ANANDRATHI

India I Equities

IT Services

Initiating Coverage

3 November 2009

Rolta India

Defence-led growth; initiate at Buy

Rating: **Buy**
Target Price: Rs230
Share Price: Rs150

- **Buy.** We initiate coverage on Rolta India with a Buy rating and a target price of Rs230. We are positive on Rolta given its growing solutions-driven business model, healthy order book and strong alliances that offer growth opportunities.
- **Solutions-driven business model**. Rolta's three service lines – GeoSpatial Info Systems (GIS), Engineering Design Automation (EDA) and Enterprise Info & Comm Technology (EICT) – now hold inter-related relevance to its client base. We expect the three service lines to grow, fueled by factors in their own segments.
- **Healthy order book.** In Jul-Sep '09, Rolta's order intake was strong, with the pipeline extremely healthy. All verticals are seeing better client traction than three to six months ago. Management has "guided" to FY10 revenue growth of 11.4-14.4%. Our estimate, at 10%, comes slightly lower.
- **Strong alliances – providing impetus.** Rolta has entered into two high-potential JVs. Its 50:50 JV with Shaw is pursuing engineering design opportunities in the high-growth energy sectors in India. Its 51:49 JV with Thales, the French defence and aerospace major, targets Indian and international defence sectors.
- **Valuation.** Our target price of Rs230 is based on a target PE of 12x FY11e earnings of Rs19.2. Our target multiple is at a 25% discount to the average multiple of large-cap IT stocks and in line with those of IT mid-caps.

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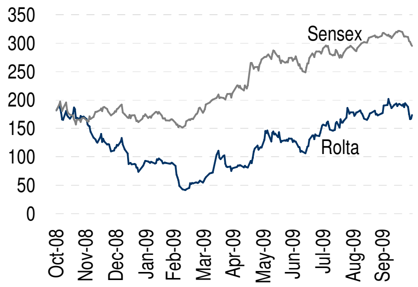
Key data	RLTA IN / ROLT.BO
52-week high/low	Rs206/ Rs41
Sensex/Nifty	15405/4515
3-m average volume	US$25.0m
Market cap	Rs24.2bn/US$515m
Shares outstanding	161m
Free float	58.0%
Promoters	42.0%
Foreign Institutions	29.3%
Domestic Institutions	3.4%
Public	25.3%

Key financials

Year end 30 Jun	FY08	FY09	FY10e	FY11e	FY12e
Sales (Rsm)	10,722	13,728	15,070	18,193	21,132
Net profit (Rsm)	2,297	2,931	2,474	3,129	3,753
EPS (Rs)	14.3	18.2	15.3	19.2	22.8
Growth (%)	33.0	27.3	(16.3)	25.3	18.9
PE (x)	10.5	8.2	9.8	7.8	6.6
PBV (x)	2.0	1.6	1.5	1.3	1.1
RoE (%)	22.1	28.1	19.9	21.1	21.9
RoCE (%)	15.2	16.1	12.8	15.2	17.1
Dividend yield (%)	2.0	2.0	2.0	2.3	2.7
Net gearing (%)	12.9	57.8	48.3	37.0	23.9

Source: Company, Anand Rathi Research

Relative price performance



Source: Anand Rathi Research

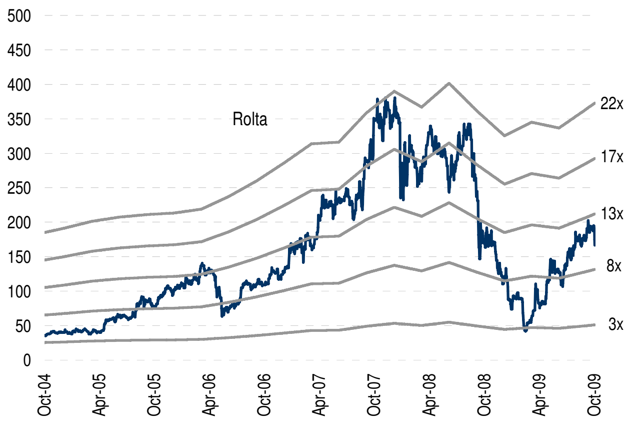
Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rsm)

Year end 30 Jun	FY08	FY09	FY10e	FY11e	FY12e
Net sales	10,722	13,728	15,070	18,193	21,132
Sales growth (%)	50.7	28.0	9.8	20.7	16.2
- Op. expenses	6,825	9,093	9,877	11,967	13,930
EBIDTA	3,897	4,635	5,192	6,226	7,201
EBITDA margins (%)	36.3	33.8	34.5	34.2	34.1
- Interest	-	126	345	349	349
- Depreciation	1,383	1,867	2,543	2,675	2,797
+ Other income	170	690	573	603	756
- Tax	388	402	404	676	1,059
PAT	2,297	2,931	2,474	3,129	3,753
PAT growth (%)	33.0	27.6	(15.6)	26.5	20.0
Consolidated PAT	2,306	2,938	2,481	3,136	3,760
FDEPS (Rs/share)	14.3	18.2	15.3	19.2	22.8
CEPS (Rs/share)	22.9	29.8	30.9	35.5	39.7
DPS (Rs/share)	3.0	3.0	3.0	3.5	4.0

Source: Company, Anand Rathi Research

Fig 4 – PE Band



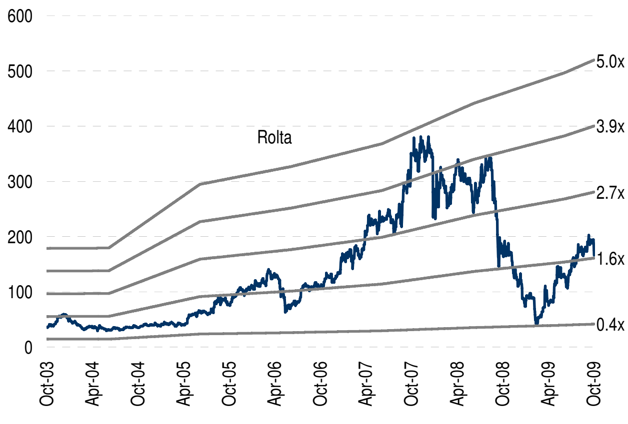
Source: Anand Rathi Research

Fig 2 – Balance sheet (Rsm)

