

ROLTA INDIA

Gathering pace

Revenue and net profit ahead of estimate

Rolta India's (Rolta) Q3FY11 revenue and net profit were ahead of ours as well as Street's estimates. Revenue, at INR 4.4 bn, grew 4.4% Q-o-Q and net profit, at INR 773 mn, rose 8.3% Q-o-Q on back of higher other income and lower tax incidence. EBITDA margin, at 39.8% (up 40bps Q-o-Q), was in line with our estimate, led by improvement in gross margin and lower SG&A expenses. EBITDA margin continued the uptrend and has catapulted 200bps in the past four quarters on account of sizeable rise in IP revenue proportion.

Highlighting the positives and negatives from the results

Positives: (a) new order intake, at INR 6.0 bn, highest ever for Rolta. Total order book as at quarter end at INR 20.4 bn (INR 19.0 bn previous quarter); (b) free cash generation continued to be positive at INR 400 mn; (c) book-to-bill ratio continued to remain strong for all three segments—EGDS (1.4x), EDOS (1.1x) and EITS (1.2x); (d) improving traction in EICT business with gradual margin improvement to follow; and (e) contribution of high margin IP-based revenue at 14%. **Negatives:** (a) revenue from engineering segment continued its sluggish trend; also, order booking was mute during the quarter; and (b) EITS segment's margin continued to remain at ~12%.

Equity dilution likely during FY12

Rolta's current debt on book stands at INR 13.0 bn, including the ~INR 6 bn FCCB debt which will be up for redemption in June 2012. In our view, the current cash position (INR 1 bn) and expected cash generation during FY12 (~INR 3.6 bn) will be insufficient to meet the FCCB redemption; ergo, it will have to opt for either refinancing or equity dilution. We believe this will remain a concern going into FY12.

Outlook and valuations: Gaining momentum; maintain 'BUY'

With strong traction in the EGDS segment and higher proportion of solution selling, Rolta's operating margins have been consistently soaring (40% currently). The company's FY12E and FY13E EPS stands at INR 20.4 (revised up 6%) and INR 22.2, respectively, at which the stock trades at attractive P/E of 6.7x and 6.1x, respectively. We believe the Street is factoring in expected dilution of ~15-20%, at which stock could trade at ~8.3x FY12E, which could still offer more than 15% returns hereon in our view. Thus, we continue to maintain our 'BUY' recommendation on the stock. On relative return basis, the stock is rated 'Sector Performer'.

Financials

(INR mn)

Year to June	Q3FY11	Q2FY11	% Chg	Q3FY10	% Chg	FY10	FY11E
Net revenues	4,603	4,411	4.4	3,946	16.7	15,327	18,058
EBITDA	1,832	1,739	5.4	1,492	22.8	5,770	7,166
Net profit	773	1,475	(47.6)	604	28.0	2,403	3,694
Diluted EPS (INR)	4.8	9.1	(47.5)	3.7	28.7	14.8	22.7
Diluted P/E (x)						9.2	6.0
EV/EBITDA (x)						5.8	4.5
EV/Revenues (x)						2.2	1.8

May 6, 2011

Reuters: ROLT.BO Bloomberg: RLTA IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
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 136
52-week range (INR)	:	189 / 128
Share in issue (mn)	:	161.3
M cap (INR bn/USD mn)	:	22 / 491
Avg. Daily Vol. BSE/NSE ('000):	:	802.5

SHARE HOLDING PATTERN (%)

Promoters*	:	41.9
MFs, FIs & Banks	:	2.5
FIIIs	:	32.8
Others	:	22.8
* Promoters pledged shares (% of share in issue)	:	2.5

PRICE PERFORMANCE (%)

	Stock	Nifty EW	Technology Index
1 month	(10.1)	(6.3)	(8.2)
3 months	(4.2)	2.6	(2.1)
12 months	(25.6)	7.5	25.4

