

NetAlter Software Limited

CRISIL IPO Grade 1/5 (Poor)

June 17, 2011

Grading summary

CRISIL Equities has assigned a CRISIL IPO grade of '1/5' (pronounced "one on five") to the proposed IPO of NetAlter Software Ltd (NetAlter). 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 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, its future market price or suitability for a particular investor. To arrive at the overall grade, amongst various other parameters, CRISIL has considered the company's business prospects, its financial performance, management capabilities and corporate governance practices.

The IPO grade assigned to NetAlter reflects its small size in an industry dominated by internet behemoths. Being a start-up player, NetAlter may have a long gestation period coupled with uncertainty of success; our comparison of the performance of certain successful internet companies highlights that an internet-based business requires three to seven years to break even. Though NetAlter plans to have diversified revenue streams compared to internet companies, we believe that the gestation period may be similar, if not longer.

The grade takes into account NetAlter's plans to launch its flagship peer-to-peer (P2P) network platform - NetAlter System - in FY13 as a secured and personalised alternative to the internet platform or the World Wide Web. The internet industry is currently witnessing intense competition from larger players who already have an established user base. NetAlter plans to use the IPO proceeds to develop NetAlter System whose success will solely drive the company's overall success. However, the success of this system, and the consequent growth, hinges on factors such as the ability to consistently innovate and offer differentiated solutions, and successfully market NetAlter System at home and abroad. Since NetAlter System will take at least three-four years to generate revenues, funding its sales and marketing will be tough once the IPO proceeds used for software development are exhausted. Further, given the small size of the company's existing businesses, raising additional funds either through equity or debt will be a challenge.

The grade takes into account the fact that the promoters have created a concept which has received patent in India. However, the promoters do not have any track record or execution experience in handling a large, complex project. Also, the patent licensing agreement signed between White Vision Software Ltd (a promoter group company which was merged with NetAlter in January 2008) and the two promoters benefits the latter while minority shareholders will have to wait for NetAlter to earn profits.

NetAlter's existing businesses generated revenues of Rs 6 mn and PAT of Rs 0.7 mn in FY10. RoCE and RoE of less than 1% were significantly low because of investments in software development and infrastructure, which have been significantly underutilised so far.

Contacts:

Media

Mitu Samar

Head, Market Development & Communications

CRISIL Limited

Phone: +91-22-3342 1838

Mobile: +91-9820061934

Fax: +91-22-3342 3001

Email: msamar@crisil.com

Analytical

Tarun Bhatia

Director – Capital Markets

Phone: +91-22-3342 3226

Email: tbhatia@crisil.com

Chetan Majithia

Head, Equities

Phone: +91-22-3342 4148

Email: chetanmajithia@crisil.com

CRISIL Limited

Phone: +91-22-3342 3000

Fax: +91-22 -3342 3501

Client - servicing

Client servicing

Phone: +91-22-3342 3561

Email: clientservicing@crisil.com

About the company

Incorporated on May 13, 2005, NetAlter develops software solutions for the social, commercial and collaborative networking sphere.

In January 2008, NetAlter merged with White Vision Software Ltd (WVSL), a promoter group company, and subsequently got ownership of 22 registered trademarks, two trademark applications pending and four copyrights. These intellectual properties form a part of the company's existing solutions portfolio, which includes software products for social networking, matchmaking, and friend-to-friend and business communication amongst others. The company is in the process of developing more software products for e-commerce; job search; and friend-to-friend, business-to-business and business-to-customer communication.

In 2007, before the merger, WVSL received a patent in India for its concept for NetAlter System - a peer-to-peer (P2P) network solution. Through the merger, NetAlter got ownership of the same. WVSL has applied for patents in other countries including the USA, Europe, Malaysia, Mexico, China, Canada, Brazil, Australia, New Zealand and others via the patent co-operation treaty. NetAlter System has been conceptualised as a P2P and client/server-based system, providing a secured alternative to the World Wide Web. The company is ready with the development plans for NetAlter System which will be initiated after the completion of the IPO.

NetAlter's revenues were Rs 6 mn in FY10 and Rs 1.6 mn in Q1FY11. Currently, the company derives all of its revenues from the domestic market.

Issue details

| | |
|---|--|
| Shares offered to public (mn) | 3.9 |
| Fresh issue (mn) | 3.9 |
| As per cent of post issue equity | 27.24% |
| Object of the Issue | <ul style="list-style-type: none"> Development and commercialisation of NetAlter System and other software products – Rs 481.6 mn General corporate purposes – not mentioned |
| Amount proposed to be raised | Not available at the time of grading |
| Price band | Not available at the time of grading |
| Lead managers | ARIHANT Capital Markets Ltd |

Detailed Grading Rationale

A. Business Prospects

- *NetAlter to launch P2P network to substitute the internet platform which is dominated by large players*

NetAlter plans to establish a P2P network – NetAlter System – as an alternative to the internet platform or the World Wide Web. NetAlter System plans to offer utilities provided by existing websites in a secured and personalised manner. Majority of the utilities to be provided by NetAlter System are currently provided by various existing websites and P2P service providers. For e.g., NetAlter System will provide utilities like data search within the network (partly similar to Google and Yahoo search which are extensive search engines across the World Wide Web), social networking (like Facebook and Orkut), e-commerce (like eBay and Amazon), data sharing facilities (like Torrentz and Rapidshare), and job search (like www.naukri.com and www.monster.com), etc. Few of the proposed services by NetAlter System such as P2P chatting, file transfer and access to peers' desktop are unique. However, all these services will be provided on a single platform rather than on multiple web-based platforms used currently. Every PC on the NetAlter System will be assigned an IP address which will enable a personalised and secured flow of data across the network. Most other players are offering web-based solutions, while NetAlter System is expected to be on the P2P platform. This, however, is unlikely to make any significant difference to the end-users unless NetAlter System provides more convenience coupled with incremental utilities.

