RESEARCH

Independent Equity Research

Enhancing investment decisions

In-depth analysis of the fundamentals and valuation

Omnitech Infosolutions Ltd

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade)

Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Independent Research Report – Omnitech Infosolutions Ltd

Continuity in business growth

Industry: Information Technology
Date: September 20, 2010

Omnitech Infosolutions Ltd (Omnitech) has metamorphosed from a computer assembling/hardware provider to a managed services provider primarily to the SME segment. We assign Omnitech a fundamental grade of **'3/5'**, indicating that its fundamentals are **'good'** relative to other listed securities in India.

Continued focus on SMEs to propel Omnitech forward, BAS segment to drive growth

Omnitech's continued focus on small and medium enterprises (SMEs) both locally and internationally promises to drive future growth, as was the case historically. Nasscom expects the contribution of Indian SMEs to the domestic IT spend, which was 30% in 2009, to rise substantially going ahead. We expect this to translate into a two-year CAGR of 35% in Omnitech's revenues to Rs 4 bn in FY12.

Over the next two years, CRISIL Equities expects the company's revenue growth to be driven by the **business availability services** (BAS) segment. We expect this segment to grow at a two-year CAGR of 44% with a 70% contribution to revenues in FY12, up from 62% in FY10. Within this segment, international operations are expected to outperform the domestic business. We expect the company to pursue aggressive growth in the Far East and European markets. We expect revenues from Omnitech's international business to more than double to Rs 1.3 bn in FY12 and contribute 33% of revenues, up from 23% in FY10.

EBITDA margin to decline to 27.2% in FY12 from 30.9% in FY10

In the past, Omnitech has been able to demonstrate strong revenue growth along with an improvement in EBITDA margins. While we expect revenues to continue to grow, EBITDA margin is expected to decline to 27.2% in FY12 from 30.9% in FY10 mainly due to an increase in employee cost. Also, we expect PAT margin to decline to 13.5% in FY12 from 17.4% in FY10 due to an increase in depreciation and interest costs.

Key monitorables: Acquisitions, equity dilution and CFO recruitment

A) Omnitech is in the advance stage of negotiations with two target companies, one in the US and another in Europe. Our analysis suggests that the company will have to raise additional capital for funding these acquisitions. The company is considering both debt and equity options for funding. We believe that the acquisitions, though they may have long-term benefits, may impact the EPS growth and RoE in the near term.

B) The company is in the process of recruiting a CFO. In the meantime, the finance vertical is managed by the MD. As the company continues to grow, we believe that it would need a competent CFO to better manage growth.

Valuations: Aligned with current market price

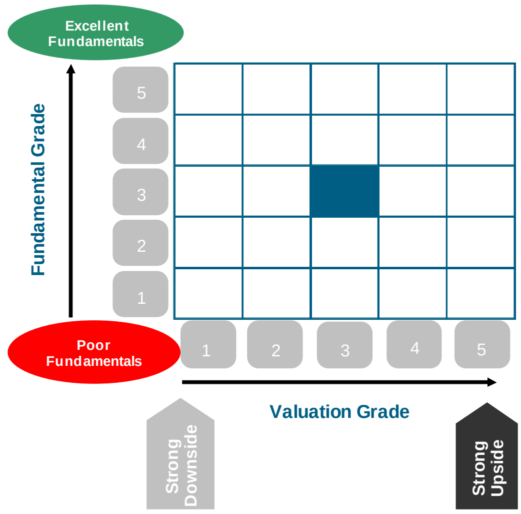
We have used the discounted cash flow method to value Omnitech. We assign a one-year fair value of Rs 270 per share and a valuation grade of **'3/5'**, indicating that the current market price of the stock is **'aligned'** with our fair value. At this fair value, the implied P/E is 8.1x FY11 and 7x FY12 EPS. We believe that Omnitech deserves to trade at a higher P/E than its average one-year trailing P/E of 6x since January 2010. We also believe that the P/E could expand further if the decline in the company's EBITDA margin is lower than expected and if it demonstrates strong inorganic growth capabilities.

Key forecast (consolidated financials)

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	1,320	1,718	2,185	3,001	3,996
EBITDA	352	528	676	887	1,089
Adj Net income	256	344	381	462	538
EPS-Rs	19.5	26.2	27.5	33.3	38.8
EPS growth (%)	29.3	49.8	9.6	21.2	16.5
PE (x)	6.6	1.4	5.9	7.6	6.5
P/BV (x)	1.9	0.4	1.3	1.6	1.3
RoCE (%)	41.3	33.9	27.8	25.9	23.8
RoE (%)	42.6	32.3	25.8	23.8	22.3
EV/EBITDA (x)	4.6	1.3	3.9	4.6	4.0

Source: Company, CRISIL Equities estimate

CFV matrix



- Fundamental grade of '3/5' indicates good fundamentals
- Valuation grade of '3/5' indicates aligned market price

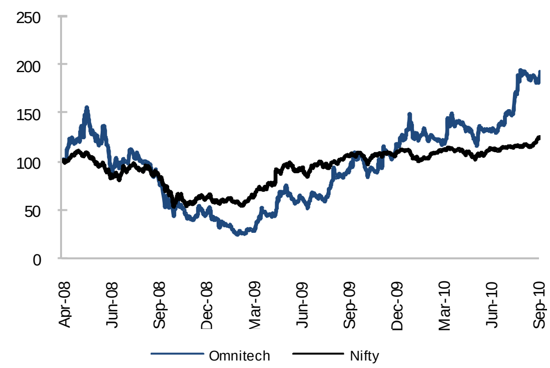
Key stock statistics

BSE Ticker	Omnitech
Fair value (Rs per share)	270
Face Value (Rs per share)	10
Current market price (Rs)*	253
Shares outstanding (Mn)	13.9
Market cap (Rs Mn)	3,510
Enterprise value (Rs Mn)#	4,113
52-week range(Rs)(H/L)	262/107
PE on EPS estimate (FY12E)(x)	6.5
Beta	1.4
Free float (%)	45.1
Average daily volumes (last 3 months)	4,70,651

*as on 17th Sep 2010

FY11E

Share price movement



*Indexed to 100

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Table 1: Core business segments

Parameter	Business availability services	Business continuity services	System integration
Revenue contribution FY10	61.8%	15.1%	23.1%
FY12E	70.1%	14.4%	15.6%
Growth (%)			
FY09	33.3	NA	-12.1
FY10	31.9	58.2	4.0
FY11E	47.8	35.1	10.9
FY12E	40.3	28.9	11.0
Sub-segments	▪ Infrastructure management services ▪ Application management services ▪ Performance management services ▪ Software testing services	▪ Disaster recovery management ▪ Disaster recovery consulting and auditing ▪ Data centre services	N.A.
Geographic presence	India, Japan, Canada, Europe, Middle East, US	India	India
Market position	Managed services provider focused on the SME segment		
End market	BFSI, IT & ITeS, manufacturing, services		
Key competitors	**Domestic:** HCL Technologies, Mphasis, Wipro, Allied Digital, Glodyne Technoserve, CMC, Zenith Infotech, Mindtree, Patni Computers, 3i Infotech, Mastek	**Domestic:** IBM	**Domestic:** HCL Infosystems, CMC, Allied Digital
	Foreign: IBM, HP, CSC, Cap Gemini, Think Soft,	-	-
Growth drivers	▪ Continued growth in the domestic market	▪ Growth in BFSI and shipping sectors for which disaster recovery is a compliance requirement	▪ Growth in IT spend of the government, BFSI and Telecom sector
	▪ Aggressive overseas expansion in markets like the Far East and Europe	▪ Increase in awareness amongst other sectors	
		▪ Launch of two new disaster recovery centres	
Margin drivers	▪ Higher employee cost due to increase in number of employees and cost per employee	▪ Decline in realisations due to competitive pressure	▪ Decline in realisations due to competitive pressure
	▪ Other operating costs to also increase due to expansion in international markets	▪ Higher operating costs as proportion of revenue due to lower utilization of new capacity	

Source: Company, CRISIL Equities

CRISIL RESEARCH

Grading rationale

Omnitech has metamorphosed into a managed services company

Omnitech's focus is on high-margin managed services business

Omnitech commenced operations in 1987 as a third party computer assembling company. In the late 1990s, it added system integration to its service offerings. Subsequently, it discontinued the computer assembly business and started providing managed IT services. **Historically, Omnitech has followed a strategy of avoiding competition from large IT companies and has focused on niche segments.** Over the years, the company has expanded its high-margin services portfolio and entered into niche segments like disaster recovery services. Omnitech's focus on increasing the proportion of high-margin managed services business (including domain specific services and total IT outsourcing) is visible from the improvement in EBITDA margins over the years. As the revenue contribution of system integration has declined to 23% FY10 from 41% in FY08, the blended EBITDA margin of the company has improved to 30.9% in FY10 from 26.7% in FY08.

