

# K E Y N O T E

## I P O N O T E

### Acropetal Technologies Ltd.

February 21, 2011

|                                   |   |
|-----------------------------------|---|
| <b>Price Band</b>                 | : ₹88-90 per share                            |
| <b>Minimum Bid Lot Size</b>       | : 60 Equity Shares                            |
| <b>Maximum Bid Lot Size</b>       | : 2,220 Equity Shares                         |
| <b>IPO open during</b>            | : February 21 - 24, 2011                      |
| <b>Book Running Lead Managers</b> | : Saffron Capital Advisors Private Ltd.       |
| <b>To list on</b>                 | : NSE & BSE                                   |
| <b>IPO Grading</b>                | : 3 / 5 (ICRA)                                |
| <b>PE</b>                         | : 4.62x (based on base price)*                |
|                                   | : 4.72x (based on cap price)*                 |
| <b>Market Cap post-listing</b>    | : ₹350Cr or \$77.4mn (based on the cap price) |
| <b>Market Cap of Free Float</b>   | : ₹196Cr or \$43.3mn (based on the cap price) |

\*based on FY10 EPS

IPO of 18.89mn equity shares of ₹10 each, aggregating to ₹170Cr or \$37.6mn (at the cap price)

### Shareholding Pattern

| Shareholder Categories      | Pre-Issue       |               | Post-Issue      |               |
|-----------------------------|-----------------|---------------|-----------------|---------------|
|                             | No. of Shares   | % Holding     | No. of Shares   | % Holding     |
| Promoters & Promoters Group | 17145000        | 85.73         | 17145000        | 44.09         |
| QIBs excl. Mutual Funds     | 0               | 0             | 21743889        | 55.91         |
| Mutual Funds                | 0               | 0             |                 |               |
| Non-Institutional Investors | 0               | 0             |                 |               |
| Public                      | 2855000         | 14.28         |                 |               |
| <b>Total</b>                | <b>20000000</b> | <b>100.00</b> | <b>38888889</b> | <b>100.00</b> |

# assuming issue price of ₹90 per share

### Executive Summary

- Acropetal Technologies Limited (ATL) is engaged in the Engineering Design Services offering on a broader spectrum to reduce product design cycle time and costs.
- The portfolio of services of ATL includes concept design, product design & development, advanced analysis, reliability engineering and value engineering with many other value added services offering to its customers.
- ATL's IT/ITES solutions in the enterprise space allow organisations to optimize their core business activities like resource management, customer relationship management and supply chain management.
- ATL's current offerings are focused on four major industry sectors: Infrastructure, BFSI/Retail, Health and Energy. It intends to offer complete end to end solution catering to these market segments that enables the company to obtain additional business from existing clients as well as potential new clients.
- ATL, along with its group companies, has internally developed and built a strong product and services portfolio. It would continue to leverage on this domain expertise as well as the product portfolio to offer comprehensive solutions to its customers.
- ATL has developed a strong customer base over the last few years. Its focus is to build on its existing customer relationship and offering new services to broaden the spectrum of its service offerings.

**Keynote Capitals Research (+9122-30266000-3)**

Keynote Capitals Institutional Research is also available on

Bloomberg KNTE <GO>, Thomson One Analytics, Reuters Knowledge, Capital IQ, TheMarkets.com and securities.com

**Keynote Capitals Institutional Research - winner of "India's Best IPO Analyst Award 2009" by MCX-Zee Business**

### Our View

Considering the growth prospects and fundamentals of the company in mid-tier IT Services, the investors may look into the issue for subscription.

### Company Background

Acropetal Technologies Ltd. (ATL) was incorporated in April 2001 in Bangalore. ATL offer a broad spectrum of Engineering Design Services and IT and ITES. The company has one wholly owned subsidiary 'Vision Info Inc, UAE', which was incorporated on January 2008 engaged in the business of providing Engineering Design Services and IT/ITES.