Across the world, internet is increasingly gaining preference as a networking medium. The competition in this space is intense, with almost all players offering free services and earning revenues through other sources like advertisements. The bigger players boast deep global penetration in terms of unique users registered on their site, which is a key entry barrier for newcomers. While switching costs are negligible for users, a high level of loyalty is attached to a particular website till it consistently provides more and improved utilities (e.g. Google's market share in online search increased to more than 70% in 2010 from ~65% in 2007).

While NetAlter System is different from all other websites due to its proposed all inclusive services and features, the profitability and cash flow generation will likely depend on its ability to attract and retain internet-based users – similar to what we have seen for all other internet-based service providers. The following table gives an essence about subscriber base for various internet-based service providers and how much time has been taken since inception to create a significant subscriber base. In India, internet majors like Google Inc (Google), Facebook and Yahoo! Inc (Yahoo) get more hits (usage) than others. The only Indian website in the top 10 in usage terms is rediff.com (9th position), in existence since 1996. However, even rediff.com has found it difficult to penetrate the foreign markets.

Details of top 50 websites in India

| Name of the website | Ranking* | | No. of global internet of users (mn)* | Share amongst global internet users* | Year of inception |
|-----------------------|----------|-----|---------------------------------------|--------------------------------------|-------------------|
| | India | USA | | | |
| google.co.in | 1 | 936 | 89,417,429 | 4.55% | 1998 |
| google.com | 2 | 1 | 945,696,975 | 48.09% | 1998 |
| facebook.com | 3 | 2 | 791,699,200 | 40.26% | 2004 |
| yahoo.com | 4 | 3 | 498,039,542 | 25.33% | 1994 |
| youtube.com | 4 | 3 | 497,921,551 | 25.32% | 2005 |
| blogger.com | 6 | 8 | 254,526,013 | 12.94% | 1999 |
| Wikipedia | 7 | 6 | 274,486,138 | 13.96% | 2001 |
| twitter | 8 | 7 | 188,490,445 | 9.59% | 2006 |
| rediff.com | 9 | 156 | 11,779,424 | 0.60% | 1996 |
| Orkut | 10 | 167 | 14,473,549 | 0.74% | 2004 |
| espnricinfo.com | 11 | 145 | 14,512,879 | 0.74% | 1993 |
| linkedin | 12 | 12 | 78,247,625 | 3.98% | 2003 |
| indiatimes.com | 13 | 173 | 10,943,655 | 0.56% | |
| www.zedo.com | 14 | - | 33,647,069 | 1.71% | 1999 |
| googleusercontent.com | 15 | - | 57,481,228 | 2.92% | |
| Worldpress.com | 17 | 19 | 94,687,688 | 4.82% | |
| IN.com | 18 | - | 8,151,204 | 0.41% | 2008 |
| live.com | 19 | 11 | 258,813,015 | 13.16% | 2005 |
| bing.com | 20 | 14 | 92,957,155 | 4.73% | 2009 |
| microsoft.com | 21 | 26 | 82,042,998 | 4.17% | 1975 |
| snapdeal.com | 22 | - | 5,820,884 | 0.30% | 2010 |
| msn.com | 23 | 13 | 175,629,438 | 8.93% | 1995 |
| way2sms.com | 24 | | 4,306,667 | 0.22% | 2004 |
| irctc.co.in | 25 | | 3,299,812 | 0.17% | |
| naukri.com | 26 | - | 3,488,597 | 0.18% | 1997 |
| Ezinearticles.com | 27 | 85 | 19,960,125 | 1.02% | |
| clicksor.com | 28 | - | 15,004,508 | 0.76% | |
| hdfcbank.com | 29 | - | 3,842,570 | 0.20% | 1994 |
| torrentz.eu | 30 | - | 11,032,148 | 0.56% | 2003 |
| imdb.com | 31 | 25 | 41,827,770 | 2.13% | 1990 |
| tribalfusion.com | 32 | | 12,300,550 | 0.63% | |
| espnstar.com | 33 | - | 2,407,014 | 0.12% | |
| admagnet.net | 34 | | 5,525,907 | 0.28% | |
| mozilla.com | 35 | 30 | 41,552,458 | 2.11% | 2005 |
| google.co.uk | 36 | - | 62,259,859 | 3.17% | |
| angege.com | 37 | | 13,018,328 | 0.66% | |
| digg.com | 38 | 85 | 15,574,797 | 0.79% | 2004 |
| ibibo.com | 39 | - | 3,669,517 | 0.19% | 2007 |
| stumbleupon.com | 40 | 65 | 14,571,875 | 0.74% | 2001 |
| oneindia.in | 41 | - | 3,765,876 | 0.19% | |
| icicibank.com | 42 | - | 3,588,890 | 0.18% | |
| about.com | 43 | 31 | 33,037,449 | 1.68% | 1997 |
| bp.blogspot.com | 44 | 81 | 38,799,337 | 1.97% | |
| amazon.com | 45 | 5 | 86,133,349 | 4.38% | 1994 |
| gilsipa | 46 | | 9,512,032 | 0.48% | |
| ebay.in | 47 | | 2,316,554 | 0.12% | 1995 |
| digitalpoint.com | 48 | | 9,665,420 | 0.49% | |
| ndtv.com | 49 | | 3,138,558 | 0.16% | 1988 |
| flickr.com | 50 | | 43,892,611 | 2.23% | 2004 |

*Based on three months average internet users ending April 1, 2011.

