ARIHANT capital markets ltd.

Date: 21st April 2010

Rolta India Ltd.—hit by currency headwinds

BUY

CMP: Rs.184 | **Target Price: 230** | **Industry: Information Technology**

Stock Info	
Market Capital	Rs.3004.4 cr
Equity Capital	Rs.161.2cr
Avg Trading Vol.	394784 (Qtly)
52 WK High/Low	210/74
Face Value	Rs. 10

BSE Group	A
BSE Code	500366
NSE Symbol	ROLTA
Bloomberg	RLTA IN
Reuters	ROLT.BO
BSE Sensex	17460
NSE Nifty	5230

Shareholding Pattern (31st Dec.'09)	
Promoters	41.9%
Domestic Institutions	2.7%
Foreign Institutions	34.3%
Non Promoters Corp.	2.7%
Public & Others	18.4%
Govt. Holdings	0.0%

Q3FY10 results highlights

Results tad lower than expectation: Rolta posted its 3QFY10 results that were slightly lower than our expectation. On a QoQ basis, the company managed to grow its revenue by 5.1% in rupee terms and by 8.7% in dollar terms. However, on a constant currency basis, the QoQ growth was higher at 6.8%. The company also managed to grow all its three lines of business as compared to the previous quarters wherein growth was mainly led by the GIS segment. In 3Q, GIS grew by 5.3%, EDA by 6.9% while EICT by 2.6% as compared to Q2. The management also expressed confidence on the overall business scenario.

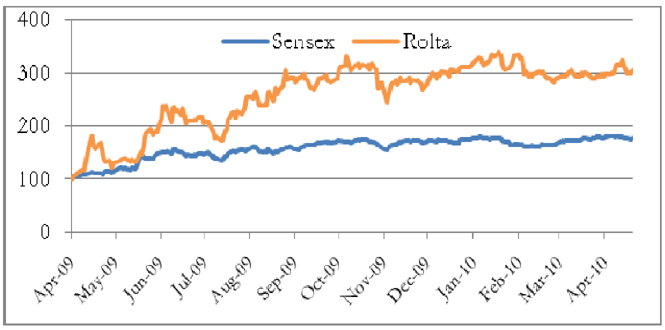
Slight improvement in billing rates: The billing rates saw some uptick in the last quarter. Though in the GIS segment, billing rates remained flat, the EDA and EICT segment saw some improvement in billing rates of ~1%. With the global recovery taking roots we expect the company to further improve upon its billing rates in the coming quarters.

Robust increase in order-book position: The company increased its order-book position by Rs.62cr in the third quarter taking the total order book size to Rs.1769cr. A majority of the increase in the order-book was driven by GIS which increased by a whopping 39.4cr in Q3 as compared to Q2. Another positive sign was the increase in the EICT order-book by 11.6cr in lieu of the decline that was witnessed in the previous quarter. The order pipe-line also remains strong and therefore Rolta looks well set to increase its revenue substantially going forward.

Increase in head-count: Rolta increased its net head-count by 46 in Q3 as compared to 7 in Q2 (and negative head-count in the 4 quarters prior to that) which we believe is an indication of the growth being expected by the company in the coming quarters.

Resilient margins: Inspite of the rupee appreciating by more than 3% in Q3, Rolta managed to maintain its EBIDTA margins at 37.8% (37.95% in Q2). This was made possible because of Rolta earning as well as incurring expenses in the same currency. With increase in solution sale expected in the coming quarters we believe Rolta has the potential to further improve its margins. Further, the company may also use the utilisation lever to support margins.

Valuations: At CMP the stock is trading at a P/E of 11.2xFY10E earnings. We are lowering our revenue estimates for FY10E due to the slightly lower than expected 3Q results which were affected by the sharp rupee appreciation. We now expect Rolta to post a revenue growth of 12.3% in FY10E as compared to our earlier estimate of 13.9%--which still would be in the range of the 12-15% guidance given in the beginning of FY10. We however remain bullish on the growth prospects of Rolta and expect Rolta to increase in revenue substantially in the coming quarters. We base our expectation on a robust and fast increasing order book, an improvement in the global scenario and an increasing market for its differentiated products. We therefore maintain our DCF based target price of Rs.230 per share and reiterate our 'Buy' recommendation on the stock.



