

# Acropetal Technologies

SECTOR: Information Technology (IT)



EXPENSIVE

## Issue Snapshot

Issue Open:	21-Feb-11
Issue Close:	24-Feb-11
Price Band (INR)	88 to 90
Issue Size (INR Mn)	1,700
Market Cap (INR Mn)	3,460 to 3,500

	@ 88	@ 90
<b>Issue Size (No. of Shares)</b>	<b>19,318,182</b>	<b>18,888,889</b>
<i>Employee Reservation Portion:</i>		
<i>QIB:</i>	9,659,091	9,444,444
<i>Non-Institutional:</i>	2,897,727	2,833,333
<i>Retail:</i>	6,761,364	6,611,111
Face Value (INR):	10	
Book Value as of FY10 (INR):	50.7	

## Capital Structure:

Pre Issue Equity (INR Mn)	200
Post Issue Equity @ INR 88 (INR Mn)	393
Post Issue Equity @ INR 90 (INR Mn)	389

Shareholding Pattern	Pre Issue (%)	Post issue (%) @ INR 88	Post issue (%) @ INR 90
Promoter & Promoter Groups	85.7%	43.6%	44.1%
MF, FIIs & others	14.3%	7.3%	7.3%
Public	0.0%	49.1%	48.6%
<b>Total</b>	100.0%	100.0%	100.0%
<b>Total Shares</b>	<b>20,000,000</b>	<b>39,318,182</b>	<b>38,888,889</b>

## Objects of the Issue

Sr. No.	Particulars	INR Mn.
1	Proposed Acquisition	550.0
2	Setting up of Corporate Development Center & Corporate Office	261.9
3	Establishment and Expansion of Overseas Offices	194.5
4	Part Repayment of Term Loans	250.0
5	Additional Working Capital Requirements	250.0
6	Public Issue Expense	150.0
7	General Corporate Purpose	43.6
	<b>Total</b>	<b>1,700.0</b>

Website: [www.acropetal.com](http://www.acropetal.com)

Acropetal Technologies Limited (ATL) provides Engineering Design Services, IT services, Infrastructure and security consulting services. It is into BFSI, Healthcare and Energy Utility verticals.

## Investment Rationale

- ATL is focused in verticals like BFSI and healthcare providing a slew of end-to-end services in these verticals.
- The company provides a mix of products and services and has grown at 40%+ CAGR in the past 2 years.

## Investment Concerns

- ATL is present in the already crowded BFSI segment, which gives substantial part of its revenue.
- Top 5 customers constitute 83% of its revenue, high reliance on intermediaries leads to high receivable days and effect cash flow for the company.
- ATL's profit margins can come under significant pressure because of investments in high-cost personnel and overseas offices.
- The company's strategy to grow inorganically can also backfire with small-medium scale companies finding it difficult to integrate new acquisitions and might take longer to yield positive results.

## Valuation & Recommendation

At the upper band of INR 90, the stock is available at a P/E and P/BV multiple of 9.1x and 1.3x based on its post issue annualized FY11 EPS of INR 9.6 and BVPS of INR 69.8. In our view the issue is expensive based on current peer group valuations. The small-medium scale enterprises working in similar domains/verticals trade in the range of 5x to 9x PE.

## Investment Rationale

### High Growth Sector

The company is focussing on high growth sectors like BFSI and Healthcare. The company started its foray into the healthcare vertical in FY10; with 2.5% of its revenue coming from that vertical in FY10. The company has been able to increase its revenue from this vertical substantially this year, with 29% of its 9MFY11 revenue coming from this vertical.

BFSI is also a high growth vertical and one of the biggest IT spendor, the company's mix of products and services has derived significant revenues from this vertical as well.

### Investment Concern

Top 5 customers contribute 83% of the revenue, which is typical of small-medium enterprises; however, this could be a huge risk for the business going forward if the company is not able to scale up in time.