Table 2: Growth in high-margin businesses has improved blended EBITDA margin

	FY08	FY09	FY10
Business availability services	58.2%	59.6%	61.8%
EBITDA margin (%)	*39.7%*	*37.3%*	*36.8%*
Business continuity services	0.0%	12.1%	15.1%
EBITDA margin (%)	*0.0%*	*43.2%*	*42.2%*
System integration	41.8%	28.3%	23.1%
EBITDA margin (%)	*8.3%*	*8.0%*	*8.0%*
Blended EBITDA margin (%)	**26.7%**	**30.8%**	**30.9%**

Source: Company

SMEs open doors of opportunity for IT companies

SMEs accounted for ~30% of the domestic IT spend in 2009

The National Association of Software and Services Companies (Nasscom) expects the IT spend by small and medium enterprises (SMEs - companies with less than 1,000 employees) globally to grow at a four-year CAGR of 7% to US$ 675 bn in 2013.

The Associated Chambers of Commerce and Industry of India expects SMEs to contribute ~22% of India's GDP in 2012, up from 17% in 2009. It expects technology upgradation by SMEs to be one of the critical factors driving this growth. Due to the unorganised nature of Indian SMEs, there is unavailability of data on the outlook of IT spend by SMEs. According to Nasscom, in 2009 SMEs accounted for nearly 30% of the domestic IT spend in India. Nasscom expects SMEs to provide high growth opportunity for IT companies. CRISIL Research expects the Indian IT services market to grow at a five-year CAGR of 18% to Rs 650 bn by FY13.

Omnitech all set to walk through that door

About 85% of Omnitech's clients have deal size of less than Rs 10 mn

Historically, Omnitech has focussed on the SME segment both locally and internationally, which has enabled it to grow at a CAGR of over 36% during FY05-FY10. As of Q1FY11, the company had about 165 active clients with 140 clients having a deal size of less than Rs 10 mn. We expect Omnitech to benefit from the increase in the IT spend of the domestic SMEs. Additionally, Omnitech also plans to aggressively grow the international business going forward. CRISIL Equities forecasts Omnitech's revenues to continue to grow at a CAGR of 35% over the next two years to Rs 4 bn in FY12.

Business availability services to grow faster than other business segments

Business availability services to continue to drive growth for Omnitech

Under the business availability services segment, Omnitech provides infrastructure management, application management, performance management and software testing services.

In FY10, ~62% of Omnitech's total revenue accrued from business availability services. We forecast it to further increase to 70% of revenues in FY12, driven by a two-year CAGR of 44% to Rs 2.8 bn in FY12 on the back of growth in the international business and continued domestic growth. We forecast revenues from infrastructure and application management services to collectively grow at a two-year CAGR of 50% to Rs 1.9 bn in FY12. The revenue from performance management and software testing services is expected to collectively grow at a two-year CAGR of 33%.

Table 3: Growth in business availability services

	FY09	FY10	FY11E	FY12E	Comments
Infrastructure management and application management services					
Revenue growth	9.5%	39.6%	58.4%	42.9%	
Volume growth	-3.1%	19.9%	44.0%	36.1%	Growth to be driven by international expansion and continued domestic growth
Billing rate growth	12.9%	16.5%	10.0%	5.0%	Billing rate to improve due to higher proportion of international business, which has higher billing rates
Performance management services and software testing					
Revenue growth	89.4%	21.5%	31.1%	35.5%	
Volume growth	22.2%	30.1%	28.5%	32.8%	Growth to be driven by expansion in domestic market
Billing rate growth	54.9%	-6.6%	2.0%	2.0%	Marginal increase in billing rate in new contracts

Source: Company, CRISIL Equities

Global RIM to grow at a five-year CAGR of 32% to Rs 1,334 bn in 2013

According to Nasscom, the global spend on infrastructure management services (IMS) is expected to grow at a four-year CAGR of 4.9% to US$ 264 bn by 2013. In line with IT services, offshoring infrastructure management services has become popular due to cost benefits. Enterprises can cut costs when their IT infrastructure is managed from offshore locations and IMS providers can increase their profitability by outsourcing to offshore locations, i.e. through remote infrastructure management (RIM). According to Nasscom, only 7% (Rs 336 bn) of the addressable RIM market was catered by offshore locations like India. It expects the global RIM market to grow at a five-year CAGR of 32% to Rs 1,334 bn in 2013 and expects the share of Indian IMS vendors to be between 50% and 55%.

Strong growth expected in international business

International business will be a key growth driver for Omnitech

Omnitech is present in the Far East, Japan, Europe, the US, Middle East and Canada. We expect Far East and Europe to be the key geographies for the company over the next two years. Omnitech plans to continue to focus on infrastructure management services for SMEs even in the international markets. We forecast Omnitech's international revenues to more than double to Rs 1.3 bn in FY12 from Rs 0.5 bn in FY10 and expect it to account for 32.7% of total revenues in FY12 vs. 22.7% in FY10.

Domestic third party data centre market to grow at a two-year CAGR of 16%

Third party data centres to gain importance going forward

Data centres are used by companies for large-scale data storage, data backup, disaster recovery and business continuity. Data centres can be either be in-house or outsourced to third party data centre providers.

Third party data centres provide the flexibility of using IT infrastructure as per the requirements and helps in reducing, if not avoiding, underutilisation of IT infrastructure. Companies also benefit from their spending on IT infrastructure being converted into operating expenditure compared to capital expenditure in case of in-house data centres. According to CRISIL Research, the third party data centre market is expected to grow at a CAGR of 16% to Rs 20.5 bn by FY12. This is mainly because outsourcing to third party data centres is expected to gain more acceptance.

Omnitech's focus is on disaster recovery services

Omnitech provides disaster recovery services…

Omnitech offers its data centre services under business continuity services which were commenced in 2008. This segment comprises of workplace area recovery (WAR)/ disaster recovery management, disaster recovery consulting and other data centre services.

Omnitech has set up India's first managed third party disaster recovery centre. **Notably, IBM is the only other company which provides disaster recovery services in India.** Though Omnitech faces direct competition from IBM, it benefits from its multi-location presence.

… through shared and dedicated facilities

Omnitech currently has two disaster recovery centres located in Hyderabad and Navi Mumbai. It plans to set up two additional centres in Bangalore and Gurgaon, which will become operational in FY12 (A new centre takes about three years to reach the peak utilisation level of ~70%). At a disaster recovery centre, the clients can opt for either dedicated seats or shared seats (which is shared between seven to ten clients). Currently, shared seats account for 80% of total utilised seats. We expect the proportion of shared seats to grow further which will increase blended realisation in this segment.

Disaster recovery management services to grow at a two-year CAGR of 65%

Provision for disaster recovery facility is a compliance requirement for sectors like the BFSI and shipping. The current disaster recovery market is dominated by these sectors and by demand from MNCs. Growing awareness of disaster recovery and its implications on continuity of business operations will drive the growth in the long term. For Omnitech, we forecast revenues from disaster recovery management services to grow at a two-year CAGR of 65% to Rs 291 mn in FY12.

Table 4: Disaster recovery services metrics

	FY09	FY10	FY11E	FY12E
Number of DR centres	1	2	2	4
Total seats	325	500	875	1,575
Utilisation	50.0%	53.6%	48.0%	43.0%
Shared seats as % of utilised seats	80.0%	80.0%	80.9%	82.7%
Average realisation per dedicated seat (Rs mn, pa)	0.20	0.20	0.21	0.21
Dedicated seats as % of utilised seats	20.0%	20.0%	19.1%	17.3%
Average realisation per shared seat (Rs mn, pa)	0.07	0.06	0.06	0.05

Source: Company, CRISIL Equities

Driven by growth in the disaster recovery management services, we expect revenues from business continuity services to grow at a two-year CAGR of 32% to Rs 574 mn in FY12 and constitutes about 14-15% of the company's total revenues.

Contribution of low-margin system integration to decline to 15.6% in FY12

IT spend by the government, BFSI, telecom sectors and technology up-gradation by SMEs to drive growth for system integration services

CRISIL Research expects the Indian IT services market to grow at a five-year CAGR of 18% to Rs 650 bn by FY13. This growth is expected to be driven by IT spending by sectors such as banking and financial services (BFSI) and telecom, and the government. Additionally, increasing technology upgradation by SMEs will drive demand for system integration services. Omnitech's revenue from system integration is expected to grow at a modest rate of three-year CAGR of 11% to Rs 622 mn in FY12. The revenue contribution from this segment is expected to decline to 15.6% in FY10 from 23.1% in FY12 due to the company's strategy to increase focus on higher-margin services.

