

**ROLTA INDIA****INR 289****Strong visibility resulting in healthy guidance****BUY**

July 25, 2008

**Results better than anticipated**

Rolta India's (Rolta) Q4FY08 revenues were in-line with expectations, while operating and net profits were better than expected. Revenue grew 11.4% Q-o-Q and net profits 7.1% Q-o-Q (excluding forex loss). Reported net profits declined 22% sequentially as it included mark-to-market (MTM) loss (of INR 300 mn) on account of outstanding FCCBs, resulting in lower other income. EBITDA margins stood at 34.9%, despite 80bps decline in gross margins. Controlled operating expenses helped Rolta maintain margins.

**Strong guidance indicates continued strength**

Rolta has again re-inforced confidence by issuing healthy growth guidance for FY09E. Guided revenues of INR 14.8–15 bn and net profit of INR 3.25–3.30 bn translates into growth rate of 38-40% for revenues and 41-43% for net profits. This has been backed by healthy growth in order backlog that currently stands at INR 15.1 bn, 75% of which is executable in FY09E. The bid-pipeline is over INR 35 bn.

**Engineering growth on fast track: rising realisations**

Rolta's enhanced focus on being a multi-disciplinary service provider in engineering services has raised the company's stature, particularly over the past two years. The company has been able to move up the value chain and take on high-end technology services in the plant designing field, thus positioning itself as a preferred partner. These efforts have resulted in improving realisations and strong revenue growth from this business segment. Revenues and realisations from EDA have grown at a CQGR of 12% and ~15%, respectively, over the past eight quarters.

**Outlook and valuations: Positioning remains strong; maintain 'BUY'**

Rolta is well-positioned in the current environment, with high visibility and buoyant pipeline being pursued. Further, the latest defense procurement policy (2008) is expected to enhance offset clause from 30% to 50%, thus enlarging the targeted opportunity of the Rolta-Thales JV.

We expect the company to grow its revenues and earnings at a CAGR of 37% and 41%, respectively, over FY08-10E. At CMP of INR 282, the stock trades at a P/E of 15x and 11x for FY09E and FY10E earnings, respectively. We continue to maintain our 'BUY' recommendation on the stock.

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Reuters : ROLT.BO  
Bloomberg : RLTA IN

**Market Data**

52-week range (INR) : 390 / 200  
Share in issue (mn) : 160.9  
M cap (INR bn/USD mn) : 46.5 / 1,108.2  
Avg. Daily Vol. BSE ('000) : 1,342.2

**Share Holding Pattern (%)**

Promoters : 40.3  
MFs, FIs & Banks : 2.6  
FIIs : 38.8  
Others : 18.3

**Relative Performance (%)**

	Sensex	Stock	Stock over Sensex
1 month	3.9	2.6	(1.3)
3 months	(13.7)	(12.2)	1.5
12 months	(5.9)	17.0	22.9

