



HIDDEN GEMS

EQUITY RESEARCH REPORT

FIRSTOBJECT TECHNOLOGIES LTD

BSE CODE: 532379

Sector: IT & ITES

CMP: Rs 27.10 (09/05/2010)

Market Cap: 542.30

Target Price: Rs 100

Date: May 09, 2010

Time Period: 12 – 18 months



TABLE OF CONTENT

S.No	Content	Page No.
1.	Company Background	03
2.	Recent Developments	05
3.	Financial Performance (FY 2009-10)	07
4.	Charts & Graphs	09
5.	Peer Group Comparison	11
6.	Key Concerns	11
7.	Industry Overview	12
8.	Future Outlook	15
9.	Saral Gyan Recommendation	16

1. Company Background

Firstobject Technologies Limited (FTL) is a provider of integrated business, technology and process solutions on a global delivery platform. Since the financial year 2007-08, which they recognize as a turn around year, every initiative, every partnership and above all their project execution levels are built around solid base.

Firstobject as a management consulting, technology services and outsourcing company, combines unparalleled experience, comprehensive capabilities across all industries as well as business functions, and extensive research on the world's most successful companies. Firstobject Technologies collaborates with clients to help them become high-performance businesses.

Firstobject's "high performance business" strategy was built on their expertise in consulting, technology and outsourcing to help clients perform at the highest levels. Using their industry knowledge, service-offering expertise and technology capabilities, they identify new business and technology trends and develop solutions to help clients around the world. India, Middle East and USA IT business units of Firstobject offer a 360 degree service portfolio spanning the entire IT life cycle. This includes Consulting, Business Solutions, System Integration, Infrastructure, Application Management and Total Outsourcing services.

Business Area:

BPO Services:

The company acts as a fast growing, pure-play global business processor, providing complex industry specific processing services to blue chip customers

Knowledge Process Outsourcing (KPO):

Firstobject Technologies provides middle office and back office support to capital market arms of leading global banks, educational institutions, manufacturing giants and services companies. Firstobject customer-partners are all leaders in their respective industries and are included in top business enterprises.

Current customer services include data search programs, research report preparations, price monitoring and competitive analytics, financial contract risk management and data reconciliation services

Alliance Partners:

Object Xperts Inc, USA

Envoy Technologies Inc, USA

Millennium Care Inc., Canada

CommTEL Networks Pvt. Ltd., India

Joint Ventures:

1. Tractel Solutions, Inc.

The company has completed the acquisition of 51% of equity stake in Tractel Solutions, Inc. USA. Tractel is a mid-size Telecom Solutions Company with its focus on onsite and off-shore works spread across North America and India. The company has well reputed Telecom Clientele in USA. The 51% stake acquisition is going to provide inroad for the company in North American Markets for the telecom vertical. Tractel is an upcoming, "onsite and offshore telecom services company".

As a part of Firstobject's de-risking strategy for consistent revenues this acquisition is going to add stable returns from telecom vertical going forward.

2. Octant Interactive Technologies

The company has minority stake in Octant Interactive Technologies Limited. Whose, interactive technology based emergency medical care IPR's are awaiting the commercial launch on a grand scale and the company is poised for bidding High Value Contracts for these specialized services.

2. Recent Development

Forays into E-education:

As part of expansion and diversification strategy, Firstobject forays into e-Education . E-education entry of Firstobject comprises, Virtual classrooms that can be accessed from anywhere, with professional instructors functioning just like traditional education, diverse programs in a variety of disciplines, technical programs that provide real-time training, freedom to enhance skills, real-life application of classroom materials, greater comfort with interactive technologies.

Firstobject Technologies is all set to launch online education portals for Management and Law students. Currently both the websites are under development.

- i) First Business School >>> www.firstmanagementseries.com

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Good management is the art of making problems so interesting and their solutions so constructive that everyone wants to get to work and deal with them. Good management is the art of making problems so interesting and their solutions so constructive that everyone wants to get to work and deal with them."