Omnitech to benefit from dependence on financial services sector…

Financial services sector accounts for ~50% of Omnitech's revenue

The BFSI sector is the largest contributor to domestic IT services revenues after the government. CRISIL Research expects the IT spend of the domestic BFSI sector to grow at a four-year CAGR of 17.5% to US$ 183 mn in FY14. The financial services sector accounts for ~50% of Omnitech's revenues. The contribution from this sector declined to 49.5% in FY09 from 55% in FY08. This was because of a cut in IT budgets by the financial services sector in FY09 due to weak capital market conditions. With the improvement in the capital markets and subsequent improvement in IT spend by the financial services sector, the revenue contribution from the sector rose to 51% in FY10. We expect Omnitech to benefit from the improvement in IT spend in the sector, which is visible from the 84% y-o-y growth in revenues from the sector in Q1FY11 compared to total revenue growth of 75%. Also, the RBI is planning to grant bank licences to corporates which represents a big opportunity for players like Omnitech.

Table 5: Omnitech's revenue from BFSI sector on the rise

	FY08	FY09	FY10	Q1FY11
Revenue from BFSI sector (Rs mn)	724	848	1,104	373
% y-o-y growth		17.3%	30.1%	84.4%

Source: Company

… but only if the global economy doesn't play spoilsport

Financial services companies may again cut their IT budgets in case of another round of economic slowdown

With the improvement in global economic outlook in 2010, the IT budgets of financial services sector are expected to increase going forward. However, if the global economy slips into another cycle of slowdown, the IT budgets of the financial sector companies will get impacted again. This may adversely affect Omnitech's revenues due to its high dependence on this sector and, thus, is a key monitorable for us.

Omnitech has largely outperformed its mid-cap peers in the past two years….

Omnitech has performed better than most of its peers on the q-o-q revenue growth front, partially due to a relatively smaller size....

Post the q-o-q decline in revenues in Q3FY09 and Q4FY09, impacted by a cut in IT spending, Omnitech has demonstrated consistent q-o-q growth. Its q-o-q revenue growth has only lagged that of Glodyne Technoserve over the past 11 quarters. This outperformance to peers can partly be attributed to its relatively smaller size.

Table 6: Q-o-q revenue growth trend

%	Q3FY09	Q4FY09	Q1FY10	Q2FY11	Q3FY11	Q4FY11	Q1FY11
Omnitech	-6.2	-2.6	2.7	20.4	12.7	16.1	11.2
Allied Digital	-7.1	5.0	-0.8	4.9	7.3	8.1	5.8
C M C	1.9	11.0	-12.2	3.9	-3.3	10.5	4.7
Glodyne Technoserve	6.4	8.8	9.6	11.6	9.1	10.5	2.7
Mindtree	16.6	-7.1	-9.8	3.4	5.4	3.8	1.3
Patni	7.0	-9.5	0.4	3.6	-3.1	4.1	-3.2

Source: Company, Prowess

… and has consistently maintained higher EBITDA margin than peers

Post the dip in EBITDA margin in Q3FY09, in line with its peers, Omnitech has maintained EBITDA margin in the range of 30-32%, which has consistently been higher than its mid-cap peers.

Table 7: Omnitech has consistently maintained higher EBITDA margin than peers

%	Q3FY09	Q4FY09	Q1FY10	Q2FY11	Q3FY11	Q4FY11	Q1FY11
Omnitech	28.0	32.0	31.4	31.2	31.0	30.1	31.8
Allied Digital	16.0	17.4	18.6	20.1	20.4	20.9	22.1
C M C	17.0	21.0	16.8	19.5	21.5	23.1	22.9
Glodyne Technoserve	22.7	25.8	21.8	21.4	22.0	21.9	24.3
Mindtree	9.2	10.8	24.8	22.1	24.5	22.8	12.7
Patni	13.9	16.8	26.4	25.2	27.3	28.0	25.4

Source: Company, Prowess

EBITDA margin expected to fall to 27.2% in FY12 from 30.9% in FY10

Higher employee cost to impact EBITDA margin

While Omnitech has been able to demonstrate strong revenue growth and maintain strong EBITDA margin, we expect the EBITDA margin to fall to 27.2% in FY12 mainly due to an increase in employee cost. The company has given a guidance of doubling its employees by FY13. We expect the company to add around 660 employees over the next two years to its existing employee base of 1,022 (Q1FY11). Also, the company gave a salary hike of 12% in FY10; we expect similar salary hikes to continue over the next two-three years. Additionally, recruitment of employees in the international market is expected to increase the cost per employee further. We also expect general and administration expenses, and selling and marketing expenses to increase over the next two years due to growth in the international business.

Acquisitions in the US and Europe to provide further momentum to growth

The company has planned acquisitions internationally to gain customers and locally to expand its services portfolio. Based on our interaction with the management, we believe that the company is focused on both profit and revenue growth as regards its inorganic growth strategy. For overseas acquisitions, it has set out a detailed selection process:

- Profitable business at the EBITDA level
- Majority of target company's clients must belong to the BFSI sector since Omnitech has expertise in this sector
- The target company should provide services which can be offshored to India
- The acquisition should be possible through earnout deals

In the past, the company has not been overly aggressive on the inorganic growth front. It raised Rs 350 mn through an IPO in 2007 with the main objective of pursuing inorganic growth. The company had evaluated a few companies for this purpose but eventually decided to defer its plans due to poor capital market conditions. Subsequently, it utilised the IPO proceeds for organic growth.

Currently, Omnitech is at an advanced stage of negotiations for two acquisitions, one in the US and the other in Europe. The US company provides application management services and the European company provides infrastructure management services. Through these acquisitions, Omnitech plans to gain a foothold in the respective geographies. The target companies have been present in their respective regions for a long time and have a strong customer portfolio.

… for ~US$ 37.5 mn

Our interaction with the company suggests that Omnitech is likely to pay ~0.7x of the revenue for the European acquisition and ~1.2x for the US acquisition, as the latter has higher EBITDA margin than the former. Based on these assumptions, the cost of the two acquisitions is expected to be US$ 37.5 mn. The company is evaluating both debt and equity options for funding the acquisitions. Also, the company has the board approval to raise money through ADR, GDR or QIP for an amount not exceeding US$ 50 mn.

Table 8: Details of acquisitions

	Region	Service offerings	Revenue (US$ mn)
Target-1	US	Application management services	18-22
Target-2	Europe	Infrastructure management services	12-15

Source: Company

Integration of acquisitions remains a key monitorable

Omnitech has limited track record of large acquisitions relative to its size

In the past, Omnitech made one acquisition, that of Edventure Systems (for Rs 7.5 mn), which enabled it to venture into application management and software testing services. Thus, Omnitech has a limited track record of integrating relatively larger acquisitions.

The success of the aforementioned acquisitions depends upon how successfully the company is able to integrate the newly acquired company. While our interaction with the management suggests that Omnitech has a structured integration plan for the acquisitions, the same remains a key monitorable going forward.

Equity infusion by promoters may stress the RoE in the near term

Promoters have subscribed to convertible warrants even at a premium to the prevailing stock price

Omnitech's promoters have been open to infusing additional equity in the company to support the aggressive growth plans. In the past, equity was infused through convertible warrants at a premium to the prevailing stock price. Warrants were issued to the promoters in FY09, out of which they converted 7,19,210 warrants at Rs 165.5 per share. In FY10, 8,62,000 warrants were issued which are valid for conversion till April 2011.

RoE may decline further on equity issuance

Our interaction with the management suggests that the cost of the two acquisitions will be ~US$ 37.5 mn. The company is open to equity infusion to raise funds for the same, which would impact RoE in the near term.

For our forecast, we have not assumed conversion of the 8,62,000 warrants, which are outstanding. Currently, the promoters' holding in the company is 54.9%. According to regulations, any increase in promoter holding beyond 55% through options other than open market purchase of shares would trigger an open offer. Our interaction with the management suggests that the company is likely to raise additional equity for funding acquisitions, which would result in dilution of the promoters' holding. The promoters are likely to use the warrants to increase their stake post any such dilution.

