

IT / ITes
E-learning
Equity – India

Firstobject Technologies Limited

Robust growth outlook, Emerging Story :

Robust sales growth (110%), EBITDA margin and Stronger Q2 PAT. All round Performance. Interesting foray into e-education to shore up domestic market.

While we expect normal earnings jump by 30-50% in FY11-12, the e-education market factor can pack in tremendous surprise element. The surprise factor can elevate the CAGR during FY11-13 multifold times.

Remain Positive with new TP of INR165 (roll fwd to FY12, was INR 80). Inorganic growth strategy / E Learning foray and jump in top line and leverage through export earnings and domestic markets are potential re-rating catalysts.

Earnings much above our estimate. Firstobject has reported Q2 FY11 earnings of INR 110.53mn, 30% higher than our estimate. This was mainly on account of 1) sales at INR110.53mn grew by an awesome 110% vs. our estimate of INR 85.00mn, and 2) Net Profit jumped by 257% as FTL could convert more clients overseas and has successfully booked revenues on its new foray into e-education. More is to be seen from the new foray in the coming days.

Low leverage and diversified operations. FTL has a remarkably clean balance sheet. The new look and dynamic team, has not only turned around the look and feel of the company but also the sagging morales. New ideas and new initiatives have worked in favour of the management. The company has been awarded by Recognitions / accolades for its sustained performance. The company has shown much maturity in diversifying into new areas as well as new locations. Near term prospects look bright and long term growth is reflected.

Strategies for organic and inorganic growth in place, we expect minimum robust 23.33% CAGR in topline during FY10-12. There are hardly any hindrances affecting the Revenue growth as company has factored in strong Organic and Inorganic plans, which can allow its Revenue to grow by 23.33% CAGR and the bottomline of the company is expected to grow by 68.15% CAGR during the same period FY10-12.

Raise TP to INR165 from INR80 (roll fwd to FY12). Our target price factors in both the IT/ ITes business and e learning business. FTL PE when compared with other peers in the IT and educational business at 7.90x is much lower. This makes the script attractive. The book value suggests that the share is grossly undervalued and underestimated.

Catalysts: Inorganic growth strategies and a 'Have arrived to stay' knock at the doors of domestic Educational markets.

Valuation snapshot on Standalone basis

	Sales (Rs in mn)	EBITDA margin	PAT (Rs in mn)	EPS (Rs)	EPS growth	PE (x)	ROE
FY 09a	178.90	17.53%	16.51	0.09	255%	5.91	6.18%
FY10a	249.35	20.87%	22.99	1.20	1292%	22.99	9.21%
FY11e	341.50	23.44%	71.30	3.56	197%	7.90	21.64%
FY12e	467.77	25.95%	109.31	5.46	53%	5.15	24.91%

Source: Company data, BSE AND Research house estim

MULTIBAGGER

Target price (INR) 165
Share price (INR) 28.15
30th October, 2010

Index^ BSE SENSEX
Scrip Code : 532379
Market cap (INRm) 560.00
Book value (INRm) 329.52
Free float (INRm) 470.00