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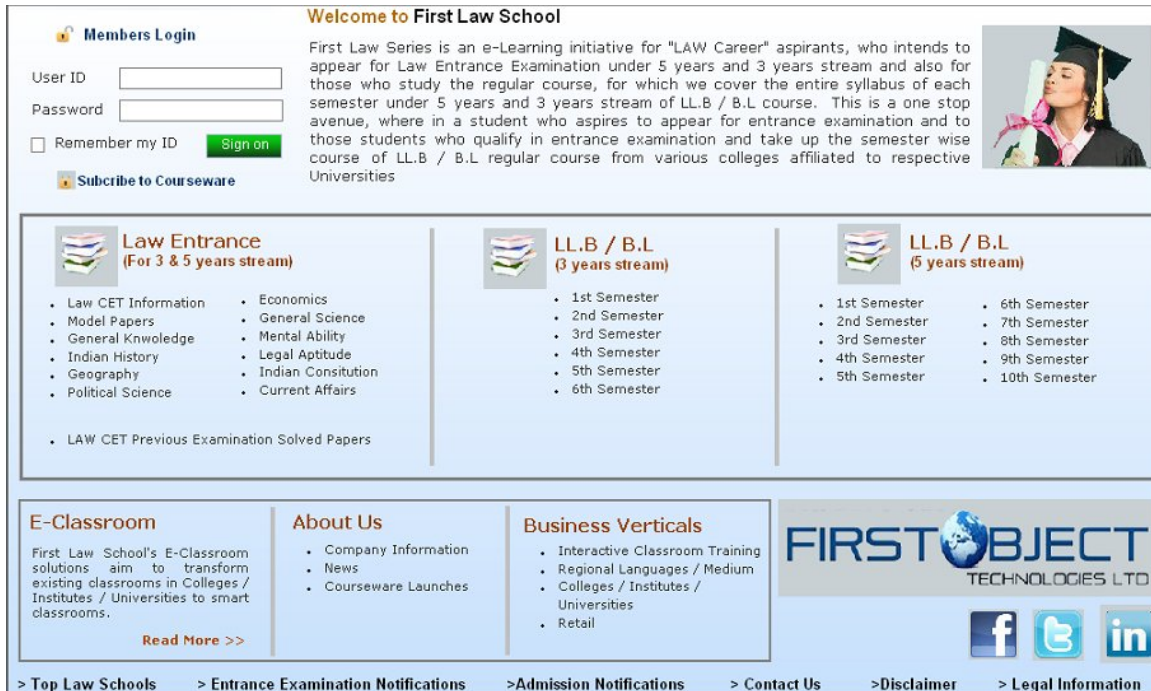
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- 4th Semester
- 5th Semester
- 6th Semester

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(5 years stream)

- 1st Semester
- 2nd Semester
- 3rd Semester
- 4th Semester
- 5th Semester
- 6th Semester
- 7th Semester
- 8th Semester
- 9th Semester
- 10th Semester

E-Classroom

First Law School's E-Classroom solutions aim to transform existing classrooms in Colleges / Institutes / Universities to smart classrooms.

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Online education is the fastest growing segment of the education field, Students are finding that they can improve their skills, finish their degrees, and improve their earning potential by taking classes from the comfort of home.

The Company has launched its KPO portal:

Company has launched equity research portal www.firstcallresearch.com on 1st Jan 2010. Professional experts of KPO division provide equity related research to its clients in the country and abroad. After the launch, KPO division of Firstobject Technologies has added many new clients in last four month and is doing well in terms of revenue growth.