Table 9: Details of warrants issue

Announcement date	Number of warrants	Issue price (Rs)	CMP (Rs)	Premium/(discount) to prevailing market price
13-Jun-08	13,25,000	165.5	154.5	37.7%
2-Nov-09	8,62,000	122.6	109.0	12.5%

Source: Company, BSE

Cloud computing – a new growth avenue, both for enterprises and IT companies

Cloud computing is expected to be the next growth driver in managed services segment….

…but currently has security concerns

Cloud computing is believed to be the next level of outsourcing for companies - IT and others. Even though cloud computing is becoming popular, security remains the key concern particularly for its user. Industry sources say that more clarity and confidence on the security issues would be driven by adoption of cloud computing by large companies (service providers and users). International Data Corporation forecasts Asia Pacific spending on IT cloud services to grow at a CAGR of 40% during 2010-14 to US$ 4.6 bn.

Cloud computing – a natural extension for Omnitech, but a long way to go

Omnitech to focus on the education sector for its cloud computing services...

Omnitech expects cloud computing, a natural extension for business availability and continuity services, to be a key growth driver in the long term. It plans to target niche sectors like education in the SME segment for the same. Our interaction with the company suggests that currently in the education sector almost the entire IT infrastructure is owned by respective companies within the sector. This coupled with the fragmented nature of the sector (like SMEs) and the large size of India's education sector provides a huge opportunity for IT companies.

... but has a long way to go

Omnitech has already developed software platforms and has done pilot projects for providing cloud computing services for the education sector and is in the process of finalising the commercial terms for the same. The company expects to launch its cloud computing services by end-FY11 and has not disclosed any further details on the same. While cloud computing could provide a huge growth opportunity for Omnitech, we believe the company has to demonstrate strong service delivery capabilities for the same. **Our forecasts do not include any benefit accruing from cloud computing services** and it remains a key monitorable for us.

Omnitech's target of Rs 10 bn revenues in FY13 is a CHALLENGE

Omnitech needs to demonstrate high growth on a consistent basis to attain its ambitious target

Omnitech's revenues have grown at a CAGR of 36% during FY05-FY10. The company has given a revenue guidance of Rs 10 bn by FY13, out of which Rs 6.5 bn is expected via organic growth (three-year CAGR of 44%) and the balance through acquisitions. We forecast Omnitech's revenues to log a two-year CAGR of 35.2% driven by continued domestic growth and aggressive international expansion. While Q1FY11 revenues grew by 75% y-o-y due to the addition of a large client, we believe that the company will have to demonstrate high growth on a consistent basis to achieve its target. We expect flat q-o-q growth in FY11 and a better performance by the company remains an upside trigger to our forecast.

Omnitech's businesses are capital intensive

System integration and infrastructure management services are working capital intensive

Historically, Omnitech has had high debtor days as payment flexibility is one of the differentiating factors to acquire and retain clients in the managed services business.

Also, the company has high inventory days as it needs to maintain hardware inventory for its system integration and infrastructure management services businesses. The company had debtor days of 88 and inventory days of 48 in FY10. We expect debtor days to increase to 95 in FY12 as the company plans to aggressively grow its international business. We expect the inventory days to reduce to 42 in FY12 due to lower proportion of system integration business.

Disaster recovery services demand investment in new facilities

The company plans to set up two disaster recovery centres over the next two years which will require a capex of ~Rs 250-400 mn. Additionally, the company plans to invest Rs 300 mn in technical equipments for these centres over the next two years.

Table 10: Capital expenditure and working capital trend

	FY08	FY09	FY10	FY11E	FY12E
Debtor days	98	125	88	90	95
Inventory days	16	30	48	45	42
Capital expenditure (Rs mn)	333	342	712	600	650

Source: Company, CRISIL Equities

Financial Outlook

Business availability segment to drive growth in revenues

Revenues to grow at a CAGR of 35% to Rs 4 bn by FY12

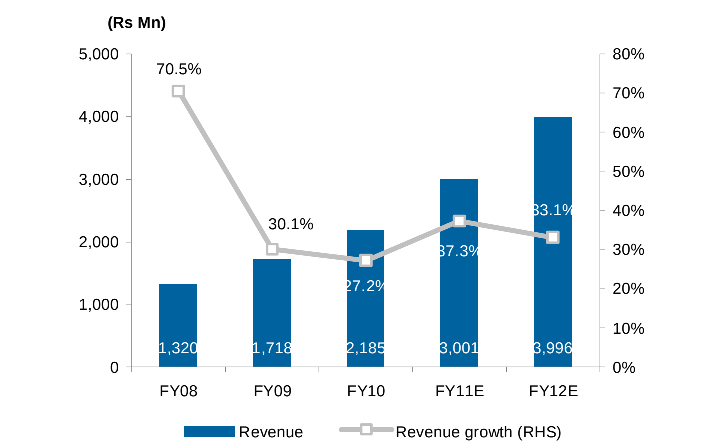
Omnitech's revenues are expected to grow at a two-year CAGR of 35% to Rs 4 bn in FY12 from Rs 2.2 bn in FY10. This growth will be driven by growth in the business availability segment.

This segment contributed ~62% to total revenues in FY10 and is expected to grow at a two-year CAGR of 44% to Rs 2.8 bn in FY12 from Rs 1.4 bn in FY10 on the back of growth in infrastructure management services and application management services.

The business continuity services consist of disaster recovery consulting, disaster recovery management and data centre services. We expect this segment to grow at a two-year CAGR of 32% to Rs 574 mn in FY12 from Rs 330 mn in FY10. The disaster recovery management segment, which contributed 32% to busisness continuity services in FY10, is expected to be the main growth driver for this segment. It is expected to grow at a two-year CAGR of 65% to Rs 291 mn in FY12 from Rs 107 mn in FY10 driven by addition of two new disaster recovery centres in FY12 and increase in proportion of shared seats, which have higher realisation, at the existing centres.

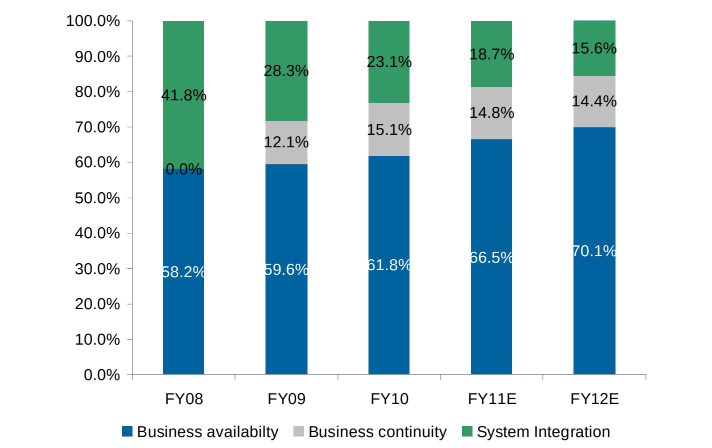
Revenues from the system integration segment is expected to grow at a modest two-year CAGR of 11% to Rs 622 mn in FY12 from Rs 505 mn in FY10.

Figure 1: Revenue trend



Source: Company, CRISIL Equities

Figure 2: Segment-wise revenue break-up



Source: Company, CRISIL Equities

EBITDA margin to decline to 27.2% in FY12 on the back of an increase in employee costs

EBITDA margin expected to decline to 27.2% in FY12

EBITDA margin is expected to decline from 30.9% in FY10 to 27.2% in FY12 due to an increase in employee costs. The company has given a guidance of doubling its employees from the current levels (1,022 in Q1FY11) by FY13. We expect the company to recruit ~660 employees over the next two years. Also, as the company plans to expand its international business, the cost per employee is expected to increase by ~15% per annum over the next two years. As a result, we forecast employee costs will increase to 9.6% of total revenue in FY12 from 7.4% in FY10.

Rs 1.5 bn capex planned over next three years

Omnitech has planned to set up four new disaster recovery centres over the next three years with each centre requiring an investment of Rs 120-200 mn. Also, the company plans to invest Rs 150-250 mn in IT equipments per annum over the next three years.

Thus, we expect a total capex of ~Rs 1.5 bn over the next three years. Due to this, the depreciation will increase to 7.9% of total revenue in FY12 from 7.2% in FY10.

