

ROLTA INDIA



Order flow looks up; guidance positive

■ Results better than expectations; signs of easing pressure

Rolta India's (Rolta) overall Q4FY09 results were positive on all operational parameters with net profits exceeding expectations. Revenues, at INR 3.3 bn, were flat Q-o-Q, and dip in the engineering segment revenue was restricted to 4.3% sequentially. Gross (up 250bps Q-o-Q) and EBITDA (up 20bps) margins improved as the company was aggressive on headcount rationalisation, resulting in cost reduction. Rolta's reported net profit of INR 762 mn included INR 250 mn of gain on FCCB buy-back. However, we have taken full gain amount of INR 510 mn in the P/L as we have been debiting the accrued interest on FCCB in P/L.

■ Order accretion starts to look up

Key positive of the quarter is the healthy order accretion which indicates signs of growth revival for Rolta. Interestingly, all three business segments saw order book trending up sequentially. Order book grew 4% sequentially at INR 16.1 bn with 75% executable in FY10 (i.e., 78% of expected FY10 revenues).

■ Targeting solutions space; eyeing 15% revenue contribution by FY10E

Over the past two years, Rolta has been working towards acquiring and developing solutions to fill gaps in its services offerings across business segments and becoming a full service provider. It has launched solutions developed from a combination of acquired and in-house business intelligence to target high-profit large orders. Revenue contribution of these solutions currently stands is expected to increase to 12-15% going into FY10 (currently 5-7%). We expect these high margin solutions to make a significant impact on margins going into FY11.

■ Guidance: Targeting 11-14% top line growth in FY10

Revenue guidance of INR 15.3-15.7 bn (11.4-14.4% growth) with EBITDA margin of 33-35% in FY10, is encouraging compared to other mid-tier IT companies.

■ Outlook and valuations: Bright prospects; maintain 'BUY'

Improvement in business environment leading to revival of industrial capex has benefited Rolta immediately in the form of increase in order flow. Further, opportunities in Indian defence for database upgrade and C4ISTAR implementation projects provide huge opportunity. We remain positive on the company's prospects and expect it to deliver earnings of INR 16 (FY10E) and INR 19 (FY11E) at which it is trading at a P/E of 9.7x and 8.0x, respectively. We maintain '**BUY**' recommendation. On relative return basis, the stock is rated '**Sector Outperformer**' (refer rating page for details).

August 3, 2009

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 | Underweight |

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

MARKET DATA

| | | |
|----------------------------|---|--------------|
| CMP | : | INR 155 |
| 52-week range (INR) | : | 360 / 40 |
| Share in issue (mn) | : | 161.0 |
| M cap (INR bn/USD mn) | : | 24.9 / 521.2 |
| Avg. Daily Vol. BSE ('000) | : | 6,969.3 |

SHARE HOLDING PATTERN (%)

| | | |
|---|---|------|
| Promoters* | : | 42.0 |
| MFs, FIs & Banks | : | 3.7 |
| FIIIs | : | 25.5 |
| Others | : | 28.8 |
| * Promoters pledged shares (% of share in issue) | : | 2.5 |

RELATIVE PERFORMANCE (%)

| | Sensex | Stock | Stock over Sensex |
|-----------|--------|--------|----------------------|
| 1 month | 7.0 | 90.4 | 83.4 |
| 3 months | 29.1 | 25.6 | (3.5) |
| 12 months | 6.9 | (67.9) | (74.8) |

Financials

| Year to June | Q409 | Q309 | Growth % | Q408 | Growth % | FY09 | FY10E |
|-----------------------|-------|-------|----------|-------|----------|--------|--------|
| Revenue (INR mn) | 3,327 | 3,320 | 0.2 | 3,211 | 3.6 | 13,728 | 15,339 |
| Gross profit (INR mn) | 1,584 | 1,498 | 5.8 | 1,437 | 10.2 | 6,274 | 7,225 |
| EBITDA (INR mn) | 1,125 | 1,115 | 0.9 | 1,122 | 0.2 | 4,685 | 5,307 |
| Net profit (INR mn) | 947 | 1,228 | (22.9) | 508 | 86.4 | 2,814 | 2,562 |
| Diluted EPS (INR) | 5.9 | 7.6 | (22.9) | 3.1 | 88.3 | 17.5 | 15.9 |
| Diluted P/E (x) | | | | | | 8.8 | 9.7 |
| EV/EBITDA (x) | | | | | | 5.8 | 5.0 |

