

21 October 2008

Q1FY09 Result Update

Rohta India

Buy

Run Forrest run ...

CMP Rs187*

Key Data

Bloomberg Code	RLTA IN
Reuters Code	ROLTA.BO
Current Shares O/S (mn)	161
Diluted Shares O/S(mn)	161
Mkt Cap (Rs bn/US\$ mn)	30.1/615
52 Wk H / L (Rs)	396/133
Daily Vol. (3M NSE Avg.)	1,012,979
Face Value (Rs)	10

1 USD = Rs49.0

Source: Bloomberg ; * As on 20 October 2008

Price Performance (%)

	1M	6M	1Yr
Rohta India	(37.5)	(40.9)	(36.9)
NIFTY	(26.4)	(38.0)	(40.1)

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Robust quarter, but order-book growth takes a breather

Rohta surpassed our estimates for Q1FY09 handsomely, posting a 7.8% QoQ and 56.6% YoY growth in topline to Rs3,461mn (our estimate: Rs3,387mn). However, bottom-line included an exceptional MTM loss of Rs613mn on FCCBs which does not worry us as this is a non-cash charge and would be reversed as and when the currency turns favourable. Excluding this exceptional item, Rohta would have posted a 4.9% and 58% growth on a QoQ and YoY basis respectively. The company showed a deceleration in order book growth during the quarter, which the management attributes to holidays in Europe and Middle East. We would watch this trend closely before we conclude on this being a continuing trend.

Well-rounded performance across segments

The company recorded good growth across segments on a QoQ basis – GIS: 4%, EDA: 7% and EICT: 14%. The quarter includes 40 days of Whittman Hart consulting (\$1.3mn), which was acquired last quarter. The company signed a master service agreement with one of the top 10 EPCs globally, which we believe would add to a steady stream of revenues going forward. EBIDTA margins for the quarter declined by 74bps which was lower than our expectations despite salary hikes (15% offshore and 2.5% onsite). This we believe was due to a higher-than-expected increase in billing rates during the quarter (GIS: 0.5%, EDA: 0.3%, EICT: 2.6%). The slower pace of growth in the order-book was the only cause for concern (3.8% QoQ growth).

Good revenue visibility, reiterate Buy

Rohta is currently trading at 7.7x FY10E EPS of Rs24.5 (fully diluted). In the current context, we continue to believe the company has good revenue visibility in the mid-cap IT space. We reiterate our Buy rating on the stock.

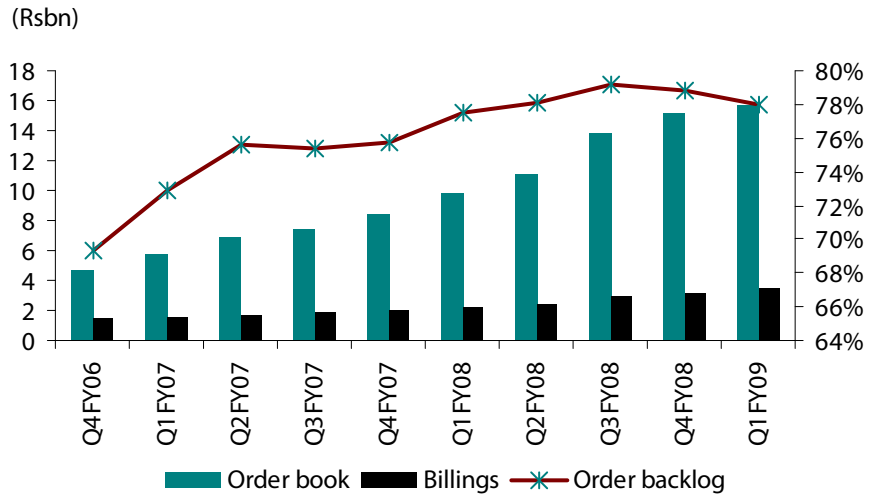
Exhibit 1: Q1FY09 Result

Y/E June (Rsmn)	Q1FY08	Q4FY08	Q1FY09	QoQ (%)	YoY (%)	FY08	FY09E	FY10E
Net sales	2,210	3,211	3,461	7.8	56.6	10,722	14,946.7	19,723.98
Materials & subcontracting	619	620	611			2560	2933	3870
% of sales	28	19	18			24	20	20
Employee costs	550	1,153	1,299			3,200	5,458	7,204
% of sales	25	36	38			30	37	37
Other expenditure	201	315	367			1,064	1,466	1,845
% of sales	9	10	11			10	10	9
Operating profit	840	1,122	1,185	5.5	41.0	3,898	5,089	6,804
OPM (%)	38.0	35.0	34.2	(73bps)	(470bps)	36.4	34.1	34.5
Depreciation and amortisation	316	378	379			1383	1755	2124
Interest	0	0	0			0	0	0
EBT	524	744	806			2515	3334	4681
Other income	96	168	150			170	446	441
PBT	621	912	956			2,685	3,780	5,122
Exceptional item (as reported)		(302)	(614)			0	0	0
Provision for tax	82	110	105			388	529	717
-effective tax rate	13	12	11			14	14	14
Minority share in profit / loss		9	2			0	0	0
PAT (reported)	538	509	237	(53.4)	(55.9)	2,297	3,251	4,405
Exceptional item (adj-post tax)	0	302	614			0	0	0
PAT (adjusted)	538	811	851	4.9	58.0	2,297	3,251	4,405
NPM (%)	24	25	25	46bps	22bps	21	22	22
EPS (adjusted)	3.0	4.5	4.7			12.8	18.1	24.5

Source: Company; Centrum Research

Management attributes the deceleration to holidays in Europe and middle east. We would wait for another quarter before we view this as a consistent trend.

