

ROLTA INDIA



Improving traction

Revenue in line; net profit ahead of estimate

Rolta India's (Rolta) Q2FY11 revenue was in line with our estimate while net profit was ahead of estimate driven by lower tax incidence. Revenue, at INR 4.4 bn, grew 3.2% Q-o-Q and adjusted net profit, at INR 714 mn, rose 5.1% Q-o-Q. While EBITDA margin, at 39.4% (down 30bps Q-o-Q), was ahead of the estimated 38.8%, gross margin declined 190bps to 49.3%. Lower SG&A spending (170bps Q-o-Q) led to EBITDA margin expansion. During the quarter, the company also reported INR 761 mn profit on sale of stake in Shaw Rolta JV.

Charting out positives and negatives

Positives: (a) Free cash generation continued to be positive at INR 350 mn; (b) new order intake of INR 4.6 bn is among Rolta's highest. Total order book as at quarter end at INR 19.0 bn (INR 18.8 bn previous quarter). Order book excludes orders of Shaw JV in the engineering segment; (c) book-to-bill ratio continued to remain strong for EGDS and EITS segments at 1.2x; (d) debtor days reduced to 130 from 144 in the previous quarter; and (e) improving traction in the EICT business with gradual margin improvement to follow.

Negatives: (a) Revenue from engineering segment continued to remain flat (up 0.9% Q-o-Q); (b) margins in the EITS segment continued to remain at 12% and no success in terms of shifting work offshore from TUSC (company acquired in Jan 2008); and (c) though cash flow generation has been positive, we believe FCF generation has to jump significantly to repay FCCB proceeds by FY12 end, which otherwise may result in capital raising, thereby diluting existing equity.

Outlook and valuations: Attractive; maintain 'BUY'

Rolta is seeing a sustained improvement in its operating margins, now at 40%, with continued solution selling in the EGDS segment. Its FY12E and FY13E EPS stands at INR 19.3 and INR 22.7, respectively, at which the stock trades at a P/E of 7.0x and 5.9x, respectively. Though potential equity dilution continues to remain an overhang, with 16% earnings growth over the next two years, we believe current valuations are attractive. Thus, we continue to maintain 'BUY' recommendation on the stock. On relative return basis the stock is rated 'Sector Outperformer'.

January 31, 2011

Reuters: ROLT.BO Bloomberg: RLTA IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	High
Sector Relative to Market	Equalweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 134
52-week range (INR)	:	210 / 130
Share in issue (mn)	:	161.3
M cap (INR bn/USD mn)	:	22 / 472
Avg. Daily Vol. BSE/NSE ('000):	:	1,054.7

SHARE HOLDING PATTERN (%)

Promoters*	:	41.9
MFs, FIs & Banks	:	2.5
FIIIs	:	32.6
Others	:	23.0
* Promoters pledged shares (% of share in issue)	:	2.5

PRICE PERFORMANCE (%)

	Stock	Nifty EW Technology Index
1 month	(10.0)	(8.1) (2.5)
3 months	(16.3)	(7.9) 8.9
12 months	(29.5)	13.2 36.5

Financials

(INR mn)

Year to June	Q2FY11	Q1FY11	% Chg	Q2FY10	% Chg	FY10	FY11E
Net revenues	4,411	4,276	3.2	3,756	17.5	15,327	17,650
EBITDA	1,739	1,697	2.5	1,423	22.2	5,770	7,035
Net profit	1,475	679	117.1	691	113.5	2,403	3,527
Diluted EPS (INR)	9.1	4.2	117.4	4.3	112.6	14.8	21.7
Diluted P/E (x)						9.1	6.2
EV/EBITDA (x)						5.8	4.4
EV/Revenues (x)						2.2	1.7