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

Viju George
+91-22-4040 7414
viju.george@edelcap.com

■ Key highlights

- Consolidated revenues, at INR 3.3 bn, were flat sequentially while up 3.6% Y-o-Y; gross profits for the quarter stood at INR 1.6 bn, a sequential improvement of 5.8%. Gross margins improved 250bps Q-o-Q, from 45.1% to 47.6%, due to significant reduction in employee cost (400bps) as the company has reduced non-productive employees.
- Rolta's EBITDA stood at INR 1.1 bn, up marginal 0.9% Q-o-Q and flat Y-o-Y. EBITDA margins rose 20bps Q-o-Q largely on account of higher SG&A cost, which has offset the flow through effect from gross margin.
- Net profits, at INR 947 mn (including full gain on FCCB buy-back and accrued interest on FCCB) were down 22.9% Q-o-Q (forex loss reversal present in previous quarter) while up 86.4% Y-o-Y largely on account of higher other income of INR 511 mn from FCCB buyback gains. Net profit margins stood at 28.5% against 37% in Q3FY09. The decline in was on account of reversal of forex loss of INR 840 mn provided in the previous quarter.
- **Guidance:** Rolta has guided for FY10 revenues in the range of INR 15.3 bn–15.7 bn and EBITDA margins in the range of 33-35%. This implies revenue growth of 11-14% over FY09. Management has indicated the revenue growth will be driven by solutions and products which delinks revenues from headcount and hence volume growth may remain lower.

■ Segmental performance

- **GIS:** Consolidated revenues, at INR 1,594.9 mn, were up 2.1% Q-o-Q and 11.9% Y-o-Y. EBITDA margin increased sequentially 310bps and now stands at 43.9%. The company maintains good traction in the GIS segment which has posted yet another quarter of sequential growth in its order book by 4.5%; this was 12th successive quarter where GIS order book has reported sequential growth. On a reported basis, realization went up 2.4% Q-o-Q as utilization improved and change in the service mix (higher proportion of products and solutions).
- **Engineering design:** Rolta reported consolidated revenues of INR 861.3 mn, down 4.3% Q-o-Q and 12.8% Y-o-Y. EBITDA margin stood at 36.6%, an improvement of 120bps from the previous quarter. The engineering segment's performance continued to be weak amongst the three segments, but with new order flow provides comfort.
- **Enterprise information and communication technology (EICT):** The EICT segment's revenue at INR 870.8 mn grew 1.5% in the quarter. EBITDA margin, at 12.6%, declined 10bps from the previous quarter. Order book position has improved 3.9% from the previous quarter.

Table1: Quarterly movement of EBITDA margins for all three business segments

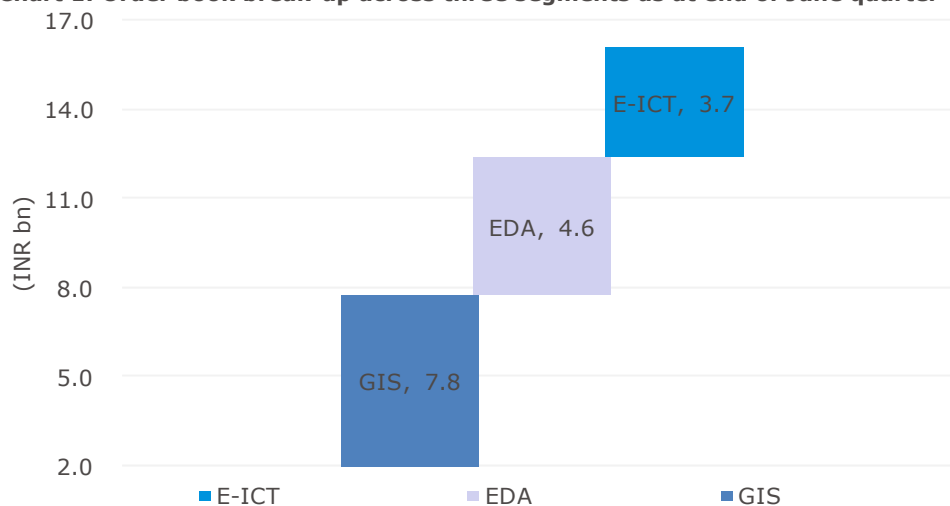
| Operating margin comparison (%) | Q108 | Q208 | Q308 | Q408 | Q109 | Q209 | Q309 | Q409 |
|---------------------------------|------|------|------|------|------|------|------|------|
| GIS | 39.6 | 40.0 | 39.2 | 41.1 | 41.4 | 43.1 | 40.8 | 43.9 |
| EDA | 38.6 | 39.1 | 38.5 | 39.9 | 39.4 | 39.8 | 35.4 | 36.6 |
| EICT | 28.9 | 29.1 | 19.7 | 17.9 | 16.4 | 16.2 | 12.7 | 12.6 |

