ARIHANT capital markets ltd.

Date: 17th February 2010

Rolta India Ltd.—Stellar performance

BUY

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

Stock Info	
Market Capital	Rs.2967 cr
Equity Capital	Rs.161cr
Avg Trading Vol.	629373 (Qtly)
52 WK High/Low	210/40.7
Face Value	Rs. 10

BSE Group	A
BSE Code	500366
NSE Symbol	ROLTA
Bloomberg	RLTA IN
Reuters	ROLT.BO
BSE Sensex	16226
NSE Nifty	4855

Shareholding Pattern (31st Dec.'09)	
Promoters	41.9%
Domestic Institutions	3.1%
Foreign Institutions	33.5%
Non Promoters Corp.	2.6%
Public & Others	18.7%
Govt. Holdings	0.0%

Q2FY10 results highlights

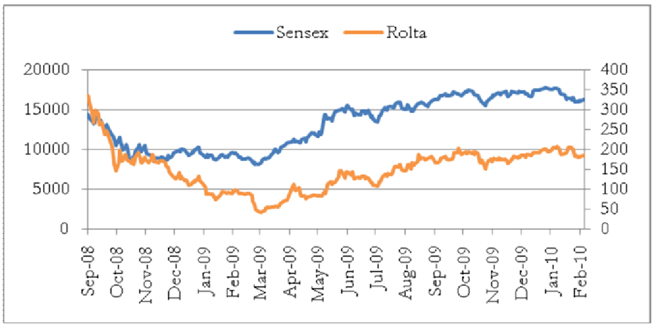
Results better than expectation: Rolta posted its 2QFY10 results that were better than our expectation. The Q2 revenue growth was led by the GIS segment which grew by a healthy 9.2%, while EDA by 7.8% and EICT by 2.7% (qoq). The three consecutive quarters growth in the EDA segment's revenue is a healthy sign. It is an indication that with the increase in manufacturing activities and crude prices, this segment which mainly caters to refineries and manufacturing plants is on recovery path—albeit at a slow pace. The management has further said that the company is witnessing sizeable wins and a strong pipe-line in the Middle-east and Asia. They also clarified that they have no exposure to the Dubai crisis.

Improvement in billing rates: The billing rates improved slightly over the quarters implying that stability has returned with regards to pricing matters. The management has also indicated that pricing pressures were "behind them". If the current rate of recovery continues and no hiccups are encountered—especially on the international scene, we can expect the company to further improve upon its billing rates.

Robust order-book improvement: The company increased its order-book position by Rs.49cr for the second consecutive quarter taking the total order book size to Rs.1708cr. Unlike in the previous quarters where majority of the order-book was driven by GIS, surprisingly in the current quarter the major addition came from the engineering segment—another healthy sign that the worst is over for this segment. However, the EICT segment's order book declined slightly by 6cr due to global weakness. The company is also having over Rs.5000cr orders in the pipe-line. Thus, Rolta looks well set to increase its revenue substantially going forward.

Improvement in margins: The company reported a qoq improvement of 210bps in its EBIDTA margin. This was mainly due to an increase in solution sales and also due to better cost management. The company however expects SGA cost to go up in the coming quarters due to the massive re-branding exercise undertaken to present itself as a solution-oriented company. This will lead to an increase in its marketing expenses. But the company aims to maintain its current margins as the increase in solutions sales—which have better margins as compared to services, is expected to make up for the increase in SGA expenses. Further, the company may also use the utilisation lever to support margins.

Valuations: At CMP the stock is trading at a P/E of 9.7xFY10E earnings. The better than expected Q2 result, an increasing order-book and an improvement in the global scenario provides better visibility for future revenues. We expect the company to further improve upon its operational performance in the coming quarters. We therefore believe that the company is now very well poised to be nearer to the upper end of its guidance of 12-15%YoY revenue growth. We now expect the company's revenue to grow by 13.9% YoY vis-à-vis our earlier estimates of 12.1%. We thereby upgrade our DCF based target price to Rs.230 per share for a period of 12 months as compared to our earlier target of Rs.206 and reiterate our 'Buy' recommendation on the stock.