Kunal Sangoi
+91 22 6623 3370
kunal.sangoi@edelcap.com

Ganesh Duvvuri
+91 22 4040 7586
ganesh.duvvuri@edelcap.com

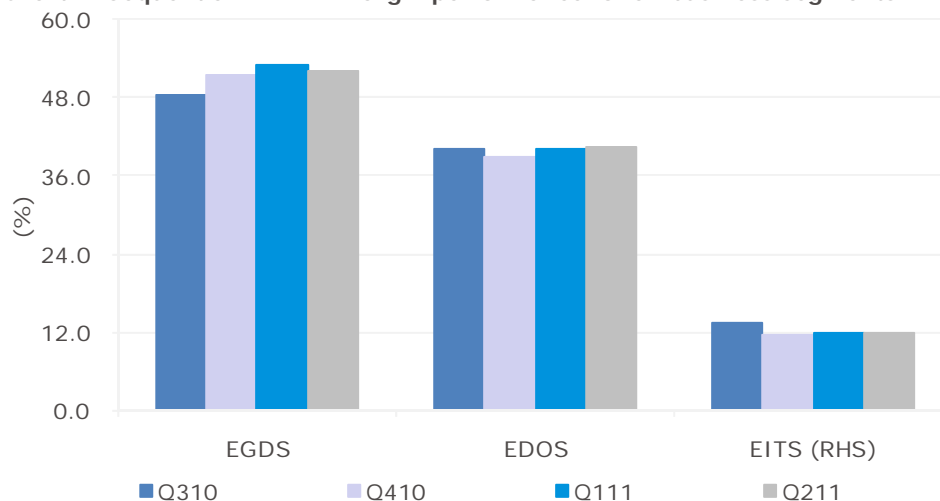
Key highlights

- Consolidated revenue, at INR 4.4 bn, grew 3.2% Q-o-Q and 17.5% Y-o-Y. Gross profit for the quarter stood at INR 2.2 bn, a sequential decline of 0.7%. Gross margins dipped 190bps on account of high cost of laterals and subcontracting costs during the quarter.
- EBITDA stood at INR 1.7 bn, up 2.5% Q-o-Q and 22.2% Y-o-Y. EBITDA margins fell marginally by 30bps Q-o-Q at 39.4%. Lower SG&A spending helped maintain flat EBITDA margins by offsetting the impact of lower gross margins.
- Net profit, excluding gain from stake sale in Shaw Rolta, stood at INR 714 mn, up 5.1% Q-o-Q and 3.4% Y-o-Y. Net profit margin (excluding exceptional gain), at 16.2%, jumped 30bps Q-o-Q. Tax rate during the quarter stood at 16.9% (14.5% previous quarter).

Segmental performance

- **Enterprise Geospatial and Defence Solutions (EGDS):** Consolidated revenues, at INR 2.2 bn, rose 4.4% Q-o-Q and 20.4% Y-o-Y. While gross profit stood at INR 1.4 bn, gross margin dipped 180bps sequentially to 60.4%. EBITDA margin declined sequentially 80bps and now stands at 52.1%. Utilisation for the quarter stood at 78.4%, down 30bps sequentially. Strong traction in this segment for its geospatial *Fusion* solution. The company's order book grew 5.0% sequentially. On reported basis, realisation posted an uptick of 1.3% Q-o-Q.
- **Enterprise Design and Operation Solutions (EDOS):** Rolta reported consolidated revenue of INR 1.1 bn, up a tepid 0.9% Q-o-Q and 14.7% Y-o-Y. EBITDA margin stood at 40.3%, an improvement of 10bps over the previous quarter.
- **Enterprise IT Solutions (EITS):** The EITS segment's revenue, at INR 1,071 mn, grew 2.9%. EBITDA margin, at 11.8%, was marginally down 10bps from the previous quarter. Order book increased 4.5% (highest in past 11 quarters) from the previous quarter.

Chart 1: Sequential EBITDA margin performance for all business segments



Source: Company, Edelweiss research

- **Order book uptick continued:** Rolta's order book (excluding INR 550 mn from Shaw JV) grew 1.1% sequentially. Current order book stands at INR 19.0 bn. EGDS and EITS segments grew their order book by 5.0% and 4.5% sequentially, respectively.