The company commences operations at its 120 seater facility:

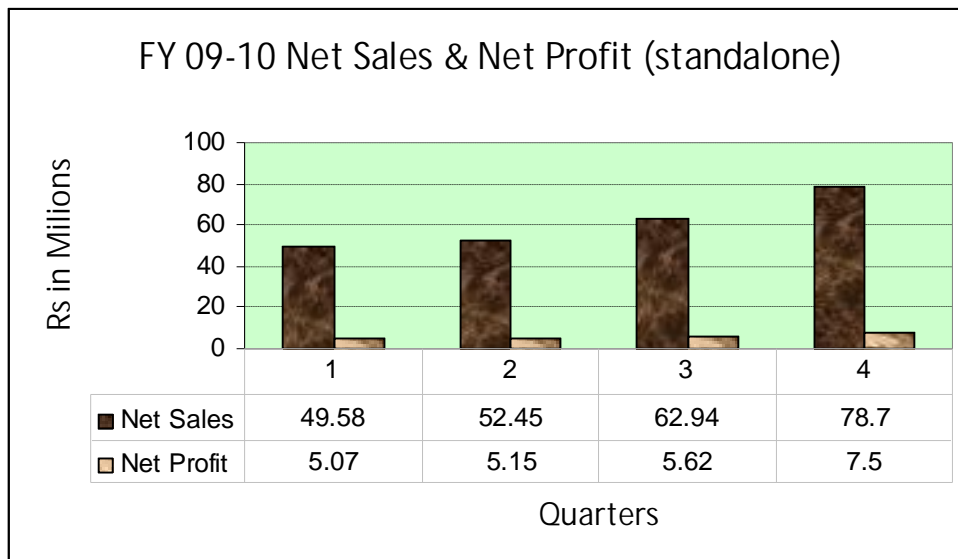
The company commenced the operations at its 120 seater (24/7) facility located at Hyderabad on Oct. 28, 2009. The company's operational facility went through a re-building process, as the facility got affected with a fire accident which took place in the month of May 2009. With the recommencement of its facility, the operations of the Company, which hitherto were taking place from alternative rented premises for the smooth continuation of the work, are getting shifted to the 120 seater premises phase wise.

3. Financial Performance (FY 2009-2010)

Dividend FY 2009-10: 1% & 0.5% on face value in Dec 09 & April 09 respectively, Dividend Yield @ 0.5% for FY 2009-10 (Current market price / 15 paisa per share)

Company has declared its 2nd interim dividend equivalent to 0.5% on face value of Rs. 10 share, hence its 5 p per share. Record date for the dividend is finalized as 10th May. Company has already paid 1% dividend as a maiden dividend for the first time in the history of the Company since its inception.

Last Quarter Results: For FY 2009-10 Quarter IV, Firstobject Technologies has reported Revenue of Rs. 78.70 Million with Profit after Taxes of Rs 7.4 Million. On QoQ basis, company has registered Revenue growth of 25.12% and PAT growth of 33.93%.



Annual Results:

For complete FY 2009-10, Firstobject Technologies has reported Revenue of Rs. 243.7 Million with Profit after Taxes of Rs. 23.4 million. On YoY basis, company has registered Revenue growth of 36.12% and PAT growth of 41.82%

(Note: Above stated figures are stand alone and unaudited financial results declared by the company)

Current & Expected Standalone Earnings:

Quarterly Ended Profit & Loss Account (Standalone)

Particulars (Rs in Millions)	Jun 2009	Sep 2009	Dec 2009	Mar 2010	Jun 2010 E	Sep 2010 E
Net Sales	49.58	52.45	62.94	78.7	96.4	134.45
Other Income	0	0	0	0	0	0
Total Expenditure	42.89	45.68	55.7	69.6	84.2	107.4
PBIDT (Excl OI)	6.69	6.77	7.24	9.1	12.2	27.05
Operating Profit	6.69	6.77	7.24	9.1	12.2	27.05
Interest	0	0	0	0	0	0
Exceptional Items	0	0	0	0	0	0
PBDT	6.69	6.77	7.24	9.1	12.2	27.05
Depreciation	1.62	1.62	1.62	1.6	1.62	1.62
Profit Before Tax	5.07	5.15	5.62	7.5	10.58	25.43
Tax	0	0	0	0	0	0
Profit After Tax	5.07	5.15	5.62	7.5	10.58	25.43
Extraordinary Items	0	0	0	0	0	0
Prior Period Expenses	0	0	0	0	0	0
Other Adjustments	0	0	0	0	0	0
Net Profit	5.07	5.15	5.62	7.5	10.58	25.43
Equity Capital	191.49	191.49	191.49	191.49	191.49	191.49
Face Value (IN RS)	1	1	10	10	10	10
Calculated EPS	0.03	0.03	0.29	0.39	0.55	1.33