Year end 30 Jun	FY08	FY09	FY10e	FY11e	FY12e
Share capital	1,609	1,610	1,624	1,637	1,650
Reserves & surplus	10,628	13,038	14,950	17,415	20,403
Shareholders' fund	12,237	14,648	16,573	19,052	22,054
Debt	6,938	9,967	9,967	9,967	9,967
Minority interests	15	8	8	8	8
Capital employed	19,190	24,624	26,549	29,028	32,029
Fixed assets	8,222	15,264	16,191	17,088	17,832
Investments	4,816	3,364	3,364	3,364	3,364
Working capital	3,553	4,620	4,831	5,506	6,046
Cash	2,598	1,376	2,163	3,071	4,788
Capital deployed	19,190	24,624	26,549	29,028	32,029
No. of shares (m)	161	161	162	164	165
Net Debt/Equity (%)	12.9	57.8	48.3	37.0	23.9
W C turn (days)	121.0	122.8	117.0	110.5	104.4

Source: Company, Anand Rathi Research

Fig 5 – Price-to-Book Band



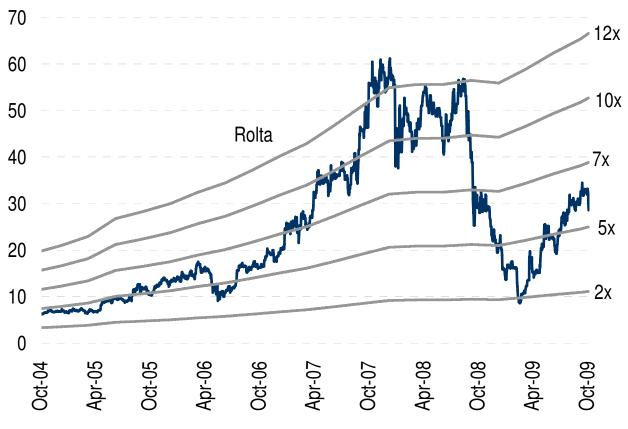
Source: Anand Rathi Research

Fig 3 – Cash flow statement (Rsm)

Year end 30 Jun	FY08	FY09	FY10e	FY11e	FY12e
Consolidated PAT	2,306	2,938	2,481	3,136	3,760
+ Depreciation	1,432	1,879	2,543	2,675	2,797
Cash profit	3,738	4,817	5,024	5,811	6,557
- Incr/(Decr) in WC	117	1,067	211	674	540
Operating cash flow	3,621	3,750	4,813	5,137	6,017
- Capex	3,477	8,909	3,470	3,572	3,541
Free cash flow	143	(5,159)	1,343	1,565	2,476
- Dividend	569	569	570	670	772
+ Equity raised	(346)	24	13	13	13
+ Debt raised	761	3,029	-	-	-
- Investments	3,780	(1,452)	-	-	-
- Misc. items	-	-	-	-	-
Net cash flow	(3,791)	(1,223)	787	908	1,717
+ Opening cash	6,390	2,598	1,376	2,163	3,071
Closing cash	2,598	1,376	2,163	3,071	4,788

Source: Company, Anand Rathi Research

Fig 6 – EV/EBITDA



Source: Anand Rathi Research

Investment Argument and Valuation

We initiate coverage on Rolta India, with a Buy rating and a target price of Rs230. We are positive on Rolta given its growing solutions-driven business model, strong order book and robust alliances that offer growth opportunities.

Solutions-driven business model

Rolta has more than a 70% share of the GIS and photo-grammetric mapping market in India. Its revenue has had a 37.2% CAGR over FY06-09, and we expect it to grow at 14.9% over FY09-11. It has more than an 85% share of the engineering design and automation (EDA) market in India. In EDA, it has had a 59.7% CAGR over FY06-09, and we expect it to grow at 9.9% over FY09-11. Rolta provides comprehensive solutions and services covering high-end enterprise requirements of data security and security management, database foundation, enterprise application and business intelligence. In the EICT segment, it has had a 162.7% CAGR over FY06-09, and we expect it to grow at 21% over FY09-11.

Strong order book

Management has guided to revenue of Rs15.3-15.7bn for FY10 (11.4-14.4% yoy growth) and an EBITDA margin of 33-35%. At present, it has 85% visibility for FY10 revenue. Our estimate, at 10%, comes slightly lower. The company saw a surge in deal wins from India and West Asia, in mapping, power utilities, engineering and even systems integration. Unlike its peers, about 55% of Rolta's revenue arises from India-based customers. This acts as a hedge against fluctuating foreign currency.

Robust alliance – providing impetus

Rolta has entered into two high-potential JVs that we expect would raise its traction in the high-growth verticals such as power, energy and defence. Its 50:50 JV with Shaw is pursuing engineering design opportunities in the high-growth refinery, petrochemicals and energy sectors in India. Its 51:49 JV with Thales, the French defence and aerospace major, targets Indian and international defence sectors.

Valuation

We expect FDEPS to grow from Rs18.2 in FY09 to Rs22.8 in FY12. At the current price of Rs150, the stock trades at PEs of 9.8x and 7.8x FY10e and FY11e earnings, respectively.

We assign Rolta a target price of Rs230, based on the target PE of 12x FY11e earnings of Rs19.2. Our target multiple is at a 25% discount to multiples of large-cap IT companies and in line with IT mid-caps (see Fig 7).