Chart 2: Order book break-up segment wise

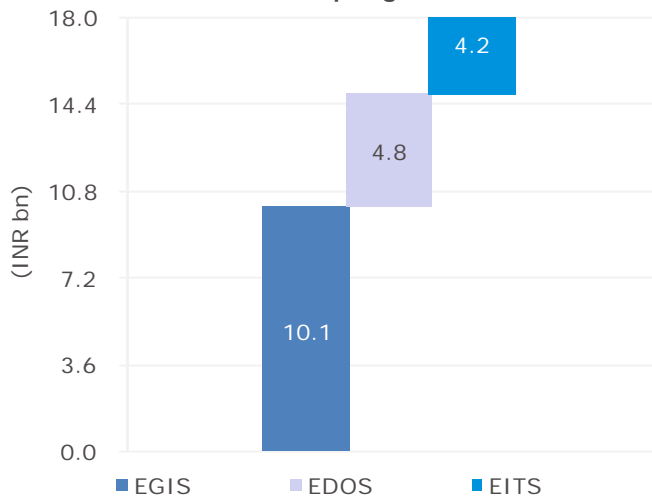


Chart 3: New order booking declines



Source: Company, Edelweiss research

- **Capex** for H1FY11 at INR 1.7 bn.
- FCF for the quarter stood at INR 350 mn versus INR 300 mn in the previous quarter.
- **Tax rate:** Management expects FY12 tax rate to be in the 14-15% range; post FY12 it will be in the 18-20% range.
- **DSOs decline:** Debtor days stand at 130 days vis-à-vis 144 in the previous quarter.

Financial snapshot

(INR mn)

Year to June	Q2FY11	Q1FY11	% Change	Q2FY10	% Change	FY10	FY11E	FY12E
Net revenues	4,411	4,276	3.2	3,756	17.5	15,327	17,650	20,147
Cost of revenue	2,239	2,087	7.3	1,973	13.4	7,914	8,672	10,094
Gross profit	2,173	2,189	(0.7)	1,782	21.9	7,413	8,978	10,053
SG&A	434	492	(11.8)	359	20.7	1,643	1,943	2,317
EBITDA	1,739	1,697	2.5	1,423	22.2	5,770	7,035	7,736
Depreciation	806	763	5.5	670	20.3	2,679	3,241	3,480
EBIT	933	934	0.0	753	23.9	3,091	3,794	4,256
Other income	1,058 [#]	55	1,817.1	210	404.8	409	1,183	180
Interest*	217	194	11.9	182	19.5	697	793	751
Profit before tax	1,774	795	123.2	781	127.2	2,803	4,185	3,686
Tax	300	115	161.0	92	225.9	406	657	553
Core profit	1,474	680	116.8	689	114.0	2,398	3,527	3,133
Minority interest	-	1	NA	(2)	NA	(5)	-	-
Reported net profit	1,475	679	117.1	691	113.5	2,403	3,527	3,133
Diluted EPS (INR)	9.1	4.2	117.4	4.3	112.6	14.8	21.7	19.3

As % of net revenues

Gross profit	49.3	51.2		47.5		48.4	50.9	49.9
SG&A	9.8	11.5		9.6		10.7	11.0	11.5
EBITDA	39.4	39.7		37.9		37.6	39.9	38.4
Adjusted net profit	33.4	15.9		18.3		15.6	20.0	15.5
Reported net profit	33.4	15.9		18.4		15.7	20.0	15.5
Tax rate	16.9	14.5		11.8		14.5	15.7	15.0

* Accrued interest on FCCB taken in interest exp. and thus commensurate gain of FCCB buy-back also reversed in profit and loss account

Includes exceptional gain from sale of stake in Shaw Rolta JV

- **Company Description**

Rolta is one of the leading providers of GIS and engineering design and automation (EDOS) 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 EDOS, 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 EICT group. The company's past twelve months (TTM) revenues stood at INR 16.8 bn (USD 370 mn) and it employs over 4,212 people.

