Result Update

KHANDWALA SECURITIES LIMITED

Rolta India Limited

April 23, 2009

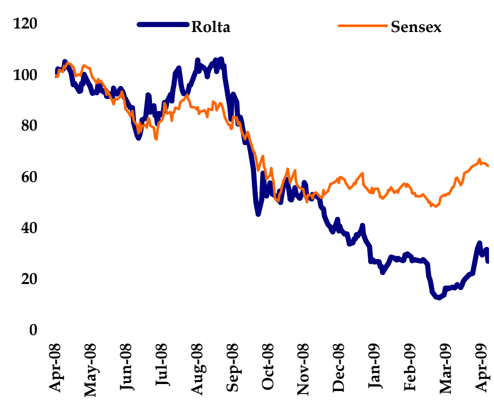
3QFY09 Result Update

CMP: INR 87.8 **Target: INR 110** **MARKET PERFORMER**

Sector View	CAUTIOUS
Company Risk	HIGH
BSE Sensex	10,818
S&P Nifty	3,330
BSE IT	2,423
Bloomberg Consensus	
(BUY/HOLD/SELL)	4/ 1 / 6
BSE Code	500366
NSE Code	ROLTA
Bloomberg Code	RLTA IN
Reuters	ROLT.BO
52 Wk High/Low (INR)	360 / 41
Equity (INR Mn)	1,610
Market Cap. (INR Mn)	14,128
Shareholding Pattern (%)	
Foreign	31.22
Institutions	3.49
Corporate	4.13
Promoters	41.4
Public & Others	19.77

Returns	**Abs**	**Relative to**	
(%)	**Perf**	**Sensex**	**BSE IT**
1 Month	59.09	44.30	49.81
3 Months	8.09	-15.13	-4.83
1 Year	-72.83	-37.28	-31.82

Relative Price Performance



Source: Khandwala Research, Bloomberg

Analyst: Dipesh Mehta

Email: dipesh@kslindia.com

Rolta has reported sequential decline of 8.3% in revenues, first decline in recent times. The company has seen ~2.5% sequential decline in order book and ends quarter with Rs ~15.5 bn order backlog. This quarterly number shows slowdown impact on company's performance for the first time, although order book reflected muted growth from previous 2 quarters. We expect next 2-3 quarters would be equally challenging for the company.

March quarter numbers includes Piocon numbers also, adjusted for inorganic growth, revenues declined over 11%. Management has revised their FY09 revenues and profits guidance downwards to Rs 13.6 – 13.75 bn and 2.55-2.65 bn respectively (from Rs 14.8 – 15 bn and Rs 3.25 – 3.3 bn earlier). Guidance implies revenues and adj. profit to decline in Q4 by ~2% and ~15% respectively qoq. The company has opted for accounting the exchange rate differences in line with Companies (Accounting Standards) Amendment Rules 2009 on AS-11 which has resulted into reversal of forex revaluation loss of Rs ~840 mn and increase of Rs 118.7 mn in depreciation and other expenses.

We have revised our estimates to reflect these changes and cut FY09 and FY10 by ~15% and ~40%. The stock remained highly volatile during the quarter (from Rs ~40 to Rs ~135). Rolta's business recovery lag behind recovery in CAPEX cycle which suggests growth rate to shift to ~10% run rate from past ~30+%. Poor business performance would continue to put considerable pressure on already beaten down stock. We downgrade stock to Market Performer with a revised target price of Rs 110 at 8x FY10E earnings.

Consolidated results for the quarter ended March 31, 2009

- ✓ Revenue was at Rs 3,320 mn as against Rs 2,884 mn in Q3FY08, a yoy growth of 15.1% and sequential decline of 8.3%.
- ✓ Net Profit jumped by 102.6% yoy to Rs 1,331.4 mn, mainly because of reversal of foreign exchange revaluation loss of Rs 840 mn (charged to P&L during Jul-08 to Dec-08 as exceptional items) on translation of FCCB liability. Net profit (adjusted for exceptional items) declined by 7.2% yoy to Rs 610 mn.
- ✓ EPS was Rs 8.3, grew 102% yoy.