Please note that the ranking in India is based on the no. of internet users in India. As a result, websites which have a larger presence in other regions could have a lower ranking in India.

Source: www.alexa.com

- *Internet companies have long gestation periods*

Though NetAlter System is a P2P network and not strictly comparable with internet sites, majority of the network's end users would be existing internet users. Our comparison of the performance of internet companies like Google, Yahoo and Amazon.com Inc (Amazon) and others highlights that an internet-based business requires at least three-seven years to break even. While Google achieved break-even at EBIT level in the third year since its inception, Yahoo did it in the fourth year and Amazon in the seventh. While Amazon has been able to log consistent y-o-y revenue growth, its EBIT margin has declined y-o-y since the peak achieved in CY04. Yahoo's EBIT margin too has declined y-o-y since CY05 but for FY10. As per media reports, Facebook Inc took over six years to turn profitable. Amongst the major players, only eBay achieved break-even in the first year due to a differentiated business model and the first-mover advantage (1995). However, it has not been able to maintain consistent EBIT margins.

Amongst the Indian websites, rediff.com has delivered inconsistent revenue growth and continues to make losses at the EBIT level.

Only companies like Google have been able to consistently maintain market leadership and have grown in size with better profit margins. We note that our analysis is biased towards only successful, listed companies –many web-based companies have been unsuccessful and have shut shop.

While most internet-based service providers source revenues through advertisements and subscriptions, NetAlter plans to monetise its P2P network through additional streams such as licensing revenues, etc. We believe that the gestation period for the company will remain in line with the likes of Google and other websites. However, if the company is successful in monetising other revenue streams then the gestation period may be lower.

Historical financial performance of select internet companies

| | Particulars | CY95 | CY96 | CY97 | CY98 | CY99 | CY00 | CY01 | CY02 | CY03 | CY04 | CY05 | CY06 | CY07 | CY08 | CY09 | CY10 |
|--------|--------------------|--------|--------|--------|---------|---------|-----------|---------|---------|---------|---------|---------|----------|----------|----------|----------|----------|
| Google | Revenues (US\$ mn) | - | - | - | - | 0.2 | 19.1 | 86.4 | 439.5 | 1,465.9 | 3,189.2 | 6,138.6 | 10,604.9 | 16,594.0 | 21,795.6 | 23,650.6 | 29,321.0 |
| | y-o-y ch (%) | - | - | - | - | - | NM | 352.3% | 408.5% | 233.5% | 117.6% | 92.5% | 72.8% | 56.5% | 31.3% | 8.5% | 24.0% |
| | EBITDA (US\$ mn) | - | - | - | - | - | - | 25.1 | 204.5 | 392.6 | 989.7 | 2,401.1 | 4,121.9 | 6,052.1 | 8,131.9 | 9,836.5 | 11,777.0 |
| | EBITDA margin (%) | - | - | - | - | - | - | 29.1% | 46.5% | 26.8% | 31.0% | 39.1% | 38.9% | 36.5% | 37.3% | 41.6% | 40.2% |
| | EBIT (US\$ mn) | - | - | - | - | (6.5) | (14.7) | 11.0 | 186.5 | 342.5 | 841.2 | 2,107.3 | 3,550.0 | 5,084.4 | 6,632.0 | 8,312.2 | 10,381.0 |
| | EBIT margin (%) | - | - | - | - | NM | -77.1% | 12.7% | 42.4% | 23.4% | 26.4% | 34.3% | 33.5% | 30.6% | 30.4% | 35.1% | 35.4% |
| | PAT (US\$ mn) | - | - | - | - | (6.1) | (14.7) | 7.0 | 99.7 | 105.6 | 399.1 | 1,465.4 | 3,077.4 | 4,203.7 | 4,226.9 | 6,520.4 | 8,505.0 |
| | PAT margin (%) | - | - | - | - | NM | -76.9% | 8.1% | 22.7% | 7.2% | 12.5% | 23.9% | 29.0% | 25.3% | 19.4% | 27.6% | 29.0% |
| Yahoo | Revenues (US\$ mn) | 1.4 | 19.7 | 70.5 | 245.1 | 591.8 | 1,110.2 | 717.4 | 953.1 | 1,625.1 | 3,574.5 | 5,257.7 | 6,425.7 | 6,969.3 | 7,208.5 | 6,460.3 | 6,324.7 |
| | y-o-y ch (%) | | NM | 257.7% | 247.9% | 141.4% | 87.6% | -35.4% | 32.8% | 70.5% | 120.0% | 47.1% | 22.2% | 8.5% | 3.4% | -10.4% | -2.1% |
| | EBITDA (US\$ mn) | (0.5) | (8.2) | (3.0) | 24.0 | 91.2 | 366.9 | 34.5 | 197.6 | 455.4 | 999.6 | 1,504.9 | 1,481.0 | 1,354.6 | 1,397.4 | 1,252.4 | 1,513.0 |
| | EBITDA margin (%) | -40.1% | -41.6% | -4.2% | 9.8% | 15.4% | 33.1% | 4.8% | 20.7% | 28.0% | 28.0% | 28.6% | 23.0% | 19.4% | 19.4% | 19.4% | 23.9% |
| | EBIT (US\$ mn) | (0.7) | (8.8) | (5.7) | 7.5 | 48.5 | 297.8 | (96.0) | 88.2 | 295.7 | 688.6 | 1,107.7 | 941.0 | 695.4 | 607.4 | 513.6 | 830.5 |
| | EBIT margin (%) | -49.9% | -44.4% | -8.1% | 3.1% | 8.2% | 26.8% | -13.4% | 9.3% | 18.2% | 19.3% | 21.1% | 14.6% | 10.0% | 8.4% | 7.9% | 13.1% |
| | PAT (US\$ mn) | (0.6) | (4.3) | (25.5) | (12.7) | 47.8 | 70.8 | (92.8) | 42.8 | 237.9 | 839.6 | 1,896.2 | 751.4 | 660.0 | 418.9 | 598.0 | 1,231.7 |
| | PAT margin (%) | -46.5% | -21.8% | -36.2% | -5.2% | 8.1% | 6.4% | -12.9% | 4.5% | 14.6% | 23.5% | 36.1% | 11.7% | 9.5% | 5.8% | 9.3% | 19.5% |
| Amazon | Revenues (US\$ mn) | 0.5 | 15.7 | 147.8 | 609.8 | 1,639.8 | 2,762.0 | 3,122.4 | 3,932.9 | 5,263.7 | 6,921.1 | 8,490.0 | 10,711.0 | 14,835.0 | 19,166.0 | 24,509.0 | 34,204.0 |
| | y-o-y ch (%) | - | NM | 838.6% | 312.6% | 168.9% | 68.4% | 13.1% | 26.0% | 33.8% | 31.5% | 22.7% | 26.2% | 38.5% | 29.2% | 27.9% | 39.6% |
| | EBITDA (US\$ mn) | (0.3) | (5.7) | (29.2) | (50.2) | (315.6) | (257.3) | 35.1 | 193.4 | 349.0 | 516.1 | 553.0 | 594.0 | 901.0 | 1,129.0 | 1,507.0 | 1,974.0 |
| | EBITDA margin (%) | -55.8% | -36.2% | -19.7% | -8.2% | -19.2% | -9.3% | 1.1% | 4.9% | 6.6% | 7.5% | 6.5% | 5.5% | 6.1% | 5.9% | 6.1% | 5.8% |
| | EBIT (US\$ mn) | (0.3) | (6.0) | (32.6) | (62.0) | (597.7) | (663.6) | (230.7) | 105.7 | 270.7 | 440.4 | 432.0 | 389.0 | 655.0 | 842.0 | 1,129.0 | 1,406.0 |
| | EBIT margin (%) | -59.5% | -38.0% | -22.1% | -10.2% | -36.4% | -24.0% | -7.4% | 2.7% | 5.1% | 6.4% | 5.1% | 3.6% | 4.4% | 4.4% | 4.6% | 4.1% |
| | PAT (US\$ mn) | (0.3) | (5.8) | (31.0) | (124.5) | (720.0) | (1,411.3) | (567.3) | (149.1) | 35.3 | 588.5 | 359.0 | 190.0 | 476.0 | 645.0 | 902.0 | 1,152.0 |
| | PAT margin (%) | -59.3% | -36.7% | -21.0% | -20.4% | -43.9% | -51.1% | -18.2% | -3.8% | 0.7% | 8.5% | 4.2% | 1.8% | 3.2% | 3.4% | 3.7% | 3.4% |