- **Investment Theme**

Outsourcing of engineering services is expected to reach USD 38-50 bn by 2020 against USD 2 bn currently, as per the Nasscom-Booz Allen Hamilton study. As one of the leading offshore engineering services firms for the manufacturing industry, Rolta is poised to grab the increasing opportunities. Nevertheless, in the current environment, as capex spending has eased, Rolta has seen uptick in new orders. Moreover, with increased emphasis and spending plans on upgrading defence technologies, opportunity for Rolta is significant. In addition, visibility for JV with Thales Group is also looking up. We see Rolta placed in a strong position to explore the high opportunity segments of GIS and engineering along with its focus on transitioning towards solutions approach.

- **Key Risks**

Key risks to our investment theme include: (a) substantial proportion of revenues from non-annuity sources; (b) slow down of in GIS segment; (c) inability to monetize the Fusion solutions could impact profitability; and (d) inadequate free cash generation to repay the FCCB and ECB debt.

Financial Statements

Income statement						(INR mn)
Year to June	FY09	FY10	FY11E	FY12E	FY13E	
Revenues	13,728	15,327	17,650	20,147	23,109	
Cost of revenues	7,455	7,914	8,672	10,094	11,347	
Gross profit	6,274	7,413	8,978	10,053	11,763	
Total SG&A expenses	1,588	1,643	1,943	2,317	2,773	
EBITDA	4,685	5,770	7,035	7,736	8,989	
Depreciation & amortization	1,867	2,679	3,241	3,480	4,000	
EBIT	2,818	3,091	3,794	4,256	4,989	
Interest expense	409	697	793	751	714	
Other income	903	409	1,183	180	220	
Profit before tax	3,312	2,803	4,185	3,686	4,496	
Tax	402	406	657	553	809	
Core profit	2,910	2,398	3,527	3,133	3,687	
Profit after tax	2,910	2,398	3,527	3,133	3,687	
Minority int. and extra ord. item - (paid)/recd.	7	5	0	0	0	
Net profit after extra ord. & minority interest	2,917	2,403	3,527	3,133	3,687	
Shares outstanding (mn)	161	161	161	161	161	
EPS (INR) basic	18.1	14.9	21.9	19.4	22.9	
Diluted shares (mn)	161	162	162	162	162	
EPS (INR) diluted	18.1	14.8	21.7	19.3	22.7	
CEPS (INR)	29.6	31.5	42.0	41.0	47.7	
Dividend per share	3.0	3.2	3.5	4.0	4.0	
Dividend (%)	30.0	32.5	35.0	40.0	40.0	
Dividend pay out (%)	19.5	25.5	18.7	24.0	20.4	

Common size metrics - as % of revenues

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Cost of revenues	54.3	51.6	49.1	50.1	49.1
Gross margin	45.7	48.4	50.9	49.9	50.9
SG&A expenses	11.6	10.7	11.0	11.5	12.0
EBITDA margin	34.1	37.6	39.9	38.4	38.9
EBIT margin	20.5	20.2	21.5	21.1	21.6
Net profit margins	21.2	15.6	20.0	15.5	16.0

Growth metrics (%)

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Revenues	28.0	11.6	15.2	14.1	14.7
EBITDA	20.2	23.2	21.9	10.0	16.2
EBIT	12.1	9.7	22.8	12.2	17.2
PBT	23.4	(15.4)	49.3	(11.9)	22.0
Net profit	26.7	(17.6)	47.1	(11.2)	17.7
EPS	28.8	(18.3)	46.8	(11.2)	17.7

Balance sheet

(INR mn)