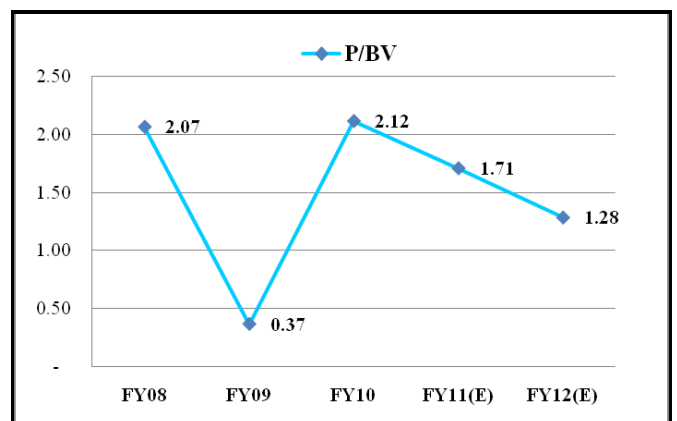
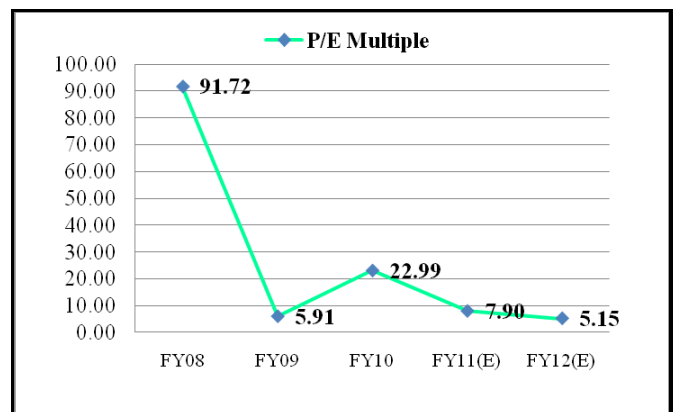
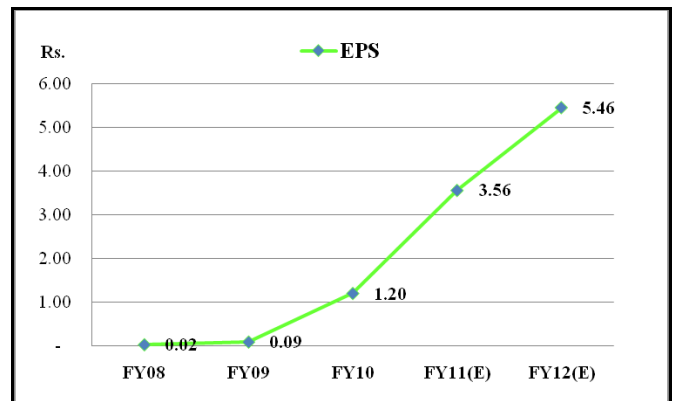
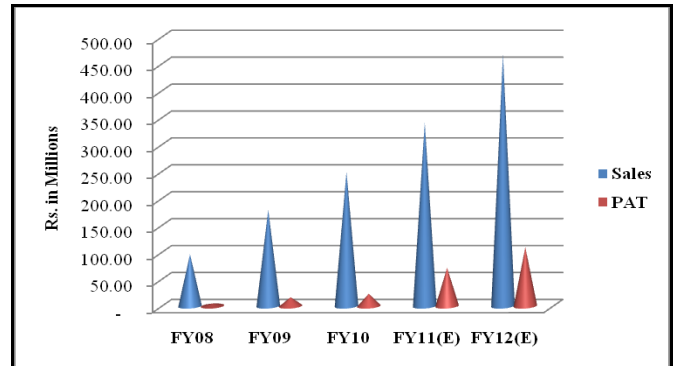
Vital Stats : Standalone

- For Quarter 2 Firstobject Technologies Limited achieved a revenue growth on YoY basis at 110% and Net Profit growth of 257% on a standalone basis.
- For Quarter 2, Revenue growth on QoQ basis stood at 22% and Net Profit growth at 47%.
- The company shall register a Revenue growth CAGR of 23% and Profitability CAGR at 68% during FY 10-12.
- The company expects to achieve a turnover of Rs. 341.5mn in FY11(E) and Rs.467.77mn For FY12(E).
- The EPS of the company has increased considerably in FY10 and the growth is expected to be 197% in FY11 (E) and 53% in FY12(E).
- The shares of the company are traded at a PE of 7.90x, which is far below the industrial PE of 22.68x. The company is trading cheaper than its peers who are trading above PE of 30x.
- Over the years the Promoter Shareholding is registering an increase owing to the increase in their stake through Creeping Acquisitions.