Particulars (Rs. in cr)	FY09	FY10(E)	FY11 (E)
Net Revenue	1372.8	1563.0	1821.0
Growth %	*28.0*	*13.9*	*16.5*
Net Profit	293.8	305.1	414.8
Growth %	*27.4*	*3.8*	*35.9*
EPS (Rs)	18.3	18.9	25.8
P/E	10.1	9.7	7.1
P/BV	2.3	1.9	1.6

Other highlights of Q2FY10

Head-count increases slightly: The company after reducing head-count for three consecutive quarter increased its net head-count by 7 though the gross addition numbers were about 50-55. The company believes in a policy of need based hiring and may go for hiring as and when demand improves further.

DSO to improve: Rolta has done well in bringing down its DSO (days of sales outstanding) to 134 days in Q2. The high DSO had been a concern for the company for some time now. Infact just two quarters back in Q4FY09, DSO stood at 154 days and at one point of time i.e. Q1FY08 it was as high as 174 days. The company believes that it can further bring it down to 120 days in the near future. Thus, it would help the company to maintain higher cash on books and also cut down on working capital expenditure.

Made gain on FCCBs buy-back: The company bought back FCCBs worth $15mn at 15% discount in Q2FY10 taking total FCCB buyback till date to$53mn where the company has been able to gain approximately $13mn. Currently, the company has about $97mn worth of FCCBs outstanding which are due in June2012.

Previously, the company had passed an enabling resolution to raise funds upto US$250mn through various instruments like ADR,GDR, FCCBs, QIPs, etc. that will be convertible to equity shares. We believe the fund will be mostly used for de-leveraging its balance sheet; acquisition looks a rare probability as of now. The possibility of stock dilution however may put pressure on the stock price in the near-term.

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.

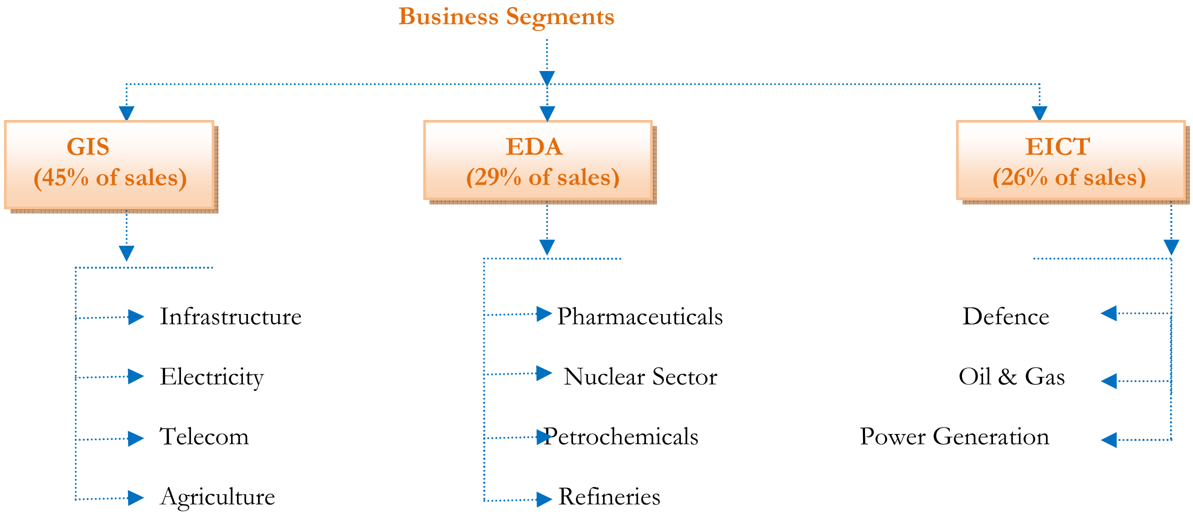
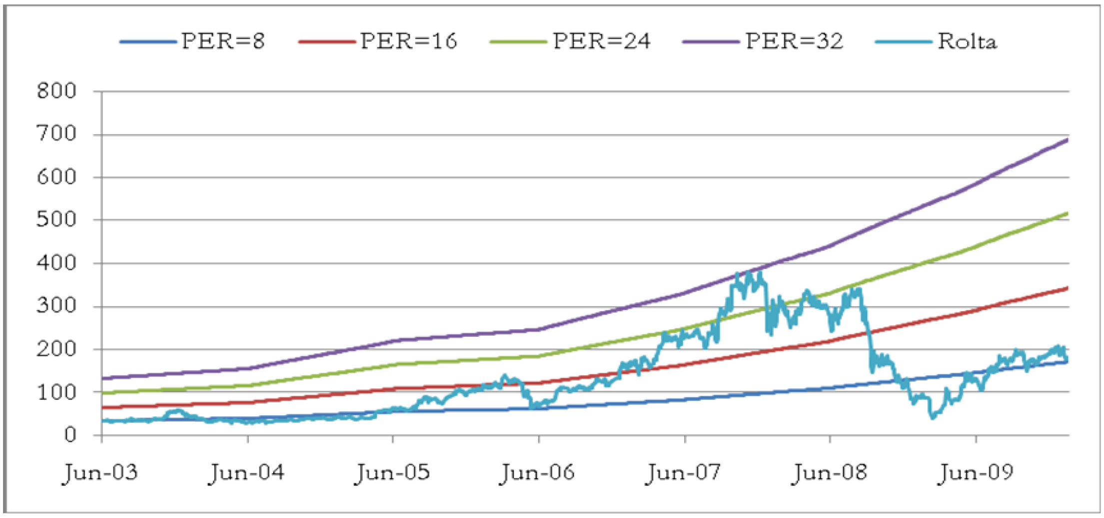


