

Sphere Global Services Limited

Stock Performance Details

Current Price	: ₹ 83.95[^]
Face Value	: ₹ 10 per share
52 wk High / Low	: ₹ 90.35 / 31.10
Total Traded Volume	: 17,592 shares [^]
Market Cap	: ₹ 146.7 crore [^]
Sector	: IT Consulting & Software
EPS (H1 FY16)	: ₹ 0.57 per share
Equity Share Capital	: ₹ 17.5crore
P/E (TTM)	: 61.33 (x) [^]
P/BV (TTM)	: 8.70 (x) [^]
Financial Year End	: 1 st April - 31 st March
BSE Scrip Name	: SPHEREGSL
BSE Scrip Code	: 532172

[^] as on 13th January, 2016

Shareholding Details - September 2015

Particulars	Shareholding	
	Nos.	(%)
Promoter & Promoter Group Holding	1,19,70,877	68.53
Total Institutional Holdings (FIIs & DIIs)	0	0.00
Public Holdings	54,97,995	31.47
Total	1,74,68,872	100.00

Background

- Sphere Global Services Limited (SGSL), formerly known as Color Chips (India) Ltd. is a Hyderabad based Software Services Company. It is a global software services Company providing Consulting, Information technology (IT)/Information technology enabled service (ITES), SAP Application maintenance services, analytics and HANA, mobility and managed infrastructure solutions.
- SGSL offers Enterprise Resource Planning (ERP) solutions to healthcare, pharmaceuticals, food and dairy, automotive and automotive components, discrete manufacturing and education industries. Its healthcare solution includes practice management features, such as dashboards, patient records, insurance eligibility checks, appointment scheduling, appointment reminders, bills and encounter forms, and task management. Its discrete manufacturing solution provides product data across marketing, design and manufacturing, from product specification to the creation of material masters and bills of materials (BOMs).
- Adroit Infotech Pvt. Ltd., a subsidiary of SGSL, based in Pune is a Specialist SAP Consulting Company, with a decade of experience in helping organizations significantly reduce costs and improve effectiveness and efficiency through internal process improvements using SAP products and solutions in India and Middle East countries. As SAP Services partner, Adroit is focused on Discrete Manufacturing, Automotive components, Cement, Chemicals, Food Processing and Agri-businesses.
- SGSL is planning plans to expand its operations in Middle East and North Africa (MENA) and also do acquisitions to strengthen its service offerings in the Northern and Eastern geographies in India.

Financial Snapshot

Particulars	Consolidated (₹ Million)	
	H1FY16	H1FY15
Income Statement		
Income from Operations	83.1	15.1
<i>Y-o-Y Growth (%)</i>	450.3	-
EBITDA	10.9	2.7
<i>Y-o-Y Growth (%)</i>	303.7	-
<i>EBITDA Margin (%)</i>	13.0	17.9
Net Profit	10.0	2.2
<i>Y-o-Y Growth (%)</i>	354.5	-
<i>NPM (%)</i>	12.0	14.6
Balance Sheet		
Fixed Assets	33.1	-
Cash and Bank Balances	4.3	-
Inventories	24.8	-
Net Working Capital	208.8	-
Net Worth	201.0	-
Balance Sheet Ratios		
<i>ROCE (%)</i>	4.6	-
<i>RONW (%)</i>	5.0	-