### Promoters and Management

**Mr. D. Ravi Kumar** is the Promoter and Chairman & Managing Director of ATL. With his in-depth knowledge and experience with software companies, he provides leadership, vision and strategic direction to the company. He has also been awarded the 'CEO of Emerging Organization' by the Asia Pacific HRM Congress in September 2010.

**Mr. Padmanabha Holla** is the Head of Business Excellence of ATL. With a vast experience in software and related fields he is responsible for setting up of business processes and achieving quality strategy for the company. He is also responsible for driving the strategy in healthcare business, its program management, R&D and excellence initiatives to support and ensure stable growth.

**Mr. K. Chandrasekhar** is the Chief Operating Officer (COO) of ATL and is involved in formulation of corporate strategy and also manages marketing and the healthcare vertical of the company.

**Mr. Sudheer S** is the Chief Financial Officer (CFO) and heads the finance department of the Company.

### Industry Overview

#### Global Information Technology Industry

Worldwide technology products and services related spends is estimated to reach \$1.5tn in 2009, a decline of 2.9% over 2008. However global corporations leveraged IT to drive organisation wide efficiencies, transformation and new business models. The global IT services market includes multiple segments such as IT outsourcing, Project based services and Support and Training. Global spend on software products grew only by 1 per cent in 2009 and reached USD 307 billion. In March 2009, worldwide IT service spending growth was projected to decline by 4.7% in 2009, with a marginal recovery in 2010, but still incomparable to pre-2008 levels. However, latest projections estimate this decline to be less detrimental as compared to before i.e. at 3.3% decline in 2009 embarking on a growth phase starting 2010 and further. This underlines the resumption of purchase and investment activity starting in 2010.

#### Indian Information Technology Industry

The global recession has significantly impacted technology spending levels across the world, raising several demand side challenges for the Indian IT-BPO sector. However the industry has displayed resilience, enhanced efficiencies, invested in future growth plans along disruptive technologies and changed existing business models. India

remains an integral part of the global sourcing strategy accounting for approximately 51%. The IT-BPO industry in India includes over 4,000 companies offering a plethora of services for both the global and Indian market. The Indian IT and BPO sector is expected to reach USD 73.1 billion in FY 2010, an aggregate growth of 5.4%. Its share of the total Indian exports increased from less than 4% in FY 1998 to almost 25% in FY 2010.

## **Engineering Services Outsourcing**

Engineering Services and Software products industry export segment is estimated at USD 7.3 billion and includes three service lines Engineering and R&D, Off-shore product development and Made-in-India software products. This market is expected to grow at over 14% in the current fiscal. Engineering Services accounts for USD 4.9 billion of the market. This category comprises the value of work undertaken by developers of embedded systems / solutions as well as other product engineering related services. Engineering Services off shoring has witnessed a healthy growth in the last few years, as Indian service providers have increased their focus on R&D and product design and multinational companies have set up captive centers.

## **Off shore product development**

Off shore product development market is the next largest segment with a contribution of USD 1.3 billion estimated for FY2009. It includes software development services sourced by global software companies for product development through their captive units or outsourced relationships in India. Off shoring is expected to see increased adoption, driven by the rise of India – centric providers, and global players ramping up their offshore delivery capabilities.

## **Domestic IT spending**

The liberalization of Indian economic policy, de-regulation of key sectors and progressive moves towards further integrating India with the global economy has been a key driver of increased IT adoption in the country. This is best reflected in the fact that most indigenous players in telecom and banking, two key sectors with significant multinational corporation (MNC) participation, have significantly upgraded their levels of IT adoption to offer best-in-class services comparable to those offered by the global competition and these two sectors together account for approximately 50-60 percent of the domestic spend on IT services.

Similar competitive pressures in other more recently deregulated service sectors such as airlines and insurance, and the uptake in the manufacturing and industrial sectors; and the several large e-governance initiatives launched by the government under the National E-Governance Plan (NEGP) are expected to provide sustained growth in domestic demand for IT services over the next few years.