Fig 7 – IT companies' FY11 consensus PEs @ current price

IT large caps	1-year forward PE	IT mid-caps	1-year forward PE
Infosys	18.3	Patni Computers*	12.0
TCS	17.0	Mindttree*	13.4
Wipro	17.2	Firstsource*	14.0
HCL Tech	12.3	Hexaware*	9.7
Tech Mahindra	14.7	NIIT*	10.9
MphasiS	12.7		
IT Large caps	**16.2**	**IT Mid-caps**	**12.0**

*Source: Anand Rathi Research. *Bloomberg consensus*

Risks to our target price

- **Non-annuity based revenue.** A substantial portion of Rolta's revenue arises from non-annuity sources. Therefore, any slash in the capex programs of refineries, petrochemicals and energy in the engineering services sector, and telecoms, transportation, power and government in the GIS sector could hurt Rolta.
- **Equity dilution.** Rolta has pending FCCBs of about $US112.5m due till 2012. The conversion price is Rs368.70. Our estimates do not factor in the dilution from FCCB conversion. However, if the conversion goes through, it would lead to ~9.1% dilution. The cash and cash equivalents at end-FY12 would be used to retire the FCCBs in case conversion/ buyback does not take place.
- The company is planning to take an enabling proposal to raise funds of US$250m. These funds could be used for an acquisition.

Solutions-driven business model

Rolta's three service lines – GeoSpatial Information Systems (GIS), Engineering Design Automation (EDA), and Enterprise Information and Communications Technology (EICT) – now hold inter-related relevance to its client base. We see the three service lines growing, driven by factors in their own segments and the unique opportunities that these combined skills give rise to.

Leading position in the GIS segment

Rolta has more than a 70% share of the GIS and photo-grammetric mapping market in India. It is one of the leading providers and developers of digital map-based geospatial information services, servicing customers in segments like defense, environmental protection, utilities, emergency services and public planning. Its revenue has had a 37.2% CAGR over FY06-09, and we expect it to grow at 14.9% over FY09-11.

The company has a skilled and dedicated team of over 2,100 professionals working on GIS projects. It has executed large projects for 3D city modeling using high-end photo-grammetry technology, and created digital networks for telecoms, electricity, gas and water companies. This confirms its standing as a leading provider of GIS services.

The efficient interfacing of operational resources has helped it complete multi-million dollar projects for clients. Rolta has acquired technology and established long-standing strategic business partnerships with world leaders in the GIS field – Intergraph and Z/I Imaging for end-to-end mapping, photogrammetry and GIS solutions. It has created a positive spiral for itself through good relationships with technology partners and has thus obtained higher realizations.

Fig 8 – GeoSpatial Information Systems performance

Year-end 30 Jun	FY05	FY06	FY07	FY08	FY09
Revenue	2,750	3,290	4,043	5,306	6,196
Growth (%)		19.6	22.9	31.2	16.8
EBITDA	1,065	1,436	1,703	2,122	2,621
Growth (%)		34.8	18.6	24.6	23.5
Margin (%)	38.7	43.6	42.1	40.0	42.3

Source: Company, Anand Rathi Research

Engineering design automation: Strong growth driver

The company has more than an 85% share of the EDA market in India. Here, it focuses on computer-aided plant design and mechanical engineering solutions. It provides a combination of software skills and component-manufacturing services through its EDA group. The group also covers a wide range of plant data, product data and plant/product lifecycle management requirements in the Indian market, and a broad spectrum of services for consulting and engineering in plant information management and mechanical design globally. Revenue in this segment has had a 59.7% CAGR over FY06-09, and we expect it to grow at 9.9% over FY09-11.

The company has secured large contracts to provide engineering design automation solutions and design services to major engineering, procurement EPCs and owner operators. Internationally, it has executed large contracts in plant information management for customers in the US, Europe and West Asia (the Middle East). On executing various such projects, oil and gas is one of the core verticals where it has developed expertise.

Many companies have recently announced plans to invest in the refinery, petrochemicals, nuclear, fossil and hydro-power sectors. This would lead to large, end-to-end project outsourcing. We believe such projects are likely to flow to Rolta as it has the relevant experience and requisite expertise.

Fig 9 – Engineering Design Automation performance

Year-end 30 Jun	FY05	FY06	FY07	FY08	FY09
Revenue	1,204	1,535	2,205	3,477	3,915
Growth (%)		27.5	43.7	57.7	12.6
EBITDA	379	632	873	1,358	1,487
Growth (%)		66.8	38.1	55.5	9.5
Margin (%)	31.5	41.2	39.6	39.0	38.0

Source: Company, Anand Rathi Research

Impressive growth and scale up in EICT and security services

Rolta provides comprehensive solutions and services covering high-end enterprise requirements of data security & security management, database foundation, enterprise application and business intelligence. Revenue here has had a 162.7% CAGR over FY06-09, and we expect it to grow at 21% over FY09-11.

The EICT business group has a track record of many successful projects in over 40 countries and of customers availing of ongoing managed services. Rolta's longstanding relationships with technology partners have resulted in opportunities to acquire and assimilate technology on an on-going basis. And Rolta's recent acquisitions of TUSC and WhittmanHart Consulting have significantly enhanced its technology strengths.

Over the years, network security along with IT infrastructure has gained prominence across all organizations due to rising security breaches and threats, leading to increased spending in these areas. Rolta has, in its eSolutions and security services, developed practices catering to this requirement. Its new-generation technologies have made RFID a viable and cost-effective solution. It has been adding to its breadth of technology services offerings by entering into alliances with leaders like IBM, Microsoft and Computer Associates, among others.

Fig 10 – Enterprise Information & Communications Technology financials

Year-end 30 Jun	FY05	FY06	FY07	FY08	FY09
Revenues	192	524	865	1,940	3,617
Growth (%)		173.1	65.0	124.2	86.5
EBITDA	30	161	290	418	527
Growth (%)		437.0	80.2	43.9	26.1
Margin (%)	15.6	30.7	33.5	21.5	14.6