| | Particulars | CY95 | CY96 | CY97 | CY98 | CY99 | CY00 | CY01 | CY02 | CY03 | CY04 | CY05 | CY06 | CY07 | CY08 | CY09 | CY10 |
|--------------------|--------------------|------|-------|-------|-------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Rediff.com | Revenues (US\$ mn) | - | - | - | 0.5 | 0.9 | 1.9 | 5.2 | 12.2 | 10.1 | 9.4 | 12.6 | 18.7 | 28.7 | 32.2 | 25.4 | 18.8 |
| | y-o-y ch (%) | - | - | - | - | 65.8% | 122.9% | 171.2% | 135.8% | -16.7% | -6.9% | 33.7% | 48.1% | 53.3% | 12.5% | -21.1% | -25.9% |
| | EBITDA (US\$ mn) | - | - | - | - | (0.9) | (6.7) | (10.5) | (6.3) | (7.0) | (1.9) | (1.0) | 2.5 | 6.2 | 4.4 | (1.5) | (6.6) |
| | EBITDA margin (%) | - | - | - | - | -109.8% | -350.8% | -202.9% | -52.1% | -69.4% | -20.2% | -7.7% | 13.3% | 21.5% | 13.6% | -6.0% | -35.2% |
| | EBIT (US\$ mn) | - | - | - | - | (1.0) | (6.9) | (11.7) | (9.4) | (9.5) | (3.2) | (1.7) | 1.0 | 3.1 | (1.5) | (7.8) | (11.6) |
| | EBIT margin (%) | - | - | - | - | -118.2% | -362.8% | -226.5% | -76.8% | -93.6% | -34.1% | -13.6% | 5.2% | 10.7% | -4.7% | -30.6% | -61.7% |
| | PAT (US\$ mn) | - | - | - | - | (1.0) | (6.7) | (6.4) | (14.8) | (19.0) | (5.7) | (1.4) | 1.2 | 7.0 | 4.9 | (11.3) | (8.0) |
| | PAT margin (%) | - | - | - | - | -115.2% | -349.7% | -123.1% | -121.1% | -187.0% | -60.5% | -11.3% | 6.5% | 24.3% | 15.2% | -44.3% | -42.6% |
| Info Edge* | Revenues (US\$ mn) | - | - | - | - | - | - | - | - | - | - | - | - | 34.7 | 54.3 | 52.9 | 50.1 |
| | y-o-y ch (%) | - | - | - | - | - | - | - | - | - | - | - | - | - | 56.4% | -2.6% | -5.2% |
| | EBITDA (US\$ mn) | - | - | - | - | - | - | - | - | - | - | - | - | 9.3 | 16.0 | 14.2 | 13.2 |
| | EBITDA margin (%) | - | - | - | - | - | - | - | - | - | - | - | - | 26.7% | 29.5% | 26.9% | 26.4% |
| | EBIT (US\$ mn) | - | - | - | - | - | - | - | - | - | - | - | - | 8.1 | 14.6 | 12.7 | 11.9 |
| | EBIT margin (%) | - | - | - | - | - | - | - | - | - | - | - | - | 23.4% | 26.9% | 24.0% | 23.7% |
| | PAT (US\$ mn) | - | - | - | - | - | - | - | - | - | - | - | - | 6.7 | 13.7 | 12.3 | 11.0 |
| | PAT margin (%) | - | - | - | - | - | - | - | - | - | - | - | - | 19.4% | 25.3% | 23.2% | 22.0% |
| eBay | Revenues (US\$ mn) | - | 0.4 | 5.7 | 86.1 | 224.7 | 431.4 | 748.8 | 1,214.1 | 2,165.1 | 3,271.3 | 4,552.4 | 5,969.7 | 7,672.3 | 8,541.3 | 8,727.4 | 9,156.3 |
| | y-o-y ch (%) | - | 0.0% | NM | NM | 160.9% | 92.0% | 73.6% | 62.1% | 78.3% | 51.1% | 39.2% | 31.1% | 28.5% | 11.3% | 2.2% | 4.9% |
| | EBITDA (US\$ mn) | - | 0.3 | 1.6 | 17.3 | 21.7 | 81.7 | 227.1 | 430.8 | 818.2 | 1,318.8 | 1,851.6 | 1,967.5 | 2,605.7 | 2,844.6 | 2,305.9 | 2,837.5 |
| | EBITDA margin (%) | - | 68.5% | 27.2% | 20.1% | 9.7% | 18.9% | 30.3% | 35.5% | 37.8% | 40.3% | 40.7% | 33.0% | 34.0% | 33.3% | 26.4% | 31.0% |
| | EBIT (US\$ mn) | - | 0.3 | 1.5 | 12.8 | 1.0 | 36.5 | 140.4 | 354.2 | 659.2 | 1,059.2 | 1,441.7 | 1,423.0 | 2,004.1 | 2,124.8 | 1,495.0 | 2,075.0 |
| | EBIT margin (%) | - | 68.0% | 25.9% | 14.8% | 0.4% | 8.5% | 18.8% | 29.2% | 30.4% | 32.4% | 31.7% | 23.8% | 26.1% | 24.9% | 17.1% | 22.7% |
| | PAT (US\$ mn) | - | 0.1 | 0.9 | 7.3 | 9.6 | 48.3 | 90.4 | 249.9 | 441.8 | 778.2 | 1,082.0 | 1,125.6 | 348.3 | 1,779.5 | 2,389.1 | 1,801.0 |
| | PAT margin (%) | - | 39.8% | 15.2% | 8.4% | 4.3% | 11.2% | 12.1% | 20.6% | 20.4% | 23.8% | 23.8% | 18.9% | 4.5% | 20.8% | 27.4% | 19.7% |
| Day Software Hldg# | Revenues (CHF mn) | - | - | - | - | 7.5 | 20.2 | 20.2 | 14.7 | 14.7 | 13.1 | 17.0 | 20.6 | 25.0 | 27.8 | 36.3 | - |
| | y-o-y ch (%) | - | - | - | - | 0.0% | NM | 0.1% | -27.1% | 0.0% | -11.2% | 30.1% | 21.2% | 21.5% | 11.1% | 30.7% | - |
| | EBITDA (CHF mn) | - | - | - | - | (1.8) | (30.4) | (40.4) | (23.9) | (2.7) | (3.4) | 1.3 | 2.6 | 3.6 | (1.9) | 4.4 | - |
| | EBITDA margin (%) | - | - | - | - | -24.3% | NM | NM | NM | -18.4% | -26.4% | 7.8% | 12.6% | 14.4% | -6.8% | 12.0% | - |
| | EBIT (CHF mn) | - | - | - | - | (2.2) | (33.3) | (51.2) | (28.5) | (4.4) | (4.7) | 0.5 | 2.1 | 3.2 | (2.3) | 4.2 | - |
| | EBIT margin (%) | - | - | - | - | -29.1% | NM | NM | NM | -29.8% | -36.1% | 3.1% | 10.2% | 12.7% | -8.3% | 11.4% | - |
| | PAT (CHF mn) | - | - | - | - | (2.3) | (33.3) | (62.6) | (33.4) | (4.0) | (5.5) | 0.7 | 1.9 | 7.0 | (12.0) | 2.7 | - |
| | PAT margin (%) | - | - | - | - | -31.1% | NM | NM | NM | -26.8% | -42.2% | 4.4% | 9.1% | 28.0% | -43.2% | 7.4% | - |

