

COMPANY WATCH: iGATE GLOBAL SOLUTIONS LIMITED

- Better than expected third quarter results
- Net profit grew by 57% quarter on quarter (QoQ)
- Operating margin enhanced by 275 basis points
- Offshore and onsite billing rates move up 1.6% and 1% respectively QoQ

iGATE Global Solutions Ltd (iGS), an integrated technology service provider based in India's tech-city Bangalore and subsidiary of the U.S.-Based iGATE Corporation, seems to have achieved the much awaited consistency in its performance finally. The latest quarterly earnings have assured the market analysts that its margins are now sustainable. Hence, the 'buy' recommendations by most of the broking firms lately. Now, iGATE can be considered as a turn-around case without much doubt.

iGATE's financial results for third quarter ended December 2006 are impressive and above market expectation. Although the Rupee appreciation during the quarter mellowed down the growth in revenue to only 4% quarter-on-quarter (QoQ), improved margins helped the company to register 57% growth in net profit compared with the previous quarter ended September 2006. Net profit for the third quarter increased to Rs. 16 crore (\$3.5 million) compared with Rs. 10 crore (\$2.2 million) in second quarter of financial year (FY) 2006-07 and Rs. 1.30 crore (\$290,000) in the third quarter of FY05-06. Revenue for the third quarter FY07 grew 27.6% year-on-year (YoY) to Rs 210.73 crore (\$ 47 million), compared to Rs 165.15 crore (\$37 million) in the corresponding quarter previous year (Q3FY06). EPS grew to Rs 5 (11 cents) from Rs. 3 (7 cents) in second quarter of FY05-06 and Rs. 0.44 (1 cent) in the third quarter previous year.

	Q3FY07	Q2FY07	QoQ Chng	Q3FY06	YoY Chng
Revenue (Rs Cr)	210.73	202.62	4.00%	165.15	27.60%
Revenue (\$mIn)	47.36	45.53	4.00%	37.11	27.60%
Operating Profit (Rs Cr)	26.67	20.07	32.90%	19.71	35.30%
Operating Profit (\$mIn)	5.99	4.51	32.90%	4.43	35.30%
Net Profit (Rs Cr)	15.95	10.14	57.30%	1.3	1126.40%
Net Profit (\$mIn)	3.58	2.28	57.30%	0.29	1126.40%
EPS (Rs)	5.09	3.26	56.13%	0.44	1056.82%
EPS (in \$)	0.11	0.07	56.13%	0.01	1056.82%
Operating Profit Margin (%)	12.66%	9.91%		11.93%	
Net Profit Margin (%)	7.57%	5.00%		0.79%	

(Note: convenience translation at Rs.44.5 per Dollar)

Operating margin improved by 275 basis points

iGATE has improved its operating profit margin by 275 basis points QoQ to 13% in third quarter of FY06-07 from 10% in second quarter of FY06-07. Net profit margin has also gone up to 8% from 5% during this period. Billing rates of the company have improved, and also the proportion of business from high margin clients has gone up during the third quarter. Cost-cutting measures have also added to margin in a healthy way. Company had earlier given a guidance of 15% EBITDA margin by Q4FY07, which it expects to achieve in the fourth quarter ending March 2007. Though, it has a long way to go on margin front as not only the leaders of India's IT sector but also a number of small and mid-sized IT companies are doing business with more than 30% operating margin.

Customers are ready to pay more

A strong growth of 8.0% Q-o-Q in offshore revenue was also a positive sign for the company. The contribution of offshore business to the total revenue enhanced to 46%. While the onsite billing rate went up by 1% QoQ, improvement in offshore billing rate was higher at 1.6% QoQ. Company has been able to consistently raise the billing rate. In the second quarter it had registered 1.5% growth in onsite rates and 1.6% growth in offshore rates.

Billing Rates (\$/hour)	Q3FY07	Q2FY07	QoQ Chng	Q3FY06	YoY Chng
Offshore	19.60	19.30	1.55%	19.10	2.62%
Onsite	62.10	61.50	0.98%	60.70	2.31%

While the onsite revenue growth in the IT services business was only 2.0%, it was the expansion in offshore revenues by 8% that drove the growth for the quarter. Offshore revenue contribution was at 46% in Q3FY07 compared to 45% in Q2FY07 and 43% in Q3FY06.

Company has added 5 new clients during the quarter including 2 Fortune 1000 customers, a list of the largest companies maintained by the American business magazine Fortune. The number of million dollar clients has gone up to 29 in Q3FY07 from 26 in Q2FY07. Among the list of iGATE's top customers are several that have been acquired in recent quarters. Revenue from top customers and top 5 customers increased by 6% each on a sequential basis. The sequential numbers are more representative of the growth trend in the top 5. In Q3FY2006, top customer includes General Electric Company (GE), American technology and services conglomerate and the erstwhile ERC business of GE as single customer. However, in FY2007 Swiss Re, world's largest reinsurer acquired the ERC business of GE which led to a reclassification of the top customers. Swiss Re, a new addition to iGS's client list in FY2007, has moved into the top 5 customers and last year's top customer by revenue is now split into two names in the top 5 customers list. Hence, revenue from largest customer shows a decline on a YoY basis while the revenue from top 5 customers has registered healthy growth. The revenue from Top 10 customers has gone up 7% quarter on quarter.

It has added net 301 employees during the quarter, taking its total employee base to 5,821. The offshore employee base went up by 307 and the onsite employee base went down by 6.

Stock price appreciated 175% in last six months

The stock price of iGATE has gone up 175% to the current levels of about Rs. 400 (\$9) in the second week of January 2007 from the low of Rs. 145 (\$3.25) in July 2006. It moved up to Rs. 346.80 (\$7.8) on December 29, 2006 from Rs. 236.25 (\$5.3) on November 30, 2006 showing a monthly gain of 47%. A number of broking firms have raised their earnings estimates for the company and given buy recommendation for it after the third quarter results.