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Rolta India Ltd. Downgraded To 'B+' From 'BB-' On Rising Leverage, Outlook Is Stable

18-Mar-2016 11:49 EDT

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We expect Rolta's rising uncollected receivables and uncertain capital expenditure needs to push up its leverage over the next 12 months.

We are therefore lowering our long-term corporate credit rating on the India-based IT company to 'B+' from 'BB-'.

We are also lowering our long-term issue ratings on the company's guaranteed senior unsecured notes to 'B+' from 'BB-'.

The stable outlook reflects our view that Rolta's healthy revenue growth and EBITDA margin will temper the impact of higher leverage over the next 12 months.

SINGAPORE (Standard & Poor's) March 18, 2016--Standard & Poor's Ratings Services said today that it had lowered its long-term corporate credit rating on Rolta India Ltd. (Rolta) to 'B+' from 'BB-'. The outlook is stable. At the same time, we lowered our long-term issue rating on the senior unsecured notes that Rolta Americas LLC and Rolta LLC issued to 'B+' from 'BB-'. Rolta, an India-based information technology (IT) products and solutions provider, guarantees the notes.

"We downgraded Rolta because we expect the company's leverage to rise and its free operating cash flows to be negative over the next 12 months," said Standard & Poor's credit analyst Ashutosh Sharma.

In our view, uncertainty is increasing over Rolta's rising uncollected government receivables and capital expenditure for India's defense and security related projects. We now expect Rolta to have negative free operating cash flows (FOCF) for fiscal 2016 (year ending March 31, 2016) and a ratio of funds from operations (FFO) to debt below 20% until fiscal 2017.

Although Rolta's management expects delays in payments from the Indian government agencies to be sorted out over the next six to 12 months, we believe the recovery is uncertain and will be gradual. We also believe that Rolta's capital spending will remain uncertain, particularly till the company submits the prototype under the Indian defense battlefield management systems contract.

"The stable outlook reflects our expectation that Rolta's revenue will grow at a healthy rate of 10%-12% and its EBITDA margins will be 32%-35% over the next 12 months," said Mr. Sharma. "These factors should temper the impact of the higher leverage."

We also anticipate that the company will contain its capital expenditure and improve its receivables cycle, such that its FOCF turns positive from fiscal 2017.

We may lower the rating on Rolta if we expect the company's FFO-to-debt ratio to fall significantly below 15% over the next two years. This may happen if: (1) the company's uncollected receivables or unplanned capital expenditure are significantly higher than our base case; or (2) in an unlikely situation, EBITDA margins fall materially below 32%.

We may also downgrade Rolta if the company's credit standing or banking

relationships weaken unexpectedly, resulting in increased refinancing risks over the next 18-24 months.

We may raise the rating if Rolta: (1) wins a significant share of India's defense battlefield management system contract; and (2) maintains its healthy revenue growth, steady receivable cycle with positive FOCF, and a FFO-to-debt ratio sustainably above 20% without significant refinancing risks.

RELATED CRITERIA AND RESEARCH

Related Criteria

[Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014

[Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013

[Industrials: Key Credit Factors For The Technology Software And Services Industry](#), Nov. 19, 2013

[General: Corporate Methodology: Ratios And Adjustments](#), Nov. 19, 2013

[Methodology: Industry Risk](#), Nov. 19, 2013

[Group Rating Methodology](#), Nov. 19, 2013

[General: Corporate Methodology](#), Nov. 19, 2013

[Management And Governance Credit Factors For Corporate Entities And Insurers](#), Nov. 13, 2012

[General: 2008 Corporate Criteria: Rating Each Issue](#), April 15, 2008

Related Research

[Rolta India Ltd.](#), April 30, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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