| Particulars | | CY95 | CY96 | CY97 | CY98 | CY99 | CY00 | CY01 | CY02 | CY03 | CY04 | CY05 | CY06 | CY07 | CY08 | CY09 | CY10 |
|---------------------|-------------------|------|------|------|------|------|------|------|--------|------|--------|--------|-------|-------|---------|---------|---------|
| Aun Consultings Inc | Revenues (JPY mn) | - | - | - | - | - | - | - | - | - | - | - | - | - | 5,097.1 | 3,795.3 | 2,760.6 |
| | y-o-y ch (%) | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.0% | -25.5% | -27.3% |
| | EBITDA (JPY mn) | - | - | - | - | - | - | - | - | - | - | - | - | - | 694.9 | 294.1 | (98.6) |
| | EBITDA margin (%) | - | - | - | - | - | - | - | - | - | - | - | - | - | 13.6% | 7.7% | -3.6% |
| | EBIT (JPY mn) | - | - | - | - | - | - | - | - | - | - | - | - | - | 620.4 | 78.8 | (170.4) |
| | EBIT margin (%) | - | - | - | - | - | - | - | - | - | - | - | - | - | 12.2% | 2.1% | -6.2% |
| | PAT (JPY mn) | - | - | - | - | - | - | - | - | - | - | - | - | - | 382.1 | (461.1) | (276.1) |
| | PAT margin (%) | - | - | - | - | - | - | - | - | - | - | - | - | - | 7.5% | -12.1% | -10.0% |
| Meetic | Revenues (EUR mn) | - | - | - | - | - | - | - | 1.1 | 8.9 | 21.3 | 43.0 | 78.8 | 112.9 | 127.8 | 157.9 | 186.0 |
| | y-o-y ch (%) | - | - | - | - | - | - | - | 0.0% | NM | 140.7% | 101.6% | 83.2% | 43.3% | 13.2% | 23.6% | 17.8% |
| | EBITDA (EUR mn) | - | - | - | - | - | - | - | (0.9) | 0.7 | 4.4 | 9.2 | 17.4 | 27.7 | 13.1 | 37.3 | 38.3 |
| | EBITDA margin (%) | - | - | - | - | - | - | - | -83.9% | 8.3% | 20.8% | 21.5% | 22.1% | 24.6% | 10.2% | 23.6% | 20.6% |
| | EBIT (EUR mn) | - | - | - | - | - | - | - | (1.0) | 0.4 | 3.8 | 8.3 | 15.2 | 25.2 | 9.8 | 34.3 | 34.2 |
| | EBIT margin (%) | - | - | - | - | - | - | - | -92.2% | 4.7% | 17.8% | 19.2% | 19.3% | 22.3% | 7.7% | 21.7% | 18.4% |
| | PAT (EUR mn) | - | - | - | - | - | - | - | (1.0) | 0.4 | 2.7 | 5.7 | 10.1 | 14.2 | (6.3) | 19.7 | 24.2 |
| | PAT margin (%) | - | - | - | - | - | - | - | -92.1% | 4.9% | 12.6% | 13.1% | 12.8% | 12.5% | -5.0% | 12.5% | 13.0% |