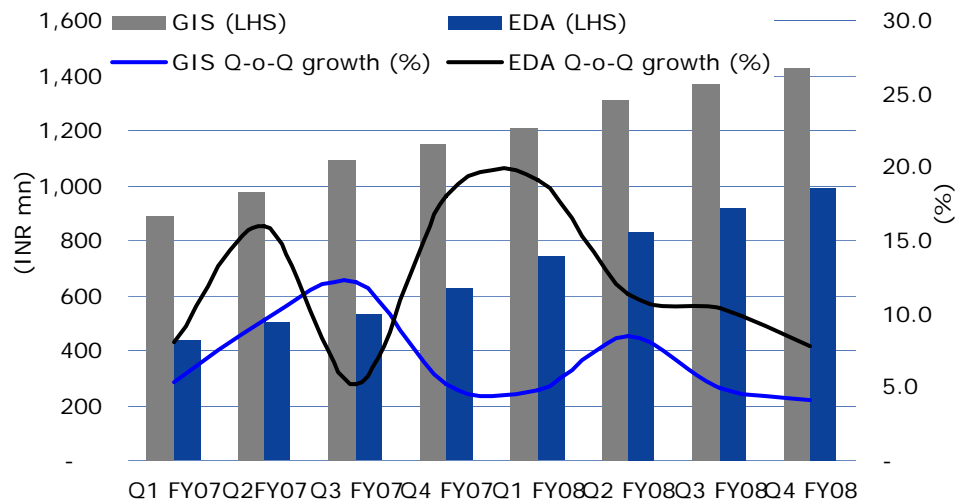
**Financials**

Year to June	Q408	Q308	Growth %	Q407	Growth %	FY08	FY09E
Revenue (INR mn)	3,211	2,884	11.4	2,031	58.1	10,722	15,152
Gross profit (INR mn)	1,437	1,312	9.5	974	47.5	4,961	7,091
EBITDA (INR mn)	1,122	1,008	11.3	800	40.3	3,897	5,242
Net profit (INR mn)	508	657	(22.6)	488	4.1	2,306	3,377
Diluted EPS (INR)	2.9	3.7	(22.6)	3.0	(5.3)	13.0	18.9
Diluted P/E (x)						22.2	15.3
EV/EBITDA (x)						12.3	8.7
Market cap / Rev. (x)						4.3	3.1

**Key highlights**

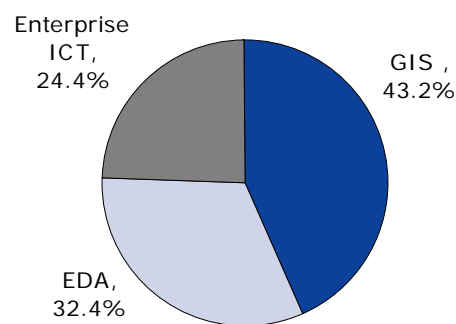
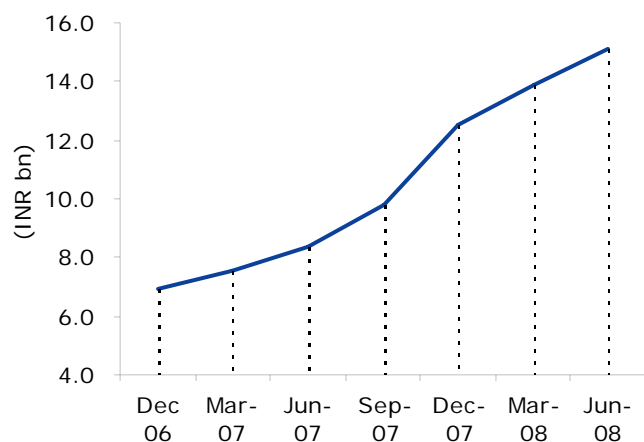
- Consolidated revenues, at INR 3.2 bn, were up 11.4% Q-o-Q and 58.1% Y-o-Y; net profits, at INR 508.3 mn, were down 22.6% Q-o-Q and up 4.1% Y-o-Y.
- Gross profits for the quarter stood at INR 1.4 bn, up 9.5% Q-o-Q. Gross margins declined 80bps Q-o-Q to 44.8%. This has been primarily on account of consolidation of onsite-based TUSC employees.
- EBITDA stood at INR 1.1 bn, up 11.3% Q-o-Q and 40.3% Y-o-Y. EBITDA margins were maintained at the previous quarter’s level of 34.9%, helped by reduced spend on SG&A.
- During the quarter, Rolta recognised net notional MTM loss of INR 300 mn. This has been mainly on account of outstanding FCCBs. However, better yield of 8.9% on investment resulted in lower-than-anticipated loss in other income for the quarter.
- Manpower addition this quarter remained slightly lower, with net addition of 243 professionals compared with 300 plus for each of the previous three quarters. Total headcount now stands at ~5,300, including 488 in the Rolta-Stone & Webster JV.
- Of the total employee addition of 243, 97 were in GIS, 87 in EDA, 26 in EICT, and the balance in the sales and marketing department.
- The company’s order book at the end of the quarter stood at INR 15.1 bn, a growth of 9% sequentially. Order book was growing at a CQGR of 16% over the past four quarters.
- Rolta’s billing rates in GIS and EDA continued to trend upward with 5.3% and 3.6% sequential increase, respectively. On Y-o-Y basis, realisations in EDA have improved by a remarkable 15%, which is attributable to the fact that the company has been able to incrementally execute more complex high-value projects.
- Current cash and equivalents in hand stand at INR 5 bn.
- Average debtor days for Rolta stood at 150, a substantial reduction from 180 days in FY07.