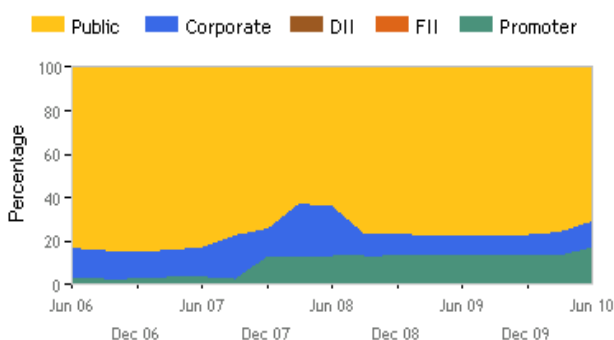
Valuation data on Standalone basis

Year to	03/2009a	03/2010a	03/2011e	03/2012e
Book Value	1.4	13.03	16.47	21.93
PE*	5.91	22.99	7.90	5.15
P/Book value	0.37	2.12	1.71	1.28

Note: * = Based on EPS



Ownership Pattern



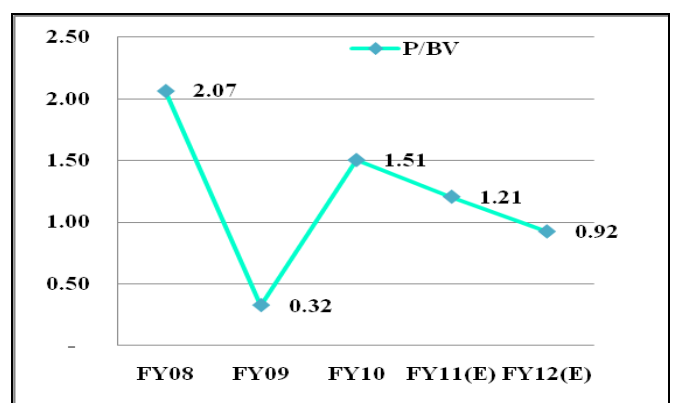
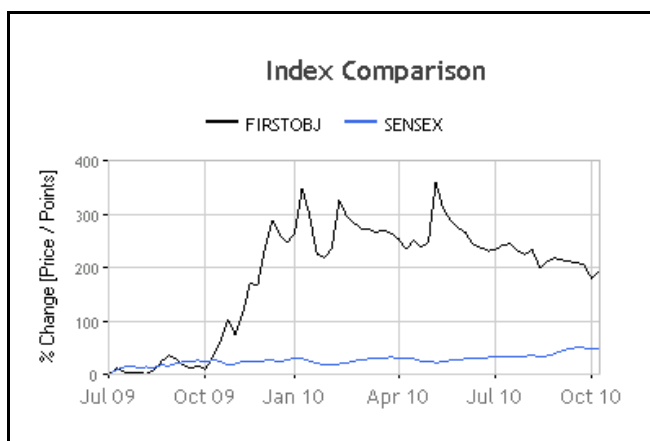
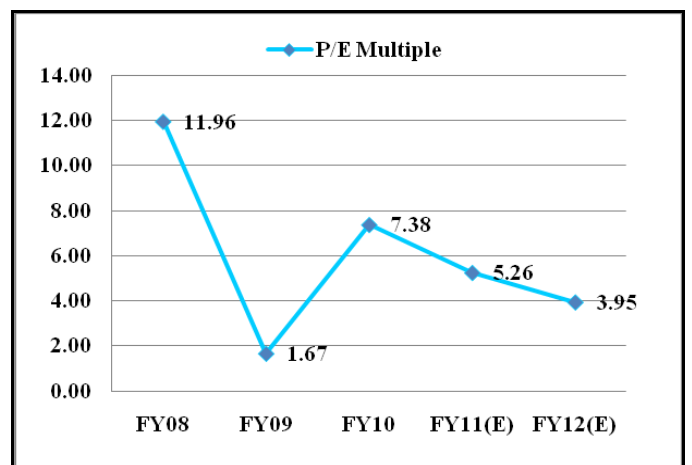
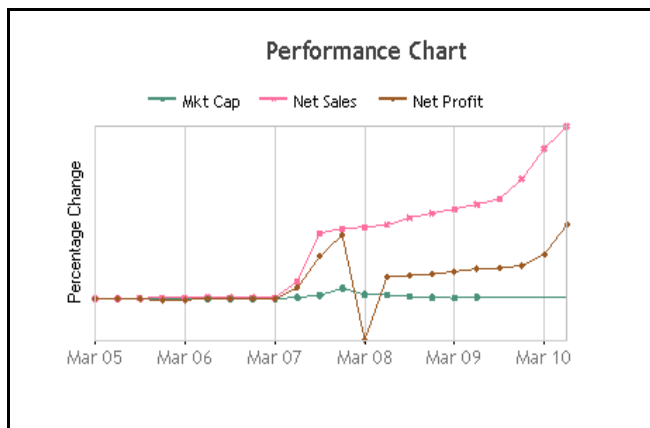
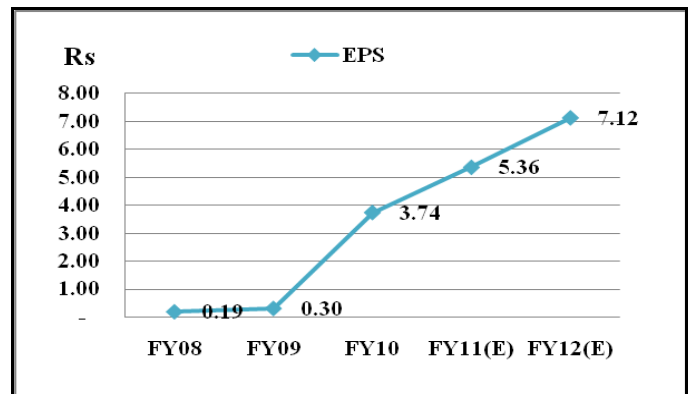
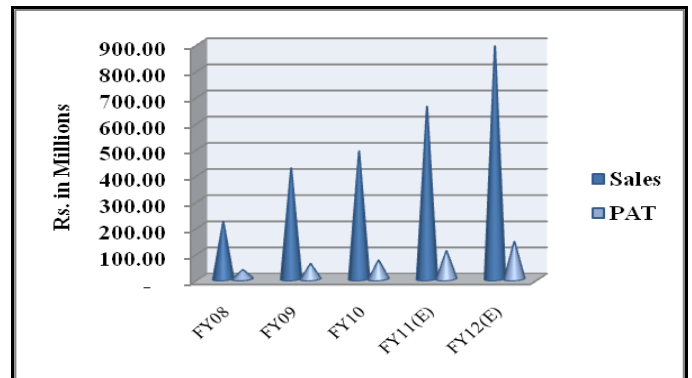
Vital Stats : Consolidated

