

**ROLTA INDIA****INR 187****Guidance retained despite headwinds****BUY**

October 20, 2008

**Overall results meet expectations**

Rolta India's (Rolta) Q1FY09 revenues were in-line with expectations, while net profits were lower than expected purely on account of higher MTM loss. Revenues grew 7.8% Q-o-Q and net profits 5.7% Q-o-Q (excluding forex loss). EBITDA margins stood at 34.1% (our expectation 33.7%), decline of 70bps Q-o-Q attributable to salary hikes effected during the quarter. Reported net profits declined 53% sequentially as it included mark-to-market (MTM) loss (of INR 613.5mn) on FCCBs; however we note that this is purely a notional accounting loss and does not have any cash flow impact.

**Unchanged guidance indicates continuing strength**

Rolta has maintained its FY09 guidance of INR 14.8–15 bn for revenues and net profit of INR 3.25–3.30 bn (excluding forex loss) despite the current headwinds in the global economy. Guidance implies a growth rate of 38-40% for revenues and 41-43% for net profits. This has been backed by healthy order backlog that currently stands at INR 15.7 bn (INR 15.1bn in Q4FY08). Further, the bid-pipeline is over INR 40 bn.

**Launched Rolta Fusion solution for all business verticals**

Over the last one year Rolta has worked towards acquiring solutions to fill gaps in its services offerings across business segments and be a full service provider. This quarter saw the launch of Fusion solution that combines the acquired solutions and in-house business intelligence that will help target larger orders and with higher profitability in longer run. Rolta's acquisitions over the last one year include Orion Technologies (July 07), TUSC (January 2008) and WhittmanHart Consulting (July 2008).

**Outlook and valuations: recent correction provides entry opportunity; maintain 'BUY'**

In the current deteriorating macro environment, Rolta is among few companies that has high visibility and is operating in defensive verticals. Order book growth of 3% sequentially though is lower, absolute amount of orders (INR 15.7bn) cover more than 75% of guided revenues. Further, the company is investing to integrate its know-how in the form of solutions that will help it increase non-linear growth.

We expect the company to grow its revenues and earnings at a CAGR of 37% and 41%, respectively, over FY08-10E. Over the last one month Rolta's stock price has fallen by 36%, higher than the 25% decline in the Sensex making the valuations compelling. At CMP of INR 187, the stock trades at a P/E of 9.9x and 7.3x for FY09E and FY10E earnings, respectively. We see this as an attractive entry opportunity and recommend accumulating the stock. We re-iterate our **'BUY'** recommendation.

**Financials**

Year to June	Q109	Q408	Growth %	Q108	Growth %	FY08	FY09E
Revenue (INR mn)	3,461	3,211	7.8	2,210	56.6	10,722	15,152
Gross profit (INR mn)	1,552	1,437	8.0	1,041	49.0	4,961	7,091
EBITDA (INR mn)	1,185	1,122	5.6	840	41.1	3,897	5,242
Net profit (INR mn)	239	508	(53.0)	538	(55.6)	2,306	3,377
Diluted EPS (INR)	1.5	2.9	(48.7)	3.3	(55.9)	13.0	18.9
Diluted P/E (x)						14.4	9.9
EV/EBITDA (x)						8.1	5.7
Market cap / Rev. (x)						2.8	2.0

\* FY09E profits and EPS excludes the notional MTM loss on outstanding FCCB

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Reuters : ROLT.BO  
Bloomberg : RLTA IN

**Market Data**

52-week range (INR) : 390 / 134  
Share in issue (mn) : 160.9  
M cap (INR bn/USD mn) : 30.0 / 626.8  
Avg. Daily Vol. BSE ('000) : 1,189.6