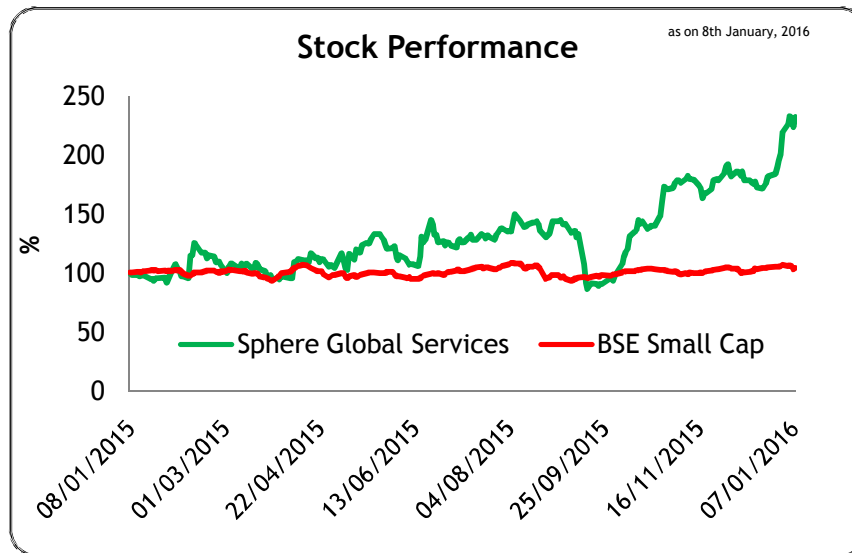
Source: Capitaline

From the Research Desk of LKW's Gurukshetra

- During H1 FY16, the Consolidated Income from Operations stood at Rs. 83.1 million as compared to Rs. 15.1 million reported in H1 FY15. The Company followed July-June Financial Year Pattern till 2014 and hence, FY13-14 was for a period of 9 months. SGSL has been following April-March Financial Year Pattern since April, 2014. Therefore, the comparison on a y-o-y basis for H1 FY14 is not available as that would be for a period of 3 months i.e. from July to September.
- Inventories for H1 FY16 stood at Rs. 19.8 million compared to NIL in H1 FY15. Employee Cost increased from Rs. 4.2 million in H1 FY15 to Rs. 34.8 million in H1 FY16. Other Expenses stood at Rs. 17.6 million in H1 FY16 as compared to Rs. 8.2 million in H1 FY15. EBITDA grew on account of higher Topline from Rs. 2.7 million in H1 FY15 to Rs. 10.9 million in H1 FY16.
- Depreciation Cost and Interest Cost stood at Rs. 0.5 million for both H1 FY16 and H1 FY15. PAT stood at Rs. 10 million in H1 FY16 as compared to Rs. 2.2 million in H1 FY15. EBITDA and PAT Margins for H1 FY16 stood at 13.1% and 12% respectively.
- SGSL has not published its H1 FY15 Balance Sheet figures. Total Debt comprising Long Term and Short Term Borrowings stood at Rs. 43.9 million in H1 FY16. Inventories stood at Rs. 24.8 million in H1 FY16. Debtors stood at Rs. 165.8 million.
- SGSL has made preferential issue of 10,00,000 Warrants to Non-Promoters of the Company in order to meet its additional working capital requirements. The warrants will be convertible into equivalent number of Equity Shares of Rs. 10 each issued at a premium of Rs. 40.

- The Board of Directors of the Company informed the Exchange on 18th June, 2015 that it has considered and approved the proposal to diversify into new line of business of Logistics Services.

Performance on the Bourses



Peer Comparison

The following table gives a snapshot view of the Company's performance vis-à-vis its peers for H1 FY16 operating in the IT Consulting & Software sector.

(₹ In millions)

Particulars	Sphere Global Services	Zensar Technologies	Rolta India
Income from Operations	83.1	14,610.7	19,729.9
EBIDTA	10.9	2,251.0	6,307.6
Net Profit	10.0	1,674.2	830.3
EBIDTA Margins (%)	13.1	15.4	32.0
PAT Margins (%)	12.0	11.5	4.2
Book Value Per Share	9.7	261.0	77.8
P/E (x)	25.16 [^]	11.62 [^]	8.41 [^]
P/BV (x)	3.63 [^]	3.11 [^]	1.31 [^]
RONW (%)	5.0	12.5	3.8

Source: CapitalineFinancials on Consolidated Basis; [^] On a Consolidated Basis as on September, 2015 (TTM Basis)

About the Industry

India is among the world's largest sourcing destination for the information technology (IT) industry, accounting for approximately 67% of the US\$ 124-130 billion market. The industry employs a workforce of about 10 million. More importantly, the industry has led the economic transformation of the country and altered the perception of India in the global economy. India's cost competitiveness in providing IT services, which is approximately 3-4 times cheaper than the US, continues to be the mainstay of its unique selling proposition (USP) in the global sourcing market. However, India is also gaining prominence in terms of intellectual capital with several global IT firms setting up their innovation centres in India.