- For Quarter 2 Firstobject Technologies Limited has achieved a revenue growth on YoY basis at 77% and Net Profit growth of 210% on a consolidated basis.
- For Quarter 2, Revenue growth on QoQ basis was 23% and Net Profit growth at 22%.
- The company shall register a Revenue growth CAGR of 22% and Profitability CAGR at 26%.
- The company expects to achieve a turnover of Rs. 660mn in FY11(E) and Rs.890mn For FY12(E).
- The EPS of the company has increased by a phenomenal 1126% in the FY10. The growth is expected to be 43% for FY11 (E) and 33% for FY12(E).

Valuation data on Consolidated basis

Year to	03/2009a	03/2010a	03/2011e	03/2012e
Book Value	1.57	18.33	23.32	30.45
PE*	1.67	7.38	5.26	3.95
P/Book value	0.32	1.51	1.21	0.92

Note: * = Based on EPS after Minority Interest



Firstobject Technologies Ltd.

Q2 FY11 earnings update (on Standalone basis) :

Particulars	Q2 (FY11)	Q1 (FY11)	2009-2010				Q on Q	Y on Y
			Q4	Q3	Q2	Q1		
(In Rs. Millions)								
Revenue	110.53	90.67	78.70	62.94	52.45	49.58	21.90%	110.73%
Other Income	-	-	-	-	-	-	-	-
Total Income	110.53	90.67	78.70	62.94	52.45	49.58	21.90%	43.68%
Expenditure	88.77	76.47	69.60	55.70	45.68	42.89	16.08%	30.94%
EBITDA	21.76	14.20	9.10	7.24	6.77	6.69	53.24%	127.75%
Depreciation	3.39	1.72	1.60	1.62	1.62	1.62	97.09%	-52.98%
EBIT	18.37	12.48	7.50	5.62	5.15	5.07	47.20%	197.75%
Interest	-	-	-	-	-	-	-	-
PBT	18.37	12.48	7.50	5.62	5.15	5.07	47.20%	101.28%
Tax	-	-	-	-	-	-	-	-
PAT	18.37	12.48	7.50	5.62	5.15	5.07	47.20%	39.65%
Equity	200.11	200.11	191.50	191.49	191.49	191.49	-	-
EPS	0.92	0.62	0.39	0.29	0.03	0.03	47.20%	1296.41%