**Share Holding Pattern (%)**

Promoters : 40.2  
MFs, FIs & Banks : 2.7  
FIIs : 38.5  
Others : 18.6

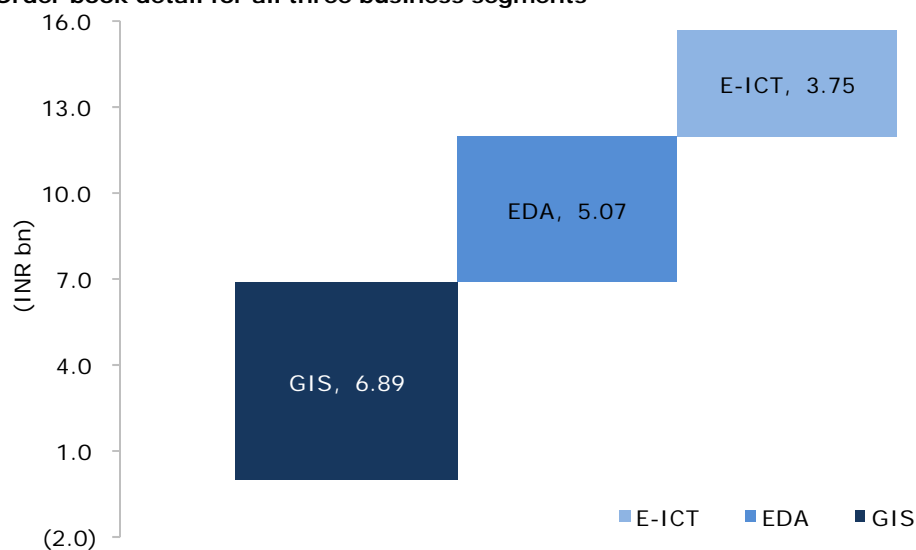
**Relative Performance (%)**

	Sensex	Stock	Stock over Sensex
1 month	(20.2)	(41.3)	(21.1)
3 months	(19.3)	(36.7)	(17.4)
12 months	(43.5)	(41.0)	2.5

**Key highlights**

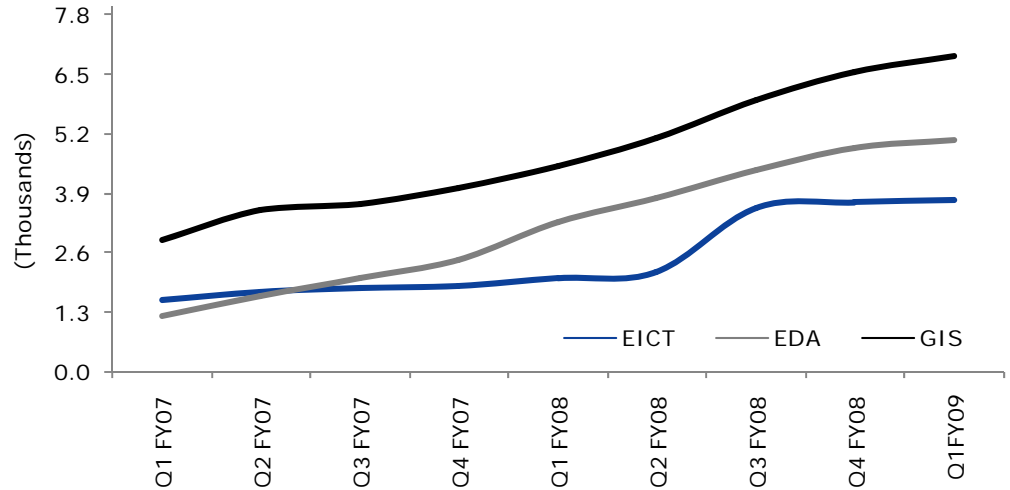
- Consolidated revenues, at INR 3.5 bn, were up 7.8% Q-o-Q and 56.6% Y-o-Y; reported net profits, at INR 239.1 mn, were down 53.0% Q-o-Q and 55.6% Y-o-Y. Net profits were impacted due to provision of MTM loss (of INR 613mn) on outstanding FCCBs.
- Gross profits for the quarter stood at INR 1.6 bn, up 8.0% Q-o-Q. Gross margins were flat on sequential basis at 44.8%, despite wage hikes effected in the current quarter. Lower material consumption costs helped to negate the wage hike (offshore – 15% and onsite – 2.5%).
- EBITDA stood at INR 1.2 bn, up 5.6% Q-o-Q and 41.1% Y-o-Y. EBITDA margins were down by 70 bps to 34.2%; because of higher spend on SG&A.
- Manpower addition this quarter stood at 253 employees, including the recent acquisition of the WhittmanHart Consulting’s 69 employees. Total headcount now stands at ~5,522.
- Attrition for the quarter stood at 8.8%.
- The company’s order book at the end of the quarter stood at INR 15.7 bn, a growth of 3% sequentially.
- Rolta’s billing rates in GIS and EDA were flat sequentially, while E-ICT division saw realizations improving by ~3% Q-o-Q.
- Average debtor days for Rolta stood at 143, reduction from 151 days in the previous quarter.
- Current cash and equivalents in hand stand at INR 3.5 bn.

