

ACROPETAL TECHNOLOGIES LIMITED : Good Issue

IPO Note: High OPM 40% and 99.47% export earnings in 9 month ending Dec. 2010

Ranking:***



Issue details

Price band (Rs)	Rs.88-90
IPO Opening Date	21/02/2011
IPO Closing Date	24/02/2011
Issue Size	Rs.170 Crore

Valuations & Recommendation

At a price band of Rs 88 to Rs 90 per equity share of Rs 10 face value, the P/E works out to around 9 times the consolidated nine-months (ended December 2010) annualized EPS of Rs.9.6 – Rs 9.9. In Medium/Small Computer Software industry, composite TTM P/E is at 12.4.

The company has shown a robust revenue growth but it faces stiff competition from domestic as well as international players. **In future its profit margin can come under pressure due to its high cost overseas investments and competition from other players in the industry. In the same category the stock of Geodesic and ICSA Ltd. are trading at PE of 3.0-6.0. The company's track record of growth and profitability are excellent. Future growth prospects are good. Professionally managed company. Looking to its high margin, future growth, investors with high risk aptitude can take little exposure in this issue.**

Highlights

- ◆ During the nine months ended December 31, 2010, the company reported an operating income of Rs. 148.13 cr and a net profit of Rs. 28.41cr, on consolidated basis.
- ◆ Dependence on few customers. Top five customers contributed approximately 80% of the income from operations.
- ◆ The company generates a significant portion of the revenues in U.S. Dollars and other foreign currencies, and significant portions of the expenses are incurred in Rupees.
- ◆ ICRA has assigned grade 3 to the IPO
- ◆ OPM more than 40% in FY2010

Company Introduction

Acropetal Technologies was incorporated on April 25, 2001 under the provisions of the Companies Act, 1956 as public limited Company. Acropetal Technologies offers a broad spectrum of Engineering Design Services to reduce product design cycle time and costs. The portfolio of services includes concept design, product design & development, advanced analysis, reliability engineering and value engineering. Product quality improvement, idea generation, product teardown, material cost out, product re-design, back office support to accomplish 2D Drawings, Data Conversion and 3D Modeling are the value added services offered to our customers.

The company offers Information Technology solutions using its Global Delivery Model (GDM). It utilizes its resources, skills, technical expertise, and excellent quality to deliver solutions. Its onsite team coordinates with the client for technical requirements. They also coordinate on changes that are required.

Acropetal is currently working on competency based verticals



www.acropetal.com

Financial Summary

Particulars	0903(12)	1003(12)	1012(9)
Sales	97.10	152.19	148.13
OPM (%)	36.0	40.0	41.9
Net Profit	18.92	35.71	28.41
EPS* (Rs)	4.9	9.3	9.9

* Annualized on post-issue equity of Rs 38.39 crore;

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

namely Engineering Design Services, Healthcare Services, Enterprise & IT Services, Energy & Environment Services, IT Infrastructure Management Services and IT Security Consulting Services. It has has one wholly owned subsidiary Vision Info Inc, UAE.

Risks

Company's top 5 customers contributed approximately 54.88% of its income from operations for the 9 months period ended December 31, 2010. Further, its top ten customers contributed approximately 87.10% of its income from operations for the same period.

The Company generates a significant portion of its revenues in U.S. Dollars and other foreign currencies, and a significant portion of its expenses are incurred in Rupees, which exposes the company to fluctuation risk.

The company faces stiff competition from Indian IT services companies as well as international technology services companies which offer broad-based services. The market for IT Services is both highly competitive and rapidly evolving and in this environment this competition is likely to grow as the demand for these services will increase and also additional companies will enter the Indian market.

IPO & Proceed

The company intends to enter capital market to raise Rs 170 crore by issuing around 1.93 to 1.89-crore equity share of face value of Rs 10 each at the price range of Rs 88 to Rs 90 per share.

The proceeds from issue includes Rs 55 crore for potential acquisition, Rs 26.19 crore to set up a software development centre cum corporate office, Rs 19.45 crore for expansion & establishment of overseas offices, Rs 25 crore for part repayment of term loans, Rs 25 crore for working capital requirements, Rs 15 crore for public issue expenses and Rs 4.6 crore for general corporate expenses.

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New IPO



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