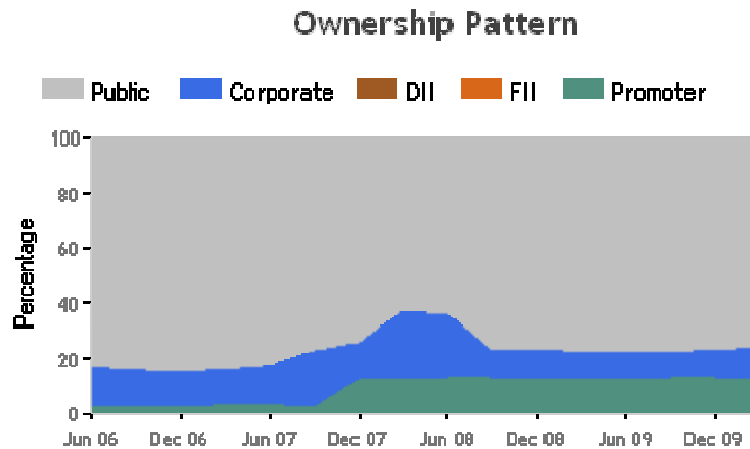
Expected Earnings for 1st & 2nd Qtr FY 2010-11:

We expect Firstobject Technologies results will deliver stellar growth in next 2 quarters. Company revenues will get boosted considering sales from E Learning initiatives.

4. Charts & Graphs

i) Share holding Pattern:

Promoters & Corporate bodies shareholding is increased in last 2 quarters.

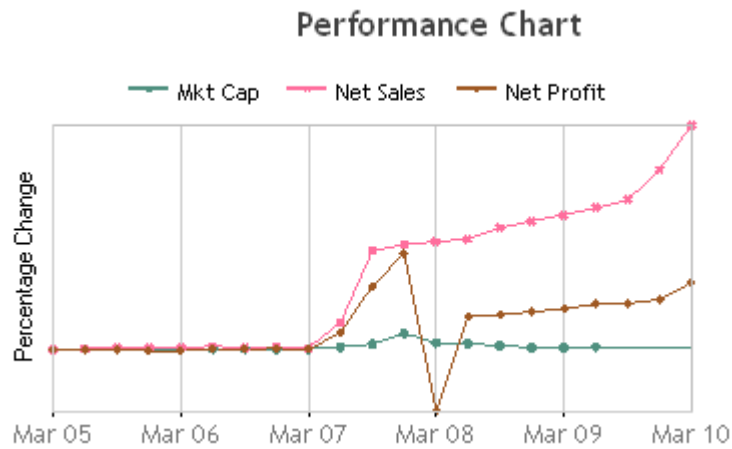


ii) Share Price Moving Average:

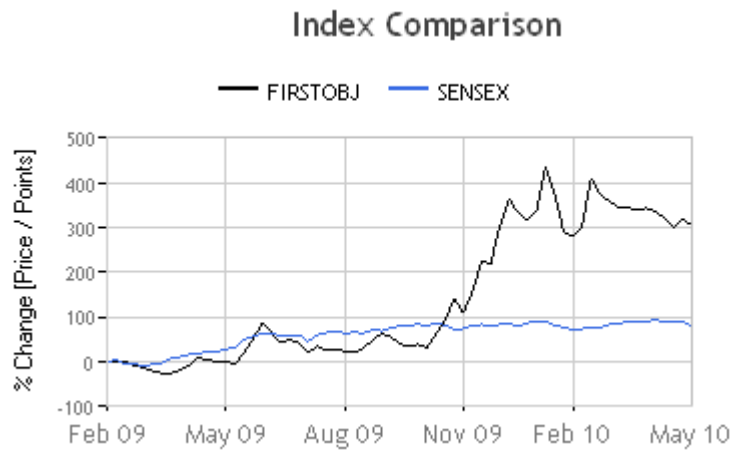
200 days price moving average at 20 Rs and 50 days at 30. As per the price chart, stock has strong support at 25 Rs levels.