Source: Company, Anand Rathi Research

Fig 11 – Overall business snapshot

GIS	EDA	EICT
Industry focus	**Industry focus**	**Industry focus**
Defence	Oil & Gas	Across industries
Utility	Power	
Telecommunications	Shipping	
Government	Nuclear energy	
Services	**Services**	**Services**
Digital mapping	Engineering & procurement management	Data security and security management
City mapping	Plant design	Infrastructure management
Photo-grammetry	Process design	Business Intelligence
Data modelling	Mechanical design	Enterprise applications
C4ISTAR (ERP for Military)	Ship design	Database management and administration
JVs/partnership	**JVs/partnership**	**JVs/partnership**
Thales	Stone & Webster	Computer Associates
Intergraph	Intergraph	
Growth drivers	**Growth drivers**	**Growth drivers**
Defence spending (C4ISTAR)	Domestic power generation growth	Network security and management demand
Core infrastructure growth in India	Capacities in Oil & Gas	Application development for GIS and EDA
Growth in telecoms	India's nuclear programme	
e-Governance projects	Engineering services outsourcing	
Key customers	**Key customers**	**Key customers**
British Telecom (UK), Dubai Municipality (UAE), Saudi Telecom (Saudi Arabia), Ministry of Defence (India), Verizon (USA), Qwest (USA), TELUS (Canada), IBM (USA)	Reliance Inds (India), Indian Oil (India), ONGC (India), Bechtel (UK), DPS Bristol (UK), Pfizer (UK), Saudi Aramco (Saudi Arabia), Dow Chemical (USA), NANA/Colt (USA), 3M (USA)	HSBC (UK), SITA (UK), AXA (UK), MasterCard (USA), Citigroup Technology (USA), FEDEX (USA), Raymond James (USA), MoD (India)
Revenue contribution: 45.1%	Revenue contribution: 28.5%	Revenue contribution: 26.4%
Operating margin: 42.3%	Operating margin: 38.0%	Operating margin: 14.6%

Source: Company, Anand Rathi Research

Healthy order book

Order intake was strong in Jul-Sep and the pipeline is extremely robust. All its verticals (GIS/EDA/EICT) are seeing better client traction than three to six months ago. Management has an 85% visibility in terms of its guidance for FY10 on account of its strong order book.

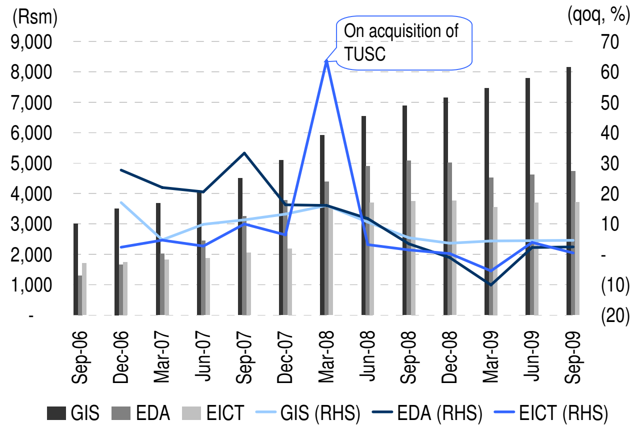
FY10 guidance. . .

Management has guided to FY10 revenue of Rs15.3bn-15.7bn (11.4%-14.4% yoy growth) and an EBITDA margin of 33-35%. At present, it has 85% visibility for FY10 revenues. We believe that 2QFY10 order intake would be critical for Rolta to hit the targeted FY10 guidance, given that implementation typically starts after three to six months. We have estimated 10% revenue growth for FY10.

All its verticals (GIS/EDA/EICT) are seeing better client traction than three to six months ago. Rolta is seeing higher client visits/interactions among all its businesses and expects all verticals to grow faster than in the year gone by.

. . . on account of its healthy order book

Fig 12 – Robust order book



Source: Company

The company saw a surge in deal wins from India and West Asia, in mapping, power utilities, engineering and even systems integration. It also won a project for rocket engineering in India. In the engineering segment, it won plant design and engineering work from power-generation companies and won a large project from one of the major oil companies in West Asia (the Middle East).

Order intake is strong even in Sep and the pipeline, extremely robust. As most of these orders would be implemented from 2Q/3Q FY10, we expect sales and net profit to rebound sharply in FY11. In the 1QFY10 conference call, management stated that the order pipeline has risen to Rs50bn. These are deals for which Rolta has bid – and is likely to close over the next two to three quarters.

Given this strong pipeline of Rs50bn and the recovery in the domestic economy, we expect order intake levels to be robust over the next two to three quarters as well. This should help further increase revenue visibility.

Fig 13 – Marquee clients for different segments

GIS	EDA	EICT
Bahrain Telecom	3M	John Hopkins
British Telecom	Reliance	State Bank of India
Dubai Municipality	L&T Group	ExIm Bank
Enerco Gas	ONGC	TNT
National Grid	Boston Scientific	Turner Broadcasting
Saudi Telecom	Doosan	Vodafone
ONGC	Dow Chemicals	Wal-mart
Torrent Power	Chevron Philips	Northrop Grumman
GT Oman	Kvaerner	Logitech
Verizon	Technimont ICB	HSBC

Source: Company

Impressive client relationships and diversification

Rolta's clients reflect the company's dominant focus on the defense, telecoms, energy and government segments. The company's business is characterized by project-based capital expenditure and non-annuity based revenues. The company's extensive client relationships, aided by its JVs with Stone & Webster and Thales, ensure a growing share of the burgeoning pie.

The company has done well to reduce its dependence on its top clients and has diversified its revenue stream across a broader client base. Rolta's fixed-price-and-solutions-based approach has created operating leverage that could be harnessed in the years to come.

Fig 14 – Diversification details

	FY06	FY07	FY08	FY09
Total revenues (Rsm)	5,349	7,114	10,722	13,728
Growth (%)	29.0	33.0	50.7	28.0
Revenue contribution				
Top 5 (%)	21.0	20.0	22.1	24.0
Top 10 (%)	26.7	26.1	28.6	30.0
Beyond Top 10 (%)	73.3	73.9	71.4	70.0
Revenue contribution (Rsm)				
Top 10 clients	1,428	1,857	3,067	4,118
Growth (%)	14.8	30.0	65.2	34.3
Beyond Top 10	3,921	5,257	7,656	9,610
Growth (%)	35.1	34.1	45.6	25.5

Source: Company

Large share of revenue from domestic market – acts a hedge

Realizations in developed markets tend to be higher and such projects lend credibility to a company. This then helps it bag larger projects. However, Rolta has chosen to deploy a relatively smaller proportion of its talent and infrastructure in markets where realizations come higher.