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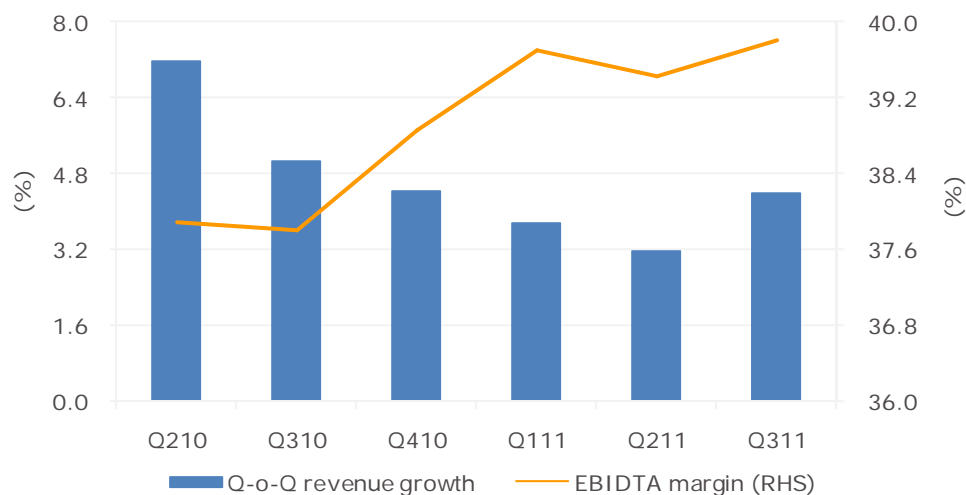
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Key highlights

- Consolidated revenue, at INR 4.6 bn, jumped 4.4% Q-o-Q and 16.7% Y-o-Y. Gross profit, at INR 2.3 bn, rose 5.0% Q-o-Q. Gross margin surged 20bps to 49.5%.
- EBITDA, at INR 1.8 bn, rose 4.4% Q-o-Q and 22.8% Y-o-Y. EBITDA inched up a marginal 40bps Q-o-Q to 39.8%, predominantly on account of percolation of gross margin and flat SG&A spending.

Chart 1: Revenue growth and EBITDA margin improved during the quarter



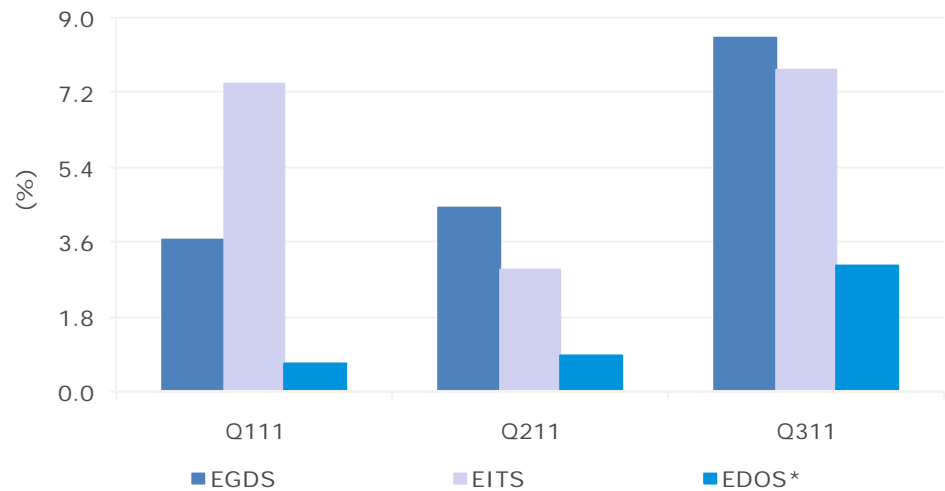
Source: Company, Edelweiss research

- Net profit, at INR 773 mn (INR 714 mn excluding gain from stake sale in Shaw Rolta JV), rose 8.3% Q-o-Q and 28.0% Y-o-Y. The surge was on account of higher other income and lower tax rate. Net profit margin, at 16.8%, jumped 60bps Q-o-Q. Tax rate during the quarter stood at 11.5% (16.9% previous quarter).

