

THE HINDU Business Line

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Courting the glare

Gaurav Raghuvanshi

Why do small and medium-sized IT companies get listed and brave all that spotlight? eWorld discovered the answers are not as obvious as you would expect them to be.

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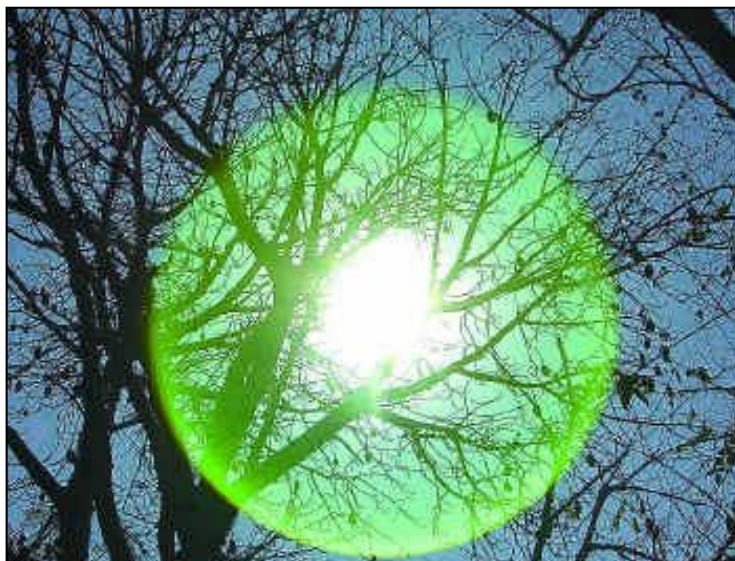
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ASK a cynic what prompts a company to go to the market with an Initial Public Offering (IPO) and the answer you may get is that they want to fool around with others' money. And there has never been any dearth of cynics as far as the role of markets goes.

A cynical outlook, however, must have been the last thing on the minds of the promoters of Saksoft, a Chennai-based software company catering to financial services clients, that went to the markets with a puny Rs 7.5 crore-IPO in March.

Out of a project outlay of Rs 14.6 crore, part financed through the IPO, a sum of Rs 9 crore has been earmarked for expansion of its software development centre at Noida and the balance Rs 5 crore allocated towards acquisitions.

Since half the project cost was to be financed through internal accruals, the balance could have come to Saksoft from any

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source. Then why did Saksoft choose to subject itself to the rigorous scrutiny and loads of expectations that come with listing? Not to mention, all that the IPO process itself involves.

"Funds would not have been an issue as it was a small amount and Saksoft could have easily raised it from anywhere. Being listed gets a company in the public eye and increases the pressure to put in place strict corporate governance norms. That makes it easier for the smaller companies to approach their customers in the west with greater confidence," says Kamesh Gandhi of Centrum Capital Ltd, the lead managers to the issue.

Even the smallest Indian companies in the software sector are servicing Fortune 500/Global 1000 clients in their chosen area of specialisation.

Given such a scenario, "credibility" becomes an important factor. For instance, for Saksoft, its top client, Citibank, accounted for 37 per cent of its revenues in the first six months of 2004-05, with other prominent names such as Morgan Stanley, Standard Chartered Bank and DBS Bank figuring in the roster of clients. Saksoft acknowledges that its customers would feel more comfortable about dealing with the company now that it is listed.

"Besides raising money for expansion and acquisition, the purpose of the IPO is also to be able to attract and retain senior talent. We think that the added expectations will put pressure on the management team to continue to grow the company to the levels it can," says a top executive at Saksoft.

Picture by K. Ramesh Babu

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