iii) Performance Chart:



iv) Comparative Graph:



5. Peer Group Comparison

PEER GROUP	Firstobject Tech	Cambridge Tech	IEC Edu	Four Soft Ltd	Firstsource Solution Ltd
CMP	27.1	21.8	33.85	22.90	28.85
52 W H/L	37.20/5.80	35.75/14.70	63.80/15.00	35.80/15.00	40.00/15.25
Market Cap	542.30	344.97	514.26	892.18	12387.03
Results (in Mn)	Mar 2010	Dec 2009	Mar 2010	Dec 2009	Dec 2009
Sales	78.7	89.5	22.18	84.03	1662.94
PAT	7.5	21	5.07	4.91	101.87
Equity	191.5	158.2	152.6	193.55	4291.27
EPS	1.17	-0.59	1.47	0.36	2.28
P/E	23.18	0.00	22.95	63.45	12.65

6. Key Concerns

- i) Global economic slowdown.
- ii) Several other nations have started representing themselves as an alternative destination for offshore based outsourcing.
- iii) Increased pressure from global and domestic IT players could result in pressure on pricing.

7. Industry Overview

i) BPO & KPO Business:

Sufficient demand, strong fundamentals and a favorable environment support a positive outlook for Indian IT-BPO exports as well as the domestic market, going forward.

However, the scope of the opportunity is significantly larger. At USD 52 billion (excluding hardware), India accounts for around 4 per cent of the worldwide spend on IT software and services. The global sourcing penetration is estimated to be growing at nearly four times the rate of absolute technology spends. Together, these two trends signify a huge opportunity for the Indian IT-BPO industry.

IT-BPO SECTOR-OVERVIEW

(USD billion)	FY2004	FY2005	FY2006	FY2007	FY2008	Growth% (08/07)
IT Services	10.4	13.5	17.8	23.5	31.0	32
-Exports	7.3	10.0	13.3	18.0	23.1	28
-Domestic	3.1	3.5	4.5	5.5	7.9	43
BPO	3.4	5.2	7.2	9.5	12.5	32
-Exports	3.1	4.6	6.3	8.4	10.9	30
-Domestic	0.3	0.6	0.9	1.1	1.6	41
Engineering Services and R&D, Software Products	2.9	3.8	5.3	6.5	8.6	32
-Exports	2.5	3.1	4.0	4.9	6.4	29
-Domestic	0.4	0.7	1.3	1.6	2.2	38
Total Software and Services Revenues	16.7	22.5	30.3	39.5	52.0	31
-Exports	12.9	17.7	23.6	31.3	40.4	29
-Domestic	3.8	4.8	6.7	8.2	11.6	41
Hardware	5.0	5.6	7.1	8.5	12.0	41
-Exports	0.5	0.5	0.6	0.5	0.5	-
-Domestic	4.4	5.1	6.5	8.0	11.5	44
Total IT-BPO Industry (incl. Hardware)	21.6	28.2	37.4	48.0	64.0	33
-Exports	13.4	18.2	24.2	31.8	40.9	28
-Domestic	8.2	9.9	13.2	16.2	23.1	43