Segmental performance

- Enterprise Geospatial and Defence Solutions (EGDS):** Consolidated revenue, at INR 2.4 bn, jumped 8.5% Q-o-Q and 24.1% Y-o-Y. While gross profit stood at INR 1.5 bn, gross margin posted 70bps increase sequentially to 61.3%. EBITDA margin rose sequentially 60bps and now stands at 52.4%. Utilisation for the quarter was flat sequentially at 78.2%. Strong traction for its geospatial *Fusion* solution is driving growth in this segment. The company's order book grew 10.6% sequentially, highest in the past three years. On reported basis, realisation dipped 0.9% Q-o-Q.
- Enterprise Design and Operation Solutions (EDOS):** While consolidated revenue came in at INR 1.0 bn, EBITDA margin stood at 40.0%, a marginal decline of 30bps over the previous quarter.
- Enterprise IT Solutions (EITS):** The EITS segment's revenue, at INR 1.1 bn, grew 7.8% Q-o-Q. EBITDA margin, at 12.3%, soared 50bps from the previous quarter. Order book increased 4.8% (highest in past 12 quarters) from the previous quarter.

Chart 2: Sequential revenue growth for all business segments over last 3 quarters



* Note: Q311 revenue growth post adjustment of share from Shaw Rohta JV

Source: Company, Edelweiss research

- **Order book uptick continued:** Rohta's order book grew 7.2% sequentially (highest in past 11 quarters). Current order book stands at INR 20.4 bn. Order books of EGDS, EDOS and EITS segments grew 10.6%, 2.1% and 4.8% sequentially, respectively.

Chart 3: Order book break-up segment wise

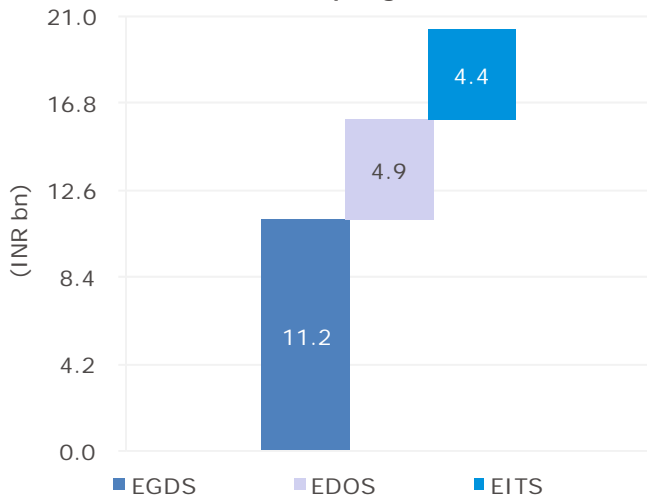


Chart 4: New order booking soares during the quarter



Source: Company, Edelweiss research

- IP-based solutions contributed 14% to total revenue during the quarter. Management aims to raise the contribution to 15-20% in FY12E.
- **Capex** for the quarter was at INR 750 mn.
- FCF for the quarter stood at INR 400 mn versus INR 350 mn in the previous quarter.
- **Tax rate:** Management expects FY12 tax rate to be in the 16-18% range.