India's domestic IT-BPO market is expected to cross US\$ 24.19 billion in 2008 and a healthy growth is expected across all segments.

**Indian IT-BPO (domestic and export) Revenue – FY07-FY10E** (\$ mn)

|  | FY07         |              | FY08         |              | FY09         |              | FY10E        |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | Export       | Domestic     | Export       | Domestic     | Export       | Domestic     | Export       | Domestic     |
| IT Services                              | 17050        | 5531         | 22203        | 7882         | 25800        | 8226         | 27290        | 8940         |
| BPO                                      | 7570         | 1097         | 9915         | 1576         | 11703        | 1932         | 12401        | 2288         |
| Software products & engineering services | 6586         | 1600         | 8300         | 2234         | 9600         | 2690         | 9999         | 2771         |
| Hardware                                 | 477          | 7978         | 500          | 10293        | 395          | 9006         | 395          | 9002         |
| <b>Total</b>                             | <b>31683</b> | <b>16206</b> | <b>40918</b> | <b>21985</b> | <b>47498</b> | <b>21854</b> | <b>50086</b> | <b>23001</b> |
| Exchange Rate (₹/\$)                     | 44.9         |              | 40.2         |              | 45.9         |              | 47.3         |              |

**Business Operations**

Acropetal Technologies Limited (ATL) is engaged in the Engineering Design Services offering on a broader spectrum 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 with many other value added services offering to its customers. ATL's IT/ITES solutions in the enterprise space allow organisations to optimize their core business activities like resource management, customer relationship management and supply chain management. The company helps organisations to improve their business processes, functions through the effective application of Enterprise solutions that align with organisation's business objectives and strategies. Product quality improvement, idea generation, product teardown, material cost out, product re-design, back office support to accomplish 2D Drawings, Data Conversion and 3D Modelling are the value added services offered to ATL's customers.

Acropetal Technologies is currently working on the following competency based verticals:

1. Engineering Design Services
2. Healthcare Services
3. Enterprise & IT Services
4. Energy & Environment Services
5. IT Infrastructure Management Services
6. IT Security Consulting Services

ATL is headquartered in Bangalore, the silicon valley of India and also have presence in Dubai, UAE, through its subsidiary Vision Info Inc. ATL intends to set up new software development center cum corporate office in Bangalore and also expand its geographical presence in the US, UK, Middle east and South East Asia by setting up offices.

ATL were awarded the prestigious STPI award for 'High Growth in Small and Medium Business Unit' by the Software Technology Parks of India (STPI) and Department of Information Technology, Biotechnology & Science Technology, Karnataka for the year 2006-07 and 2008-09.

**Services**

**Engineering Design Services:** ATL offers complete Engineering Design services for the infrastructure industry and also intends to expand this service offering to automotive and aerospace industries as well. It offers a unique combination of engineering skills, domain expertise and application know-how. It is been working with Saudi Oger, since 2001 and have developed an offshore development centre for Saudi Oger, which has now more than 150 people at present.

Engineering Design Services includes Engineering Design Architecture, Engineering Design Services – Structural, Engineering Design Services – Electrical and Steel Detailing.

**IT Services & Enterprise Solutions:** ATL focuses on solutions including CRM, ERP and SCM and offers custom application development, web applications, internet engineering and continuous engineering of legacy software. In addition, its professional services group offers services from short-term resource augmentation to providing a Dedicated Development Centre (DDC) to address its customer needs, thus helping save time, money, streamlining business and sharpening the competitive edge of customers.

IT Services & Enterprise Solutions includes Customer Relationship Management CRM Services, ERP Solutions, Application Management, Portal Development and Data Warehousing & Business Intelligence.

**Healthcare IT Solutions:** ATL has implemented several healthcare case management and patient information management systems that merge sophisticated technologies with user-friendly interfaces. Its healthcare solutions provide service-oriented architecture based on common healthcare standards in the US, like, Health Insurance Portability and Accountability Act (HIPAA) & Health Level 7 (HL7) etc., to support heterogeneous applications.