It believes that its leading position in its home market has helped it build turnkey-project-execution capabilities, which most similar firms lack. Cultivating strength in delivering solutions is used as a mitigating factor in raising realizations. We understand that the company is increasingly focusing on international markets and we expect the proportion of India-based revenues to fall to 50% of total revenue by FY11.

Strong alliances – providing impetus

Rolta has entered into two high-potential JVs, which are likely to raise its traction in high-growth verticals such as power, energy and defence. Its 50:50 JV with Shaw is pursuing engineering design opportunities in the high-growth refinery, petrochemicals and energy sectors in India. Its 51:49 JV with Thales, the French defence and aerospace major, targets Indian and international defence sectors.

We believe that one of Rolta's strengths lies in forging alliances with key players in various domains, thus offering it technology and market access. For example, Rolta has a 50:50 JV with Shaw for EPC (engineering, procurement and construction) and nuclear power solutions; a 51:49 JV with Thales for defence solutions; an exclusive partnership with Intergraph for GIS/ engineering design; and a partnership with Computer Associates for eSecurity solutions.

Shaw-Rolta JV powering Rolta's EDA foray into EPC, nuclear power

Shaw has been instrumental in the development, consulting, engineering and construction of nuclear, fossil fuel, geothermal and hydro-electric power generation, refining and petrochemical projects worldwide. The basic engineering services offered consist of core areas of projects, including development of process-flow diagrams, mass & energy balances, control & operational philosophy, basic equipment sizing, equipment specification and conceptual equipment layout.

Shaw-Rolta, the 50:50 JV, offers integrated project services that include engineering, design, procurement services and construction management. It contributes 3.5% to Rolta's revenue (Rs490m in FY09), with a 95.3% CAGR since 2005. Apart from serving the Indian market, Rolta would gain from sub-contract work from the global projects of its JV partner.

Rolta Thales – expanding solutions for the defence segment (C4ISTAR)

The Thales Group has businesses primarily dedicated to critical information systems for defence, aerospace (aeronautics and space) and security applications, in particular for ground transportation. Thales' solutions span all the functions in the critical information loop, from detection and data processing to communication of information to the relevant people, decision support, response management and reporting on any action taken. The group is now recognized by customers and industry observers alike as leading the way in ISTAR (intelligence, surveillance, target acquisition and reconnaissance) systems.

In Aug '07, Rolta formed a 51:49 JV with the Thales Group to help develop state-of-the-art C4ISTAR (command, control, communications, computers, intelligence, surveillance, target acquisition and reconnaissance) information systems, for the home and international markets. The other providers of such services are General Dynamics and Lockheed Martin. Revenue from the JV is expected to kick in from FY11. Apart from serving the Indian market, Rolta would gain from subcontracting work from the global projects of its JV partner, into the JV and from the Indian government's 'Offset clause' mandated on foreign defence contractors.

Defense order tenders could be floated by 2HFY10

As stated earlier, Rolta's JV with Thales could benefit hugely in the C4ISTAR information system implementation by Indian defense. Steps in this regard have already accelerated in terms of the 14% rise in capital outlay on defense services in the interim budget 2009-10 (compared with the 8-10% increase in earlier years – see annexure). Management estimates IT spend in this budget at Rs50bn a year, including hardware, software and services. The company has already started to display proof-of-concept with the defense ministry, aiming to secure a healthy share of the expenditure. Management mentioned it expects tenders to come out by 2HFY10. However, we believe that this would be a long-drawn-out process and revenue accretion could take longer than FY10. Accordingly, we have not factored in any revenue arising from the Thales JV for FY10.

Intergraph – powering Rolta's GIS and EDA division

Intergraph is one of the global suppliers of spatial information management software. This enables the creation of "intelligent" maps, management of assets and infrastructure, building and better management of plants and ships, and dispatch, command and control emergency services.

The company operates in two segments: security, government and infrastructure (SG&I), and process, power and marine (PP&M). The former division has the unique capability to fuse spatial and security technologies into the global public safety and infrastructure protection markets. The latter division has software that enables new plant starts, increased plant and refinery uptime and investments in alternative energy sources.

Rolta has successfully partnered Intergraph since 1986. It has an exclusive partnership with Intergraph to provide product licences in India and is the leading solutions provider related to Intergraph technology. Rolta uses Intergraph technologies across both its GIS and EDA divisions. In the GIS segment, the latter has a 20% market share worldwide and 70% in India (through Rolta). In the engineering design segment, it has a 60% market share worldwide and 85% in India (again through Rolta). In Nov '06, Intergraph was acquired by a private equity investor (PE) group led by Hellman & Friedman and the Texas Pacific Group.

We see some risks arising from the exclusivity of the Rolta-Intergraph partnership in India, depending on what happens to Intergraph as long as the PE group exits. However, given the success of the partnership in India, the likelihood of it fading away is small.

Details of companies Rolta has acquired are provided below.

Fig 15 – Acquisitions

Date	Name	Value	Comment	Revenues
Jul '07	Orion Technology	n.a.	Specializes in enterprise web-GIS solutions. Had 50 employees.	Was to generate cumulative US$100m over the next five years Was a profitable company. 100 clients.
Jan '08	TUSC	US$45m (US$39m upfront, US$6m earn-out over the next two years)	Consulting and software integration in Oracle technologies specializing in the GIS business. It had 160 consultants with an order backlog of US$40m and a pipeline of US$125m (front end loaded)	For 2007, revenue stood at US$48m, PBT margins ~11%. A 30% CAGR over 2003-07. Debt free.
Jul '08	Whittman-Hart Consulting	n.a.	Business Intelligence around Hyperion solutions acquired by Oracle in 2007. It had 80 consultants.	n.a.
Dec '08	Piocon Technologies	n.a.	Provider of Oracle Technology based Business Intelligence and Professional consulting services	20% EBITDA margins, would generate US$100m in 3-4 years; EPS accretive. 50% of revenues coming from the Oil and Gas sector

Source: Company, Anand Rathi Research

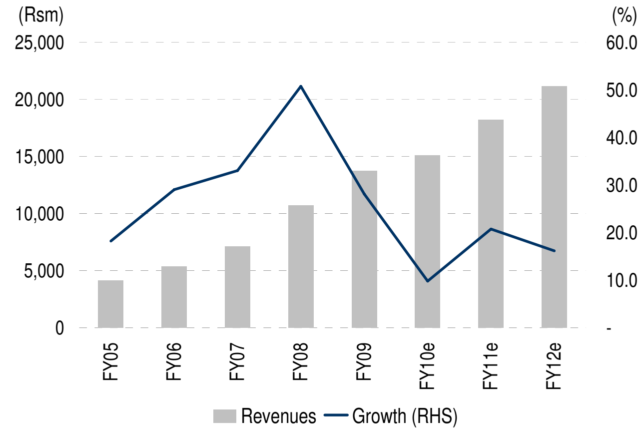
Financials

We expect Rolta India to post a 15.5% CAGR in revenue over FY09-12. We expect its EBITDA margin to increase from 33.8% in FY09 to 34.1% three years later, with a profit CAGR of 8.6%.