The company engages intermediaries for business which could cause delays in the payment cycles and thus cash flow problems.

There are a number of vendors in the Engineering services and BFSI domain. Thus competing in the highly crowded segment the margins could be under pressure. The margins could also be under pressure going forward due to its onsite expansion plans and high-cost personnel.

A major part of proceeds would be used for acquisition which would help the company grow and consolidate its position, but a major drawback in this scenario could be the poor track record of Small-Mid tier companies especially when it comes to integration of the acquired entity. The company with its 540 odd workforce may find it tough to achieve the same.

The company is now planning to grow aggressively into other geographies and with other clients. A part of the proceed is to fund setting up new offices in onsite locations to be closer to the clients.

### Company Background

ATL started out as a Engineering design services company from Bangalore servicing clients globally. Since then the company has gained footprint in the BFSI, Healthcare and Infrastructure services domain providing services to clients throughout US, Middle-East and Europe.

It has recently ventured into providing enterprise software services to clients in the Energy and Utility domain.

## Industry Overview

### Global IT Industry

After a decline of 4.7% forecasted in 2009 in global IT spend, in 2010 there has been a bounce back in the spending. This has been backed by destructive innovation in technology and pent up demand in the IT segment. Cost cutting efforts by various companies and government organizations throughout the world is giving a push to outsourcing.

BFSI and Manufacturing followed closely by Healthcare have been at the forefront of high spend by customers.

The Indian IT sector revenue have grown in 2010 to \$ 73bn, majority of it (\$ 50bn) coming from export businesses and the rest from the domestic demand. According to Nasscom latest report “Strategy Review 2010”, the overall IT revenue for India will grow to \$225bn by 2020 (CAGR of 13-15%), with exports contributing \$175bn and domestic demand for \$50bn.

However, increase in protectionist policies followed during recessionary times and rupee appreciation which could put pressure on the margins of IT companies having high international exposures.

## Promoter Background

**Mr. D. Ravi Kumar**, aged 42 years, is the Chairman and Managing Director of the Company. He has an overall experience of 18 years in IT industry working with various IT organizations. He has a Bachelor’s Degree in Mechanical Engineering from Bangalore University.

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**Acropetal Tech. – IPO Note**
**Financials**

Income Statement (INR Mn)	FY09	FY10	9MFY11
<b>Income from Operations</b>	<b>978.7</b>	<b>1537.0</b>	<b>1532.9</b>
Export Sales	971.0	1515.6	1475.9
Domestic Sales	0.0	6.4	5.4
Increase/(Decrease) in Inventory	7.6	15.1	51.5
<b>Expenditure</b>	<b>628.8</b>	<b>927.7</b>	<b>912.2</b>
Direct Cost	484.2	652.5	688.0
Personal Cost	98.0	135.3	102.3
S&M	18.9	87.8	77.3
G&A	27.7	52.1	44.6
<b>EBIDTA excl. OI</b>	<b>349.9</b>	<b>609.3</b>	<b>620.6</b>
Other Income	27.4	-2.5	-14.1
<b>EBIDTA</b>	<b>377.2</b>	<b>606.8</b>	<b>606.6</b>
Depreciation/Amortization	87.4	152.1	222.2
<b>Profit before Interest &amp; Tax</b>	<b>289.8</b>	<b>454.6</b>	<b>384.3</b>
Financial Charges	82.3	99.8	100.5
<b>Profit Before Tax</b>	<b>207.5</b>	<b>354.8</b>	<b>283.8</b>
Tax Expenses	18.3	-2.4	-0.3
<b>PAT</b>	<b>189.2</b>	<b>357.1</b>	<b>284.1</b>

