

Infotech Enterprises

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Not Rated
Rs174

Infotech Enterprises (IE) held its analyst meet on 16 November 2002 wherein it once again reiterated its full year revenue guidance of Rs1750mn and held forth regards the current status of the company. Chairman & CEO BVR Mohan Reddy, President & ED Sudhir Sethi and CFO Mohan K. Reddy represent the company at the gathering (refer our 23 September 2002 *Visit Note* which details the company's operations).

Strategic initiatives

Sudhir Sethi, who joined IE in April 2002 after a successful stint with Wipro and Walden International (International VC firm), is focusing on the following strategic initiatives along with BVR Mohan Reddy and Mohan K. Reddy.

- Restructuring global sales organisation
- Expansion of engineering services portfolio into embedded design
- Scouting for potential acquisitions in a bid to acquire new customers.

Restructuring global sales organisation

For most part of it, the company has been using the partner route to get business. Now, the sales organisation is being revamped. The company is adding in-house sales staff in its main geographical focus areas ... USA, UK, Germany, India and Asia-Pacific / Middle East. IE would be resorting to direct approach to end-customers along with the current partner approach for getting business.

Revenue guidance of Rs1750mn

The company is hopeful of achieving its revenue guidance of Rs1750mn. It would continue to focus on GIS services and engineering services apart from tapping these customers for some specialised software development and maintenance services. We believe, for IE to achieve its guidance it would have to grow significantly in the second half of FY03. In H1 FY03, IE has managed revenues of around Rs757mn. around Rs1000mn in revenues remains to be clocked in H2 FY03.

Required sequential growth of 16.5%

We believe that to achieve its year-end revenue guidance numbers, IE would have to grow 16.5% sequentially! That is, to achieve its year-end revenue guidance of Rs1750mn and profit guidance of between Rs190 to 210mn, IE would have to clock a growth of 16.5% in the next two quarters. Operating and net margins would also have to improve significantly. IE's net margins would have to improve from the current 9.9% (Q2 FY03) to 13.3% in Q3 and Q4 of FY03.

	Q1 FY03	Q2 FY03	Q3 FY03*	Q4 FY03*	Rs Mn FY03E
Revenue	361.8	395.4	460.6	536.6	1,754.5
QoQ Chg %	-5.9%	9.3%	16.5%	16.5%	
Net Profit	27.8	39.2	61.4	71.4	199.8
QoQ Chg %	-55.4%	41.0%	56.6%	16.3%	
NPM (%)	7.7%	9.9%	13.3%	13.3%	11.4%

Source: Company Reports; *Extrapolated

Tax rates among the highest in industry

On account of lapsed tax benefits on some of its facilities and losses made by foreign subsidiaries, the effective tax rate for the company for H1 FY03 works up to around 31%. According to IE, the rate is expected to hover at around the same level for FY03.

Avenues present to capitalise on existing business synergies

IE's customers for GIS and Engineering Services are currently from aerospace & automotive, utilities, transport and local governments. As the types of contracts are more technical in nature, their approval and payments are channeled through the purchase departments instead of the 'Information Systems' (IT) department. In most cases, the Purchase Manager is in-charge of the projects and not the Chief Information Officer (CIO).

Essentially, IE could enhance its revenues from these relationships by not only getting more GIS / Engineering Services work but by also bagging assignments for developing special technical add-on modules which link the technical and engineering side of their business with their normal IT system.

Valuation

The stock is currently quoting at a forward P/E of around 13x (company guidance) FY03E.

Stock Ratings Absolute Returns

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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