Revenue CAGR of 11.1% over FY09-12e

Over FY06-09, Rolta India's revenue had a 36.9% CAGR. Over FY09-12, however, we expect it to record a 15.5% CAGR in revenue. This slower growth would be due to rupee appreciation (we assume an FY10 Rs/US$ conversion rate of 46.3, for FY11/12 at 45); and volumes declining 1% in FY10 and growing 18.9% in FY11. We estimate flat billing rates in FY12.

Fig 16 – Revenue and revenue growth rate

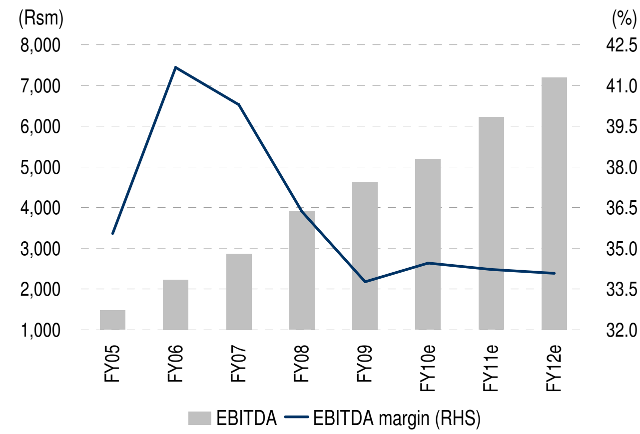


Source: Company, Anand Rathi Research

EBITDA margin to increase from 33.8% in FY09 to 34.1% in FY12

Our estimates incorporate approximately 5,496, 6,636 and 7,300 professionals in FY10, FY11 and FY12, respectively. The higher revenue would be non-linear as Rolta India moves up the value chain and offers more complex solutions for GIS and EDA. This shift and cost-optimization measures would be levers for it to reduce the impact of salary hikes on margins. We expect the EBITDA margin to increase from 33.8% in FY09 to 34.1% three years later.

Fig 17 – EBITDA and EBITDA margin



Source: Company, Anand Rathi Research

Over FY09-12, we expect an 8.6% CAGR in FDEPS (assumed average

Rs/US$ conversion: for FY10 – 46.3, FY11/12 - 45).

EPS sensitivity to currency movement

For a 1% change in currency, the impact on the EPS is about 2%. Thus, for a 1% rupee depreciation the EPS goes up 2%. This sensitivity of Rolta, India to rupee movement arises from its higher proportion of offshore revenue. For Infosys, for a 1% change in currency, the impact on the EPS is about 2%.

Fig 18 – EPS forecasts (Rs)

	FY10e	FY11e	FY12e
RLTA - AR estimates	15.3	19.2	22.8
RLTA - Const. Rs/US$*	16.6	21.7	25.5
Difference (%)	(8.2)	(12.0)	(10.8)

*Source: Anand Rathi Research, *Const. Rs48.4/US$ (average for three months ending Sep '09) taken for calculations*

Fig 19 – Income statement

Year end 30 Jun (Rsm)	FY08	FY09	FY10e	FY11e	FY12e
Revenues	10,722	13,728	15,070	18,193	21,132
Growth (%)	50.7	28.0	9.8	20.7	16.2
Avg. currency rate (Rs/US$)	40.5	48.6	46.3	45.0	45.0
Depreciation (%)	(7.1)	19.8	(4.7)	(2.7)	-
Employees	5,269	4,980	5,496	6,636	7,300
Growth (%)	30.8	(5.5)	10.4	20.7	10.0
Employees (less: Sales)	4,686	4,382	4,884	6,004	6,643
Growth (%)	88.9	88.0	88.9	90.5	91.0
Revenue/software engineer (US$ '000)	65.0	62.4	70.3	74.3	74.3
Growth (%)	20.8	(4.0)	12.8	5.6	-
Expenses	6,825	9,093	9,877	11,967	13,930
As % of revenue (%)	63.7	66.2	65.5	65.8	65.9
Employee cost	3,201	5,487	5,732	7,177	7,930
As % of revenue (%)	29.9	40.0	38.0	39.4	37.5
Cost / Employee (Rs '000)	688.5	1,070.7	1,094.4	1,183.1	1,254.1
Wage inflation (%)	45.4	55.5	2.2	8.1	6.0
Other costs	3,624	3,606	4,145	4,790	6,000
As % of revenue (%)	33.8	26.3	27.5	26.3	28.4
EBITDA	3,897	4,635	5,192	6,226	7,201
EBITDA margin (%)	36.3	33.8	34.5	34.2	34.1
Interest	-	126	345	349	349
Depreciation	1,383	1,867	2,543	2,675	2,797
Other income	170	690	573	603	756
PBT	2,685	3,333	2,878	3,805	4,811
Tax	388	402	404	676	1,059
Effective tax rate (%)	14.4	12.1	14.0	17.8	22.0
PAT	2,297	2,931	2,474	3,129	3,753
Minority interest	9	7	7	7	7
Consolidated PAT	2,306	2,938	2,481	3,136	3,760
Extraordinary expense	-	-	-	-	-
Reported PAT	2,306	2,938	2,481	3,136	3,760