Healthcare IT Solutions includes Electronic Medical Records (EMR) and Health Information Management Solutions (HIMS).

**Energy & Environment Practice: Energy planner:** This proprietary decision support system of ATL helps companies and policy makers for optimize and analyze corporate or sectoral energy consumption through its inventory, optimization and analytics modules. The advanced optimization model is customized to meet the requirements of sectors like oil and gas, power, manufacturing, process industries, logistics, infrastructure and the services sector.

ATL also provides Greenhouse Gas Accounting and Mitigation Cost Optimizer for companies to account and manage their GHG emissions and optimize the costs of meeting their GHG liabilities. The web based software provides a GHG accounting and cost optimization framework which can be implemented across facilities / divisions / geographies / time.

**IT Infrastructure Management Services (ITIMS):** ATL's service offerings in this vertical are focused on reducing operational costs and maximizing availability and performance of clients' IT infrastructure. Global organisations consider ITIMS as a source of competitive advantage. A healthy IT infrastructure enables efficient delivery of services and improves overall business performance. It supports the major prevalent technologies across Operating Systems, Network Devices, Messaging and Collaboration environments, Web and Web application servers, Databases, Security Devices, besides Backup and Storage devices.

#### **IT Security Solutions:**

ATL's IT Security Solutions includes Comprehensive Security Services, Client Management services, Server Management services, Gateway Security management services, Threat and Vulnerability Management Program and Availability and OS Recovery deployment & Maintenance services.

## Strengths

### Focused on four major Industry segments

ATL's current offerings are focused on four major industry sectors: Infrastructure, BFSI/ Retail, Health and Energy. It intends to offer complete end to end solution catering to these market segments that enables the company to obtain additional business from existing clients as well as address a larger base of potential new clients.

### Product and Services Mix

ATL, along with its group companies, has internally developed and built a strong product and services portfolio. It would continue to leverage on this domain expertise as well as the product portfolio to offer comprehensive solutions to its customers.

### Existing Strong Client Base

ATL has developed a strong customer base over the last few years. Its focus is to build on its existing customer relationship and offering new services to broaden the spectrum of its service offerings. It would be leveraging its existing customer base by offering its complete suite of offerings, which would enable the company to enhance its sales revenue.

### Unique Global Delivery Model

ATL has built a client centric focus delivery model and have been able to successfully deploy and test this model across clients and build trust among its customers. The near shore centers integrated with this model have helped it to build cost effective solutions to its customers.

### Strong Leadership Team

The management team of ATL is experienced and comes from diverse backgrounds. The management team consists of successful entrepreneurs, technology professionals, experienced professionals from large companies. This diverse experience would enable the company in their mission in building the next generation, differentiated mid-size IT Company.

## Objects of the Issue

The Objects of the Issue are:

- To finance the funds required for potential acquisitions
- To set up a Software Development Centre cum Corporate Office at Hosur Road, Bangalore
- Expansion & establishment of overseas offices
- Part repayment of term loans
- Additional working capital requirements
- General corporate purposes
- Meeting public Issue expenses

## Utilisation of Net Proceeds

| Particulars  | Amount (₹Cr)  |
|--|---------------|
| Proposed Acquisitions  | 55.00         |
| Setting up of Software Development Centre and Corporate Office | 26.19         |
| Expansion & Establishment of overseas offices                  | 19.45         |
| Part Repayment of Term Loans                                   | 25.00         |
| Additional Working Capital requirements                        | 25.00         |
| Public Issue Expenses  | 15.00         |
| General Corporate Purposes                                     | 4.36          |
| <b>Total</b>   | <b>170.00</b> |

## Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- The market for IT Services is both highly competitive and rapidly evolving. ATL primarily face competition from Indian IT services companies as well as international technology services companies which offer broad-based services. The company anticipates this competition to grow as the demand for these services increases and it also expect additional companies to enter the Indian market. It also expects that further competition will increase and potentially include firms in countries with lower personnel costs than those prevailing in India. However, ATL recognize that price alone cannot constitute sustainable competitive advantage.
- ATL requires various approvals, licences etc. for the successfully setting-up of Software Development Centre cum Corporate Office, applications for which are yet to be made. Any delay or denial in the receipt of these approvals, licences etc. could adversely impact timelines, operations and profitability of the company.
- Substantial portions of ATL income is dependent upon a few customers, its top 5 customers contributed ~55% of its income for the 9 months period ended December 31, 2010. The loss of any one or more of its major customers would have a material adverse effect on its business operations and profitability.
- ATL generate a significant portion of its revenues in US Dollars and other foreign currencies and a significant portion of its expenses are incurred in rupees and hence the company is exposed to foreign exchange rate risks.
- The IT industry is highly dependent on skill sets and domain expertise of its employees, which are not readily replaceable. IF ATL unable to attract and retain skilled professionals, it may have adverse effect on its business operations and profitability.

**Restated Profit & Loss Statements**

(₹Cr)

| Year/Period ended on                      | 31-Mar-09     | 31-Mar-10     | 31-Dec-10     |
|---|---------------|---------------|---------------|
| <b>Sales &amp; Operating Incomes</b>      |               |               |               |
| Export sales                              | 97.10         | 151.56        | 147.59        |
| Domestic sales                            | 0.00          | 0.64          | 0.54          |
| Other Income                              | 2.74          | -0.25         | -1.41         |
| Increase/(Decrease) in Inventory          | 0.76          | 1.51          | 5.15          |
| <b>Total Income</b>                       | <b>100.60</b> | <b>153.45</b> | <b>151.88</b> |
| <b>Expenditure</b>                        |               |               |               |
| Direct cost of Sales / Services           | 48.42         | 65.25         | 68.80         |
| Personnel Cost                            | 9.80          | 13.53         | 10.23         |
| Administrative and Other Expenses         | 2.77          | 5.21          | 4.46          |
| Selling and Distribution Expenses         | 1.89          | 8.78          | 7.73          |
| <b>Total Operating Expenses</b>           | <b>62.88</b>  | <b>92.77</b>  | <b>91.22</b>  |
| <b>PBDITA</b>                             | <b>37.72</b>  | <b>60.68</b>  | <b>60.66</b>  |
| Less: Finance Cost                        | 8.23          | 9.98          | 10.05         |
| <b>PBDTA</b>                              | <b>29.49</b>  | <b>50.69</b>  | <b>50.60</b>  |
| Less: Depreciation & Amortisation         | 8.74          | 15.21         | 22.22         |
| <b>PBT</b>                                | <b>20.75</b>  | <b>35.48</b>  | <b>28.38</b>  |
| <b>Add / ( Less ) : Provision for Tax</b> |               |               |               |
| Current Tax                               | 0.00          | -0.04         | -0.05         |
| Fringe Benefit Tax                        | -0.06         | 0.00          | 0.00          |
| Deferred Tax Liability                    | -1.77         | 0.28          | 0.08          |
| <b>Profit After Tax</b>                   | <b>18.92</b>  | <b>35.71</b>  | <b>28.41</b>  |
| Weighted average number of shares         | 18000000      | 18745205      | 20000000      |
| EBITDA margin (%) on Net Sales            | 38.85%        | 39.87%        | 40.95%        |
| EPS (₹)                                   | 10.51         | 19.05         | 14.20         |
| Book Value (₹)                            | 38.30         | 54.14         | 65.49         |

