



Acropetal Technologies Limited

ICRA has assigned an IPO Grade 3 indicating average fundamentals to the proposed initial public offering of Acropetal Technologies Limited (ATL). ICRA assigns IPO grading on a scale of IPO Grade 5 through IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

Acropetal Technologies Ltd. (ATL) is proposing to come out with an Initial Public Offer of Rs 1.70 billion through 100% book building route, during February 2011. The number of shares offered will be determined based on the issue price, and about 18 million equity shares of Rs.10/-each are likely to be issued. Of the total issue, not more than 50% of the issue shall be allocated to QIBs. Post IPO, the shares will be listed on the NSE & BSE.

The IPO proceeds are proposed to be used primarily for acquisitions, setting up a software development centre in Bangalore, establishment of overseas offices, repayment of loans and meeting the working capital requirements of the company.

The IPO grade assigned by ICRA takes into account the robust revenue growth demonstrated by the company in the past few years, its healthy operating margins and efforts made by the company to strengthen its management by induction of several experienced management personnel during the last one year. The grading also takes into account the favourable growth prospects of the Healthcare and Energy segments where the company has entered lately.

The grading is however, constrained by the risks associated with an acquisition based growth, and the limited track record of the company in the Healthcare and Energy segments. The grading also takes into consideration the company's presence in the competitive and crowded market for Enterprise Solutions; the fragile economic environment in the US and Europe, the key markets for Indian Information Technology (IT) services; the intense competition in Banking, Financial Services and Insurance (BFSI) segments, which accounted for a substantial part of ATL's revenues in FY10; the company's high client concentration with about 83% of FY10 revenues contributed by five customers, and reliance on intermediaries for revenues, which leads to high receivable days and affects cash flow from operations. Moreover, ICRA has also considered the risks of foreign currency fluctuation and employee attrition, which are typical to the Information Technology (IT) industry.

Going forward, in ICRA's opinion, ATL's profit margins can come under pressure because of significant investments in overseas offices and high-cost personnel, which might not yield commensurate returns in the short term. However, the funds from the proposed IPO would enable ATL to maintain an adequate capital structure while funding its growth.

About the company Established in 2001, Acropetal Technologies Limited was earlier involved in providing Engineering Design Services. From 2006 onwards, the company started offering information technology services, and ventured into the healthcare domain in FY10. The IT services and the healthcare segment accounted for approx. 49% and 2.5% of consolidated revenues respectively in 2009-10, with the healthcare segment growing substantially to about 29% of revenues (Rs. 493 million) during 9m FY11. The company also won the STPI award for "High Growth in Small and Medium Business Unit" by the Software Technology Parks of India (STPI) and Department of IT & BT Karnataka for the year 2008-09. Acropetal has a team of about 540 professionals providing software services and Engineering Design Services to various clients across USA, Middle East and Europe as on December 31, 2010. ATL reported a net profit of Rs. 357.14 million on an operating income of Rs. 1521.9 million in 2009-10, a substantial increase over the net profit of Rs. 189.2 million on an operating income of Rs. 971 million in 2008-09 (on consolidated basis). During the nine months ended December 31, 2010, the company reported



an operating income of Rs. 1481.3 million and a net profit of Rs. 284.1 million on consolidated basis.

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KEY FINANCIALS

		2009-10	2008-09	2007-08	2006-07
Operating Income (OI)	Rs Million	1,521.9	971.0	603.1	402.3
OPBDIT	Rs Million	609.3	349.9	202.3	145.7
Profit After Tax (PAT)	Rs Million	357.14	189.2	130.6	127.8
Net Cash Accruals	Rs Million	493.78	270.8	153.9	138.0
Total Debt	Rs Million	886.56	778.4	372.0	79.5
Tangible Net worth	Rs Million	1014.91	689.4	454.4	190.5
OPBDIT/OI	%	40.03%	36.03%	33.54%	36.22%
PAT/OI	%	23.47%	19.48%	21.66%	31.76%
PBIT/Average (TD+TNW+DTL)	%	28.07%	26.96%	29.52%	78.33%
Total Debt/Net Worth (times)	times	0.87	1.13	0.82	0.42
OPBDIT/Interest & Finance Charges	times	6.10	4.25	8.48	15.42
Net Cash Accruals/Total Debt	%	55.70%	35%	41%	174%
Total Debt/OPBDITA	times	1.46	2.22	1.84	0.55
Net Working Capital/OI	times	0.43	0.46	0.59	0.55
Debtor days	days	138	171	197	165
Inventory days	days	16.1	12	11	14
Payable days	days	9.5	39	2	1

Note: Amounts in Rs. million

OPBDIT: Operating Profit before Depreciation, Interest and Tax;

PBIT: Profit before Interest and Tax

PAT: Profit after Tax

DTL: Deferred Tax Liability

NWC: Net Working Capital

Note: Amounts in Rs. millions



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