**GIS & EDA revenues and quarterly growth rates**



Source: Company, Edelweiss research

**Order book break-up and trend over past seven quarters**



Source: Company, Edelweiss research

**Financials snapshot**

	(INR mn)							
Year to June	Q408	Q308	Growth %	Q407	Growth %	FY08	FY09E	FY10E
Total revenues	3,211	2,884	11.4	2,031	58.1	10,722	15,152	20,010
Cost of revenues	1,774	1,571	12.9	1,057	67.9	5,761	8,061	10,405
Gross profit	1,437	1,312	9.5	974	47.5	4,961	7,091	9,605
SG&A	315	305	3.5	174	80.7	1,064	1,849	2,501
EBITDA	1,122	1,008	11.3	800	40.3	3,897	5,242	7,104
Depreciation	378	353	7.1	281	34.5	1,383	1,580	1,780
EBIT	744	655	13.6	519	43.4	2,515	3,662	5,324
Other income	(134)	105	(227.5)	44	(406.5)	170	288	369
PBT	609	760	(19.8)	559	9.0	2,685	3,950	5,692
Tax	110	103	6.7	71	55.4	388	573	968
Adjusted net profit	500	657	(23.9)	488	2.3	2,297	3,377	4,725
Minority interest	(8.7)	-	-	-	-	(9)	0	130
Reported net profit	508	657	(22.6)	488	4.1	2,306	3,377	4,595
EPS fully diluted (INR)	2.9	3.7	(22.6)	3.0	(5.3)	13.0	18.9	25.7

**as % of net revenues**

Gross profit	44.8	45.5		48.0		46.3	46.8	48.0
SG&A	9.8	10.6		8.6		9.9	12.2	12.5
EBITDA	34.9	34.9		39.4		36.3	34.6	35.5
Adjusted net profit	15.6	22.8		24.1		21.4	22.3	23.6
Reported net profit	15.8	22.8		24.1		21.5	22.3	23.0
Tax rate	18.0	13.6		12.6		14.4	14.5	17.0

### 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 10.72 bn (USD 255 mn) and it employs about 5,300 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 firm for the manufacturing industry, Rolta is well-poised to grab the increasing opportunities. 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 is pursuing 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 domestic market.

## Financial Statements

### Income statement

(INR mn)

Year to June	FY06	FY07	FY08	FY09E	FY10E
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

Year to June	FY06	FY07	FY08	FY09E	FY10E
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 (%)

Year to June	FY06	FY07	FY08	FY09E	FY10E
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	11,517	13,282
Less: Accumulated depreciation	2,852	3,619	4,090	5,670	7,450
Net fixed assets	3,843	4,664	6,493	5,846	5,832
Capital WIP	682	1,463	1,729	550	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	3,953	6,584
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	11,599	15,534
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	9,371	12,750
<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	(246)	1,765
<b>Free cash flow</b>	<b>(243)</b>	<b>(318)</b>	<b>287</b>	<b>3,111</b>	<b>3,853</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)	246	(1,765)
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)	(650)	(1,896)
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>1,354</b>	<b>2,631</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	5.2	5.6
Debt/EBITDA	0.0	2.2	1.8	1.3	0.5
Interest cover (x)	10	251			
Fixed assets turnover (x)	1.5	1.7	1.9	2.5	3.4
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
Y-o-Y growth (%)	32.7	15.1	19.2	46.4	36.0
CEPS (INR)	15.0	17.3	22.7	30.5	37.0
Diluted PE (x)	30.8	26.7	22.4	15.3	11.3
Price/BV(x)	4.1	4.4	3.9	3.3	2.3
EV/Revenues (x)	6.9	6.3	4.5	3.0	2.1
EV/EBITDA (x)	16.6	15.6	12.4	8.8	6.0
EV/EBITDA (x)+1 yr forward	12.9	11.5	9.2	6.5	
Dividend yield (%)	1.6	1.7	1.6	1.9	2.1

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

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

#### Rolta



#### Recent Research

Date	Company	Title	Price (INR)	Recos
24-Jul-08	Patni	Surprises on topline; bleak guidance; <i>Result Update</i>	234	Sell
23-Jul-08	Infotech Enterprises	Continued traction; attractive valuations; <i>Result Update</i>	190	Buy
23-Jul-08	Mastek	Delivers on margins again; muted guidance; <i>Result Update</i>	340	Accum.
18-Jul-08	Satyam	Stumbling off the blocks; <i>Result Update</i>	383	Buy

#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	101	62	14	2	188
* 8 stocks under review / 1 rating withheld					
	> 50bn	Between 10bn and 50 bn	< 10bn		
Market Cap (INR)	77	70	41		

#### Rating Interpretation

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

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