Q2 FY11 earnings update (on Consolidated basis) :

Particulars	Q2 (FY11)	Q1 (FY11)	2009-2010				Q-o-Q	Y-o-Y
			Q4	Q3	Q2	Q1		
(In Rs. Millions)								
Revenue	198.76	161.79	144.13	134.70	112.25	97.03	22.85%	77.07%
Other Income	-	-	-	-	-	-	-	-
Total Income	198.76	161.79	144.13	134.70	112.25	97.03	22.85%	77.07%
Expenditure	125.59	104.86	93.78	106.41	89.07	76.65	19.77%	41.00%
EBITDA	73.17	56.93	50.35	28.29	23.18	20.38	28.53%	215.66%
Depreciation	6.32	2.08	1.62	1.62	1.62	1.62	203.85%	290.12%
EBIT	66.85	54.85	48.73	26.67	21.56	18.76	21.88%	210.06%
Interest	-	-	-	-	-	-	-	-
PBT	66.85	54.85	48.73	26.67	21.56	18.76	21.88%	210.06%
Tax	-	-	-	-	-	-	-	-
PAT	66.85	54.85	48.73	26.67	21.56	18.76	21.88%	210.06%
Minority Interest	32.76	26.88	23.88	13.07	10.57	9.19	21.86%	209.90%
Profit after Minority Interest	34.09	27.97	24.85	13.60	10.99	9.57	21.89%	210.22%
Equity	200.11	200.11	191.49	191.49	191.50	191.50	-	-
EPS after Minority Interest	1.70	1.40	1.30	0.71	0.11	0.10	21.89%	1413.29%

Looking Forward :

We feel that Firstobject is at the present moment in its pink of health. It has a strong list of clients, who have not only repeated their orders but also supported them during the worst crisis faced by IT and software companies between 2007-09.

The company has jumped into the highly lucrative industry of e-Education or e-Learning. The industry is still a sunrise industry with the sky as the limit as far as earnings or growth potential is concerned. The margins have been showing marked increase on a YoY basis. The e-Learning and Research Business as per industry average offers excellent margins. Firstobject, according to its key management personnel wishes to cater to the masses.

The existing IT/ITES business has been registering strong organic growth. FTL is eyeing a few government orders like Core Projects grabbed, to register a phenomenal upswing in its revenues.

Widening Reach :

Firstobject Technologies Ltd has increased its geographic footprints and manpower in the FY10-11. The company has opened 2 branch offices in a) Kakinada STPI and b)Visakhapatnam SEZ. This measure has helped the management ramp up its operations as well as made it eligible for Tax planning. The company has plans to increase its stake on a gradual basis by way of Creeping Acquisition. The promoters are passionate about their Investments and wish to make the company a household name in the years to come.

Investment summary

We maintain a Positive rating with a Target Price of INR 165:

Firstobject Technologies Limited is a small-size IT/ ITES and Software Company. It has done remarkably well with its array of ERP product suites. The company has a predominant export turnover of approximately 25crores. The Organic growth of FTL has been tremendous. The company's research division already is a well known name among the Institutional who's who. The Research division has a diverse subscription base of both Retail as well as Institutional clientele.

Firstobject's foray into e-education space makes it a good bet as the company diversified into the area of Web-Enabled Interactive Learning Solutions in order to offer complete educational support solutions to the student fraternity by taking advantage of the company's existing expertise in technology, content building and course delivery.

We have maintained a Positive buy call for Firstobject Technologies for a medium to long term target of Rs. 165. The company has tremendous upside to achieve and very low downside. We recommend the investors to accumulate the stock for multifold wealth creation.

