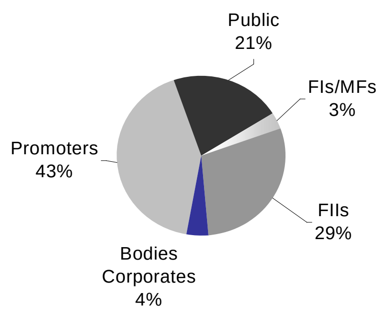
Rolta India Ltd

Result Update

CMP Rs 194 **Target Rs 195**

Sensex	16811
Nifty	4997
BSE Code	500366
NSE Code	ROLTA
Bloomberg Code	RLTA IN
Reuters Code	ROLT.BO
Out Standing Eq (No.of Shares)	161.02 mn
Mkt Cap	Rs.31238 mn
52 wk Hi / Low	Rs.206 / 41
Avg Daily Vol(Wkly)	119867
Face Value	Rs. 10

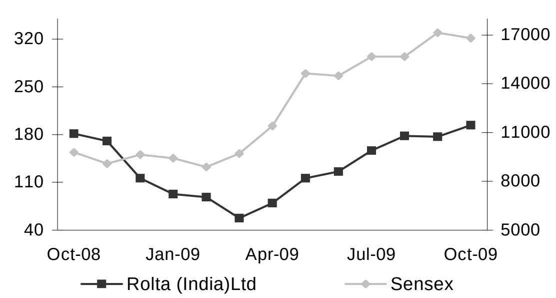
Share Holding Pattern



Stock Performance (%)

	3Mths	6Mths	1Year
Absolute	39	134	13
Relative	29	83	-59

Price Movements



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RTIL's, reported topline numbers are higher than our expectations, with revenue up 5.4% sequentially to Rs 3.5bn. Though the topline performance was more wide based, the uptick in growth is mainly led by EGIS segment contributing nearly 65% of the overall growth, recording 7.2% growth sequentially. RTIL's EDOS & EITS segment posting incremental numbers after two quarters of sequential decline seems comforting. With increased contribution from solution led services, and various cost rationalization initiatives, operating margins improved by nearly 200bp sequentially to 35.8%, however increased financial cost narrowed down the improvement to 30bp on margins, prior taxation (excluding exceptional items).

Business concerns for RTIL seems abating, given the apparent cessation in decline in order intake, with revival seeming to be faster than our expectations, given the rebound in growth higher than our estimates. Improvement in business outlook is certainly evident, given the increasing order intake for the second sequential quarter, after nearly four quarters of decline. We expect EGIS to be the growth leader for RTIL in the coming quarters, given the defensive nature of GIS & its end clientele, further being seconded by solution led services.

- Order book for the quarter stands at Rs 16.6 bn, with order intake at Rs 3.9bn, up 2.4% sequentially. Increase in the order intake is mainly led by the EGIS segment, up 7.3% sequentially to Rs 2.07bn. While the EITS segment reported a decline in the order intake, positive increase in orders for second sequential quarter from the EDOS segment has come as a relief.
- Employee count continues to decline, with the count for the quarter down by nearly over 200 employees, majorly led from the EDOS segment. This is slightly discomforting, as given its utilization levels, such massive cut down of employees can possibly backfire in the event of sudden revival of the business. Management, though stressed on being "well staffed" to address the growing business.
- RTIL's Board has passed an enabling resolution to raise USD 250 mn, via equity instrument leading to 10-12% dilution. The proposed fund to be raised is mainly for possible acquisitions and partly to de-leverage its Balance sheet.
- RTIL has maintained its top-line guidance of 12-15% YoY growth with operational margins, to be in the range of 33-35%.

Financial Snapshot **(Rs in mn)**

Particulars	FY2008	FY2009E	FY2010E	FY2011E
Revenue	10722	13728	14573	17838
EBIDTA (%)	36.3	33.8	33.4	34.4
PAT	2306	2938	1662	2456
PAT(%)	21.5	21.4	11.4	13.8
EPS	14.3	18.3	10.3	15.3
ROCE (%)	20.9	15.4	10.5	13.6
ROE (%)	19.4	20.6	10.8	14.3
P/E x	14	11	19	13
EV/EBIDTA x	33	24	20	17

Source: Company,India Capital Markets Research

Outlook & Valuations

While we look forward for RTIL, to returning to a time of growth, we believe the economy is still soft with Technology users admittedly being cautious, waiting for greater economic confidence before ramping up their spending levels. The sentiment is seemed to be improving with increasing oil prices, but not enough to signal a swift recovery. In the interim, RTIL is addressing the current environment well, with its focus on the EGIS segment coupled with newly launched solutions. We believe RTIL is a differentiated player in its niche business segment and has increased its pie size with consistent improvement in its service offerings. Though we stand positive on the performance capability of the company, rising interest cost and impending Debt redemption is a niggling concern.

At CMP of Rs 194, the stock trades at a P/E of 19x and 13x for FY10E and FY11E earnings, respectively. Improving order book position and news of possible QIP can probably act as an upward trigger to the stock price, however we believe that at the CMP, the improvement in the outlook has been fully factored, and meaningful improvement in the order outlook is required, for further estimates upgrade.

Quarterly Results - Consolidated

Rs mn

Consolidated	Q1 FY10	Q1 FY09	Y-o-Y%	Q4 FY09	Q-o-Q %	FY09	FY08	Y-o-Y%
Income from Operations	3505	3462	1.2	3327	5.4	13728	10722	28.0
EBIDTA	1255	1185	5.8	1125	11.6	4635	3897	18.9
Depreciation	621	379	64.0	578	7.5	1867	1383	35.1
Interest	83	0	-	57	46.6	126	0	-
Other Income	99	150	-33.8	114	-13.1	440	486	-9.4
PBT	650	957	-32.1	604	7.6	3083	3001	2.7
Exceptional Item	0	-614	-	250	-	250	-316	-179.0
PBT after Exceptional Item	650	343	89.3	854	-23.9	3333	2685	24.1
Tax	90	105	-14.1	94	-4.0	402	388	3.6
PAT	559	238	135.0	760	-26.4	2931	2297	27.6
Minority Interest	0	2	-110.1	2	-109.8	-7	-9	-19.2
PAT (After Minority Interest)	559	240	133.2	762	-26.6	2938	2306	27.4
EBIDTA margins (%)	35.8	34.2		33.8		33.8	36.3	
PBT margins(%)	18.5	27.6		18.2		22.5	28.0	
PAT margins (%)	16.0	6.9		22.9		21.4	21.5	
Tax Rate (%)	13.9	30.6		11.0		12.1	14.4	

Source: Company,India Capital Markets Research

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