Source: Company

- Rolta saw a net decline of 312 professionals during the quarter, taking its total employee strength to 4,980. Utilisation has improved across segments; however, the improvement was higher in EDA and EICT (5.1% and 4.5%) segments compared to the previous quarter.

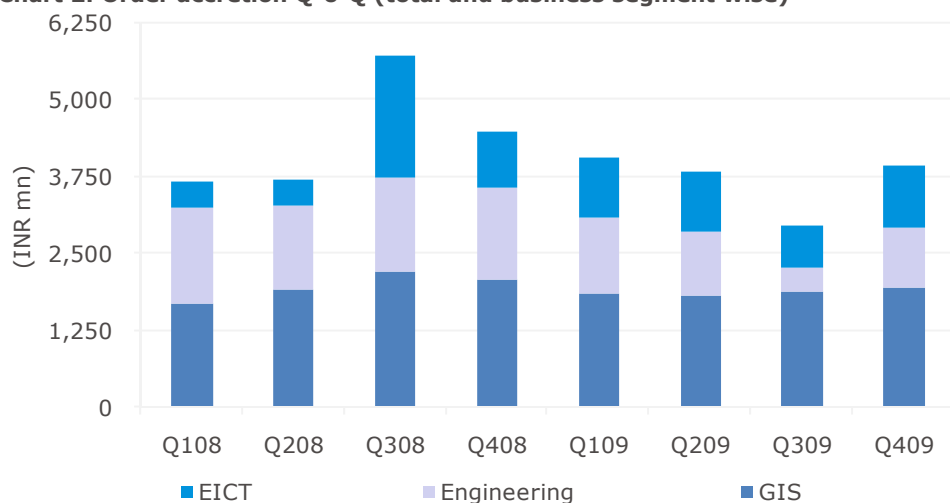
- The company's order book grew 3.7% sequentially. Current order book stands at INR 16.1 bn, of which 75% orders will be executed in FY10.

Chart 1: Order book break-up across three segments as at end of June quarter



Source: Company, Edelweiss research

Chart 2: Order accretion Q-o-Q (total and business segment wise)



Source: Company, Edelweiss research

- Capex for the quarter was INR 720 mn; target capex for FY10 is INR 3.0 bn, of which INR 1.5 bn is attributed to the upcoming facility in Gurgaon.
- The company had ~INR 1.72 bn in cash and cash equivalents and debt of ~INR 10 bn, inclusive of FCCB debt at the end of the quarter.
- Debtor days for the company moved up to 154 days, up 12 days on sequential basis, on account of delay of government payments. However, management believes this is an one-off event and receivable days will dip back to 135 days by September quarter and will further decline to 120-130 days by FY10 end.