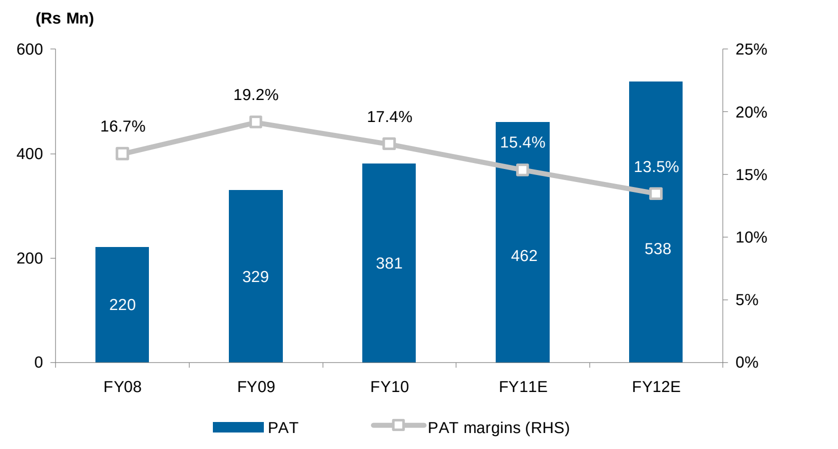
The capex is expected to be partly financed by debt as the company may not generate sufficient operating cash flows in FY11 and FY12. We expect the company to raise debt of ~Rs 500 mn over the next two years resulting in an 84% increase in the annual interest cost to Rs 85 mn in FY12 from Rs 46 mn.

PAT margins to decline due to lower EBITDA margin and higher depreciation and interest

PAT to grow at a two-year CAGR of 18.8% to Rs 538 mn in FY12

However, we expect PAT margin to decline to 13.5% in FY12 from 17.4% in FY10. This decline can be attributed to the decline in EBITDA margin, increase in the interest and depreciation expenses. Also, the effective tax rate is expected to increase to 23% in FY12 from 22% in FY10 which will further reduce the PAT margin.

Figure 3: Trend in PAT margins



Source: Company, CRISIL Equities

RoE to decline due to a fall in PAT margin

Average RoE of ~23% in FY11-FY12

The promoters of Omnitech converted 7,19,210 warrants in FY10 due to which the RoE declined to 25.8% from 32.3% in FY09. Going forward, we forecast the RoE to further fall to 23.8% in FY11 and to 22.3% in FY12 mainly due to lower PAT margin.

Management Evaluation

CRISIL's fundamental grading methodology includes a broad assessment of the management quality, apart from other key factors such as industry and business prospects, and financial performance. Overall, we believe the management is fairly good with a reasonable risk appetite.

Fairly experienced management

Promoters have more than two decades of experience in the IT industry

Omnitech's promoters Mr Atul Hemani and Mr Avinash Pitale hold the top management positions; Mr Hemani is the MD and also takes care of the finance vertical while Mr Pitale is the COO. Both were associated with the IT industry before starting Omnitech in 1987. The third promoter, Mr Devarshi Buch, joined the company in 1994 and has over 20 years of experience in the IT industry. He is the executive director and handles domestic sales in the area of system integration.

Management has a strong understanding of industry dynamics

The management has a strong understanding of the IT services industry. They have demonstrated strong service delivery due to which they have been able to retain a majority of their clients. The management is also very proactive in identifying opportunities like disaster recovery services. Omnitech is the only third party disaster recovery services provider in India other than IBM. Also, the company has made timely investments to tap the opportunities in remote infrastructure management.

Company is working towards a decentralised management structure

To manage the next level of growth, the company has implemented a decentralised management structure comprising professionals from the second line of management. Mr Anirudha Modak was recently recruited to head the domestic sales vertical. Mr Anurag Shah, who was previously responsible for the overall sales vertical, now heads only the international sales vertical. Based on our interaction with the company, we believe that the company has a good second line.

The company is in the process of recruiting a CFO

Recruitment of a CFO could be key for the next level of growth

Currently, in the absence of a CFO, the finance vertical of the company is managed by the MD. As the company continues to grow, we believe that it would need a competent CFO to better manage growth. While the company is in the process of recruiting a CFO, the same remains a monitorable.

Corporate Governance

The company maintains good corporate governance practices

CRISIL Equities' fundamental grading methodology includes a broad assessment of the corporate governance and management quality, apart from other key factors such as industry, business prospects and financial performance. In this context, CRISIL Equities analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing corporate governance.

Assessing the company's disclosure levels based on balance sheet disclosures, website information, etc., CRISIL Equities believes that Omnitech's corporate governance is at desired levels,

Board composition: The board consists of eight members and is headed by Mr Maganlal Hemani who is the non-executive chairman. The board consists of four independent directors including

- Dr Kalimohan Bhattacharya who has over 40 years of experience in the banking sector
- Mr Ram K. Mangal who has around 20 years of experience in the Indian IT industry. His last employment was as the Chief Technical Officer and Group Head of Kotak Mahindra Bank.
- Prof. Venkateshwaran H. Iyer who has about 30 years of experience in senior management positions of organisations including Larsen and Toubro Ltd and IBM.
- Mr Vasudev V. Kamath who has 40 years of experience in the banking sector. He was inducted on the board when Canbank Venture Capital Fund invested in Omnitech.

Board processes: Balance sheet disclosures indicate that all the processes relating to the committees are in place. The audit committee is chaired by an independent director – Dr Kalimohan J. Bhattacharya.

Three of the independent directors have been associated with the company from even before its IPO in 2007 and, therefore, have a fairly good understanding of the company's business and processes.

The auditors have changed in FY10: The company changed its auditors in FY10 to Shah Jadhavji & Co. after SEBI made it mandatory for listed companies to have an auditor with ICAI Peer Review Certificate from April 1, 2009. Prior to FY10, the auditors were Kothari and Kenia.

Valuation Grading — Grade: 3/5

We initiate coverage on Omnitech with a valuation grade of 3/5

CRISIL Equities believes that the discounted cash flow (DCF) method is the best method to value Omnitech considering the long-term growth in IT services. Based on this method, the fair value is Rs 270 per share. At this fair value, the implied P/E is 8.1x FY11 and 7x FY12 EPS. Consequently, we initiate coverage on Omnitech with a valuation grade of **'3/5'**, indicating that the current market price of the stock is **'aligned'** with our one-year fair value of Rs 270 per share.

Key components of our valuations

- We have considered the discounted value of the firm's estimated free cash flow from FY12 to FY20.
- We have assumed cost of equity at 16.0%, factoring in the small size of the company.
- Since we expect the debt-to-equity structure to change during the forecast period for cash flow, we have used a different WACC for each of the years. During the forecast period, as the debt proportion declines the WACC increases from 14.4% in FY11 to 16% in FY16 and remains at 16% levels thereafter.
- Terminal growth rate of 3%.
- Based on the above, we have arrived at a fair value of Rs 270.

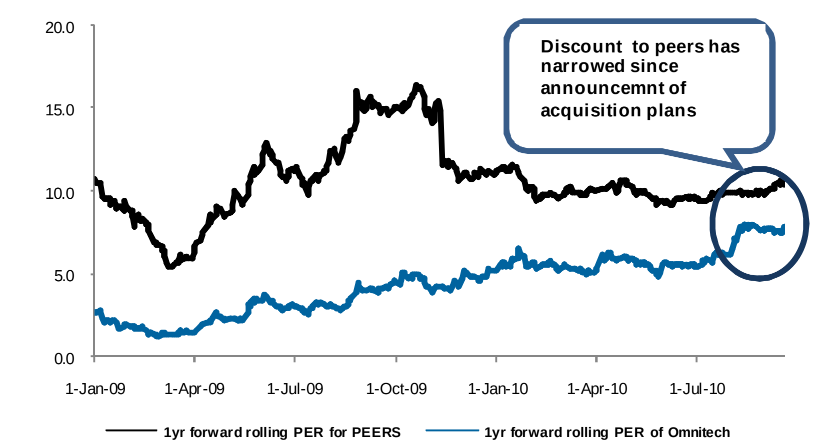
The average one-year rolling forward PER discount to peers has been declining

The stock has potential to trade at higher P/E

Since January 2009, Omnitech has traded at an average one-year rolling forward P/E of 3.2x, which has been at a ~70% discount to that of its peers including Allied Digital Services, CMC and HCL Infosystems. On the back of P/E expansion for Omnitech, this discount has been declining on the back of consistent q-o-q earnings growth. Since January 2010, Omnitech has traded at an average one-year rolling forward P/E of 6x, which is at a discount of 41% to its peers, who have traded at a one-year average rolling forward P/E of 10x.

For Omnitech, the one-year average rolling forward P/E has increased since August 2010 (7.6x since August 2, 2010) when the company announced its acquisition plans.