**Order book detail for all three business segments**



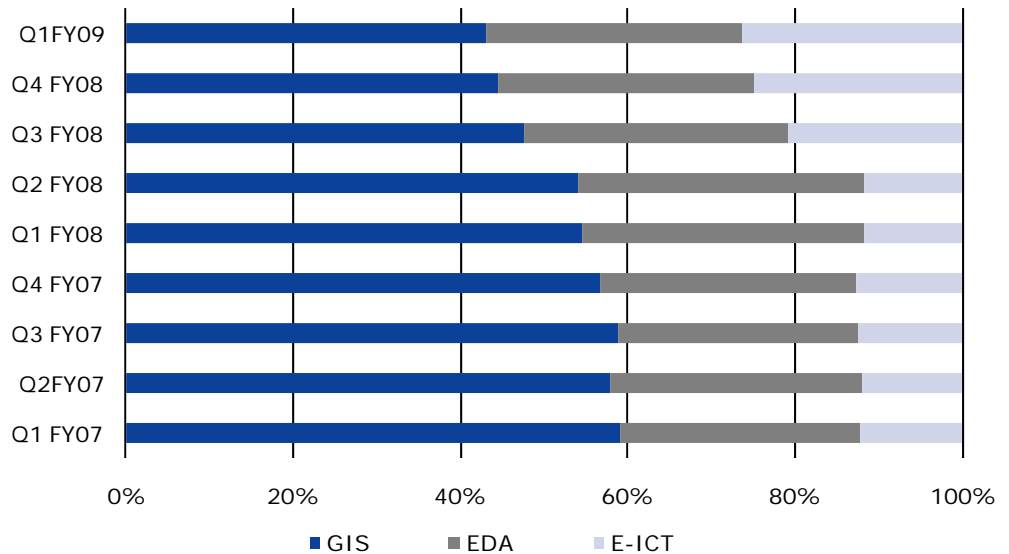
Source: Company

**Absolute order book movement across businesses**



Source: Company

**Increasing percentage of employees in E-ICT segment due to inorganic boost**



Source: Company, Edelweiss research

**Outlook and valuations: recent correction provides entry opportunity; maintain 'BUY'**

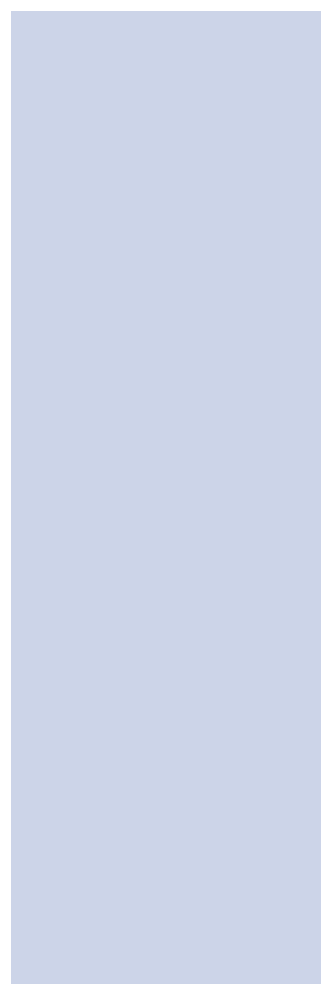
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We expect the company to grow its revenues and earnings at a CAGR of 37% and 41%, respectively, over FY08-10E. Over the last one month Rolta's stock price has fallen by 36%, higher than the 25% decline in the Sensex making the valuations compelling. At CMP of INR 187, the stock trades at a P/E of 9.9x and 7.3x for FY09E and FY10E earnings, respectively. We see this as an attractive entry opportunity and recommend accumulating the stock. We re-iterate our 'BUY' recommendation.