Financials snapshot**(INR mn)**

| Year to June | Q409 | Q309 | Growth % | Q408 | Growth % | FY09 | FY10E | FY11E |
|-------------------------|-------|-------|----------|-------|----------|--------|--------|--------|
| Total revenues | 3,327 | 3,320 | 0.2 | 3,211 | 3.6 | 13,728 | 15,339 | 17,542 |
| Cost of revenues | 1,743 | 1,822 | (4.4) | 1,774 | (1.8) | 7,455 | 8,114 | 9,315 |
| Gross profit | 1,584 | 1,498 | 5.8 | 1,437 | 10.2 | 6,274 | 7,225 | 8,227 |
| SG&A | 460 | 383 | 19.9 | 315 | 45.9 | 1,588 | 1,917 | 2,052 |
| EBITDA | 1,125 | 1,115 | 0.9 | 1,122 | 0.2 | 4,685 | 5,307 | 6,175 |
| Depreciation | 578 | 498 | 16.2 | 378 | 52.8 | 1,867 | 2,120 | 2,240 |
| EBIT | 547 | 617 | (11.4) | 744 | (26.5) | 2,818 | 3,187 | 3,935 |
| Interest expense* | 134 | 161 | (16.8) | 0 | | 512 | 571 | 587 |
| Other income | 626 | 871 | (28.1) | (134) | (566.7) | 903 | 320 | 300 |
| PBT | 1,040 | 1,328 | (21.7) | 609 | 70.6 | 3,208 | 2,936 | 3,648 |
| Tax | 94 | 101 | (7.1) | 110 | (14.4) | 402 | 382 | 547 |
| Adjusted net profit | 945 | 1,227 | (22.9) | 500 | 89.3 | 2,807 | 2,554 | 3,101 |
| Minority interest | (2) | (2) - | | (9) - | | (7) | (8) | 0 |
| Reported net profit* | 947 | 1,228 | (22.9) | 508 | 86.4 | 2,814 | 2,562 | 3,101 |
| EPS fully diluted (INR) | 5.9 | 7.6 | (22.9) | 3.1 | 88.3 | 17.5 | 15.9 | 19.3 |

as % of net revenues

| | | | | | | | | |
|---------------------|------|------|--|------|--|------|------|------|
| Gross profit | 47.6 | 45.1 | | 44.8 | | 45.7 | 47.1 | 46.9 |
| SG&A | 13.8 | 11.5 | | 9.8 | | 11.6 | 12.5 | 11.7 |
| EBITDA | 33.8 | 33.6 | | 34.9 | | 34.1 | 34.6 | 35.2 |
| Adjusted net profit | 28.4 | 36.9 | | 15.6 | | 20.4 | 16.7 | 17.7 |
| Reported net profit | 28.5 | 37.0 | | 15.8 | | 20.5 | 16.7 | 17.7 |
| Tax rate | 9.0 | 7.6 | | 18.0 | | 12.5 | 13.0 | 15.0 |

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

■ Company Description

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 EICT group. The company's past twelve months (TTM) revenues stood at INR 13.7 bn (USD 283 mn) and it employs ~5,000 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 JVs with Shaw Group and 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) non pick-up of growth in other verticals of the EDA segment; and (c) inability to monetize the Fusion solutions could impact profitability.

Financial Statements

| Income statement | | | | | (INR mn) |
|---|-------|--------|--------|--------|-----------------|
| Year to June | FY07 | FY08 | FY09 | FY10E | FY11E |
| Revenues | 7,112 | 10,722 | 13,728 | 15,339 | 17,542 |
| Cost of revenues | 3,618 | 5,761 | 7,455 | 8,114 | 9,315 |
| Gross profit | 3,494 | 4,961 | 6,274 | 7,225 | 8,227 |
| Total SG&A expenses | 628 | 1,064 | 1,588 | 1,917 | 2,052 |
| EBITDA | 2,866 | 3,897 | 4,685 | 5,307 | 6,175 |
| Depreciation & Amortization | 1,018 | 1,383 | 1,867 | 2,120 | 2,240 |
| EBIT | 1,848 | 2,515 | 2,818 | 3,187 | 3,935 |
| Interest expense | 7 | - | 512 | 571 | 587 |
| Other income | 103 | 170 | 952 | 320 | 300 |
| Profit before tax | 1,943 | 2,685 | 3,258 | 2,936 | 3,648 |
| Tax | 214 | 388 | 402 | 382 | 547 |
| Core profit | 1,729 | 2,297 | 2,856 | 2,554 | 3,101 |
| Profit after tax | 1,729 | 2,297 | 2,856 | 2,554 | 3,101 |
| Net profit after extra ord. & minority interest | 1,729 | 2,306 | 2,814 | 2,562 | 3,101 |
| Shares outstanding (mn) | 159 | 161 | 161 | 161 | 161 |
| EPS (INR) basic | 10.9 | 14.2 | 17.5 | 15.9 | 19.3 |
| Diluted shares (mn) | 160 | 163 | 161 | 161 | 161 |
| EPS (INR) diluted | 10.8 | 14.1 | 17.5 | 15.9 | 19.3 |
| CEPS (INR) | 17.3 | 23.0 | 29.6 | 29.0 | 33.2 |
| Dividend per share | 5.0 | 3.1 | 4.0 | 4.5 | 5.0 |
| Dividend (%) | 50.0 | 30.9 | 40.0 | 45.0 | 50.0 |
| Dividend pay out (%) | 27.2 | 25.3 | 26.8 | 33.1 | 30.4 |