Financial snapshot

(INR mn)

Year to June	Q3FY11	Q2FY11	% Change	Q3FY10	% Change	FY10	FY11E	FY12E
Net revenues	4,603	4,411	4.4	3,946	16.7	15,327	18,058	20,717
Cost of revenue	2,323	2,239	3.8	2,065	12.5	7,914	9,032	10,400
Gross profit	2,280	2,173	5.0	1,881	21.2	7,413	9,026	10,317
SG&A	448	434	3.4	389	15.1	1,643	1,860	2,237
EBITDA	1,832	1,739	5.4	1,492	22.8	5,770	7,166	8,080
Depreciation	845	806	4.8	673	25.5	2,679	3,278	3,480
EBIT	988	933	5.8	819	20.6	3,091	3,888	4,600
Other income	108	1,058 [#]	(89.8)	60	78.7	409	1,276	180
Interest*	223	217	2.6	168	32.6	697	820	751
Profit before tax	873	1,774	(50.8)	711	22.7	2,803	4,344	4,029
Tax	100	300	(66.7)	109	(8.2)	406	650	717
Core profit	773	1,474	(47.6)	602	28.3	2,398	3,693	3,312
Minority interest	(1)		NA	(2)	NA	(5)	-	-
Reported net profit	773	1,475	(47.6)	604	28.0	2,403	3,694	3,312
Diluted EPS (INR)	4.8	9.1	(47.5)	3.7	28.7	14.8	22.7	20.4

As % of net revenues

Gross profit	49.5	49.3		47.7		48.4	50.0	49.8
SG&A	9.7	9.8		9.9		10.7	10.3	10.8
EBITDA	39.8	39.4		37.8		37.6	39.7	39.0
Adjusted net profit	16.8	33.4		15.3		15.6	20.5	16.0
Reported net profit	16.8	33.4		15.3		15.7	20.5	16.0
Tax rate	11.5	16.9		15.3		14.5	15.0	17.8

* Accrued interest on FCCB taken in interest expenses 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 Limited

- **Company Description**

Rolta is one of the leading providers of GIS and engineering design and automation (EDOS) services. In GIS, the company provides and develops digital map-based solutions, servicing customers in segments like defence, environmental protection, utilities, emergency services, and public planning. In EDOS, it 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 EITS group. The company's past 12 months (TTM) revenue stood at INR 17.4 bn (USD 385 mn) and it employs over 4,247 people.

- **Investment Theme**

Outsourcing of engineering services is expected to touch USD 38-50 bn by 2020 against USD 2 bn currently, as per a Nasscom-Booz Allen Hamilton study. As one of the leading offshore engineering services firms for the manufacturing industry, Rolta is poised to grab the rising opportunities. Nevertheless, in the current environment, as capex spending has eased, the company 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 the JV with the Thales Group is also looking up. We perceive Rolta to be 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**

- (a) Substantial proportion of revenue from non-annuity sources.
- (b) Slow down in GIS segment.
- (c) Inability to monetise Fusion solutions could impact profitability.
- (d) Inadequate free cash generation to repay FCCB and ECB debt.

Financial Statements

Income statement

(INR mn)

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Net revenue	13,728	15,327	18,058	20,717	23,551
Cost of revenues	7,455	7,914	9,032	10,400	11,846
Gross profit	6,274	7,413	9,026	10,317	11,705
Total SG&A expenses	1,588	1,643	1,860	2,237	2,826
EBITDA	4,685	5,770	7,166	8,080	8,879
Depreciation & Amortization	1,867	2,679	3,278	3,480	4,000
EBIT	2,818	3,091	3,888	4,600	4,879
Other income	903	409	1,276	180	220
Interest expenses	409	697	820	751	714
Profit before tax	3,312	2,803	4,344	4,029	4,385
Provision for tax	402	406	650	717	789
Core profit	2,910	2,398	3,693	3,312	3,596
Profit after tax	2,910	2,398	3,693	3,312	3,596
Minority int. and others - paid/(recd.)	7	5	-	-	-
Profit after minority interest	2,917	2,403	3,694	3,312	3,596
Basic shares outstanding (mn)	161	161	161	161	161
Basic EPS (INR)	18.1	14.9	22.9	20.5	22.3
Diluted equity shares (mn)	161	162	162	162	162
Diluted EPS (INR)	18.1	14.8	22.8	20.4	22.2
CEPS (INR)	29.6	31.5	43.2	42.1	47.1
Dividend per share (INR)	3.0	3.2	3.5	4.0	4.0
Dividend (%)	30.0	32.5	35.0	40.0	40.0
Dividend payout (%)	19.5	25.5	17.8	22.7	20.9