<b>Financials snapshot</b>		<b>(INR mn)</b>						
<b>Year to June</b>	<b>Q109</b>	<b>Q408</b>	<b>Growth %</b>	<b>Q108</b>	<b>Growth %</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>
Total revenues	3,461	3,211	7.8	2,210	56.6	10,722	15,152	20,010
Cost of revenues	1,910	1,774	7.7	1,169	63.4	5,761	8,061	10,405
Gross profit	1,552	1,437	8.0	1,041	49.0	4,961	7,091	9,605
SG&A	367	315	16.4	201	82.2	1,064	1,849	2,501
EBITDA	1,185	1,122	5.6	840	41.1	3,897	5,242	7,104
Depreciation	379	378	0.1	316	19.9	1,383	1,580	1,780
EBIT	806	744	8.4	524	53.8	2,515	3,662	5,324
Other income	(464)	(134)	245.5	96	(581.4)	170	288	369
PBT	342	609	(43.8)	621	(44.8)	2,685	3,950	5,692
Tax	105	110	(4.4)	82	27.7	388	573	968
Adjusted net profit	237	500	(52.5)	538	(55.9)	2,297	3,377	4,725
Minority interest	(1.8)	(8.73)	-	-	-	(9)	0	130
Reported net profit *	239	508	(53.0)	538	(55.6)	2,306	3,377	4,595
EPS fully diluted (INR) *	1.5	2.9	(48.7)	3.3	(55.9)	13.0	18.9	25.7

<b>as % of net revenues</b>								
Gross profit	44.8	44.8		47.1		46.3	46.8	48.0
SG&A	10.6	9.8		9.1		9.9	12.2	12.5
EBITDA	34.2	34.9	33.7	38.0		36.3	34.6	35.5
Adjusted net profit	6.9	15.6		24.4		21.4	22.3	23.6
Reported net profit	6.9	15.8		24.4		21.5	22.3	23.0
Tax rate	30.7	18.0		13.3		14.4	14.5	17.0

\* FY09E profits and EPS excludes the notional MTM loss on outstanding FCCB



### Company Description

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Rolta is one of the leading providers of GIS and engineering design and automation (EDA) services. In GIS, Rolta provides and develops digital map-based solutions, servicing customers in segments like defence, environmental protection, utilities, emergency services, and public planning. In EDA, Rolta focuses on computer-aided plant design and mechanical engineering solutions. The company provides a combination of software skills and component manufacturing services through its EDA group. It also provides security and IT infrastructure, software development, testing, and gaming services through its eSolutions group. The company's past twelve months (TTM) revenues stood at INR 11.97 bn (USD 284 mn) and it employs ~5,500 people.

### Investment Theme

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Outsourcing of engineering services is expected to reach USD 38-50 bn by 2020, compared to USD 2 bn now, as per the Nasscom-Booz Allen Hamilton study. As one of the leading offshore engineering services firms for the manufacturing industry, Rolta is well-poised to grab the increasing opportunities. The company has acquired WhittmanHart Consulting, which has ~70 consultants and provides consulting in the Business Intelligence (BI), particularly Oracle's Hyperion products, and Enterprise performance management (EPM) arenas. The company 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 Stone & Webster pursues engineering design opportunities in high-growth refinery, petrochemicals, and energy sectors in India. Its 51:49 JV with Thales, the French defence and aerospace major, aims at targeting Indian and international defence spend in the area of high-tech warfare.

### Key Risks

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Key risks to our investment theme include: (a) adequate availability of skilled manpower; (b) substantial proportion of revenues from non-annuity sources; and (c) large proportion of revenues from the domestic market.

## Financial Statements

<b>Income statement</b>		<b>(INR mn)</b>				
<b>Year to June</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>	
Revenues	5,349	7,112	10,722	15,152	20,010	
Cost of revenues	2,614	3,618	5,761	8,061	10,405	
Gross profit	2,735	3,494	4,961	7,091	9,605	
Total SG&A expenses	506	628	1,064	1,849	2,501	
EBITDA	2,229	2,866	3,897	5,242	7,104	
Depreciation & Amortization	747	1,018	1,383	1,580	1,780	
EBIT	1,482	1,848	2,515	3,662	5,324	
Interest expense	147	7	-	-	-	
Other income	85	103	170	288	369	
Profit before tax	1,420	1,943	2,685	3,950	5,692	
Tax	147	214	388	573	968	
Core profit	1,273	1,729	2,297	3,377	4,725	
Profit after tax	1,273	1,729	2,297	3,377	4,725	
Minority int. and others - paid/(recd.)	0	0	9	0	130	
Net profit after minority interest	1,273	1,729	2,288	3,377	4,595	
Shares outstanding (mn)	135	159	162	162	172	
EPS (INR) basic	9.4	10.9	14.2	20.8	26.7	
Diluted shares (mn)	136	160	178	179	179	
EPS (INR) diluted	9.4	10.8	12.9	18.9	25.7	
CEPS (INR)	15.0	17.3	22.7	30.5	37.0	
Dividend per share	4.7	5.0	4.5	5.5	6.0	
Dividend (%)	40.0	50.0	45.0	55.0	60.0	
Dividend pay out (%)	28.6	27.2	35.9	30.9	26.3	