Financial Summary

Descriptions INR Mn	FY06	FY07	FY08	FY09E	FY10E
Revenue	5,349	7,114	10,722	13,648	14,426
EBIDTA	2,229	2,866	3,897	4,550	4,616
PBT	1,420	1,943	2,685	3,030	2,625
Net Profit	1,273	1,726	2,306	2,632	2,215
Adj. EPS	8.0	10.8	14.3	16.3	13.7
P/E	11.0	8.1	6.1	5.4	6.4

Result Highlights

- ✓ **Revenue growth:** Revenue decline by 8.3% sequentially to Rs 3,320 mn. Piocon acquisition contributed incremental revenues of Rs ~100 mn during the quarter. Revenues adjusted for Piocon reported ~11% sequential decline. Engineering Design and EICT businesses felt severe demand pressure during the quarter and reported ~17.7% and ~12.2% sequential decline.
- ✓ **Demand outlook deteriorated sharply and much faster than anticipated:** Growth momentum has been severely impacted due to global economic slowdown and credit crunch which resulted into lower capex by clients. Oil & Gas vertical, ~17% of revenues, saw significant slowdown which would affect growth momentum and likely to shift growth trajectory from 30+% to 0-10% (organic growth) in the coming 7-8 quarters. Although, we have factored-in modest growth while guiding FY09E and FY10E earnings at the end of December 2008, business outlook worsen further in last few months.
- ✓ **Order Book shows signs of slow down:** Order book declined by 2.5% sequential, sequential growth rate turned out negative from strong positive growth. Existing order book would support growth momentum for next 1-2 quarters however slowing order intake would affect growth momentum for FY10 and onwards. GIS reported 4.4% sequential growth in order book; while EDA and EICT reported 10.1% and 5.4% decline in order book sequentially, first decline in last 10 quarters. Oil & Gas segment contributed 12-13% of total order book (~40% of EDA order book) which would unlikely to see fresh additions from flow related business due to cut in capex considering fall in crude oil price and economy slowdown, although BI related business would likely to grow and offset decline to some extent. EICT business has seen decline in order book despite favorable rupee and Piocon integration, suggests significant demand pressure.

(INR Mn)	FY 2007				FY 2008				FY 2009		
Order Book	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
GIS	2,895	3,510	3,677	4,032	4,498	5,093	5,913	6,538	6,892	7,144	7,458
EDA	1,235	1,650	2,024	2,442	3,251	3,780	4,387	4,903	5,073	5,018	4,513
EICT	1,565	1,750	1,821	1,877	2,056	2,187	3,580	3,695	3,748	3,756	3,552
Total	**5,695**	**6,910**	**7,522**	**8,351**	**9,805**	**11,060**	**13,880**	**15,136**	**15,713**	**15,918**	**15,523**

- ✓ EBIDTA margin dip by ~280 bps sequentially mainly due to decline in billing rate, lower utilization, accounting treatment changes for FCCB and integration of low margin acquisitions.

	FY 2007				FY 2008				FY 2009		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
GIS	40.2%	41.0%	45.2%	41.6%	39.6%	40.0%	39.2%	41.1%	41.4%	43.1%	40.8%
EDA	38.9%	39.7%	40.2%	39.5%	38.6%	39.1%	38.5%	39.9%	39.4%	39.8%	35.4%
EICT	36.0%	38.1%	32.4%	29.0%	28.9%	29.1%	19.7%	17.9%	16.4%	16.2%	12.7%
Total	**39.3%**	**40.2%**	**42.1%**	**39.4%**	**38.0%**	**38.4%**	**34.9%**	**34.9%**	**34.2%**	**34.8%**	**32.1%**

- ✓ During the quarter, total headcount declined by 266 to 5,292. All business segments have seen decline in headcount. GIS, EDA and EICT business headcount declined sequentially by 39, 175 and 43 respectively.
- ✓ **FY09 guidance:** The management revised guidance downwards to Rs 13.6 - 13.75 bn of revenues and Rs 2.55 – 2.65 bn of net profit (earlier guidance – Revenues of Rs 14.8-15 bn, Net profit of Rs 3.25 – 3.3 bn).

