

iGate to invest \$50mn in BPO operations, expansion of development team

iGate, parent of **Mascot Systems**, has announced its plans to invest \$40mn in BPO and \$10mn in further expanding its development team reports the pink morninger Financial Express. As per the news report, these investments would be routed through Mascot Systems Limited.

Current Cash and Shareholding position of Mascot

iGate presently owns around 88% of the shareholding in Mascot. Recently, Mascot had announced that it would be acquiring eJiva and Aqua Regia (currently iGate Subsidiaries) in an all cash deal. Mascot has around \$30mn (Rs1440mn) cash on its balance sheet of which we estimate anywhere from \$8 to 10mn (Rs384 to 480 mn) would go towards the eJiva and Aqua Regia acquisition. We also estimate that Mascot needs a minimum of around \$2 to 4mn (Rs96 to 192mn) of cash to meet its working capital requirements. That leaves around \$15mn worth of internal accruals to fund the foray. That is, around \$ 35mn would have to be brought into the company to fund the discussed plans.

View

As iGate already owns 88% of Mascot, fresh equity issue seems to be out of question. Mascot could acquire some BPO businesses and fund them through an all-stocks deal. However, looking at the present condition of Mascot Systems' IT services business, it seems difficult that any one would accept freshly issued Mascot shares in lieu of cash. The only other option for iGate is to fund Mascot through Debt, which prima facie does not seem to be a good solution for funding this kind of expansion.

We have not received any official communication from Mascot regarding these developments. Mascot Systems is **Not Rated** by Karvy Stock Broking.

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Stock Ratings Absolute Returns

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

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