### Common size metrics - as % of revenues

<b>Year to June</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>
Cost of revenues	48.9	50.9	53.7	53.2	52.0
Gross margin	51.1	49.1	46.3	46.8	48.0
SG&A expenses	9.5	8.8	9.9	12.2	12.5
EBITDA margin	41.7	40.3	36.3	34.6	35.5
EBIT margin	27.7	26.0	23.5	24.2	26.6
Net profit margins	23.8	24.3	21.4	22.3	23.6

### Growth metrics (%)

<b>Year to June</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>
Revenues	29.0	33.0	50.8	41.3	32.1
EBITDA	51.2	28.6	36.0	34.5	35.5
EBIT	50.5	24.7	36.1	45.6	45.4
PBT	44.9	36.8	38.2	47.1	44.1
Net profit	42.4	35.8	32.8	47.0	39.9
EPS	32.7	15.1	19.2	46.4	36.0

<b>Balance sheet</b>		<b>(INR mn)</b>				
<b>Year to June</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>	
Equity share capital	799	801	1,609	1,624	1,724	
Share premium account	4,203	4,092	3,471	3,615	7,202	
Reserves	4,412	5,573	6,762	9,094	12,479	
Total shareholders funds	9,414	10,466	11,841	14,333	21,404	
Borrowings	98	6,177	6,938	6,963	3,395	
Minority interest	0	0	15	15	145	
Deferred tax liability	253	346	459	520	750	
<b>Sources of funds</b>	<b>9,765</b>	<b>16,989</b>	<b>19,253</b>	<b>21,831</b>	<b>25,695</b>	
Goodwill and other intangible asset	67	60	2,000	2,000	2,000	
Gross fixed assets	6,695	8,283	10,583	12,102	13,300	
Less: Accumulated depreciation	2,852	3,619	4,090	5,670	7,450	
Net fixed assets	3,843	4,664	6,493	6,432	5,849	
Capital WIP	682	1,463	1,729	850	550	
Investments	1,124	976	2,816	4,000	4,500	
Deferred tax asset	0	0	63	63	63	
Cash & bank balances	887	6,390	2,598	3,067	6,566	
Debtors	3,262	3,770	5,018	5,812	6,579	
Inventories	234	206	215	268	335	
Loans and advances	745	885	1,160	1,567	2,037	
Total current assets	5,128	11,251	8,991	10,713	15,517	
Sundry creditors	538	758	947	1,184	1,480	
Provisions	540	668	835	1,044	1,305	
Total current liabilities	1,078	1,426	2,840	2,228	2,785	
Working capital	4,050	9,825	6,152	8,486	12,732	
<b>Application of funds</b>	<b>9,765</b>	<b>16,989</b>	<b>19,253</b>	<b>21,831</b>	<b>25,695</b>	
Book value per share (BV) (INR)	69.8	65.7	73.3	88.3	124.2	

<b>Free cash flow</b>						
<b>Year to June</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>	
Net profit	1,273	1,729	2,288	3,377	4,595	
Depreciation	747	1,018	1,383	1,580	1,780	
Others	41	(14)	202	(226)	(9)	
Gross cash flow	2,061	2,734	3,873	4,731	6,366	
Less: Changes in working capital	673	404	112	1,865	747	
Operating cash flow	1,387	2,330	3,760	2,866	5,619	
Less: Capex	1,631	2,648	3,474	640	897	
<b>Free cash flow</b>	<b>(243)</b>	<b>(318)</b>	<b>287</b>	<b>2,226</b>	<b>4,722</b>	