Particulars (Rs. in cr)	FY09	FY10(E)	FY11 (E)
Net Revenue	1372.8	1541.3	1804.5
Growth %	*28.0*	*12.3*	*17.1*
Net Profit	293.8	266.6	316.4
Growth %	*27.4*	*(9.3)*	*18.7*
EPS (Rs)	18.3	16.6	19.7
P/E	10.1	11.2	9.4
P/BV	2.3	2.0	1.7

Other highlights of Q3 FY10 results

Fund raising on the cards: The board having already passed an enabling resolution to raise $250mn through various instruments like ADR, GDR, FCCBs, QIPs, etc, we believe the management will go for fund raising to the tune of $100-125mn sooner than later. Considering the fact that the company is currently having cash of ~Rs.130cr (~Rs.155cr in Q2) and debt of ~Rs.1180cr (~Rs.110cr in Q2), we believe that the a major part of the fund will be used to deleverage its balance sheet. The probability of stock dilution has the possibility of putting some pressure on the stock in the near term.

Slight improvement in DSO days: Rolta has managed to bring down its DSO days slightly to 131 days at the end of Q3 as compared to 134 days in Q2. Going ahead we can expect the company to report better DSO which will help the company to maintain higher cash on its books and cut down on its working capital expenditure.

Background

Rolta India Ltd., promoted by Mr. Kamal K.Singh was incorporated in the year 1989 at Mumbai. After attaining the Certificate of Commencement of business in the same year, the company made its Initial Public Offering (IPO) in 1990.

Headquartered in Mumbai, Rolta provides IT-based Geospatial and Geographic Information (GIS) solutions & services, Engineering & Design Automation (EDA) and Enterprise Information & Communication Technology (EICT) services to customers across the world. The company has grown significantly over the years and at present operates through a network of 15 branch and regional offices across India. Besides, the company also has ten subsidiaries located in the USA, Canada, UK, Netherlands, Germany, Saudi Arabia, United Arab Emirates and Australia.

It also established a 50: 50 Joint Venture company named Stone & Webster Rolta Limited with Shaw, Stone & Webster Inc. USA and a 51:49 Joint Venture Company called Rolta Thales Limited with Thales Group of France. These joint ventures not only bought in new clients for the company but also newer technologies which has benefitted the it to a very large extent and has the potential to be of even greater benefits in the future.

The three different segments of Rolta's business is unique in their own way and caters to different verticals. The following diagram illustrates the main verticals that the three business segments of Rolta caters to.

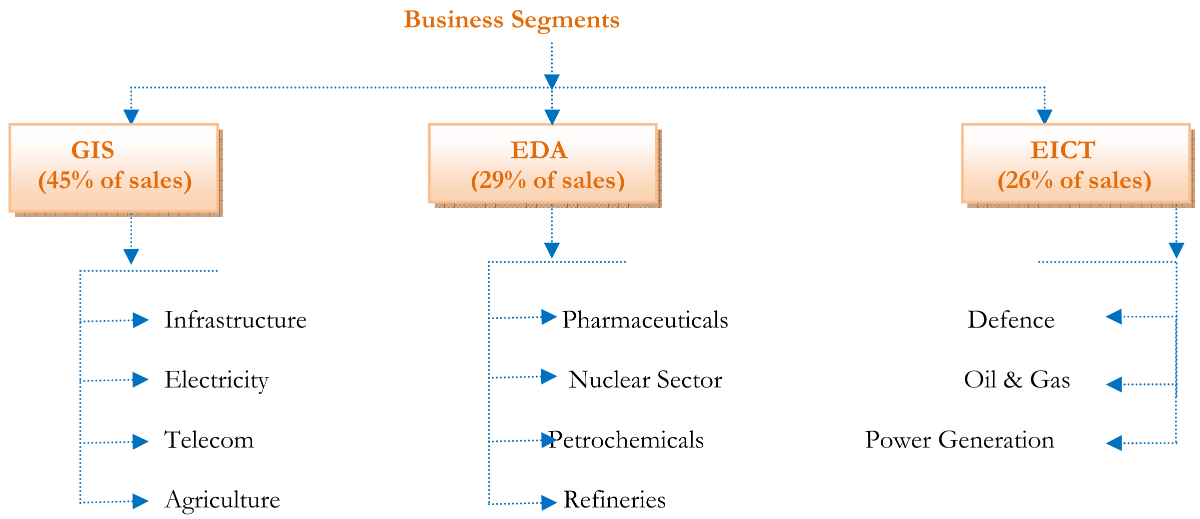
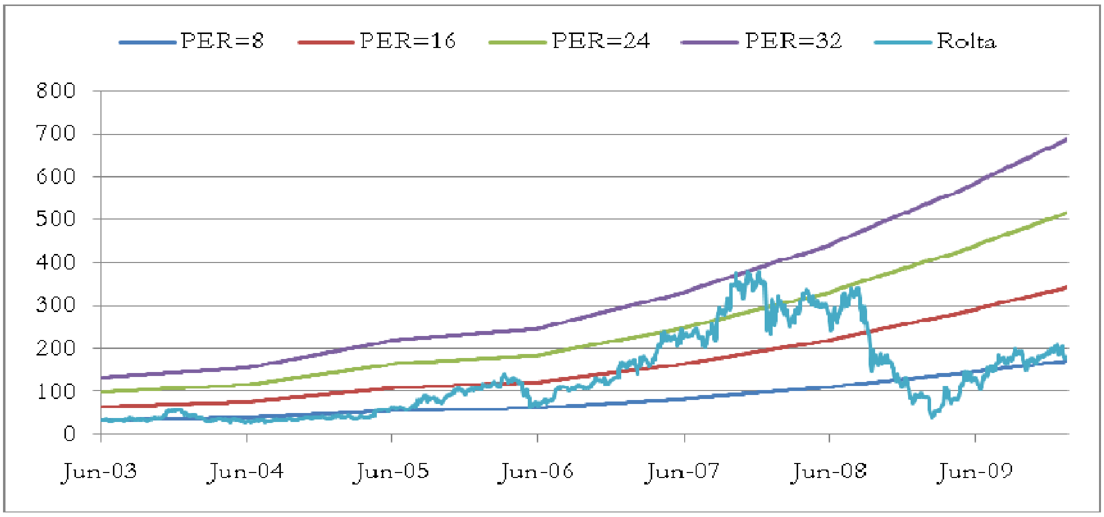