As on 30th June	FY09	FY10	FY11E	FY12E	FY13E
Equity share capital	1,610	1,612	1,612	1,612	1,612
Share premium account	2,577	2,355	2,355	2,355	2,355
Reserves	10,054	12,080	14,950	17,330	20,265
Total shareholders funds	14,242	16,047	18,917	21,297	24,232
Borrowings	9,967	12,588	11,445	11,045	10,759
Minority interest	8	3	3	3	3
Deferred tax liability	479	424	520	520	520
Sources of funds	24,696	29,061	30,884	32,865	35,514
Goodwill and other intangible asset	3,010	2,961	2,961	2,961	2,961
Gross fixed assets	16,518	21,594	24,594	28,094	31,594
Less: Accumulated depreciation	4,047	5,014	8,255	11,735	15,735
Net fixed assets	12,471	16,580	16,339	16,359	15,859
Capital WIP	2,793	2,428	1,800	1,350	1,200
Investments	354	551	600	1,600	2,600
Deferred tax asset	72	71	71	71	71
Cash & bank balances	1,376	504	1,629	2,510	2,904
Debtors	5,951	6,248	7,253	7,728	9,180
Inventories	105	39	58	76	106
Loans and advances	1,305	2,031	2,640	3,116	4,050
Total current assets	8,736	8,821	11,581	13,429	16,241
Sundry creditors	1,794	1,246	1,308	1,569	1,883
Provisions	946	1,105	1,161	1,335	1,535
Total current liabilities	2,740	2,351	2,468	2,904	3,418
Working capital	5,996	6,470	9,113	10,525	12,823
Application of funds	24,696	29,061	30,884	32,865	35,514
Book value per share (BV) (INR)	88.5	99.6	117.4	132.1	150.3

Free cash flow

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Net profit	2,917	2,403	3,527	3,133	3,687
Depreciation	1,867	2,679	3,241	3,480	4,000
Others	(30)	673	(294)	571	494
Gross cash flow	4,754	5,755	6,474	7,184	8,180
Less: Changes in working capital	1,151	1,706	1,517	531	1,904
Operating cash flow	3,603	4,049	4,957	6,652	6,277
Less: Capex	7,635	4,684	2,372	3,050	3,350
Free cash flow	(4,032)	(635)	2,585	3,602	2,927

Cash flow statement

(INR mn)

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Cash flow from operations	3,515	5,168	6,591	7,619	8,694
Cash for working capital	(1,151)	(1,706)	(1,517)	(531)	(1,904)
Operating cashflow (A)	3,603	4,049	4,957	6,652	6,277
Net purchase of fixed assets	(7,635)	(4,684)	(2,372)	(3,050)	(3,350)
Net purchase of investments	2,467	(196)	(49)	(1,000)	(1,000)
Others	(1,234)	(1,746)	1,183	180	220
Investments cashflow (B)	(6,402)	(6,626)	(1,237)	(3,870)	(4,130)
Dividends	(576)	(573)	(658)	(752)	(752)
Proceeds from issue of equity	8	13	0	0	0
Proceeds from LTB/STB	3,846	3,317	(1,936)	(1,150)	(1,000)
Financing cash flow (C)	1,577	1,705	(2,594)	(1,902)	(1,752)
Change in cash (A+B+C) + (D)	(1,223)	(872)	1,126	880	395

Ratios

Year to June	FY09	FY10	FY11E	FY12E	FY13E
ROAE (%)	22.3	15.8	20.2	15.6	16.2
ROACE (%)	13.8	11.7	12.9	13.8	15.5
Debtors (days)	146	145	140	136	134
Payable (days)	50	36	26	26	27
Cash conversion cycle	95	109	113	110	106
Current ratio	3.2	3.8	4.7	4.6	4.8
Debt/EBITDA	2.1	2.2	1.6	1.4	1.2
Interest cover (x)	7	4	5	6	7
Fixed assets turnover (x)	1.4	1.1	1.1	1.2	1.4
Total asset turnover(x)	0.6	0.6	0.6	0.6	0.7
Equity turnover(x)	1.1	1.0	1.0	1.0	1.0
Debt/Equity (x)	0.7	0.8	0.6	0.5	0.4
Adjusted debt/Equity	0.7	0.8	0.6	0.5	0.4