<b>Cash flow statement</b>		<b>(INR mn)</b>				
<b>Year to June</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>	
Cash flow from operations	1,973	2,951	5,162	4,119	6,923	
Cash for working capital	(673)	(404)	(112)	(1,865)	(747)	
Operating cashflow (A)	1,387	2,330	3,760	2,866	5,619	
Net purchase of fixed assets	(1,631)	(2,648)	(3,474)	(640)	(897)	
Net purchase of investments	(1,124)	165	(1,815)	(1,184)	(500)	
Others	17	51	(1,773)	288	369	
Investments cashflow (B)	(2,737)	(2,433)	(7,062)	(1,536)	(1,028)	
Dividends	(254)	6,111	0	(1,045)	(1,210)	
Proceeds from issue of equity	3,925	(110)	49	159	3,687	
Proceeds from LTB/STB	(1,764)	(396)	(539)	25	(3,568)	
Financing cash flow (C)	1,907	5,605	(490)	(861)	(1,091)	
<b>Change in cash (A+B+C) + (D)</b>	<b>557</b>	<b>5,502</b>	<b>(3,791)</b>	<b>468</b>	<b>3,499</b>	

**Ratios**

Year to June	FY06	FY07	FY08	FY09E	FY10E
ROAE (%)	18.2	17.4	20.5	25.8	25.7
ROACE (%)	19.4	15.0	15.5	21.4	27.3
Debtors (days)	210	180	150	130	113
Payable (days)	41	33	29	26	24
Current ratio	4.8	7.9	3.2	4.8	5.6
Debt/EBITDA	0.0	2.2	1.8	1.3	0.5
Fixed assets turnover (x)	1.5	1.7	1.9	2.3	3.3
Total asset turnover(x)	0.7	0.5	0.6	0.7	0.8
Equity turnover(x)	0.8	0.7	1.0	1.2	1.1
Debt/Equity (x)	0.0	0.6	0.6	0.5	0.2
Adjusted debt/Equity	0.0	0.6	0.6	0.5	0.2

**Valuation parameters**

Year to June	FY06	FY07	FY08	FY09E	FY10E
Diluted EPS (INR)	9.4	10.8	12.9	18.9	25.7
<i>Y-o-Y growth (%)</i>	<i>32.7</i>	<i>15.1</i>	<i>19.2</i>	<i>46.4</i>	<i>36.0</i>
CEPS (INR)	15.0	17.3	22.7	30.5	37.0
Diluted PE (x)	19.9	17.3	14.5	9.9	7.3
Price/BV(x)	2.7	2.8	2.6	2.1	1.5
EV/Revenues (x)	4.4	4.0	3.0	2.0	1.2
EV/EBITDA (x)	10.5	10.0	8.2	5.8	3.5
EV/EBITDA (x)+1 yr forward	8.1	7.3	6.1	4.3	
Dividend yield (%)	2.5	2.7	2.4	2.9	3.2

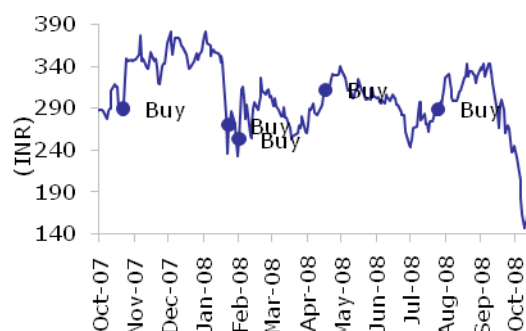


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### Coverage group(s) of stocks by primary analyst(s): Information Technology

Geometric, HCL Tech, Hexaware, Infosys, Infotech, Mastek, Mphasis, Patni, Rolta, Sasken, Satyam, TCS, Take Solutions and Wipro

#### Rolta



#### Recent Research

Date	Company	Title	Price (INR)	Recos
17-Oct-08	<b>Satyam Computer</b>	Cash flow performance the highlight despite some Negatives; <i>Result Update</i>	266	Buy
17-Oct-08	<b>Mphasis</b>	Continuing strong Performance; <i>Result Update</i>	175	Buy
16-Oct-08	<b>Sasken</b>	Products strength offsetting services headwinds; <i>Result Update</i>	94	Accum.
15-Oct-08	<b>HCL Tech</b>	A fair quarter barring margin impact of acquisitions; <i>Result Update</i>	158	Buy

#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	94	59	14	8	187

\* 10 stocks under review / 1 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	75	65	47

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 20% over a 12-month period
<b>Accumulate</b>	appreciate up to 20% over a 12-month period
<b>Reduce</b>	depreciate up to 10% over a 12-month period
<b>Sell</b>	depreciate more than 10% over a 12-month period

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