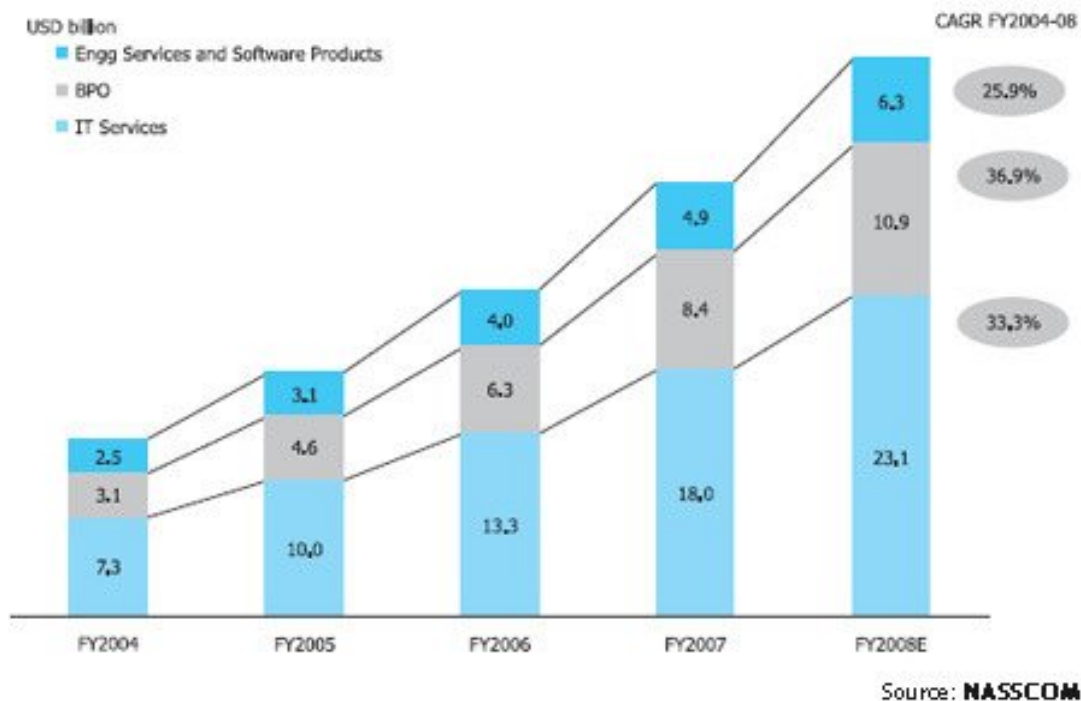
Source: NASSCOM

In order to sustain India's edge in the global markets and improve revenues, Indian IT-BPO service providers need to shift towards more market-facing breakthroughs. They could additionally, foray new customer segments in intellectual asset-intensive service lines like engineering and R&D services, creating IP in emerging technology areas, developing and codifying specific domain expertise to target consulting and system integration services, technical innovations to develop their own standards for next generation of technologies.

Finally, providers could enhance the role they are already playing in helping improve the quality of education, by working closely with the Government and academia to facilitate changes in the curriculum and pedagogy, which directly influence the quality of graduate output.

What high-end services can be outsourced to the Indian KPO sector? Here are some KPO services that can be outsourced to India:

- Business & Market Research
- Research & Development
- Business and Technical Analysis
- Learning Solutions
- Animation & Design
- Pharmaceuticals and Biotechnology
- Medical Services
- Writing & Content Development
- Legal Services



ii) E Learning

We always believed that the past economic slowdown would positively benefit the eLearning industry in the long run. There have been several recent surveys to suggest the same (two of them are mentioned in the latter half of this report) and now, a Value Notes report released in May 2009 specifically examines the status of the Indian eLearning outsourcing industry and predicts a high rate of growth until 2012, despite the current recession.

The Value Notes report, eLearning Outsourcing 2009 Advantage India, reveals that: "Revenues from the Indian e-learning off shoring industry stand at approximately USD 341 million at the end of calendar year 2008. While the economic recession will impact the growth in the industry for the next 6-8 quarters, the market will recoup and grow much faster, until 2012. Taking these factors into account, our estimates suggest that the e-learning off shoring industry will grow at a CAGR of 15% till 2012, though growth will be more subdued till 2010. Value Notes estimates the market size to touch \$603 million by the end of calendar year 2012."