The IT industry has also created demand in the Indian education sector, especially for engineering and computer science. The Indian IT and ITeS industry is divided into four major segments - IT services, business process management (BPM), software products and engineering services, and hardware.

The IT-BPM sector in India grew at a CAGR of 15% over 2010-15, which is 3-4 times higher than the global IT-BPM spend, and is estimated to expand at a CAGR of 9.5% to US\$ 300 billion by 2020.

The Indian Information Technology (IT) sector is expected to grow 11% per annum and triple its current annual revenue to reach US\$ 350 billion by FY 2025, as per National Association of Software and Services Companies (NASSCOM).

India, the fourth largest base for new businesses in the world and home to over 3,100 tech start-ups, is set to increase its base to 11,500 tech start-ups by 2020, as per a report by NASSCOM and Zinnov Management Consulting Pvt Ltd.

Indian IT's core competencies and strengths have attracted investments from major countries. The computer software and hardware sector in India attracted cumulative Foreign Direct Investment (FDI) inflows worth US\$ 18.17 billion between April 2000 and September 2015, according to data released by the Department of Industrial Policy and Promotion (DIPP). Indian start-ups are expected to receive funding worth US\$ 5 billion by the end of 2015, a 125% increase in a year, according to a report by IT Industry association NASSCOM.

Management Outlook

While the global slowdown, increasing competition from new countries and raising protectionist measures in the wake of job losses in developed countries have slightly dimmed the prospects for exports of IT and related services, a great opportunity is waiting in India's domestic market with increasing technology adoption within the Government sector and the Small and Medium business (SMB) sector.