Source : Company, Anand Rathi Research

Fig 20 – Balance sheet

Year end 30 Jun (Rsm)	FY08	FY09e	FY10e	FY11e	FY12e
Equity	1,609	1,610	1,624	1,637	1,650
Reserves	10,232	12,631	14,543	17,009	19,996
Shareholders' funds	11,841	14,242	16,167	18,646	21,647
Debt	6,938	9,967	9,967	9,967	9,967
Minority	15	8	8	8	8
Capital employed	18,795	24,217	26,142	28,621	31,622
Fixed assets	8,222	15,264	16,191	17,088	17,832
Investments	4,816	3,364	3,364	3,364	3,364
Deferred tax assets	(395)	(407)	(407)	(407)	(407)
Cash	2,598	1,376	2,163	3,071	4,788
Working capital	3,553	4,620	4,831	5,506	6,046
Capital employed	18,795	24,217	26,142	28,621	31,622

Source : Company, Anand Rathi Research

Fig 21 – Cash flow statement

Year end 30 Jun (Rsm)	FY08	FY09e	FY10e	FY11e	FY12e
PAT	2,306	2,938	2,481	3,136	3,760
+ non-cash expense	1,432	1,879	2,543	2,675	2,797
Cash profit	3,738	4,817	5,024	5,811	6,557
- Increase/(decrease) in working capital	117	1,067	211	674	540
Operating cash flow	3,621	3,750	4,813	5,137	6,017
- Capex	3,477	8,909	3,470	3,572	3,541
Free cash flow	143	(5,159)	1,343	1,565	2,476
+ Equity raised	(346)	24	13	13	13
+ Debt raised	761	3,029	-	-	-
- Investments	3,780	(1,452)	-	-	
- Dividend paid	569	569	570	670	772
- Misc. expense	-	-	-	-	-
Net change in cash	(3,791)	(1,223)	787	908	1,717
Opening cash	6,390	2,598	1,376	2,163	3,071
Closing cash	2,598	1,376	2,163	3,071	4,788

Source : Company, Anand Rathi Research

Fig 22 – RoE, RoCE analysis

Year end 30 Jun	FY08	FY09e	FY10e	FY11e	FY12e
EBIT/Sales (%)	25.0	25.2	21.4	22.8	24.4
Sales/Avg.CE (x)	0.6	0.6	0.6	0.7	0.7
EBIT/ Avg.CE (RoCE) (%)	15.2	16.1	12.8	15.2	17.1
Avg. CE/Avg.Equity (x)	1.6	1.6	1.7	1.6	1.5
PBT/EBIT (x)	1.1	1.2	1.1	1.1	1.1
PAT/PBT (x)	0.9	0.9	0.9	0.8	0.8
Cons.PAT/PAT (x)	1.0	1.0	1.0	1.0	1.0
PAT/Avg. Equity (RoE) (%)	22.1	28.1	19.9	21.1	21.9

Source : Company, Anand Rathi Research

Fig 23 – Key ratios @ Rs150

Year end 30 Jun	FY08	FY09	FY10e	FY11e	FY12e
Diluted shares (m)	160.9	161.0	162.4	163.7	165.0
FDEPS (Rs)	14.3	18.2	15.3	19.2	22.8
CEPS (Rs)	22.9	29.8	30.9	35.5	39.7
BV (Rs)	73.6	88.5	99.6	113.9	131.2
P/E (x)	10.5	8.2	9.8	7.8	6.6
P/C (x)	6.5	5.0	4.8	4.2	3.8
P/B (x)	2.0	1.6	1.5	1.3	1.1
EV/Sales (x)	2.4	2.4	2.1	1.7	1.4
EV/EBITDA (x)	6.6	7.0	6.2	5.0	4.1
Net gearing (%)	12.9	57.8	48.3	37.0	23.9
Working capital turnover (days)	121	123	117	110	104
DPS (Rs)	3.0	3.0	3.0	3.5	4.0
Dividend payout (%)	25.3	19.9	23.0	21.4	20.5
Dividend yield (%)	2.0	2.0	2.0	2.3	2.7

Source : Company, Anand Rathi Research

Company Background & Management

Rolta is a mid-tier Indian IT services company providing geographical information system (GIS) services, engineering design services in plant design and eSolutions services mainly in IT security. Its key partnerships are with Intergraph and Computer Associates as well as joint ventures with Stone & Webster and Thales SA. About 55% of its revenue comes from Indian clients; it is well entrenched with the Indian Defense and in the PSU segment.

Rolta India is a global technology services and solutions company, specialising in geo-spatial, engineering design and IT solutions. It has 4,756 employees.

GIS vertical

It has more than a 70% share of the GIS and photo-grammetric mapping market in India. It is one of the leading providers and developers of digital map-based geospatial information services, servicing customers in segments like Defense, environmental protection, utilities, emergency services and public planning.

EDA vertical

Rolta has more than an 85% share of the EDA market in India. Here, it focuses on computer-aided plant design and mechanical engineering solutions. Through its EDA group, it offers a combination of software skills and component manufacturing services.

EICT vertical

It offers comprehensive solutions and services covering high-end enterprise requirements of data security & security management, database foundation, enterprise application and business intelligence.

Strong Management

Kamal K. Singh, Chairman

Founder-chairman of the Rolta Group, Mr Singh serves as continental governor of the American Biographical Institute, USA. He is also a member of various other national organizations of repute such as CII, NASSCOM, MAIT, etc.

Dr Aditya K Singh, Joint MD

Appointed joint managing director in Sep '04, Dr Singh holds a Master's degree in commerce and business administration and a doctorate in international marketing from the University of Mumbai.

Atul Dev Tayal, Joint MD

Mr Tayal has been with Rolta for over 20 years and has served in various managerial capacities in the IT industry. His corporate management experience includes marketing, technology and international business. His academic qualifications comprise a Bachelor's degree in commerce and an MBA.