The Key Executive Team at Firstobject :

Dr. Vivek Hebbar, Chairman & Director : Dr. Vivek Hebbar is an MBBS and MD in Medicine and holds AIFH and DHA. He is one of the few medical professionals, who also holds an MBA degree.

Dr Hebbar, apart from being a well known cardiologist is also a marked Visionary. He not only has a good reputation but also very valuable business contacts. He is a true value addition to the company. His valuable experience and insights have helped strategising the company's Knowledge based Processing Services.

N. Shiva, Director : Mr. N. Shiva is a man of few words. He is an Engineer by vocation. He was the founder of the erstwhile ICICI Infotech Limited, which is now known as 3I Infotech Limited.

Mr. N Shiva has developed various leading softwares, which have set a trend in the industry. He is known in industry circles as a trendsetter. He has vast business contacts and business development skills apart from being an expert executioner.

He leads the overseas business strategy for the company under strategic alliance through Object Xperts Inc, USA.

Mr. P. Ramnath, Director : Mr. Ramnath has done MBA and has fifteen years of Experience in Finance and Banking. He has lead many financial closures for the expansion activities of businesses ranging from brick and mortar industry to information technology segment. He is a source of inspiration and provides guidance for the new business strategies of the Company.

Mr. J.S.Suryanarayana, Director : Mr. J.S.Suryanarayana who is a Commerce Graduate with Diploma in Computers, has more than 25 years of experience in international EXIM operations. His Practical and Pro-Active approach has played a stellar role in the company from the brink of its financial problems to induction of strategic partners in the business revival of the company. He currently plays the role of a Mentor.

Mr. P. Sailesh, Director : Mr. P. Sailesh is a Science Graduate with a Master in Marketing Management, he is a lead anchor and producer of various business shows on Door Darshan and Electronic Medias. With his experience and expertise, he navigates the Investor Relations strategy of the Company.

Mr. Sita Rama Sastry, Director : Mr. Sita Rama Sastry with his impeccable educational background holds M.Sc, PGDCA, and a Master in Business Administration. He is a meticulous strategist in business planning and execution, he provides the guidance for business strategy and execution at Firstobject.

Ms. CVSL Kameswari, Chief Operating Officer : Ms. CVSL Kameswari is a Topper in M.SC. She holds a Post Graduate Diploma in Computers and is currently pursuing Ph.D in Management under the Executive - Research Stream. She previously worked as a Research Associate with Leading Research Organisation in USA. She charts the day to day activities of the company with her varied experience and expertise.

Peer Group Comparison :

Company	CMP(Rs.)	Market Cap. (Rs.Mn.)	EPS*(Rs.)	P/E(x)
Firstobject Technologies (on standalone basis)	28.15	560.00	3.56	7.90
Educomp Solutions	550	52450.00	18.56	29.63
Everonn Education	660	9980.00	19.2	34.38

Note *: EPS is on Annualised Basis

Key risks :

Key upside risks, in our view, are higher order inflows or substantial increase in business volumes in the wake of company getting government order or heavy subscriptions to its education portals. **Key downside risks**, we believe, include key policy changes with regard to the outsourcing of works from the USA or European countries.

Conclusion :

We recommend a strong **BUY CALL** for a short term target of Rs. 71 with a medium term target of Rs. 110 and for a long term target of Rs. 165. At the current market price of Rs. 28.15 the stock trades at a P/E of 7.90 x on an annualised earnings of 2010-11 on a standalone basis, which is very cheap when compared with its peers. When we consider P/E of 20x for FY11 (E) we expect FTL to quote at Rs. 71 on standalone basis and for P/E of 30 x for FY12 (E) we expect price to be Rs. 165.00 on a standalone basis.

If Q2 results of 2010-11 is an indication of the growth momentum picked up by FTL the annualized EPS on standalone basis is expected to be Rs.3.56. Even if we take this as basis FTL is currently quoting at a P/E of 7.90, when compared to other peer group companies, we still feel that this company is undervalued. Hence a Strong buy recommendation.

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