



July 29, 2010

ICRA revises the rating assigned to the bank facilities of Acropetal Technologies Limited; assigns stable outlook

ICRA has revised the long term rating to the Rs.833 million fund based limits of Acropetal Technologies Limited (ATL) from LBB (pronounced as L double B) to LBBB- (pronounced as L triple B minus)[†]. ICRA has also revised the short term rating of ATL's Rs.250 million fund based limits from A4 (pronounced as A four) to A3 (pronounced as A three)[†]. The outlook on the long-term rating is stable.

The rating revision takes into account the robust revenue growth demonstrated by ATL in the past few years, improvement in the receivables position of the company, and efforts made to strengthen the management by induction of several experienced personnel during the last one year. The rating also takes into account the favourable growth prospects of the Healthcare and Energy segments where the company plans to enter in the near term, as well as the company's robust operating margins in its current businesses. The rating 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 rating 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 FY09; the company's high client concentration with about 83% of FY09 revenues contributed by three 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. The software services segment is the primary business segment in the company now accounting for approx. 64% of revenues in 2008-09. 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 402 professionals providing software services and Engineering Design Services to various clients across USA, Middle East and Europe as on March 31, 2010.

Acropetal reported a net profit of Rs. 357.14 million on an operating income of Rs. 1521.9 million in 2009-10 as against a net profit of Rs. 189.2 million on an operating income of Rs. 971 million in 2008-09.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

[†] For complete rating scale and definitions, please refer ICRA's website www.icra.in or other ICRA Rating Publications.