Figure 4: One-year rolling forward P/E peer comparison



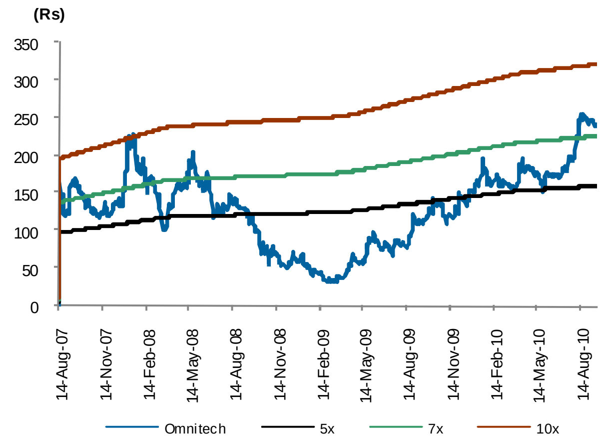
* Peers include Allied Digital Services, CMC and HCL Infosystems

Source: Prowess , CRISIL Equities

There remains a potential for further PER expansion

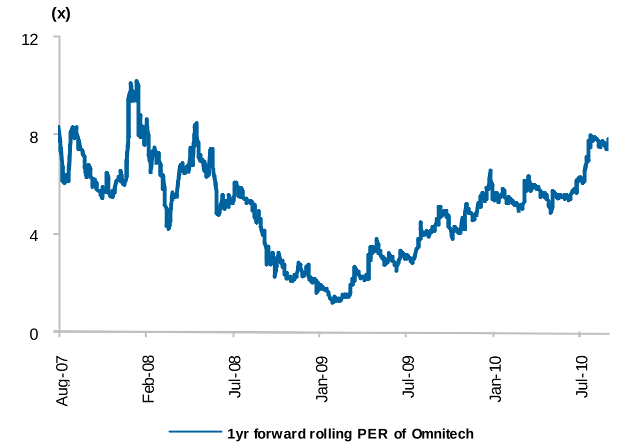
As Omnitech continues to demonstrate good earnings growth and also grows larger in size, we believe that the P/E discount to that of its peers should decrease. At our fair value of Rs 270 per share, the implied P/E is 7x FY12 EPS which would be at a 30% discount to average one-year rolling forward P/E of its peers. We believe that Omnitech's P/E could potentially expand further if the decline in EBITDA and PAT margins is lower than expected and if the company demonstrates strong capabilities to absorb inorganic growth. Both of these factors remain a key monitorable for us.

Figure 5: One-year rolling forward P/E trend



Source: Company, CRISIL Equities

Figure 6: One-year rolling forward P/E



Source: Company, CRISIL Equities

Acquisitions could stress earnings in the near term

Omnitech plans to acquire two companies in the international market which is an upside to its current earnings

The company plans to acquire two international companies by end-FY11. It has a very detailed and stringent selection process for the target companies (please refer to page no. 8) and we believe that these acquisitions will add to PAT but not to EPS. Our impact analysis of acquisitions on Omnitech's earnings factors in the following:

- For FY12, we have assumed the same revenue of the target companies as in FY10
- The target companies have EBITDA and PAT margins which are at least 1/4th of Omnitech's FY10 EBITDA and PAT (excluding interest cost) margins. We have analysed how Omnitech's earnings accretion changes with a change in EBITDA and PAT margins of the target companies. The assumptions for the same are:
  - Case 1 – EBITDA and PAT margins are 1/4th of Omnitech's FY10 EBITDA and PAT (excluding interest cost) margins
  - Case 2 –EBITDA and PAT margins are 1/2 of Omnitech's FY10 EBITDA and PAT (excluding interest cost) margins
  - Case 3 –EBITDA and PAT margins are 3/4th of Omnitech's FY10 EBITDA and PAT (excluding interest cost) margins
- No incremental benefits from offshoring of services

Table 11: Scenario analysis of the US and Europe acquisitions

	US Acquisition			Europe Acquisition			US and Europe Acquisitions		
	Case-1	Case-2	Case-3	Case-1	Case-2	Case-3	Case-1	Case-2	Case-3
Revenue (US$ mn)	20	20	20	15	15	15	35	35	35
EBITDA margin	7.7%	15.5%	23.2%	7.7%	15.5%	23.2%	7.7%	15.5%	23.2%
EBITDA (US$ mn)	1.5	3.1	4.6	1.2	2.3	3.5	2.7	5.4	8.1
PAT margin	4.7%	9.4%	14.2%	4.7%	9.4%	14.2%	4.7%	9.4%	14.2%
PAT (US$ mn)	0.9	1.9	2.8	0.7	1.4	2.1	1.7	3.3	5.0
PAT (Rs mn, US$/INR exchange rate of 43.2 for FY12)	40.8	81.5	122.3	30.6	61.1	91.7	71.3	142.7	214.0

Source: CRISIL Equities, CCER

We expect Omnitech to have net debt:equity of 0.3x in FY12. The company has a line-of-credit of US$ 20 mn. It also has the board approval to raise up to US$ 50 mn through the issue of convertible securities. Though these factors give enough room to raise debt, based on Omnitech's track record of equity infusion to fund growth and our interaction with the company, we do not expect it to be aggressive in increasing its financial leverage.

Our interaction with the company suggests that Omnitech is like to pay ~0.7x of the revenue for the European acquisition and ~1.2x for the US acquisition, as the latter has higher EBITDA margin than the former. Based on these assumptions, the cost of the two acquisitions is expected to be ~US$ 37.5 mn or Rs 1,695 mn (at a FY11 FX rate of Rs 45.2). We do not expect Omnitech to raise the entire amount in debt as it would increase the net debt:equity to 0.9x in FY12. Similarly, equity issuance for the entire amount will lead to substantial equity dilution as Omnitech's current market capitalisation is Rs 3,510 mn.

We have analysed the impact of three funding options:

- Option 1 - 100% funding through debt
- Option 2 - 50% funding through debt, 50% through equity
- Option 3 - 100% funding through equity

We have analysed the impact of these funding options on Case-1 of the earnings of the target companies. In case of funding option 2, our analysis suggests that the two acquisitions could lead to dilution of 13.2% to Omnitech's FY12 EPS. We believe that the following factors could change the possible impact of earnings due to the acquisitions:

- Upside triggers
  - Revenue growth of target companies over FY10-FY12
  - Improvement in EBITDA margin of target companies through offshoring
- Downside triggers
  - Higher acquisition cost
  - Higher equity dilution due to correction in stock price

We believe that there are risks to earnings in the near term on account of inorganic growth which can potentially impact the stock in the near term.

Table 12: Options for funding acquisitions

	Option-1	Option-2	Option-3
Total cost of acquisition(US$ mn)	37.5	37.5	37.5
Present value of cost of acquisition (70% payment inFY11 and 30% in FY13 discounted at the rate of 16%)	34.6	34.6	34.6
Debt	100%	50%	0%
Equity	0%	50%	100%
Total amount of debt (US$ mn)	34.6	17.3	0.0
Interest cost (assumed loan in foreign currency at the rate of 6%)	6%	6%	6%
Total interest (US$ mn)	2.1	1.0	0.0
Total interest(Rs mn, US$/INR exchange rate Rs 43.2 for FY12)	90	45	0
Additional equity issued (US$ mn)	0	17	35
Additional equity issued (Rs mn, US$/INR exchange rate Rs 45.2 for FY11)	0	782	1564
Issue price (Rs, calculated based on weekly average of high/low on closing basis for two weeks ending 17th September 2010)	244	244	244
Additional equity shares issued (mn)	0.0	3.2	6.4
Post issue dilution (%)	0%	19%	32%
PAT from target companies adjusted for post tax interest cost (Rs mn)	2.3	36.8	71.3
Total shares outstanding (mn, post dilution)	13.9	17.1	20.3
Incremental EPS from acquisitions (Rs)	0.2	2.2	3.5
Total EPS with acquisition (Rs, adjusted for equity dilution)	39.0	33.7	30.0
Core FY12 EPS (Rs)	38.8	38.8	38.8
Difference compared to core FY12 EPS (Rs)	0.4%	-13.2%	-22.6%