3QFY09 and 9MFY09 Financial Results

Particulars (Y/E June) (Rs. in Million)	Q3FY09 Mar-09	Q2FY09 Dec-08	*QoQ Growth*	Q3FY08 Mar-08	*YoY Growth*	9MFY09 Mar-09	9MFY08 Mar-08	*YoY Growth*
GIS	1,563	1,549	*0.9%*	1,370	*14.1%*	4,601	3,880	*18.6%*
Engineering Design	900	1,094	*-17.7%*	916	*-1.7%*	3,054	2,490	*22.7%*
Enterprise Info & Comm Tech	858	977	*-12.2%*	598	*43.4%*	2,746	1,141	*140.7%*
Net Sales	**3,320**	**3,619**	*-8.3%*	**2,884**	*15.1%*	**10,401**	**7,511**	*38.5%*
Expenditure								
Material Cost	336	622	*-46.0%*	681	*-50.7%*	1,569	1,940	*-19.1%*
Manpower Cost	1,487	1,358	*9.5%*	890	*67.0%*	4,143	2,047	*102.4%*
	1,822	**1,980**	*-8.0%*	**1,571**	*16.0%*	**5,712**	**3,987**	*43.3%*
Gross Profit	**1,498**	**1,640**	*-8.6%*	**1,312**	*14.2%*	**4,689**	**3,524**	*33.1%*
GPM	***45.1%***	***45.3%***		***45.5%***		***45.1%***	***46.9%***	
Other Expenses	433	378	*14.5%*	305	*42.2%*	1,179	748	*57.5%*
EBIDTA	**1,065**	**1,261**	*-15.6%*	**1,008**	*5.7%*	**3,511**	**2,775**	*26.5%*
EBIDTM	***32.1%***	***34.8%***		***34.9%***		***33.8%***	***37.0%***	
Depreciation	498	413	*20.4%*	353	*40.9%*	1,289	1,004	*28.4%*
EBIT	**567**	**848**	*-33.1%*	**655**	*-13.3%*	**2,221**	**1,771**	*25.4%*
EBITM	***17.1%***	***23.4%***		***22.7%***		***21.4%***	***23.6%***	
Other Income	864	-143		105		257	304	
PBT	**1,431**	**705**	*102.9%*	**760**	*88.3%*	**2,478**	**2,075**	*19.4%*
PBTM	***43.1%***	***19.5%***		***26.3%***		***23.8%***	***27.6%***	
Provision for Tax	101	101	*-0.2%*	103	*-1.8%*	308	278	*10.7%*
PAT	**1,330**	**604**	*120.3%*	**657**	*102.4%*	**2,171**	**1,797**	*20.8%*
PATM	***40.0%***	***16.7%***		***22.8%***		***20.9%***	***23.9%***	
Minority interest	2	2		0		6	0	
Net Profit	**1,331**	**606**	*119.9%*	**657**	*102.6%*	**2,176**	**1,798**	*21.0%*
NPM	***40.1%***	***16.7%***		***22.8%***		***20.9%***	***23.9%***	
Equity	1,610	1,609		1,605		1,610	1,605	
Adj. EPS (INR)	**8.3**	**3.8**	*119.8%*	**4.1**	*102.0%*	**13.5**	**11.2**	*20.7%*

INDIA

EQUITY RESEARCH	TEL. NO. +91 22 4076 7373		FAX +91 22 4076 7378
Name	**Designation**	**Sectors**	**E-mail**
Ashok Jainani	VP, Head Research	Market Strategy	ashokjainani@kslindia.com
Dipesh Mehta	Research Analyst	IT, Telecom	dipesh@kslindia.com
Hatim K Broachwala	Research Analyst	BFSI	hatim@kslindia.com
Vinay Nair	Research Analyst	Energy	vinay.nair@kslindia.com
Giriraj Daga	Research Analyst	Metals & Mining	giriraj@kslindia.com
Kruti Shah	Research Associate	Economics	kruti.shah@kslindia.com
Sandeep Shrimali	Research Associate	Cement	sandeep.shrimali@kslindia.com
Dinesh Bhatia	Research Associate	Technical Analysis	dinesh.bhatia@kslindia.com
Sandeep Bhatkhande	Research Associate	Publishing	sandeep@kslindia.com
Lydia Rodrigues	Research Executive	Data Mining	lydia@kslindia.com
INSTITUTIONAL DEALING	**TEL NO. +91 22 4076 7342-47/56**		**FAX NO. +91 22 4076 73 77-78**
Biranchi Sahu	Head	Institutional Equity	bsahu@kslindia.com
Gopi Doshi	Senior Dealer	Institutional Equity	gopi.doshi@kslindia.com
Mayank Patwardhan	Dealer	Institutional Equity	mayank.patwardhan@kslindia.com
PRIVATE CLIENT GROUP	**TEL No. +91 22 4076 7317-21**		**FAX NO. +91 22 4076 73 77**
Sanjay K Thakur	President	Sales & Marketing	thakursk@kslindia.com
Subroto Duttaroy	General Manager	Equity & Portfolio Mgmt. Service	subroto@kslindia.com
Jagdish R Modi	Manager	Equity & Portfolio Mgmt. Service	jrmodi@kslindia.com
BRANCH OFFICE (PUNE)	**TEL NO. +91 20 2567 1404/06**		**FAX NO. +91 20 2567 1405**
Ajay G Laddha	Vice President		ajay@kslindia.com

Corporate Office:
Vikas Building, Ground Floor,
Green Street, Fort,
MUMBAI 400 023.
Tel. No. (91) (22) 4076 7373
Fax No. (91) (22) 4076 7377/78
E-mail: research@kslindia.com

Web site: www.kslindia.com

Branch Office:
C8/9, Dr. Herekar Park,
Off. Bhandarkar Road,
PUNE 411 004
Tel. No. (91) (20) 2567 1404/06
Fax. No. (91) (20) 2567 1405
Email: pune@kslindia.com

Important Disclosure