Common size metrics - as % of revenues

| Year to June | FY07 | FY08 | FY09 | FY10E | FY11E |
|--------------------|------|------|------|-------|-------|
| Cost of revenues | 50.9 | 53.7 | 54.3 | 52.9 | 53.1 |
| Gross margin | 49.1 | 46.3 | 45.7 | 47.1 | 46.9 |
| SG&A expenses | 8.8 | 9.9 | 11.6 | 12.5 | 11.7 |
| EBITDA margin | 40.3 | 36.3 | 34.1 | 34.6 | 35.2 |
| EBIT margin | 26.0 | 23.5 | 20.5 | 20.8 | 22.4 |
| Net profit margins | 24.3 | 21.4 | 20.8 | 16.7 | 17.7 |

Growth metrics (%)

| Year to June | FY07 | FY08 | FY09 | FY10E | FY11E |
|--------------|------|------|------|--------|-------|
| Revenues | 33.0 | 50.8 | 28.0 | 11.7 | 14.4 |
| EBITDA | 28.6 | 36.0 | 20.2 | 13.3 | 16.3 |
| EBIT | 24.7 | 36.1 | 12.1 | 13.1 | 23.5 |
| PBT | 36.8 | 38.2 | 21.3 | (9.9) | 24.2 |
| Net profit | 35.8 | 32.8 | 24.3 | (10.6) | 21.4 |
| EPS | 15.1 | 30.1 | 24.2 | (8.9) | 21.0 |

Balance sheet

(INR mn)

| As on 30th June | FY07 | FY08 | FY09E | FY10E | FY11E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity share capital | 801 | 1,609 | 1,610 | 1,610 | 1,610 |
| Share premium account | 4,092 | 2,822 | 2,821 | 2,821 | 2,821 |
| Reserves | 5,573 | 7,411 | 9,471 | 11,186 | 13,345 |
| Total shareholders funds | 10,466 | 11,841 | 13,902 | 15,617 | 17,776 |
| Borrowings | 6,177 | 6,938 | 9,675 | 10,221 | 10,808 |
| Minority interest | 0 | 15 | 8 | 0 | 0 |
| Deferred tax liability | 346 | 459 | 520 | 750 | 850 |
| Sources of funds | 16,989 | 19,253 | 24,105 | 26,588 | 29,434 |
| Goodwill and other intangible asset | 60 | 2,000 | 2,000 | 2,000 | 2,000 |
| Gross fixed assets | 8,283 | 10,583 | 14,835 | 18,170 | 20,537 |
| Less: Accumulated depreciation | 3,619 | 4,090 | 5,958 | 8,078 | 10,318 |
| Net fixed assets | 4,664 | 6,493 | 8,878 | 10,093 | 10,220 |
| Capital WIP | 1,463 | 1,729 | 1,500 | 1,150 | 1,200 |
| Investments | 976 | 2,816 | 3,000 | 3,200 | 4,500 |
| Deferred tax asset | 0 | 63 | 63 | 63 | 63 |
| Cash & bank balances | 6,390 | 2,598 | 4,553 | 5,438 | 6,364 |
| Debtors | 3,770 | 5,018 | 5,642 | 5,967 | 6,584 |
| Inventories | 206 | 215 | 268 | 349 | 453 |
| Loans and advances | 885 | 1,160 | 1,567 | 1,958 | 2,350 |
| Total current assets | 11,251 | 8,991 | 12,029 | 13,712 | 15,752 |
| Sundry creditors | 758 | 1,998 | 2,398 | 2,518 | 3,021 |
| Provisions | 668 | 841 | 968 | 1,113 | 1,280 |
| Total current liabilities | 1,426 | 2,840 | 3,365 | 3,630 | 4,301 |
| Working capital | 9,825 | 6,152 | 8,664 | 10,082 | 11,451 |
| Application of funds | 16,989 | 19,253 | 24,105 | 26,588 | 29,434 |
| Book value per share (BV) (INR) | 65.7 | 73.7 | 86.3 | 97.0 | 110.4 |