Source: CRISIL Equities, CCER

Table 13: Peer comparison

	Market Cap.	Revenue (Rs mn)			EPS (Rs)			PER (x)			Price / book (x)			RoE (%)		
Companies	**(Rs mn)**	**FY10**	**FY11E**	**FY12E**	**FY10**	**FY11E**	**FY12E**	**FY10**	**FY11E**	**FY12E**	**FY10**	**FY11E**	**FY12E**	**FY10**	**FY11E**	**FY12E**
Omnitech Infosolutions Ltd. (CRISIL Research estimates)	3,510	2,184	3,001	3,996	27	33	37	9.2	7.6	6.5	1.9	1.5	1.3	25.8	23.8	21.9
Consensus estimates																
Mid-cap companies																
CMC Ltd	27,406	8,707	10,952	13,690	95	135	158	19	13	11	5	NA	NA	31.2	NA	NA
Allied Digital Services Ltd	11,213	6,975	8,445	10,202	26	30	35	9	8	7	NA	1	1	NA	20.3	19.4
HCL Infosystems Ltd	26,971	120,498	124,456	139,303	12	13	14	10	10	9	NA	2	1	NA	17.0	18.4
Patni Computer Systems Ltd	58,535	31,461	32,341	36,885	46	41	42	10	11	11	2	1	1	18.4	14.7	13.3
Mindtree Ltd	20,306	12,960	14,988	18,041	55	33	50	9	16	10	3	2	2	35.2	17.7	22.7
Mphasis Ltd	134,254	42,639	49,264	58,601	12	50	52	52	13	12	6	3	3	51.9	36.7	30.1
Large-cap companies																
Infosys Technologies Ltd	1,704,572	227,420	268,994	319,816	110	122	144	27	24	21	7	6	5	30.3	26.4	26.3
TCS Ltd	1,788,509	300,289	353,966	417,462	36	41	46	26	22	20	10	7	6	41.1	34.0	31.3
Wipro Ltd	1,030,020	272,129	313,504	367,054	19	22	24	22	19	17	6	4	4	29.1	24.6	23.3
HCL Technologies Ltd	284,766	121,363	150,293	177,382	19	25	30	22	17	14	5	3	3	22.4	22.3	22.8
Cognizant (US$)	19,290	3,279	4,312	5,473	2	2	3	35	27	23	6	6	5	23.2	23.4	22.8

Source: Company, industry sources, CRISIL Equities

Company Overview

Omnitech is a mid-tier IT services company focused on SMEs

Omnitech was incorporated in 1987 as a third party IT hardware service provider and computer assembling company. It later ventured into IT products and services. It acquired Edventure Systems Inc., a performance management service provider, in 2006. The company got listed on the Bombay Stock Exchange and the National Stock Exchange in August 2007 through an IPO of Rs 350 mn.

It added business continuity services to its portfolio of offerings in 2008. Currently, its main service offerings include infrastructure management, application development, system integration, performance management and software testing services.

Over the years, Omnitech has concentrated on local SMEs. The domestic market accounts for ~79% of its revenues. The remaining come from Europe, Middle East, the US, Japan and Canada. The BFSI sector contributes ~50% of Omnitech's revenues followed by manufacturing and IT & ITES, which contribute 20% and 19%, respectively.

Omnitech has 1,080 support centres across India and disaster recovery centres located in Hyderabad and Navi Mumbai.

Table 14: Milestones

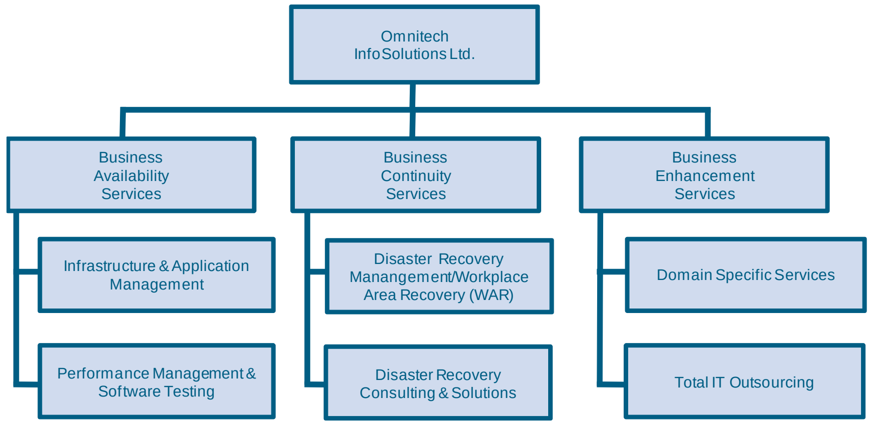
1987	Business started as a partnership firm by Mr Atul Hemani and Mr Avinash Pitale
1990	Omnitech Business Machines Pvt. Ltd was incorporated
1996	The company introduced facility management services
2000	The company launched software development lab facility at the Navi Mumbai office
2001	It received ISO 9001:2000 certification
2006	The company acquired Edventure Systems Inc. , a performance management services and software testing company The company launched NOC and Technology Centre
2007	The company raised Rs 350 mn through an IPO
2008	Omnitech launched its first disaster recovery centre at Navi Mumbai
2009	The company opened second disaster recovery centre at Hyderabad and became India's first company to have a multi-location DR sites The company established a JV in Singapore with Attiva Services Pte Ltd The company formed a wholly-owned subsidiary in the Netherlands
2010	Omnitech entered into a partnership with EIS, a Rogers group company to offer DR/BCP services in Africa and Mauritius The company received ISO 20000 (ITIL Framework), ISO 27001 (data security) and BS 25999 (business continuity) certification

Source: Company

Business Overview

Omnitech's service offerings are broadly classified into business availability services, business continuity services and system integration.

Chart 1: Business segments



Source: Company, CRISIL Equities

Business availability services

Infrastructure management services and application management services
Infrastructure management services include all the services that are related to monitoring and managing the IT infrastructure. Infrastructure management services offered through an offshore location are called remote infrastructure management services. Omnitech has been offering managed services to its offshore clients called remote infrastructure management services (RIMS).

Application management services include consulting, development and maintenance of customer specific applications.

Performance management and software testing services
This segment involves testing an application to check whether it sustains itself under various loads with regards to concurrent usage, database performance and response to queries, speed, response, etc. Software testing is the process of testing coded software to ensure it is complete, correct and conforms to quality standards. Omnitech acquired this line of business through the acquisition of Edventure Systems Inc. in 2006.

Business continuity services

Business continuity is a management process that provides a framework to ensure the resilience of customer business to any eventuality, to help ensure continuity of service to key customers and the protection of brand and reputation. It provides a basis for planning to ensure their long-term survivability following a disruptive event.

Disaster recovery management services/ workplace area recovery services involve replicating the client's IT systems and making them available quickly in case the client is unable to access his IT systems. They include relocation and safe storage of all critical data in the form of tapes, disks and documents in alternate locations and ability to access that data from a workplace.

Data centre services help the client with the challenges faced due to multiple IT platforms and environments. They also ensure safekeeping of data in the form of disks, tapes and documents in a temperature- and humidity-controlled environment.

Disaster recovery consulting and solutions involves preparation of client's disaster recovery plans based on his existing IT processes and policies. This plan is then audited at periodic intervals to test its uptime and reliability.

Business enhancement services

As a part of its managed services offering, Omnitech provides services like domain specific services, total IT outsourcing etc.

Annexure: Financials

Income Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Net sales	1,320	1,716	2,184	3,001	3,996
Operating Income	**1,320**	**1,718**	**2,185**	**3,001**	**3,996**
EBITDA	**352**	**528**	**676**	**887**	**1,089**
Depreciation	37	80	157	238	316
Interest	25	38	46	62	87
Other Income	10	20	13	5	12
PBT	**300**	**431**	**485**	**592**	**698**
PAT	**256**	**344**	**381**	**462**	**538**
No. of shares	13.1	13.1	13.9	13.9	13.9
Earnings per share (EPS)	**19.5**	**26.2**	**27.5**	**33.3**	**38.8**

Balance Sheet

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Equity capital (FV - Rs 10)	131	131	139	139	139
Reserves and surplus	767	1,102	1,584	2,021	2,535
Debt	186	334	439	688	963
Current Liabilities and Provisions	115	186	328	471	648
Deferred Tax Liability/(Asset)	28	66	90	90	90
Minority Interest	-	-	-	-	-
Capital Employed	**1,228**	**1,819**	**2,580**	**3,410**	**4,375**
Net Fixed Assets	396	678	1,225	1,437	1,771
Capital WIP	100	79	139	289	289
Intangible assets	-	-	-	-	-
Investments	221	137	1	1	1
Loans and advances	47	166	356	488	650
Inventory	59	140	287	370	459
Receivables	355	589	530	740	1,040
Cash & Bank Balance	50	29	43	85	165
Applications of Funds	**1,228**	**1,819**	**2,580**	**3,410**	**4,375**