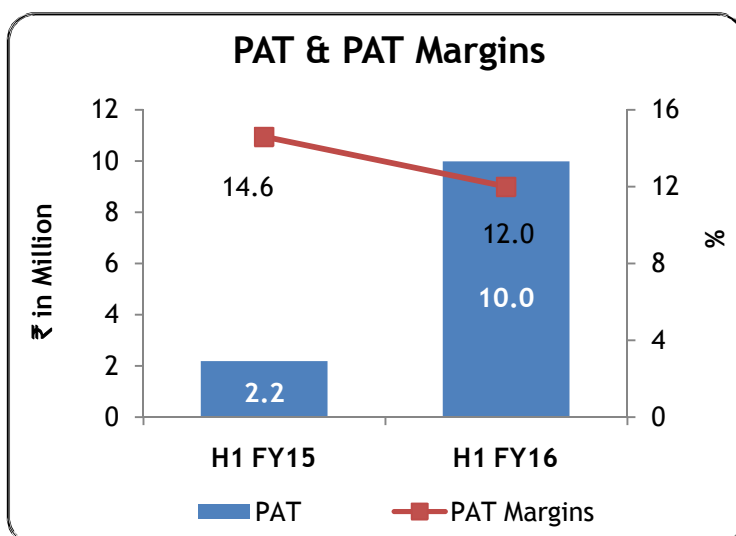
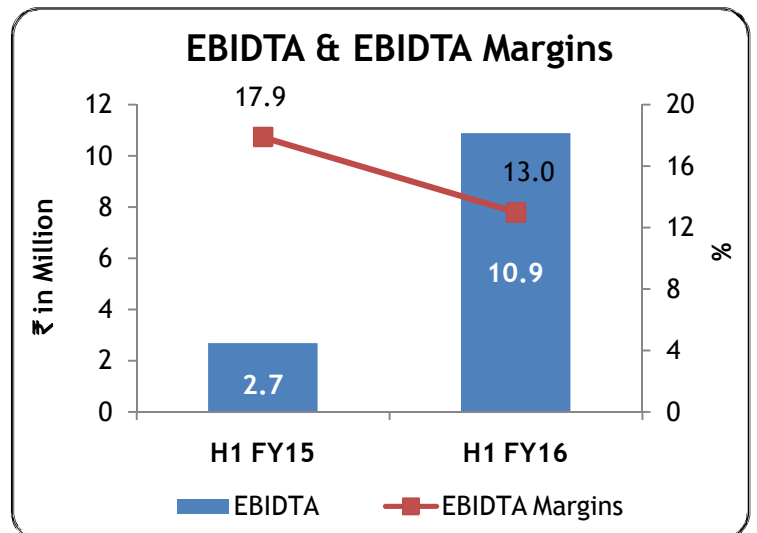
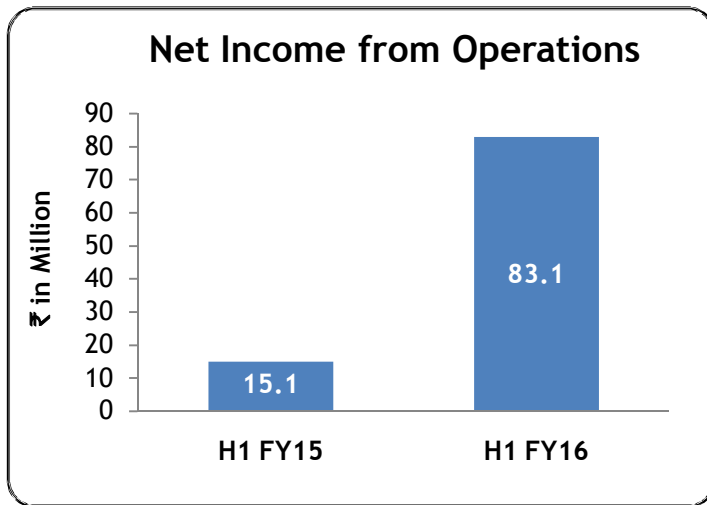
The 12th Five year plan aims to harness the potential of the software and services sector to contribute to the country's development and growth, particularly in terms of investment, exports, employment generation and contribution to GDP and retain India's leadership position as global IT-BPO destination, consolidate and grow in both mature and emerging markets.

The Company's strategy is to support longer term growth by continually extending the core IT services business by expanding its geographic reach, industry coverage and service capabilities and by deepening existing client relationships, building or acquiring emerging businesses and adopting or creating new business models and business solutions and thus, become strategic partner capable of reliably delivering innovative solutions.

In order to meet the changing market realities, SGSL has been following the philosophy of providing the highest quality products and services at the competitive prices. All endeavors are made to achieve possible cost reduction in every area of operations. SGSL's philosophy to provide high class quality products focusing on value for money to consumers would benefit in the long run. Increasing cost and therefore, every expense, whether capital or revenue is minutely reviewed to achieve all possible savings.

There are many challenges faced by nearly every industry in today's global marketplace. The uncertainties in the global market, business model redundancy, supply side risks and financial risks are the major threats faced by the IT industry. The Company believes in building and maintaining deep customer relationships to become a trusted business partner to global enterprises.

Financial Graphs



Disclaimer

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Disclosure

Each member of the team involved in the preparation of this report, hereby affirms that there exists no conflict of interest.



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About Us

LOTUS KNOWLWEALTH (LKW) commenced business in 1991 and is currently engaged in providing **CAPITAL MARKET RESEARCH, INVESTMENT ADVISORY and STRATEGY** services.

GURUKSHETRA is the Research and Training arm of LKW.

LKW Investment Advisers is the SEBI registered Investment Advisory arm of LKW.

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