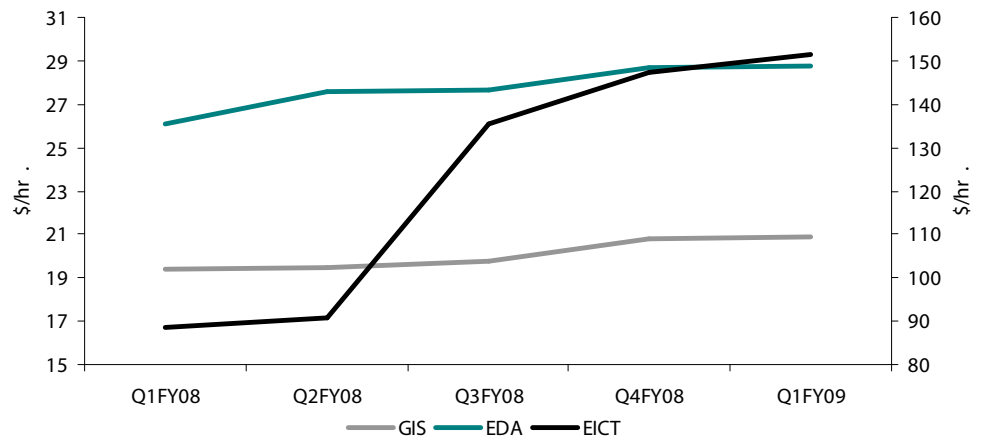
Exhibit 2: Order-book growth takes a breather



Source: Company; Centrum Research

Billing rates increased higher than estimates QoQ. (GIS: 0.5%, EDA: 0.3%, EICT: 2.6%)

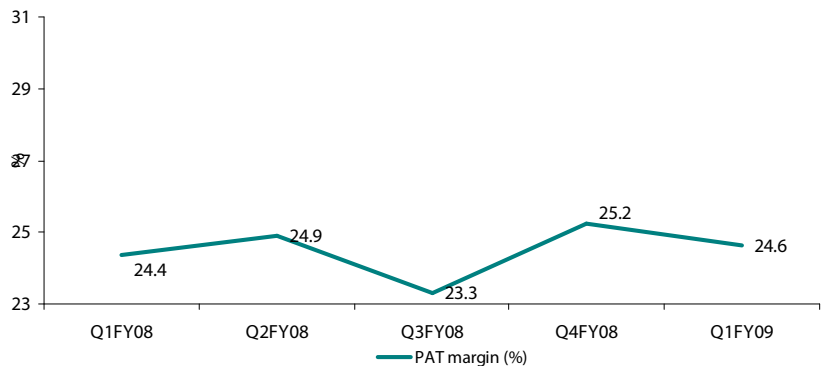
Exhibit 3: Billing rate increase continue to be robust



Source: Company; Centrum Research

PAT margins maintained in a narrow band despite acquisitions

Exhibit 4: PAT margins remain in a narrow band



Source: Company; Centrum Research

Exhibit 5: Key financials

		2008	2009	2010
Net sales	Rs bn	10.7	14.9	19.7
Growth (%)		50.7	39.4	32
EBIDTA	Rs bn	3.9	5.1	6.8
Margins (%)		36.4	34.1	34.5
PAT (Adjusted)	Rs bn	2.3	3.3	4.4
Growth (%)		33.6	41	35.5
Net Debt	Rs bn	4.3	4.7	3.8
ROE (%)		20.7	24.9	27.6
ROCE(%)		12.7	15.9	18.9
EPS (diluted) (Rs)		12.8	18.1	24.5
PE (diluted) x		14.8	10.5	7.7
EV/EBIDTA x		10.1	7.5	5.6
EV/Sales x		3.8	2.8	2.1
P/BV x		3.3	2.8	2.2

Source: Company; Centrum Research

Exhibit 6: Variance from estimates

Rs mn	Q1 FY09	
	Estimates	Actual
Net Sales	3,387	3461
Operating profit	1129	1185
Operating margin (%)	33.3	34.2
PBT	836	956
Exceptional item	(550)	(614)
PAT (reported)	246	237
PAT (adjusted)	796	851

Source: Company; Centrum Research

Rolta continues to be the most de-risked business in the Indian IT space

We believe Rolta continues to be the most de-risked business in the Indian IT space. The company is unaffected by exchange rates (except for MTMs on the FCCB which we believe is notional and will be reversed over a period of time). The company continues to benefit from higher pricing as it moves up the value chain which is contrary to what other IT companies are facing at this point. Moreover the company is expected to see a topline growth of 39.4% in FY09 and 32% in FY10, which we believe exceeds industry growth rates by a huge margin. We maintain our Buy rating on the stock.

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