Limited |

| | | | | | | |
|-----------------------------|--|----|---|-----|--|--|
| Mr. Vinod Koduru | Vice-Chairman & Executive Director | 39 | i) Bachelors degree in Electronic Engineering ii) Masters in Science (Computer Science) from New York Institute of Technology in 1993. | 17+ | Worked with Administrative Staff College, Computer Systems Development, Inc | Radiant Systems Inc Redwood Financial Technologies LLC Azoop Inc Radiant Info Limited UK Six Sides Properties LLC Brightway Capital Limited Redcomet Capital Limited Futureway Capital Limited |
| Mr. C Narayanacharyulu | Director | 44 | i) Bachelors Degree in Engineering ii) Masters degree in Engineering from Anna University | 17+ | Worked with Tata Consulting Engineers, Forsee Information Systems, Macmet India Ltd. | Admirance Software Private Limited |
| Mr. V.V. Parthasarathy | Non-Executive and Independent Director | 65 | | 40+ | i) Worked with Ministry of Information Technology ii) Founder President of Smart Card Forum of India iii. Served as MD of Gemplus India | Apollo Footwear Private Limited Hercules Footwear Private Limited Venus Footwear Private Limited Neptune Footwear Private Limited A Little World Private Limited Watchdata Technologies (India) Private Limited |
| Mr. M.N. Nambiar | Non-Executive and Independent Director | 68 | | | Worked as Additional Commissioner of Income Tax- Mumbai, Chief Commissioner of Income Tax, Andhra Pradesh | Core Projects and Technologies Limited |
| Mr. Venu Madhav Palaparathi | Non-Executive and Independent Director | 38 | i) Bachelors Degree in Computer Science ii) MBA University of Texas, iii) Masters Degree in Economics | | i) Serving as the Chief Compliance Officer of Instinet LLC, USA ii) Was the Vice-President of Business Audit and Risk Assurance in Instinet, USA iii) Was the Director-Audit in Reuters, USA | Indus Business Solutions |
| Source: DRHP | | | | | | |

Disclaimer

A CRISIL IPO grading is a one-time assessment and reflects CRISIL's current opinion on the fundamentals of the graded equity issue in relation to other listed equity securities in India. A CRISIL IPO grading is neither an audit of the issuer by CRISIL nor is it a credit rating. Every CRISIL IPO grading is based on the information provided by the issuer or obtained by CRISIL from sources it considers reliable. CRISIL does not guarantee the completeness or accuracy of the information on which the grading is based. A CRISIL IPO grading is not a recommendation to buy / sell or hold the graded instrument; it does not comment on the issue price, future market price or suitability for a particular investor.

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