Free cash flow

| Year to June | FY07 | FY08 | FY09E | FY10E | FY11E |
|----------------------------------|--------------|------------|--------------|--------------|--------------|
| Net profit | 1,729 | 2,306 | 2,814 | 2,562 | 3,101 |
| Depreciation | 1,018 | 1,383 | 1,867 | 2,120 | 2,240 |
| Others | (14) | 84 | (336) | 473 | 387 |
| Gross cash flow | 2,734 | 3,772 | 4,345 | 5,156 | 5,728 |
| Less: Changes in working capital | 404 | 180 | 558 | 533 | 443 |
| Operating cash flow | 2,330 | 3,592 | 3,787 | 4,623 | 5,285 |
| Less: Capex | 2,648 | 3,444 | 4,023 | 2,985 | 2,417 |
| Free cash flow | (318) | 148 | (236) | 1,638 | 2,868 |

Cash flow statement

(INR mn)

| Year to June | FY07 | FY08 | FY09E | FY10E | FY11E |
|-------------------------------------|--------------|----------------|--------------|------------|------------|
| Cash flow from operations | 2,951 | 4,910 | 4,871 | 5,421 | 6,398 |
| Cash for working capital | (404) | (180) | (558) | (533) | (443) |
| Operating cashflow (A) | 2,330 | 3,592 | 3,787 | 4,623 | 5,285 |
| Net purchase of fixed assets | (2,648) | (3,444) | (4,023) | (2,985) | (2,417) |
| Net purchase of investments | 165 | (1,815) | (184) | (200) | (1,300) |
| Others | 51 | (1,633) | 903 | 320 | 300 |
| Investments cashflow (B) | (2,433) | (6,891) | (3,304) | (2,865) | (3,417) |
| Dividends | 0 | 0 | (753) | (848) | (942) |
| Proceeds from issue of equity | 6,001 | 49 | 0 | 0 | 0 |
| Proceeds from LTB/STB | (396) | (540) | 2,225 | (25) | 0 |
| Financing cash flow (C) | 5,605 | (492) | 1,472 | (873) | (942) |
| Change in cash (A+B+C) + (D) | 5,502 | (3,791) | 1,955 | 885 | 926 |

Ratios

| Year to June | FY07 | FY08 | FY09E | FY10E | FY11E |
|---------------------------|------|------|-------|-------|-------|
| ROAE (%) | 17.4 | 20.7 | 22.5 | 17.3 | 18.6 |
| ROACE (%) | 15.0 | 15.5 | 15.0 | 14.3 | 16.3 |
| Debtors (days) | 180 | 150 | 142 | 138 | 131 |
| Payable (days) | 33 | 47 | 58 | 58 | 58 |
| Cash Conversion Cycle | 147 | 103 | 83 | 80 | 73 |
| Current ratio | 7.9 | 3.2 | 3.6 | 3.8 | 3.7 |
| Debt/EBITDA | 2.2 | 1.8 | 2.1 | 1.9 | 1.8 |
| Interest cover (x) | 251 | NA | 6 | 6 | 7 |
| Fixed assets turnover (x) | 1.7 | 1.9 | 1.8 | 1.6 | 1.7 |
| Total asset turnover(x) | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| Equity turnover(x) | 0.7 | 1.0 | 1.1 | 1.0 | 1.1 |
| Debt/Equity (x) | 0.6 | 0.6 | 0.7 | 0.7 | 0.6 |
| Adjusted debt/Equity | 0.6 | 0.6 | 0.7 | 0.7 | 0.6 |