We think the projected CAGR (Compound Annual Growth Rate) of 15% in the next 4 years is on the low side. We anticipate the growth of some of the prominent Indian eLearning companies would be much more – anywhere between 25-50% p.a.

Here are a couple of other reports that had earlier suggested positive trends for eLearning growth:

Feb '09: Driving Business Benefits – Towards Maturity

This was a comprehensive survey conducted during fall 2008 which investigated eLearning usage across 300 organizations in the UK. Using data collected during September, October, and November 2008, the report presented the following results:

- Roughly 50% of respondents expected their training budget to stay more or less the same; about a quarter expected it to decrease; and another quarter expected it to increase.
- 64% of respondents expected the proportion spent on eLearning to increase.
- About 68% of respondents expected to increase their overall eLearning spend.

Mar '09: The Learning Resources Barometer in Uncertain Times – The Masie Center

- 62% responded that overall enterprise learning budgets have fallen either moderately or substantially.
- 51% responded that the volume of eLearning has increased moderately or substantially, while only 8% responded that it has decreased moderately or substantially.

Looking at these data and trends, we feel overall confident about the growth of the Indian eLearning industry and eLearning outsourcing over the next 3-5 years.

8. Future Outlook

Firstobject Technologies has registered a strong growth in the last quarter as well as for complete financial year. Both top line and bottom line is above 35 percent for FY 2009-2010. Company has paid one interim dividend and declared another dividend within a quarter to boost the confidence of share holders to believe in the management views. Company is out of the woods and ready to achieve new milestones in the period to come.

Quarter IV performance is impressive comparing previous quarter's numbers. As expected, company has grown in their KPO business by expanding reach and covering more retail and institutional customers via equity research portal (www.firstcallresearch.com). Subscriber base has increased significantly after launch of online services in January this year. Key drivers to the growth of KPO business is the team of highly qualified professionals & equity analysts.

Dividend payment definitely seems to be negligible in terms of dividend yield but we should not forget the fact that company is going through an expansion phase to drive their e learning initiative for which company needs cash reserves and need to be conservative in terms of dividend payment.

Company E Learning model is unique and management is confident enough to deliver robust growth. Firstobject Technologies created a panel of eminent lecturers and professors of reputed institutes and worked very closely with them to ensure success of E Learning tutorials. Company has already launched their E learning modules for students preparing for entrance examinations and trust to deliver exponential returns in the new financial year.

To fulfill the funds requirements for expanding business in E Learning segment, company has allotted shares to promoters and strategic investors at a price of Rs. 45 per share, currently stock is trading at much discounted price of Rs 27.10. Hence, it simply displays the confidence of management to deliver the robust growth rate as that of last year and achieve their goal in E Learning space.

The acquisition of 51% of equity stake in Tractel Solutions Inc. As a part of Firstobject derisking strategy for consistent revenues, this acquisition is adding stable returns from telecom vertical.

9. Saral Gyan Recommendation

Based on FY 2009-10 results, Firstobject Technologies (standalone) Earning per Share stands at Rs. 1.22 with PE of 23. Last quarter has contributed more than 30 percent in annualized EPS, which suggests company is ready to deliver good growth in coming quarters.

Another important fact is company managed to deliver good operating & profit margins during expansion phase started last year. Next big thing which can trigger rapid price appreciation is their E Learning model subscriber base, if their E Learning model gets good response and acceptance from students preparing for entrance test, company can give exponential returns in near future.

Saral Gyan Team recommends buy at current market price of 27.10 and suggest accumulating the stock on dips. Saral Gyan team initiated coverage on Firstobject Technologies in the month of December and suggested strong buy in December last year at a price of Rs. 20. After our recommendation, stock has seen high of 37 Rs and currently getting consolidated in a range of 28-31.

We maintain our "BUY" rating for Firstobject Technologies as Multibagger stock and advice investors to hold it for a period of 12-18 months for a target of Rs. 100.

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