Common size metrics - as % of net

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Cost of revenues	54.3	51.6	50.0	50.2	50.3
Gross margin	45.7	48.4	50.0	49.8	49.7
SG&A expenses	11.6	10.7	10.3	10.8	12.0
EBITDA margins	34.1	37.6	39.7	39.0	37.7
EBIT margins	20.5	20.2	21.5	22.2	20.7
Net profit margins	21.2	15.6	20.5	16.0	15.3

Growth ratios (%)

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Revenues	28.0	11.6	17.8	14.7	13.7
EBITDA	20.2	23.2	24.2	12.7	9.9
EBIT	12.1	9.7	25.8	18.3	6.1
PBT	23.4	(15.4)	55.0	(7.3)	8.8
Net profit	26.7	(17.6)	54.0	(10.3)	8.6
EPS	28.8	(18.3)	54.1	(10.3)	8.6

Balance sheet

(INR mn)

As on 30th June	FY09	FY10	FY11E	FY12E	FY13E
Equity 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 & surplus	10,054	12,080	15,115	17,674	20,518
Shareholders funds	14,242	16,047	19,082	21,641	24,485
Minority interest (BS)	8	3	3	3	3
Borrowings	9,967	12,588	11,471	9,572	7,214
Deferred tax liability	479	424	520	520	520
Sources of funds	24,696	29,061	31,076	31,736	32,221
Gross block	16,518	21,594	25,294	27,794	30,794
Accumulated depreciation	4,047	5,014	8,293	11,773	15,773
Net block	12,471	16,580	17,001	16,021	15,021
Capital work in progress	2,793	2,428	1,800	1,350	1,200
Deferred tax asset	72	71	71	71	71
Goodwill	3,010	2,961	2,961	2,961	2,961
Investments	354	551	600	400	500
Inventories	105	39	58	81	114
Sundry debtors	5,951	6,248	7,421	8,400	9,356
Cash and equivalents	1,376	504	671	1,223	1,097
Loans and advances	1,305	2,031	2,844	3,697	4,806
Total current assets	8,736	8,821	10,994	13,401	15,372
Sundry creditors and others	1,794	1,246	1,246	1,308	1,569
Provisions	946	1,105	1,105	1,161	1,335
Total current liabilities & provisions	2,740	2,351	2,351	2,468	2,904
Net current assets	5,996	6,470	8,643	10,933	12,468
Uses of funds	24,696	29,061	31,076	31,736	32,221
Book value per share (INR)	88.5	99.6	118.3	134.2	151.8

Free cash flow

(INR mn)

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Net profit	2,917	2,403	3,693	3,312	3,596
Depreciation	1,867	2,679	3,278	3,480	4,000
Others	(30)	673	(360)	571	494
Gross cash flow	4,754	5,755	6,611	7,362	8,090
Less: Changes in WC	1,151	1,706	2,005	1,738	1,662
Operating cash flow	3,603	4,049	4,606	5,625	6,428
Less: Capex	7,635	4,684	3,072	2,050	2,850
Free cash flow	(4,032)	(635)	1,535	3,575	3,578

Cash flow metrics

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Cash flow from operations	3,515	5,168	6,611	7,480	8,525
Cash for working capital	(1,151)	(1,706)	(2,005)	(1,738)	(1,662)
Operating cash flow	3,603	4,049	4,606	5,625	6,428
Net purchase of fixed assets	(7,635)	(4,684)	(3,072)	(2,050)	(2,850)
Net purchase of investments	2,467	(196)	(49)	200	(100)
Others in Cash Flow Metrics	(1,234)	(1,746)	1,276	180	220
Investing cash flow	(6,402)	(6,626)	(1,845)	(1,670)	(2,730)
Dividends	(576)	(573)	(658)	(752)	(752)
Proceeds from issue of equity	8	13	-	-	-
Proceeds from LTB/STB	3,846	3,317	(1,936)	(2,650)	(3,072)
Financing cash flow	1,577	1,705	(2,594)	(3,402)	(3,824)
Net cash flow	(1,223)	(872)	167	552	(126)