* For financial year ending March. Although www.naukri.com, Info Edge's flagship website was established in 1997, financials of the company are available only since it got listed in FY07. # For financial year ending May and does not include CY10 financials as the company got delisted.

Source: Industry sources

- *NetAlter System is yet to be launched - in nascent stage of product life cycle...*

While the company is ready with the plan for development of beta version of NetAlter browser and its P2P network, it will not show results in the near future. We believe that even if everything goes as per the company's plans, NetAlter System will take minimum three-four years to deliver visible revenues:

- **Product development - Year 1 to 2:** The company will complete the development and testing of 24 software modules of NetAlter System in 9-18 months post the receipt of IPO funds. During the development process, the company will finalise the sales and marketing plan. During this time, the company will continue to add new solutions in the social and commercial networking space like Bhav2Bhav, Friend Connect, whereby it will try to attract a user base, which will give it a head-start for the launch of NetAlter System.
- **Sales and marketing - Year 2 to 4:** The company will execute the sales and marketing plan to get users to join and use the NetAlter network, which is the key for its success. We believe that like the majority of other online platforms, at least during the initial period of launch NetAlter will have to offer free services to attract the users. Attracting users from across India and, importantly, foreign markets would demand sales and marketing prowess from the company.
- **Revenue generation - Year 3 or 4:** If the execution of NetAlter System is carried out properly, it could start generating revenues in the third or fourth year. Revenue scale will depend on (a) development of the NetAlter brand, (b) scale of users on the network which will drive advertisement revenues; and (c) the ability to charge fees from the registered corporate users. Given that the company is yet to finalise its sales and marketing plans for NetAlter System, it is difficult to estimate the revenues and profitability.

- *... And could face challenges at every stage*

While successful implementation and marketing of such a platform could become highly profitable in the long run, NetAlter could face significant challenges at every phase:

- **Challenges in software development:** The company has not yet initiated the development of beta version of the NetAlter browser. It plans to outsource development of the non-core software modules and has identified outsourcing companies for the same. For the in-house software development process, the company will have to substantially ramp up its employee base. As mentioned in the DRHP, it plans to add 84 employees to the 25 currently employed. Given that majority of the employee addition will be laterals, the company will not find it easy to recruit and retain employees in the current job market scenario. Even after the software development, it will have to constantly develop a scalable, high-performance technology infrastructure that can efficiently and reliably handle increased global users, apart from developing new features.
- **Challenges in sales and marketing:** The current marketing efforts are handled by Mr Rajesh Rathod (MD/promoter) and Dr Hitesh Issrani (Chairman). Given the amount of management bandwidth required for the launch of NetAlter System, the current marketing efforts may not be fully adequate. NetAlter plans to compete against larger and stronger players, both at home and abroad, for which it needs to be supported by an extremely effective and efficient sales and marketing strategy. However, the company has not yet finalised the same and will do so during the software development process. Also, NetAlter

System will have to compete with the already established players, who have created strong entry barriers by covering a larger share of internet users globally. In fact, segments like online search engine are dominated by top players with the top 5 search engines having more than 99% share; of this more than 70% share is held by Google, followed by Yahoo ~14%, Bing.com ~10%, Ask.com ~2% and AOL ~1%. The social networking space tells a similar story - it is dominated by Facebook and online shopping sites like Amazon, eBay and Alibaba. NetAlter will have to compete with these companies which are huge and have a very strong market position both in India and internationally.