Fig: Verticals catered to by the 3 segments of Rolta

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



Q2 FY10 financial data

	Q2FY10	Q2FY09	YoY%chng.	Q1FY10	QoQ%chng.
Net sales/income from operations	375.6	361.9	3.8%	350.5	7.2%
Total income	**375.6**	**361.9**	3.8%	**350.5**	7.2%
EXPENDITURE					
Inventory-(Increase)/Decrease	2.5	3.5	-29.1%	1.9	25.8%
Material/Subcontract cost	67.9	58.7	15.8%	52.6	29.1%
Staff cost	126.9	135.8	-6.6%	129.9	-2.4%
Depreciation	66.9	41.3	62.1%	62.1	7.8%
Other Expenditure	35.9	37.9	-5.1%	40.5	-11.2%
TOTAL	**300.3**	**277.1**	8.3%	**287.1**	4.6%
Profit from operations before other income, interest and exceptional item	**75.3**	**84.8**	-11.2%	**63.4**	18.8%
Other Income	7.9	9.5	-16.3%	9.9	-19.7%
Profit before interest & exceptional items	**83.3**	**94.3**	-11.7%	**73.3**	13.6%
Interest	11.5	1.1	904.4%	8.3	37.6%
Profit/(Loss) before exceptional item & Tax	**71.8**	**93.2**	-22.9%	**64.9**	10.6%
Exceptional item:					
Notional Exchange (Loss)/Gain on revaluation of FCCBs	0.0	-22.7	0.0%	0	
Profit after Exceptional Item before Tax	**71.8**	**70.5**	1.9%	**64.9**	10.6%
Provision for Taxation	9.2	10.1	-9.2%	9.0	1.9%
Net Profit after Exceptional Item &Tax	**62.6**	**60.4**	3.7%	**55.9**	11.9%
Effective tax rate%	12.8%	14.4%		13.9%	
Add/(less)minority share in loss	0.2	0.2	-5.3%	0.2	0.0%
Net Profit After Tax, Minority Interest & Exceptional item	62.8	60.6	3.7%	56.1	11.9%
EPS	***3.9***	***3.8***	***2.6%***	***3.5***	***11.4%***

Profit and Loss Statement (consolidated)

