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Research Update:

Rolta India Ltd. Rating Lowered To 'SD' Following Payment Default On A Credit Facility

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Research Update:

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Overview

- Rolta is negotiating an extension on one of its credit facilities that is overdue beyond 30 days. In our view, this constitutes a selective default (SD).
- The India-based company also missed an interest payment on its 2018 notes. We see an imminent risk of default on Rolta's outstanding guaranteed notes.
- We are lowering our long-term corporate credit rating on Rolta to 'SD' from 'CCC-'.
- We are also lowering our long-term issue ratings on the company's guaranteed notes to 'CC' from 'CCC-'.
- We are placing our issue ratings on CreditWatch with negative implications to reflect the prospect of a further downgrade if Rolta fails to make the payment within the grace period.

Rating Action

On May 31, 2016, S&P Global Ratings lowered its long-term corporate credit rating on Rolta India Ltd. to 'SD' from 'CCC-'.

At the same time, we lowered our long-term issue rating on the senior unsecured notes issued by Rolta Americas LLC and Rolta LLC to 'CC' from 'CCC-'. We also placed the issue ratings on CreditWatch with negative implications. Rolta, an India-based information technology products and solutions provider, guarantees the notes.

Rationale

We downgraded Rolta because the company has missed the payments on its credit facilities by more than 30 days. We lowered the issue ratings to reflect an imminent risk of default. We see a very high probability that Rolta may not be able to make the interest payments on its guaranteed notes.

On May 30, 2016, Rolta said that it had missed a US\$6.8 million coupon payment due on its 2018 unsecured bonds and is negotiating an extension on one of its credit facilities due since March 2016. In our view, this constitutes a selective default by the company. The company said that it intends to make the interest payment on the notes within the 30-day grace period ending June 15, 2016. But, Rolta has not shared any detailed plan to rectify the missed payments situation and avoid any future defaults.

In our view, Rolta's liquidity unexpectedly deteriorated in the fourth quarter of fiscal 2016 (year ended March 31, 2016) due to mounting receivables, mainly from the government of India's defense and homeland security projects. Further, the company's operating performance declined rapidly, with revenues falling 14% and EBITDA declining 50% during the same quarter. Therefore we believe the company is highly vulnerable to nonpayment of its debt service obligations.

We believe the lack of proactive communication from the Rolta management on this unexpected development reflects a weaker efficacy of the company's management and governance.

CreditWatch

The negative CreditWatch on Rolta's guaranteed unsecured notes reflects our view that the company is highly vulnerable to nonpayment of interest within the grace period.

We will lower the issue ratings to 'D' if Rolta does not pay its coupon within the grace period or if the bond trustees elect to accelerate the notes due to cross-default provisions.

We will affirm the rating and resolve the CreditWatch if Rolta makes the necessary payments on all its debts and provides a credible plan to meet its debt obligations over the next six months.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Key Credit Factors For The Technology Software And Services Industry, Nov. 19, 2013
- Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012

- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research

- Rolta India Ltd. Rating Lowered To 'CCC-' And Placed On Watch Negative On Possible Default, May 29, 2016

Ratings List

Downgraded; CreditWatch Action

	To	From
Rolta India Ltd. Corporate Credit Rating	SD/--	CCC-/Watch Neg/--

Downgraded

	To	From
Rolta Americas LLC Senior Unsecured	CC/Watch Neg	CCC-/Watch Neg
Rolta, LLC Senior Unsecured	CC/Watch Neg	CCC-/Watch Neg

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India Ratings Downgrades Rolta India to 'IND D'

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By Amit Bhuwania

JUN 2016

India Ratings and Research (Ind-Ra) has downgraded Rolta India Limited's (Rolta) Long-Term Issuer Rating to 'IND D' from 'IND BBB-'. The Outlook was Negative. A full list of ratings is at the end of the commentary.

KEY RATING DRIVERS

The downgrade reflects Rolta's current delays in servicing its external commercial borrowings due to a weak liquidity position. Also, in its overseas subsidiary it has missed a USD6.8m interest payment on 10.75% 2018 unsecured notes (guaranteed by Rolta) due on 16 May 2016 and has a grace period ending till 15 June 2016.

RATING SENSITIVITIES

Positive: Timely debt servicing for at least three consecutive months could be positive for the ratings.

COMPANY PROFILE

Rolta is an Indian IT services and solutions company providing geographical information system services, engineering design services and IT solutions to customers in North America, Europe, Australia and Middle East. For FY16, the company reported revenue of INR37.9bn (FY15: INR36.8bn) and EBITDA of INR11.1bn (INR12.9bn).

Rolta's ratings are as follows:

- Long-Term Issuer Rating: downgraded to 'IND D' from 'IND BBB-/Negative
- INR8,293m stand-by letter of credit: downgraded to 'IND D' from 'IND A3'
- INR4,000m fund-based working capital: downgraded to IND D from 'IND BBB-/Negative
- INR3,000m non-fund-based working capital: downgraded to 'IND D' from 'IND A3'
- INR12,539m external commercial borrowings: downgraded to 'IND D' from 'IND BBB-/Negative

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating Outstanding

(As on 01/Jun/2016)

Long Term Issuer Rating	IND D	
External Commercial Borrowing	IND D	INR 12539 m
Fund Based Working Capital Limit	IND D	INR 4000 m
Fund Based Working Capital Limit	IND D	INR 3000 m
Letter of Credit	IND D	INR 8293 m

Applicable Criteria

Corporate Rating Methodology

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