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Tech Diamonds

OKAY, SO YOU MISSED INFOSYS, WIPRO, Satyam and all the rest when they were going cheap. Even if you didn't, rupee-multiplying investing (as opposed to the boring incremental sort) is really about spying the glitter of future success before everybody else does. So here we are—with a set of five probables for tomorrow's tech stardom. Infotech Enterprises, Blue Star Infotech, Geometric Software, KPIT Cummins Infosystems and Mphasis BFL Ltd.

The selection criteria? These are firms, first of all, that are in the tech domain, and thus sitting on increasing-returns-to-scale and all the other

wonders generic to the category. As the actual filter gate, though, we have picked firms that have a technological differentiator that gives them an edge in some market niche, and a proven record in scaling up capacity rapidly to address global opportunities. The following five meet the test, and are potentially high-growth firms that could outshine the rest over the years. Best of all, they're going cheap with mainly pre-teen P/E ratios. Check them out.

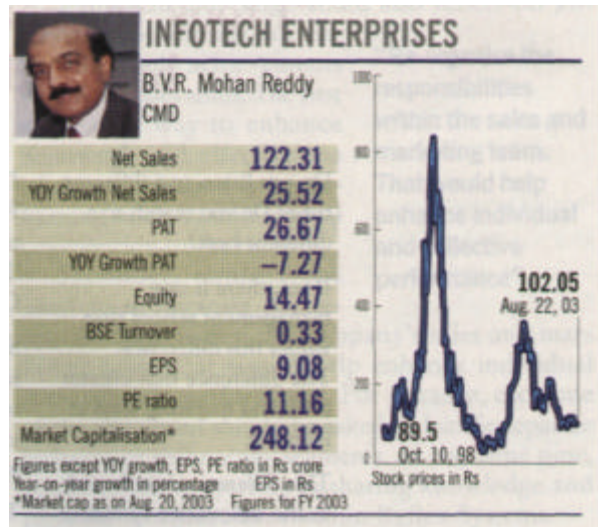
Infotech Enterprises

Started in 1992, this software firm started with a niche competence in geographical information systems (GIS). The GIS business, however, has suffered the US slowdown, to which the company has responded by ascending the value curve by offering GIS consultancy internationally. Says Mohan Krishna Reddy, CFO, Infotech Enterprises: "The pressure on margins was largely because anticipated sales did not happen due to shrinking of the GIS segment in the US. The billing rates as such haven't been affected."

For future growth, the firm is betting on domain expertise—through its association with Pratt & Whitney—in Engineering Design Services, particularly for automobiles, aerospace and engineering machinery processes. This shift has been in evi-

dence for some time now. "From 70 per cent of sales coming from CIS a couple of years back," says Reddy, "we now have just 30 per cent coming from that segment." Engineering services account for 30 per cent, and IT services the rest.

Rahul Dhawan, Research Analyst, SKP Securities, expects the firm to ramp up non-CIS capacity. "At the current price the company does offer value," he says, "and has the potential to fetch above average returns." Infotech Enterprises' 2005-06 revenue target: \$100 million (Rs 460 crore). Jigar Shah, Head of Research, K.R. Choksey Securities, is impressed with



the company's CIS value-additions, and is confident that the numbers will start to flash brighter soon: "The rear end growth should start happening in the second half of the current financial year."

Blue Star Infotech

Blue Star Infotech, part of the Rs 600-crore Blue Star Group, is the smallest of the companies on the list in terms of sales. The company is structured for big things, though. It operates in North America, Europe and Southeast Asia, offering software services. Its five main lines of business: Business Application Practice,

In The Dust

It's too late to get rich on the already-glamorous tech stocks, but you could still bet on some of the diamonds waiting to glitter. Here are five potentials.
BY SHILPA NAYAK

Global R&D, Banking, Financial Services & Insurance, Consulting Services Practice and System Integration Practice. It depends on Hewlett-Packard (HP), its predominant client, for more than a third of its revenue, but has relationships with other global clients too, many of them big names.

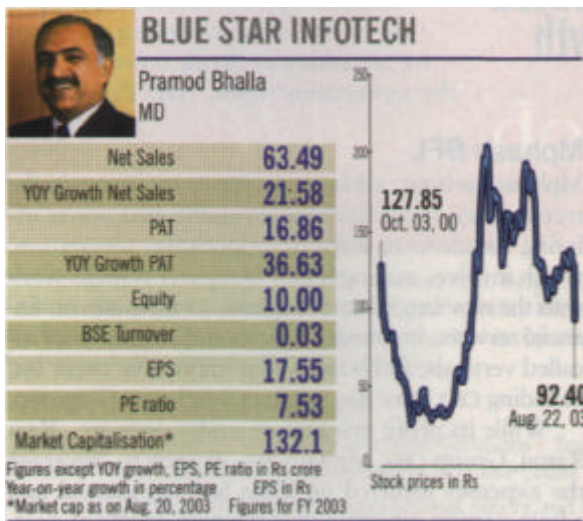
"Most of our deals are long term," boasts Sudhir Geera, Vice President (Marketing), Blue Star Infotech, "so there is not much pressure on billing rates."