Y/E June (Rs. in cr)	FY09A	FY10E	FY11E
Net Sales	**1372.8**	**1563.0**	**1821.0**
YoY%	*28.1*	*13.9*	*16.5*
Other Inc.	69.1	33.8	33.8
Total Income	**1441.9**	**1596.8**	**1854.8**
Expenditures:			
Manpower costs	548.7	522.1	563.9
Material cost	196.8	282.1	340.0
Interest	12.6	42.7	45.8
Depreciation	186.7	249.1	277.3
Other expenses	163.8	148.2	143.7
Total Expenditure	**1108.6**	**1244.2**	**1370.7**
PBT	**333.3**	**352.6**	**484.1**
Tax	40.2	48.2	70
Tax rate%	*12.1*	*13.7*	*14.5*
PAT	**293.8**	**305.1**	**414.8**
YoY%	*27.4*	*3.8*	*35.9*
EPS	**18.2**	**18.9**	**25.8**
PAT %	**20.4**	**19.1**	**22.4**

Cash Flow Statement Extract

Y/E June (Rs. in cr)	FY09A	FY10E	FY10E
Net profit after tax & extra-ordinary item	293.1	305.1	414.8
Adjustment for:			
Depreciation	186.7	249.1	277.3
Other items	30.5	94.0	118.9
Increase/Decrease in working capital	-115.1	-25.3	-11.7
Cash generated from operations	395.2	622.9	799.4
Direct taxes paid	34.9	48.2	70
Net cash provided by operating activities	**360.2**	**531.9**	**683.6**
(Inc.)/ Dec. in Fixed assets	-763.9	-552.4	-250.0
Dividend Received	9.1	9.1	9.1
Interest Received	10.5	10.5	10.5
Other items	104.1	-	-
Cash Inflow/ (outflow) from Investments	**-640.2**	**-532.7**	**-230.4**
Proceeds from secured loan	384.8	164.2	-
Interest Paid	-11.8	-42.7	-45.8
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**	**-8.5**	**-105.8**
Net Cash Inflow/ (outflow)	**-122.2**	**-9.2**	**347.4**
Cash at beginning	259.8	137.6	128.4
Net Cash carried forward	**137.6**	**128.4**	**475.8**

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	1516.4	1872.9
Shareholder's Equity	**1441.6**	**1677.5**	**2034.0**
Total Debt	996.7	1100	1100
Deferred Tax Liability	47.9	47.9	47.9
Minority Interest	0.8	0.8	0.8
Total Liabilities	**2486.9**	**2826.1**	**3182.7**
Application of Funds:			
Goodwill	301.4	301.4	301.4
Gross Block	1651.8	2104.2	2354.2
Less: Acc. depreciation	404.7	553.8	831.1
Net Block	*1247.1*	*1550.4*	*1523.0*
CWIP	279.3	234.5	205.1
Investments	35.4	35.4	35.4
Deferred Tax Asset	7.2	8	8
Current Assets:			
Debtors	595.1	569.5	598.7
Cash and equivalent	137.6	128.4	475.8
Loans and Advances	116.9	135	160
Other current assets	13.6	13.6	13.6
Less: Current liabilities & Provisions	274.5	160	150
Net current asset	**599.1**	**696.5**	**1109.7**
Total Assets	**2486.9**	**2826.1**	**3182.7**

Important Ratios

Y/E June	FY09A	FY10E	FY11E
Performance Ratios			
EBIDTA %	36.9	40.4	43.5
Net Profit %	20.4	19.1	22.4
Sales per share (SPS)	85.3	97.1	113.1
Price/SPS	2.2	1.9	1.6
Dividend %	30	30	30
Assets Turnover	0.6	0.6	0.6
Du Pont Analysis			
PAT / Net Sales	0.2	0.2	0.2
Net Sales / Assets	1.7	1.9	1.5
Assets / Equity	0.6	0.5	0.6
ROE %	20.4	18.2	20.4
Valuation Ratios			
Diluted EPS	18.2	18.9	25.8
Cash EPS	29.9	34.4	42.9
P/E	10.1	9.7	7.1
P/BV	2.3	1.9	1.6
EV/ EBIDTA	5.4	6.1	4.4
EV/ Sales	2.1	2.5	1.9
ROCE%	21.4	22.8	25.4

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Stock Rating Scale

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

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