Fig: Verticals catered to by the 3 segments of Rolta

The company has been consistently producing exceedingly good results over the years. Both its net profit and sales have grown at a CAGR of more than 35 per cent over FY06-'09. Rolta gets a majority of their income (~55%) from domestic sources. This has provided a sort of safety cap to any downside risk to the company's revenue. Moreover, the fact that the BFSI segment which took the maximum beating during the recession contributes as a whole less than 5 per cent of revenue enabled the company to be in a better position to weather through the global slowdown.

PE Band



Q3 FY10 financial data

Year ending June (Rs. in cr)	Q3FY10	Q3FY09	YoY%chng.	Q2FY10	QoQ%chng.
Net sales/income from operations	394.6	332.0	18.9%	375.6	5.1%
Total income	**394.6**	**332.0**	**18.9%**	**375.6**	**5.1%**
EXPENDITURE					
Inventory-(Increase)/Decrease	5.9	2.5	136.0%	2.5	136.0%
Material/Subcontract cost	76.06	31.1	144.6%	67.9	12.0%
Staff cost	124.42	148.7	-16.3%	126.9	-2.0%
Depreciation	67.28	49.8	35.1%	66.9	0.6%
Other Expenditure	38.94	43.3	-10.1%	35.9	8.5%
TOTAL	**312.68**	**275.3**	**13.6%**	**300.3**	**4.1%**
Profit from operations before other income, interest and exceptional item	**81.88**	**56.7**	**44.4%**	**75.3**	**8.7%**
Other Income	6.02	8.1	-25.7%	7.9	-23.8%
Profit before interest & exceptional items	**87.90**	**64.8**	**35.6%**	**83.3**	**5.5%**
Interest	10.09	5.8	74.0%	11.5	-12.3%
Profit/(Loss) before exceptional item & Tax	**77.81**	**59.1**	**31.7%**	**71.8**	**8.4%**
Exceptional item:					
Notional Exchange (Loss)/Gain on revaluation of FCCBs	0	84.0	-100.0%	0.0	0.0%
Profit after Exceptional Item before Tax	**77.81**	**143.1**	**-45.6%**	**71.8**	**8.4%**
Provision for Taxation	10.89	10.1	7.8%	9.2	18.4%
Net Profit after Exceptional Item &Tax	**66.92**	**132.9**	**-49.6%**	**62.6**	**6.9%**
Effective tax rate%	*14.0%*	*7.1%*		*12.8%*	
Add/(less)minority share in loss	0.18	0.18	0.0%	0.2	-10.0%
Net Profit After Tax, Minority Interest & Exceptional item	67.1	133.1	-49.6%	62.8	6.8%
EPS	***4.2***	***3.0***	**40.0%**	***3.9***	**7.7%**

Profit and Loss Statement (consolidated)