**Restated Balance Sheets**

(₹Cr)

| Year/Period ended on                              | 31-Mar-09    | 31-Mar-10     | 31-Dec-10     |
|---|--------------|---------------|---------------|
| <b>A. Fixed Assets</b>                            |              |               |               |
| Gross Fixed Assets                                | 87.62        | 144.19        | 144.51        |
| Less : Accumulated Depreciation                   | 14.23        | 29.24         | 51.46         |
| Net Fixed Assets                                  | 73.38        | 114.96        | 93.05         |
| Less:-Revaluation reserves                        |              |               |               |
| Net Fixed Assets After Revaluation Reserves       | 73.38        | 114.96        | 93.05         |
| Capital Work in Progress                          | 19.05        | 0.00          | 38.18         |
| <b>Total Fixed Assets</b>                         | <b>92.43</b> | <b>114.96</b> | <b>131.23</b> |
| <b>B. Investments</b>                             | <b>3.43</b>  | <b>6.10</b>   | <b>6.10</b>   |
| <b>C. Current Assets, Loans &amp; Advances</b>    |              |               |               |
| Sundry Debtors                                    | 45.46        | 57.54         | 77.78         |
| Cash and Bank Balances                            | 9.05         | 6.80          | 13.72         |
| Loans and Advances                                | 8.47         | 14.20         | 37.58         |
| Inventories                                       | 1.86         | 3.37          | 8.52          |
| <b>Total Current Assets, Loans &amp; Advances</b> | <b>64.85</b> | <b>81.91</b>  | <b>137.60</b> |
| <b>D. Liabilities &amp; Provisions</b>            |              |               |               |
| Secured Loans                                     | 62.23        | 77.60         | 107.99        |
| Unsecured Loans                                   | 15.61        | 11.05         | 23.97         |
| Deferred Tax Liability (Net)                      | 3.19         | 2.91          | 2.83          |
| Current Liabilities                               | 8.39         | 5.72          | 5.55          |
| Provisions  | 2.36         | 4.20          | 3.62          |
| <b>Total Liabilities &amp; Provisions</b>         | <b>91.77</b> | <b>101.48</b> | <b>143.95</b> |
| <b>E. Net Worth (A + B + C - D)</b>               | <b>68.94</b> | <b>101.49</b> | <b>130.98</b> |
| <b>F. Represented by</b>                          |              |               |               |
| Equity Share Capital                              | 5.00         | 20.00         | 20.00         |
| Share Premium                                     |              | 18.00         | 18.00         |
| Share Application Money Pending allotment         | 20.00        | 0.00          |               |
| Reserves & Surplus                                | 43.94        | 63.49         | 92.98         |
| <b>Total Net Worth</b>                            | <b>68.94</b> | <b>101.49</b> | <b>130.98</b> |

**Keynote Capitals Ltd.**

**Member**

Stock Exchange, Mumbai (INB 230930539)  
National Stock Exchange of India Ltd. (INB 010930556)  
Over the Counter Exchange of India Ltd. (INB 200930535)  
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

**Registered Office**

4th Floor, Balmer Lawrie Building,  
5, J. N. Heredia Marg,  
Ballard Estate, Mumbai 400 001.  
Tel Nos. 022-2269 4322 / 24 / 25

---

**Disclaimer**

This report by Keynote Capitals Ltd. is purely for information purpose and is based on the Red Herring Prospectus for the public issue of the company under coverage, published financial statements, public information and the recent analyst meeting of the company. Neither the information nor any opinion expressed in this report constitutes an offer, or an invitation to make an offer, to buy or sell the securities mentioned herein. Directors, officers, clients or employees of Keynote Capitals or its affiliates may have positions in securities covered in this report or in related investments. Keynote Capitals Ltd may also have proprietary trading positions in securities covered in this report or in related investments. Opinions and estimates mentioned herein, if any, are based on workings of Keynote Capitals only. Investors in the issue are advised to read the RHP carefully before subscribing to the issue. Keynote Capitals Ltd. or any of its directors, officers or employees shall not in any way be responsible for any loss arising from the use of this report. Investors are advised to apply their own judgment before acting on the contents of this report.