The company expects growth to come from its niche areas of global R&D and consultative business services (including onsite consulting, packaged solutions

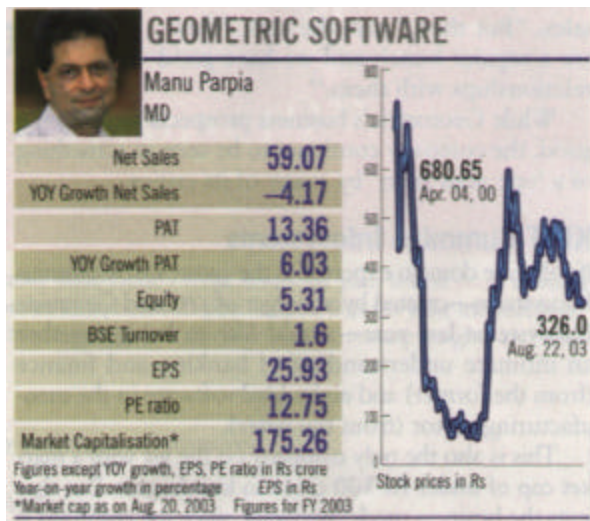
projected to decline steadily, though perhaps not the information-worthiness of the relationship.

Geometric Software

Geometric Software, another intensely specialised tech firm, is focused on product lifecycle management (PLM) services to the global mechanical design, manufacturing and industrial markets. The company claims special strength in complex PLM solutions for automotive, aerospace and other such hi-tech industries, and boasts of global associations with EDS and MatrixOne, apart from Dassault Systemes, with which

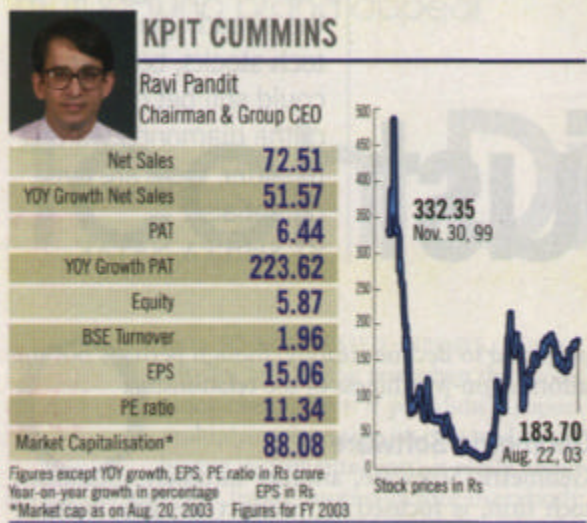


implementation and support, and IT outsourcing). Blue Star Infotech is also in the midst of a conceptual recast that could position it more clearly in customer mindspace. "We are looking at new geographies as well as consciously changing our style from conservative offshore, solutions-focused company into a consultative customer-centric company," adds Geera, proud of the orders just received from York International Corp and Hitachi Medical Corp. As far as 'derisking' goes, the company's HP dependence is



it has a 70:30 joint venture. Recent years' revenues and profits have not been all that 'geometric' so to speak. "The volumes didn't come through," concedes Manu Parpia, MD, Geometric Software. But there's no restraining the company's growth ambitions. The company has geared its resources to move into high-growth mode, as Shah of K.R. Choksey affirms. Otherwise, the game is to ramp up PLM capacity, while striking deals that offset the rupee appreciation factor.

Software claims special strength in complex PLM solutions



Parpia agrees that overdependence on the PLM sector alone poses a risk, but explains that in this era of super-specialisation, "not focusing on a niche too can be a big risk in itself. Another concern is the dependence on just five top clients for 70 per cent of sales. "But then," says the CEO, "they are a regular bunch and we have good relationships with them."

While Geometric's business prospects look good, the company continues to be seen as something of a 'one man army' by many of its critics.

KPIT Cummins Infosystems

If software domain expertise is the game, KPIT Cummins Infosystems—created by a merger of KPIT and Cummins Infosystems last year—would like to bring together an intimate understanding of banking and finance (from the former) and embedded software in the manufacturing sector (from the latter).

This is also the only company on the list with a market cap of under Rs 100 crore in late August. But that suits the business model perfectly, since the emphasis is more on competence establishment (the Cummins association obviously helps), before the big numbers are sought. "We prefer to get deeper into our niches that we specialise in," says Ravi Pandit, Chairman and group CEO, KPIT Cummins Infosystems, "than diversify into other areas for growth at this point in time."

The company provides end-to-end software development and maintenance services through three development centres in Pune, and global subsidiaries in the US, UK, UAE and Japan. According to Jigar Shah of K.R Choksey, the advent of intelligent gizmos makes embedded software a potentially vast field of opportunity. He adds, "The company is not only into development

The big challenge for Mphasis is to manage the anticipated growth

but also into maintenance." Shah reckons that the company would maintain revenue growth of 30 per cent for the next three years—making it a good long-term bet. Among the obvious risks: an appreciating rupee. "Tapping multiple markets, tight cost control, and moving up the value chain are measures we are taking to derisk ourselves from the appreciating rupee," says Pandit.

Mphasis BFL

Mphasis has been making waves for its BPO accent in the recent times, but it has been an established player offering solutions in software application integration, which involves making legacy computer systems work with the new fangled stuff. Mphasis concentrates on financial services, insurance, logistics and airlines as its so-called verticals, and boasts of an impressive client list, including CEO Jerry Rao's former employer, Citigroup.

While its profit margins are under pressure, Ravi Ramu, Group CFO, Mphasis BFL, expects to "leverage the expenses incurred on SG&A (selling, general and administration expenses) over the next couple of quarters". Also, a volume ramp-up ought to help, even as it hedges its forward dollar revenues to mitigate the affect of a strengthening rupee (a trend unlikely to be reversed soon, going by RBI's recent statements).

Msource, the BPO unit, distinguishes itself for its Spanish facility in Mexico. "Msource has the early mover advantage," says Surendra Goel, IT analyst, Motilal Oswal Securities, "The unit is also expected to turnaround in the current financial year." Strategically, adds Chetan Shah, IT Analyst, Quantum Securities, "The company has to decide between price and volume. But the biggest challenge, according to Ramu,