Valuation parameters

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Diluted EPS (INR)	18.1	14.8	21.7	19.3	22.7
Y-o-Y growth (%)	28.8	(18.3)	46.8	(11.2)	17.7
CEPS (INR)	29.6	31.5	42.0	41.0	47.7
Diluted PE (x)	7.4	9.1	6.2	7.0	5.9
Price/BV(x)	1.5	1.4	1.1	1.0	0.9
EV/Revenues (x)	2.2	2.2	1.7	1.4	1.2
EV/EBITDA (x)	6.4	5.8	4.4	3.7	3.0
EV/EBITDA (x)+1 yr forward	5.2	4.7	4.0	3.2	
Dividend yield (%)	2.2	2.4	2.6	3.0	3.0



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ECLERX SERVICES	BUY	SO	M	HCL Technologies	BUY	SO	H
Hexaware Technologies	BUY	SP	M	Info Edge	REDUCE	SU	M
Infosys Technologies	HOLD	SP	L	Infotech Enterprises	BUY	SO	H
Mphasis	REDUCE	SU	M	Patni Computer Systems	HOLD	SU	M
Rolta India	BUY	SO	H	Tata Consultancy Services	BUY	SO	L
Wipro	HOLD	SU	L				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
Sector Underperformer (SU)	Stock return < 1.25 x Sector return
	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



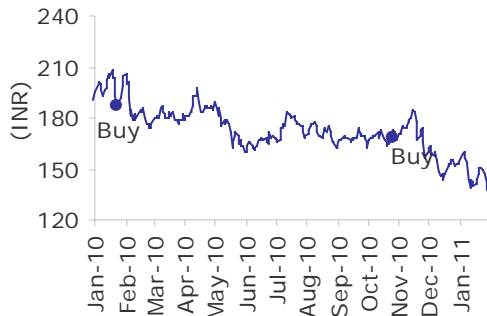
Edelweiss Securities Limited, 14th Floor, Express Towers, Nariman Point, Mumbai – 400 021.
Board: (91-22) 2286 4400, Email: research@edelcap.com

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Head Research	nischal.maheshwari@edelcap.com	+91 22 6623 3411

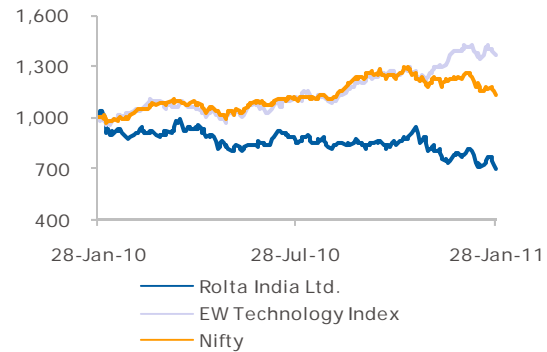
Coverage group(s) of stocks by primary analyst(s): IT

HCL Technologies, Hexaware Technologies, Infosys Technologies, Info Edge, Infotech Enterprises, Mphasis, Patni Computer Systems, Rolta India, Tata Consultancy Services, Wipro

Rolta India



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	116	45	12	176
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	110	53	13	

Recent Research

Date	Company	Title	Price (INR)	Recos
27-Jan-11	eClerx Services	Focused initiatives yielding results; <i>Result Update</i>	684	Buy
24-Jan-11	eClerx Services	A breed apart; <i>Initiating Coverage</i>	604	Buy
21-Jan-11	Info Edge	Industry-wide high attrition continues to drive growth; <i>Result Update</i>	572	Reduce

Access the entire repository of Edelweiss Research on www.edelresearch.com

This document has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Analyst holding in the stock: no.