Cash Flow

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	300	431	485	592	698
Total tax paid	(37)	(49)	(85)	(130)	(161)
Depreciation	37	80	157	238	316
Change in working capital	(98)	(362)	(135)	(283)	(375)
Cash flow from operating activities	**203**	**99**	**422**	**417**	**479**
Capital expenditure	(337)	(342)	(763)	(600)	(650)
Investments and others	(211)	84	137	-	-
Cash flow from investing activities	**(549)**	**(258)**	**(626)**	**(600)**	**(650)**
Equity raised/(repaid)	358	-	119	(0)	-
Debt raised/(repaid)	50	148	105	249	275
Dividend (incl. tax)	(18)	(18)	(24)	(24)	(24)
Others (incl extra ordinaries)	(2)	9	18	-	-
Cash flow from financing activities	**387**	**139**	**218**	**225**	**251**
Change in cash position	**41**	**(20)**	**14**	**42**	**79**
Opening Cash	8	50	29	43	85
Closing Cash	50	29	44	85	165

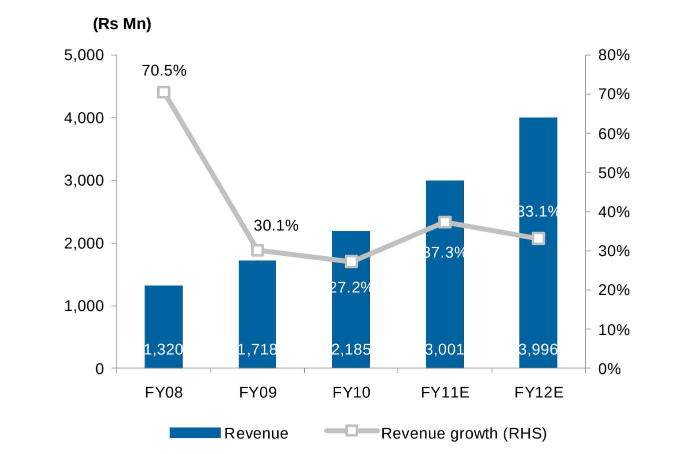
Ratios

Ratios	FY08	FY09	FY10	FY11E	FY12E
Growth ratios					
Sales growth (%)	70.5	30.1	27.2	37.3	33.1
EBITDA growth (%)	99.0	50.1	27.9	31.2	22.8
EPS growth (%)	29.3	49.8	9.6	21.2	16.5
Profitability Ratios					
EBITDA Margin (%)	26.7	30.8	30.9	29.5	27.2
PAT Margin (%)	19.4	20.0	17.4	15.4	13.5
Return on Capital Employed (RoCE) (%)	41.3	33.9	27.8	25.9	23.8
Return on equity (RoE) (%)	42.6	32.3	25.8	23.8	22.3
Dividend and Earnings					
Dividend per share (Rs)	1.2	1.2	1.5	1.5	1.5
Dividend payout ratio (%)	7.2	4.8	5.5	4.5	3.9
Dividend yield (%)	0.9	3.2	0.9	0.6	0.6
Earnings Per Share (Rs)	19.5	26.2	27.5	33.3	38.8
Efficiency ratios					
Asset Turnover (Sales/GFA)	3.3x	2.5x	1.8x	1.7x	1.7x
Asset Turnover (Sales/NFA)	4.5x	3.2x	2.3x	2.3x	2.5x
Sales/Working Capital	4.4x	3.3x	2.8x	3.0x	3.0x
Financial stability					
Net Debt-equity	-0.1	0.1	0.2	0.3	0.3
Interest Coverage	12.8	11.8	11.2	10.4	8.9
Current Ratio	6.1	5.7	3.7	3.6	3.6
Valuation Multiples					
Price-earnings	6.6x	1.4x	5.9x	7.6x	6.5x
Price-book	1.9x	0.4x	1.3x	1.6x	1.3x
EV/EBITDA	4.6x	1.3x	3.9x	4.6x	4.0x

Source: Company, CRISIL Equities estimates

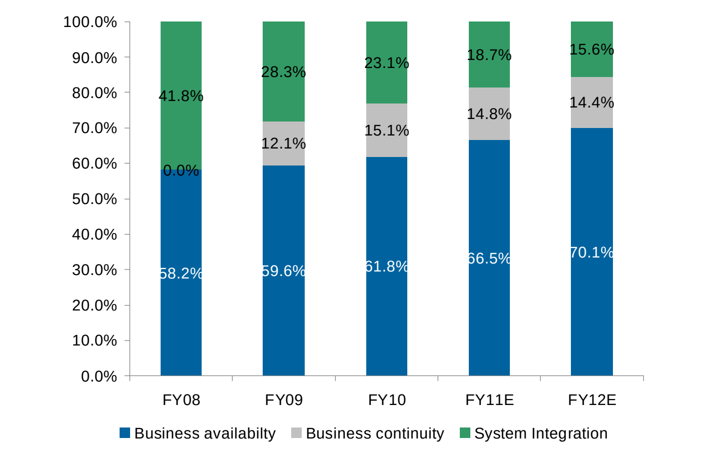
Focus Charts

Revenue and revenue growth



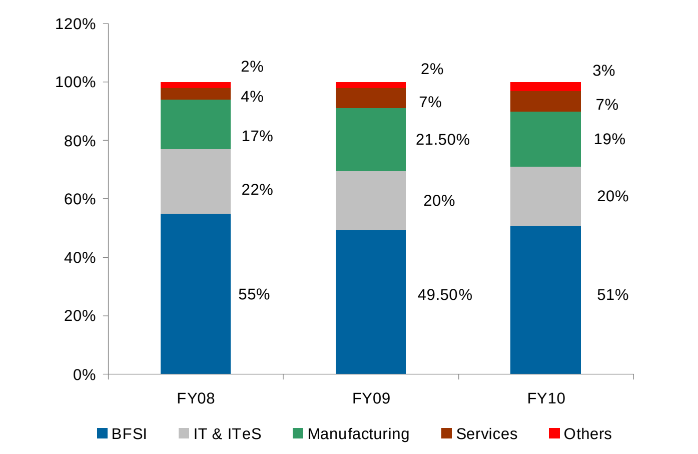
Source: Company, CRISIL Equities

Business segment-wise revenue contribution



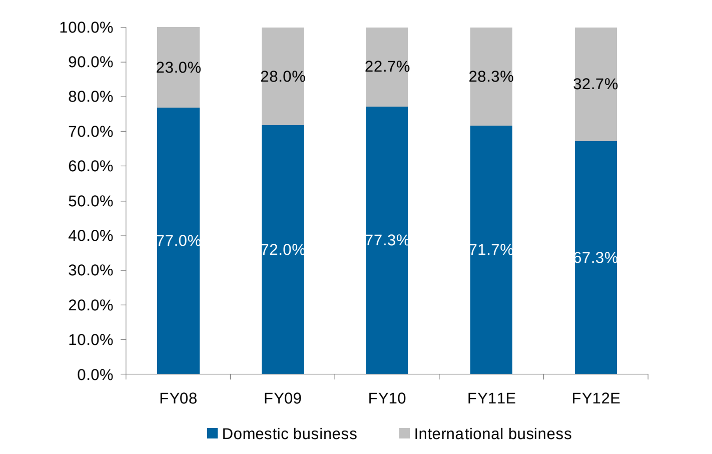
Source: Company, CRISIL Equities

Industry-wise revenue contribution



Source: Company

Contribution by domestic and international businesses



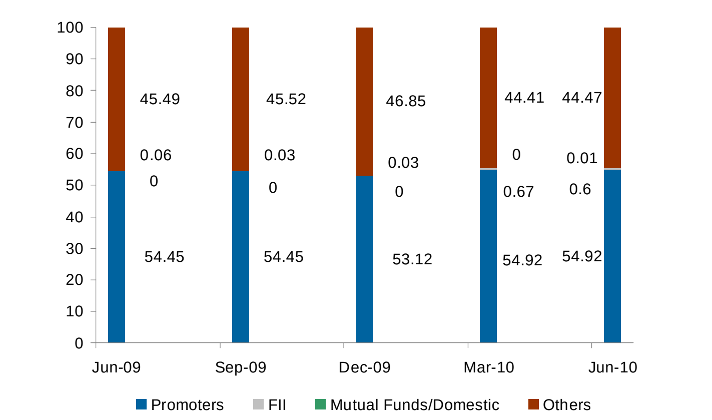
Source: Company, CRISIL Equities

Omnitech's returns since 14 August 2007

(Rs)	14-Aug-07	FY08	FY09	FY10
Shares Bought	100			
Price per share	163.4			
Investment made	16340			
Dividend per share	0	1.2	1.2	1.5
Total dividend income	0	120	120	150
Current market price	253			
Total return	9375			
Total return	57.4%			
Holding period - Years	3.09			
Yearly return	15.8%			

Source: Company, CRISIL Equities

Shareholding pattern as of June 2010



Source: Company

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