Profitability & efficiency ratios

Year to June	FY09	FY10	FY11E	FY12E	FY13E
ROAE (%)	22.3	15.8	21.0	16.3	15.6
ROACE (%)	13.8	11.7	13.2	14.9	15.5
Debtors days	146	145	138	139	138
Payable days	50	36	25	22	22
Cash conversion cycle (days)	95	109	113	117	115
Current ratio	3.2	3.8	4.7	5.4	5.3
Debt/EBITDA	2.1	2.2	1.6	1.2	0.8
Debt/Equity	0.7	0.8	0.6	0.4	0.3
Adjusted debt/equity	0.7	0.8	0.6	0.4	0.3
Interest coverage	6.9	4.4	4.7	6.1	6.8

Operating ratios

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Total asset turnover	0.6	0.6	0.6	0.7	0.7
Fixed asset turnover	1.4	1.1	1.1	1.3	1.5
Equity turnover	1.1	1.0	1.0	1.0	1.0

Valuation parameters

Year to June	FY09	FY10	FY11E	FY12E	FY13E
Diluted EPS (INR)	18.1	14.8	22.8	20.4	22.2
Y-o-Y growth (%)	28.8	(18.3)	54.1	(10.3)	8.6
CEPS (INR)	29.6	31.5	43.2	42.1	47.1
Diluted PE (x)	7.5	9.2	6.0	6.7	6.1
Price/BV (x)	1.5	1.4	1.2	1.0	0.9
EV/Sales (x)	2.2	2.2	1.8	1.4	1.2
EV/EBITDA (x)	6.4	5.8	4.5	3.7	3.1
EV/EBITDA (x) +1 yr forward	5.2	4.7	4.0	3.4	-
Dividend yield (%)	2.2	2.4	2.6	2.9	2.9



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	SO	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	SP	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



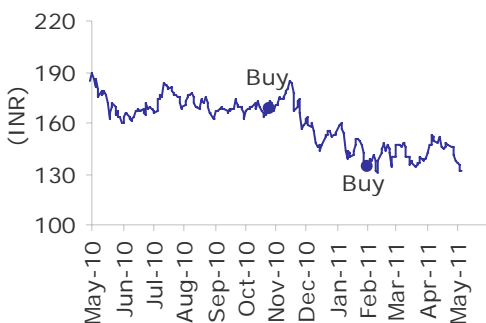
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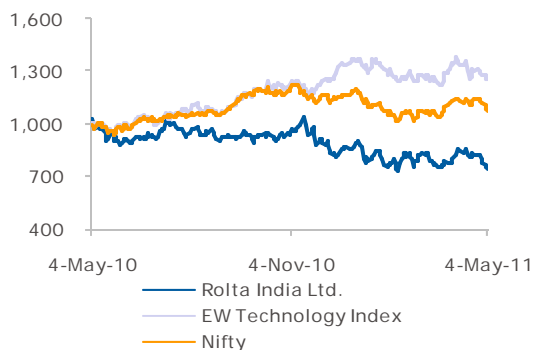
Coverage group(s) of stocks by primary analyst(s): IT

ECLERX SERVICES, 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*	118	51	17	189
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	111	61	17	

Recent Research

Date	Company	Title	Price (INR)	Recos
02-May-11	Infosys	Infosys 3.0: Minor restructuring; <i>Company update</i>	2,923	Hold
29-Apr-11	Info Edge	Reinvestments need to take centre stage ; <i>Result Update</i>	732	Reduce
28-Apr-11	Hexaware Tech.	Standing tall among peer group; <i>Result Update</i>	70	Buy

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