Balance Sheet (INR Mn)	FY09	FY10	9MFY11
Share Capital	50.0	200.0	200.0
Reserves & Surplus	439.4	634.9	929.8
Share Prem. and App. Money	200.0	180.0	180.0
<b>Net Worth</b>	<b>689.4</b>	<b>1014.9</b>	<b>1309.8</b>
Secured Loans	622.3	776.0	1079.9
Unsecured Loan	156.1	110.5	239.7
Deferred Tax Liability	31.9	29.1	28.3
Current Liabilities & Provisions	107.5	99.1	91.6
<b>Total Liabilities</b>	<b>1607.1</b>	<b>2029.7</b>	<b>2749.3</b>
Gross Block	876.2	1441.9	1445.1
Less: Depreciation	142.3	292.4	514.6
Less: Amortization of Satellite Rights			
<b>Net Block</b>	<b>733.8</b>	<b>1149.6</b>	<b>930.5</b>
Capital WIP	190.5	0.0	381.8
<b>Total Fixed Assets</b>	<b>924.3</b>	<b>1149.6</b>	<b>1312.3</b>
Investment	34.3	61.0	61.0
<b>Current Assets, Loans and Advances</b>	<b>648.5</b>	<b>819.1</b>	<b>1376.0</b>
<b>Total Assets</b>	<b>1607.1</b>	<b>2029.7</b>	<b>2749.3</b>

Ratios	FY09	FY10	9MFY11 @ INR 88
Debt to Equity (x)	1.1	0.9	1.0
ROCE (%)	19.3%	23.5%	14.5%
Cash EPS (INR)	13.8	25.5	12.9
BV/Share (INR)	34.5	50.7	33.3
P/BV at 88 (x)	2.6	1.7	2.6
P/BV at 90 (x)	2.6	1.8	2.7
RoNW (%)	27.4%	35.2%	21.7%
EPS (INR)	9.5	17.9	9.6
P/E at 88 (x)	9.3	4.9	9.1
P/E at 90 (x)	9.5	5.0	9.3
EBIT Margin (%)	29.6%	29.6%	25.1%
PAT Margin (%)	19.3%	23.2%	18.5%

\*Pre Issue Figures

Cash Flow Statement (INR Mn)	FY09	FY10	9MFY11
Cash Flow from Operating Activities	277.6	378.2	135.0
Cash Flow from Investing Activities	-606.7	-404.1	-385.0
Cash Flow from Financing Activities	375.0	3.4	319.2
<b>Net Cash Flow</b>	<b>46.0</b>	<b>-22.5</b>	<b>69.2</b>
Opening Cash	44.6	90.5	68.0
<b>Closing cash</b>	<b>90.5</b>	<b>68.0</b>	<b>137.2</b>

**Peer Comparison**

Company	CMP (Rs)	No. of shares	M-Cap (Rs Mn)	M-Cap/Sales (x)	Sales (Rs Mn)	PAT	EPS (Rs.)	P/E (x)	BVPS (Rs)	P/BV (x)
Acropetal @ 88*	88.0	39.3	3,460	2.3	1,537.0	357.1	9.6	9.1	69.0	1.3
Acropetal @ 90	90.0	38.9	3,500	2.3	1,537.0	357.1	9.6	9.3	69.8	1.3
Geometric	71.4	62.1	4,432	2.1	2,137.4	139.5	2.3	31.7	34.8	2.0
Nucleus Soft	93.2	32.4	3,015	1.6	1,941.5	337.4	10.4	8.9	71.6	1.3
Omnitech Solutions	149.5	13.9	2,071	1.0	2,165.0	393.9	28.4	5.3	123.4	1.2
Sonata Software	39.8	105.2	4,180	1.8	2,360.9	602.0	5.7	6.9	27.8	1.4
Infinite	165.8	44.0	7,288	4.0	1,820.3	487.2	11.1	15.0	58.8	2.8
3i Infotech	47.6	168.8	8,033	1.5	5,199.9	1329.9	7.8	6.1	54.5	0.9

\*EPS and BVPS are calculated using post issue shares

## Acropetal Tech. – IPO Note

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1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock - No
3. Broking relationship with company covered - No

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