- **Challenges in funding beyond software development:** As per the DRHP, the company plans to utilise Rs 482 mn of the IPO proceeds for infrastructure and software development. The company will have to raise additional funds for sales and marketing through additional equity or debt. We note that most internet companies require constant funding for about three-five years after the launch in order to succeed. This because initially services are typically given free of cost with no significant revenues minus a meaningful user base. Given that the company currently has revenues of only Rs 6mn, PAT of under Rs 1 mn, raising additional funds either through equity or debt would be a big challenge.

Thus, any investor investing in the IPO will have to wait for at least four-five years for NetAlter to earn meaningful profits, apart from going through further rounds of dilution to make an impactful product. Both these factors will impact the returns to the shareholders. Besides, it is too early to form a conclusion on NetAlter System's success.

- *While promoters have a patented product, they lack execution track record*

NetAlter's promoter brothers - Mr Rajesh Rathod and Mr Yogesh Rathod - are the inventors of the concept of the patented NetAlter System. Both promoters hold Master of Commerce degree from the Mumbai University and Master in Software Engineering diploma from Aptech, Mumbai. Both were involved in freelancing of software development for 15-16 years before inventing NetAlter System. CRISIL Equities believes that along with strong domain knowledge, building such a huge architecture requires not only strong project execution skills but also managerial skills. Promoters' past professional track record in both these aspects does not inspire confidence.

- *Corporate governance practices need strengthening*

From our conversation with the independent directors, we believe the corporate governance processes can be significantly improved because:

- 1) **Patent licensing agreement between the company and its promoters benefits the latter ahead of minority shareholders:** When NetAlter merged with promoter group company WVSL, they signed a patent licensing agreement. The original agreement included that NetAlter would pay Rs 22 mn as a lump sum consideration and a royalty of 3.5% of the gross turnover for a period of 20 years, being the life span of the patent, to the two promoters who invented the patent. On April 1, 2009, the agreement was modified to royalty of Rs 0.3 mn p.a. or 1% of the revenue generated by the patent, whichever is higher, each to both the promoters. Even in this case, the promoters will benefit first, through royalty payment, and minority shareholders will have to wait for the company to earn profits to get returns on their investments.

- 2) **High-cost office premises:** The company currently operates through its 4,170 sq. ft.- rented premises in Mulund, Mumbai. The company has already set up infrastructure, apart from IT hardware and connectivity, which can seat many more than the 25 currently employed. Thus, a lot of infrastructure is underutilised. The company is currently capitalising majority of the rental cost and plans to utilise part of the IPO proceeds to buy similar-sized office premises in or around the same locality.
- 3) The independent directors do not have a technical background. We believe that for a highly technical business like NetAlter's, a board of directors with a strong technical background is a must. Also, their engagement, awareness levels and board practices leave room for improvement.
- 4) All the independent directors hold shares (cumulatively less than 1% of the share capital) of the company which were bought before they joined the board.

B. Financial Performance

NetAlter's existing businesses, which include software products for social networking, matchmaking and business communication, generated revenues of Rs 6 mn and PAT of Rs 0.7 mn in FY10. While revenues more than doubled and PAT margin also significantly improved in FY10 y-o-y, the amount was not significant. Also, Q1FY11 revenues of Rs 1.6 mn and PAT of Rs 0.3 mn remained at very low levels.

Financial performance snapshot

| | | FY09 Actual 12 months | FY10 Actual 12 months | Q1FY11 |
|--------------------------|-------|-----------------------------|-----------------------------|--------|
| Operating income | Rs mn | 2.6 | 6.0 | 1.6 |
| EBITDA | Rs mn | 0.7 | 3.6 | 1.1 |
| EBITDA margin | % | 26% | 61% | 69% |
| Net profits | Rs mn | 0.1 | 0.7 | 0.3 |
| Net margins | % | 4.9 | 11.5 | 17.7 |
| RoCE | % | 0.5 | 0.5 | NM |
| RoNW | % | 0.3 | 0.6 | NM |
| Basic EPS | Rs | 0.3 | 0.4 | 0.1 |
| No. of equity shares | mn | 2.0 | 10.4 | 10.4 |
| Net worth | Rs mn | 93.3 | 122.1 | 122.4 |
| Book value (FV of Rs 10) | Rs | 45.6 | 11.7 | 11.7 |
| Current ratio | Times | 2.7 | 9.6 | 3.7 |