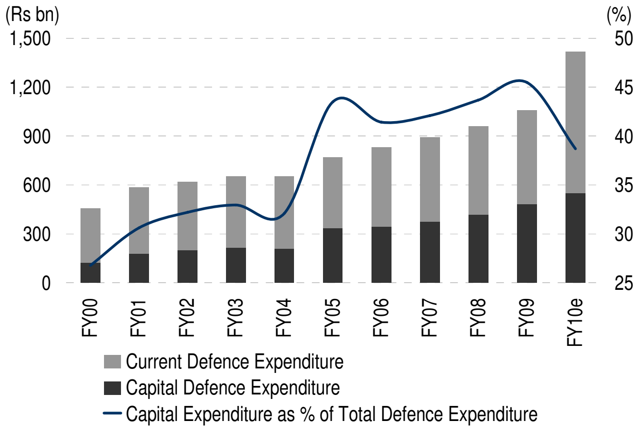
Annexure – The "offset" policy

With 30% offset for civil and 50% for defense orders, the total offset opportunity from aircraft orders over the next two decades is pegged at ~US$30bn.

Defense spending to increase

India's expenditure on defense has been steadily increasing over the last few years. Given the government's keenness to modernise the armed forces, this is set to rise further. In the past decade, expenditure on defense saw a 12% CAGR. More importantly, budget allocations on the capital account saw a 16.2% CAGR (Fig. 24).

Fig 24 – Budgeted Defense expenditure over the last decade



Source: Anand Rathi Research. Various budget documents

We expect this trend to continue, with a greater share of capital expenditure in overall spend.

In turn, this would entail the invocation of the 'off-set' provisions of the Defense Procurement Procedure (DPP), 2008. We expect Rolta India to be one of the chief beneficiaries of this 'off-set' policy. Some procurements likely to be announced in the next few years are tabulated below.

Fig 25 – Offset opportunity likely to arise over the next few years (Defense)

Equipment	No. of Units	Estimated Deal value (US$ m)	Likely competitors
Attack helicopters	22	550	Agusta Westland, Bell, Boeing, Eurocopter, Kamov, Mil, HAL
MMRCA	126	10,000	Boeing, Lockheed Margin, Saab, Eurofighter, MiG
Light helicopters	384	2,000	Bell, Eurocopter

Source: Anand Rathi Research. Media reports

Fig 26 – Offset opportunity likely to arise over the next few years (civil)

Manufacturer	Estimated Deal value (US$ m)	Likely offset value (US$m)
Boeing	7,700	2,310 (30% of deal value)
Airbus	2,700	810 (30% of deal value)

Source: Anand Rathi Research. Media reports

Several agreements materializing in recent months

The offset agreements signed as part of civil aircraft orders have already started coming through. Both Boeing and Airbus have announced committed investments for manufacturing and maintenance facilities in India. In IT services, these companies have been leveraging their association with players like Infotech Enterprises, Rolta, Infosys, TCS, Wipro, HCL Tech and Tata Technologies under the offset policy. For MMRCA orders, all seven players have geared up their announcements of MoUs and joint ventures with Indian players as part of their offset proposals.

Fig 27 – Companies that could potentially benefit

Companies	Offerings
Hindustan Aeronautics	Manufacturing of aircrafts and components
Bharat Electronics	Electronics and engineering
L&T	Electronics and engineering
Astra Microwave	Radio-frequency and microwave components
Dynamatic Technologies	Hydraulics and related components
Infotech Enterprises, Rolta India, Tata Technologies, Infosys, TCS, Wipro, HCL Tech	Engineering design and IT services

Source: Company, Anand Rathi Research

Defence Procurement Procedure (DPP), 2008

DPP 2008 aims to improve on DPP 2006, which had formalized a set of guidelines for capital acquisition. The twin objectives of setting up these guidelines aim at modernizing the Indian armed forces within a reasonable time while conforming to the highest standards of transparency, probity and public accountability.

According to DPP 2008, any capital acquisition of over Rs3bn would attract a minimum “offset” of 30% of the estimated cost of acquisition in the ‘Buy’ category and 30% of the foreign exchange component in the ‘Buy and Make’ category. For the purpose of Defense purchases made under DPP 2008, the “offsetting” obligations would be directly discharged by any combination of the following methods:

1. Direct purchase of/executing export orders for Defense products and components manufactured by, or services provided by, Indian Defense industries.
2. Direct foreign investment in Indian Defense industries for industrial infrastructure for services, co-development, joint ventures and co-production of Defense products and components.
3. Direct foreign investment in Indian organizations engaged in Defense R&D as certified by the Defense Offset Facilitation Agency (DOFA).
4. Banking of offset credits by foreign vendors created by them in anticipation of future obligations.

Rolta India fact sheet

Employee details	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10
Vertical wise (nos)	5,269	5,522	5,558	5,292	4,980	4,756
GIS	2,079	2,236	2,287	2,248	2,206	2,184
EDA	1,729	1,778	1,723	1,548	1,323	1,147
EICT	878	929	932	889	853	838
Support, mktg & others	583	579	616	607	598	587
Utilisation rates (%)						
GIS	83.8	81.3	81.8	76.8	79.1	81.4
EDA	77.3	77.4	74.4	63.2	68.3	73.6
EICT	79.8	80.9	75.8	66.7	71.2	73.1
Average billing rates (US$/hr)						
GIS	20.8	20.9	21.6	21.1	21.6	22.3
EDA	28.7	28.8	29.3	27.0	26.7	26.3
EICT	147.4	151.3	152.1	145.9	145.8	146.0
Orderbook (Rsm)						
GIS	6,538	6,892	7,144	7,458	7,792	8,152
EDA	4,903	5,073	5,018	4,513	4,613	4,727
EICT	3,695	3,748	3,756	3,552	3,692	3,708
Total	15,136	15,713	15,918	15,523	16,097	16,587
Segment wise revenue (Rsm)						
GIS	1,425	1,490	1,549	1,562	1,595	1,710
EDA	987	1,060	1,094	900	861	882
EICT	798	912	977	858	871	913
Total	3,211	3,461	3,619	3,320	3,327	3,505
Segment profits (Rsm)						
GIS	586	617	667	637	700	800
EDA	393	418	436	319	315	338
EICT	143	150	158	109	110	116
Total	1,122	1,185	1,261	1,065	1,125	1,255

Source: Company Reports,

Appendix 1

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