Y/E June (Rs. in cr)	FY09A	FY10E	FY11E
Net Sales	**1372.8**	**1541.3**	**1804.5**
YoY%	*28.1*	*12.3*	*17.1*
Other Inc.	69.1	29.9	29.9
Total Income	**1441.9**	**1571.2**	**1834.4**
Expenditures:			
Manpower costs	548.7	506.3	567.0
Material cost	196.8	295.2	357.7
Interest	12.6	39.9	48.4
Depreciation	186.7	264.4	301.7
Other expenses	163.8	156.3	174
Total Expenditure	**1108.6**	**1262.0**	**1448.8**
PBT	**333.3**	**309.2**	**385.6**
Tax	40.2	43.3	70
Tax rate%	*12.1*	*14.0*	*18.2*
PAT	**293.8**	**266.6**	**316.4**
YoY%	*27.4*	*(9.3)*	*18.7*
EPS	**18.2**	**16.6**	**19.7**
PAT %	**20.4**	**16.9**	**17.4**

Cash Flow Statement Extract

Y/E June (Rs. in cr)	FY09A	FY10E	FY10E
Net profit after tax & extra-ordinary item	293.1	266.6	316.4
Adjustment for:			
Depreciation	186.7	264.4	301.7
Other items	30.5	86.3	121.5
Increase/Decrease in working capital	-115.1	1.2	-29.5
Cash generated from operations	395.2	618.5	710.1
Direct taxes paid	34.9	43.3	70
Net cash provided by operating activities	**360.2**	**535.2**	**591.6**
(Inc.)/ Dec. in Fixed assets	-763.9	-506.3	-215.5
Dividend Received	9.1	9.1	9.1
Interest Received	10.5	10.5	10.5
Other items	104.1	-38.6	-
Cash Inflow/ (outflow) from Investments	**-640.2**	**-525.2**	**-195.9**
Proceeds from secured loan	384.8	244.2	-
Interest Paid	-11.8	-39.9	-48.4
Dividend Paid	-57.6	-60.0	-60.0
Issue of equity shares	0.86	0.1	-
Repurchase of FCCBs	158.4	-70.0	-
Cash Inflow/ (outflow) from Financing	**157.7**	**74.26**	**-108.4**
Net Cash Inflow/ (outflow)	**-122.2**	**84.3**	**287.4**
Cash at beginning	259.8	137.6	221.9
Net Cash carried forward	**137.6**	**221.9**	**509.3**

Balance Sheet

Y/E June (Rs. in cr)	FY09A	FY10E	FY11E
Sources of Funds:			
Equity Capital (FV-Rs.10)	161	161.1	161.1
Reserves & Surplus	1280.6	1477.9	1735.9
Shareholder's Equity	**1441.6**	**1638.9**	**1897.0**
Total Debt	996.7	1180	1180
Deferred Tax Liability	47.9	47.9	47.9
Minority Interest	0.8	0.8	0.8
Total Liabilities	**2486.9**	**2867.7**	**3125.7**
Application of Funds:			
Goodwill	301.4	285	285
Gross Block	1651.8	2102.9	2345.3
Less: Acc. depreciation	404.7	569.1	870.8
Net Block	*1247.1*	*1533.8*	*1474.5*
CWIP	279.3	234.5	200.0
Investments	35.4	74	74
Deferred Tax Asset	7.2	8	8
Current Assets:			
Inventories	10.5	16.5	19.4
Debtors	595.1	561.6	593.3
Cash and equivalent	137.6	221.9	509.3
Loans and Advances	116.9	130	145
Other current assets	13.6	12.5	12.5
Less: Current liabilities & Provisions	274.5	210.0	195
Net current asset	**599.1**	**732.4**	**1084.2**
Total Assets	**2486.9**	**2867.7**	**3125.7**

Important Ratios

Y/E June	FY09A	FY10E	FY11E
Performance Ratios			
EBIDTA %	36.9	39.0	40.1
Net Profit %	20.4	16.9	17.3
Sales per share (SPS)	85.3	95.7	112.1
Price/SPS	2.2	1.9	1.7
Dividend %	30	30	30
Assets Turnover	0.6	0.6	0.6
Du Pont Analysis			
PAT / Net Sales	0.2	0.2	02
Net Sales / Assets	1.7	1.7	1.4
Assets / Equity	0.6	0.6	0.7
ROE %	20.4	16.3	16.7
Valuation Ratios			
Diluted EPS	18.2	16.4	19.4
Cash EPS	29.9	32.9	38.4
P/E	10.1	11.2	9.4
P/BV	2.3	2.0	1.7
EV/ EBIDTA	5.4	6.3	4.9
EV/ Sales	2.1	2.5	2.0
ROCE%	21.4	21.4	23.5

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Stock Rating Scale

		Absolute Return
BUY	:	>20%
ACCUMULATE	:	12-20%
HOLD	:	5-10%
REDUCE	:	<5%

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