* Note: Numbers have been re-classified as per CRISIL standards

Source: DRHP

C. Management Capabilities

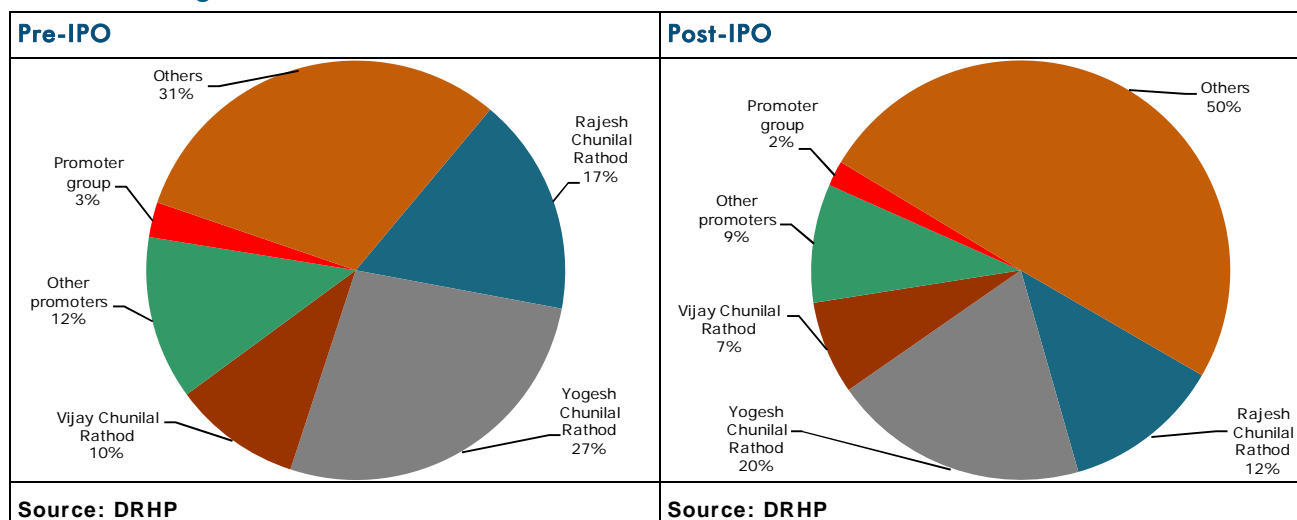
- Execution of NetAlter System needs more bandwidth at senior management level***

Currently, NetAlter's top management includes MD and promoter – Mr Rajesh Rathod - who handles the technical aspects of the business; and chairman and whole time director – Dr Hitesh Issrani - who handles the commercial and financial aspects. Both are inexperienced in internet and IT products/services, which is important for the execution of a highly technical concept such as NetAlter System. We believe the senior management needs to be significantly strengthened, especially the sales and marketing and finance verticals.

- Second line of management also needs to be strengthened***

The second line includes only Mrs Anita Raina (HR and administration manager), who has seven years of experience and has previously worked with companies including NIIT Ltd, and Mr Narendra Vishwakarma (IT system administrator), who has eight years of experience in the IT industry. The company plans to build its second line by utilising the IPO proceeds but its ability to attract and retain talent remains a key monitorable in the current job market scenario.

Shareholding Pattern



Annexure I

Business Profile

In January 2008, NetAlter merged with White Vision Software Ltd (WVSL), a promoter group company, and subsequently got ownership of 22 registered trademarks, two trademark applications pending and four copyrights. These intellectual properties include software products for social networking, matchmaking, and friend-to-friend and business communication amongst others. NetAlter's current product portfolio includes:

- **Community Hotline** – A social networking software solution for Indian communities, sub communities and groups. The company also has an online version of this solution - **Community Online**.
- **Matrimonial Hotline** – A software solution for matchmaking bureaus and organisations; the online version is **Matrimonial Online**.
(For Community Hotline and Matrimonial Hotline, the company provides options of data transfer/sharing and targeted advertising through CDs.)
- **Family Connect** – A software solution to create family trees in a simple, effective and organised way.
- **Contact Manager** – A business tool that efficiently stores, organises and handles all types of contacts including personal, official, buyer, supplier, consumer and others.

The company is in the process of developing more software products for e-commerce on-the-web; job search; and friend-to-friend, business-to-business and business-to-customer communication.

Annexure II: Profile of the Directors

| Name | Designation | Age | Qualification | Previous Employment | Directorships / partnership in other entities |
|------------------------------|--------------------------------|-----|---|--|---|
| Dr. Hitesh Khemchand Issrani | Chairman & whole time director | 31 | Graduation in medical science (BHMS) in homeopathic medicine and Master of Business Administration (MBA) | Invest Mentor Securities Ltd , HSBC Invest Direct (then IL&FS Investsmart Securities Ltd) | Nil |
| Mr. Rajesh Chunilal Rathod | Managing Director | 39 | Masters Degree in Commerce (M.Com) and Master Diploma in Software Engineering (MDSE) from Aptech, Mumbai | A freelance software developer till 2002. Promoter White Vision Software Limited, merged with NetAlter in 2002 | Nil |
| Mr. Nitin Harakhchand Gada | Executive Director | 49 | HSC in Commerce | Engaged in hospitality business and owns a restaurant in Dombivali | Nil |
| Mr. Kirit Ravji Nagda | Independent Director | 39 | Bachelor of Commerce (B. Com) and Accounting Technician Certificate (A.T.C.) | Personnel practice in income tax / sales tax, business market analysis, financial management and accounting matters | Glamour Global Ltd |
| Ms. Neha Rajen Gada | Independent Director | 34 | Bachelor of Commerce (B.com) and chartered accountant from the Institute of Chartered Accountants of India. | ICICI Bank Ltd and Bombay Stock Exchange Limited. Currently, independent consultant advising companies on SEBI and stock exchange related compliance matters | 1. Directorships held: Director in RSN Corporate Advisory Private Limited 2. Proprietorship: Neha Rajen Gada and Company |
| Mr. Dinesh Kanji Patel | Independent Director | 43 | Bachelors of Commerce (B.com) and chartered accountant from the Institute of Chartered Accountants of India | Owns a chartered accountant firm - D.K. Patel and Company | Partnerships held: M/s Ramesh K. Jain & Associates Proprietorship: D.K. Patel and Company |

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.

CRISIL is not responsible for any errors and especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of CRISIL IPO Gradings. For information on any IPO grading assigned by CRISIL, please contact 'Client Servicing' at +91-22-33423561, or via e-mail: clientservicing@crisil.com.

For more information on CRISIL IPO Gradings, please visit <http://www.crisil.com/ipo-gradings>