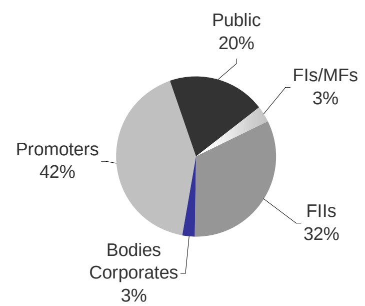
Rolta India Ltd

Result Update

CMP Rs 188	BUY	Target Rs 235

Sensex	16860
Nifty	5036
BSE Code	500366
NSE Code	ROLTA
Bloomberg Code	RLTA IN
Reuters Code	ROLT.BO
Out Standing Eq (No.of Shares)	161.05 mn
Mkt Cap	Rs.30277 mn
52 wk Hi / Low	Rs.210 / 41
Avg Daily Vol(Wkly)	561025
Face Value	Rs. 10

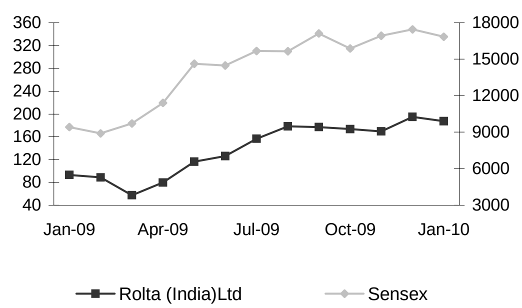
Share Holding Pattern



Stock Performance (%)

	3Mths	6Mths	1Year
Absolute	0.2	45	132
Relative	-0.2	28	40

Price Movements



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RTIL's, reported revenue for Q2FY10 were much above our expectations, with revenue up 7.2 % sequentially to Rs 3.6bn. EGIS contributed nearly 63% of the overall sequential topline growth, with Engineering design segment (EDOS) also gathering momentum, surpassing previous quarters revenue expansion by over 200bps. Operational margins expanded by over 200bps sequentially to 37.9% mainly led by various cost rationalization initiatives bearing results and partly because of increased contribution from solution led services. However increased financial cost & depreciation narrowed down the improvement to 59bp on margins, prior taxation.

Improvement in economic outlook percolating to movement in capex cycle is being reflected in RTIL's order book, with the rebound in order bookings in the EDOS segment, up 34% QoQ. The revival in RTIL's business outlook is being faster than anticipated with management acknowledging increase in confidence and enhanced spending environment across various verticals. We continue to believe that EGIS will be the growth leader for RTIL in the coming quarters; however given the momentum in order bookings in the EDOS segment, its contribution to the incremental numbers should be higher than, anticipated earlier. We have revised our revenue estimates upwards for FY2010 as well as for FY2011.

- RTIL's order intake for the quarter was at Rs 4.25bn, up 6.3% sequentially increasing the order book size to Rs 17.1bn. What is worth commenting is the order intake in the EDOS segment, at Rs 1.3bn (highest in last six quarters), up 34% QoQ. However the order intake in the EGIS as well as the EICT segment marked a decline.
- In Q2FY10 RTIL repurchased its FCCB amounting to USD 15mn, with accreted value at USD 17.8mn, at a discount of 15.25%, resulting in gain of Rs 130mn. This buyback was financed by raising an ECB loan. With this, buyback, total FCCB outstanding stands at USD 96.69mn, down from its original FCCB exposure of USD 150mn. The gain on buyback was effected in the P/L to the tune of Rs 4mn, with the balance gain being appropriated to the balance sheet.
- Employee count has ceased to decline, with a marginal increase of 7 employees in the quarter. This is another key positive to be acknowledged as it points towards stabilizing business outlook. Average utilization for the quarter improved by nearly 3bps, led by EDOS segment.

Financial Snapshot				**(Rs in mn)**
Particulars	**FY2008**	**FY2009**	**FY2010E**	**FY2011E**
Revenue	10722	13728	15344	18286
EBIDTA (%)	36.3	33.8	36.9	36.8
PAT	2306	2938	2566	3204
PAT(%)	21.5	21.4	16.7	17.5
EPS	14.3	18.3	15.9	19.9
ROCE (%)	20.9	15.1	14.3	16.9
ROE (%)	19.5	20.4	15.5	16.7
P/E x	13	10	12	9
EV/EBIDTA x	33	24	23	19

Source: Company,India Capital Markets Research

Outlook & Valuations

Despite global economy showing early signs of recovery, we believe Technology users are still cautious, waiting for greater economic confidence to scale up their spending levels. However it seems that, improvement in economic outlook has led to the initiation of the capex cycle being set in motion – though slow, after sequential quarters of freeze. With improving oil prices, increasing PMI index, business sentiments for capex oriented companies like RTIL seems to be improving. The revival seems to be faster than our expectations, given the rebound in order intake in its most painful EDOS segment has been remarkable. Improvement in business outlook is certainly evident, given the increasing order intake and positive outlook commentary by the management. With launch of its solution led services, RTIL seems to be well prepared to increase its pie size in the improving business environment.

We believe RTIL is a differentiated player in its niche business segment and its consistent improvement in its service offerings reaffirms its performance capability. However rising interest cost and impending Debt redemption is a niggling concern. We have revised our revenue estimates upwards for FY2010 as well as for FY2011; effecting the momentum in order intake, however increase in interest cost as well as additional depreciation from the new facility should partly offset this incremental topline expansion. At CMP of Rs 188 the stock trades at a P/E of 12x and 9x for FY10E and FY11E earnings, respectively. We have raised our recoomendation from “HOLD” to “BUY”, with a price target of Rs 235.

Quarterly Results - Consolidated

Rs mn

Consolidated	Q2 FY10	Q2 FY09	Y-o-Y%	Q1 FY10	Q-o-Q %	H1FY10	H1FY09	Y-o-Y%
Income from Operations	3756	3619	4	3505	7.2	7261	7081	2.5
EBIDTA	1423	1261	13	1255	13	2678	2446	9.5
Depreciation	670	413	62	621	8	1291	792	63.0
Interest	115	11	903	83	38	198	11	1631.2
Other Income	80	95	(16)	99	(20)	179	245	(27.0)
PBT	718	931	(23)	650	11	1368	1888	(27.5)
Exceptional Item	0	227	-	0	-	0	840	-
PBT (After Exceptional Item)	718	705	2	650	11	1368	1048	30.5
Tax	92	101	(9)	90	2	182	207	(11.7)
PAT	626	603	4	559	12	1186	841	40.9
Minority Interest (Loss)	2	2	(7)	(0)	(1100)	2	4	(56.5)
PAT (After Minority Interest)	628	605	4	559	12	1187	845	40.5
EBIDTA margins (%)	37.9	34.8		35.8		36.9	34.5	
PBT margins(%)	19.1	19.5		18.5		18.8	14.8	
PAT margins (%)	16.7	16.7		16.0		16.4	11.9	
Tax Rate (%)	12.8	14.4		13.9		13.3	19.7	

Source: Company,India Capital Markets Research

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