Valuation parameters

| Year to June | FY07 | FY08 | FY09E | FY10E | FY11E |
|----------------------------|------|------|-------|-------|-------|
| Diluted EPS (INR) | 10.8 | 14.1 | 17.5 | 15.9 | 19.3 |
| Y-o-Y growth (%) | 15.1 | 30.1 | 24.2 | (8.9) | 21.0 |
| CEPS (INR) | 17.3 | 23.0 | 29.6 | 29.0 | 33.2 |
| Diluted PE (x) | 14.3 | 11.0 | 8.8 | 9.7 | 8.0 |
| Price/BV(x) | 2.4 | 2.1 | 1.8 | 1.6 | 1.4 |
| EV/Revenues (x) | 3.3 | 2.5 | 2.0 | 1.7 | 1.4 |
| EV/EBITDA (x) | 8.2 | 6.8 | 5.8 | 5.0 | 4.0 |
| EV/EBITDA (x)+1 yr forward | 6.0 | 5.6 | 5.1 | 4.3 | |
| Dividend yield (%) | 3.3 | 2.0 | 2.6 | 2.9 | 3.2 |



RATING & INTERPRETATION

| Company | Absolute reco | Relative reco | Relative risk |
|---------------------------|------------------|------------------|------------------|
| Infotech Enterprises | Buy | SO | H |
| Rolta India | Buy | SO | H |
| Tata Consultancy Services | Hold | SO | L |
| Mphasis | Hold | SO | M |
| Wipro | Hold | SP | L |
| Infosys Technologies | Hold | SU | L |
| Patni Computer Systems | Hold | SO | M |
| HCL Technologies | Reduce | SU | H |

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 |
| | Stock return < 1.25 x Sector return |
| Sector Underperformer (SU) | 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 |



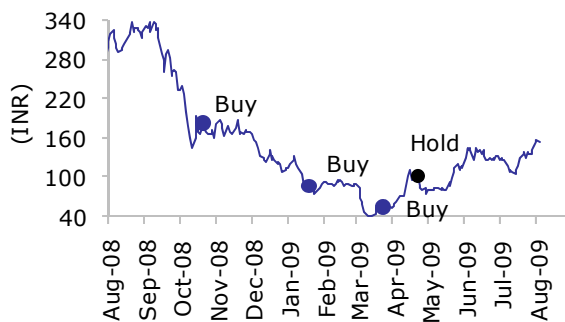
Edelweiss Securities Limited, 14th Floor, Express Towers, Nariman Point, Mumbai – 400 021,
Board: (91-22) 2286 4400, Email: research@edelcap.com

| | | | |
|--------------------|--------------------------------|--------------------------------|------------------|
| Naresh Kothari | Co-Head Institutional Equities | naresh.kothari@edelcap.com | +91 22 2286 4246 |
| Vikas Khemani | Co-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): Information Technology

HCL Tech, Infosys, Infotech, Mphasis, Patni, Rolta, TCS, and Wipro

Patni



Recent Research

| Date | Company | Title | Price (INR) | Recons |
|-----------|------------------------|---|-------------|--------|
| 30-Jul-09 | Patni Computers | Demand stability, margin; management merit an upgrade; <i>Result Update</i> | 328 | Hold |
| 24-Jul-09 | IT | Five themes in the stabilising macro environment <i>Sector Update</i> | | |
| 22-Jul-09 | Wipro | Margin resilience sustained; For Indian IT?; <i>Result Update</i> | 452 | Hold |
| 17-Jul-09 | TCS | Business model strength playing out; Ten conclusions; <i>Sector Update</i> | 434 | Hold |

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

| | Buy | Hold | Reduce | Total |
|----------------------|-----|------|--------|-------|
| Rating Distribution* | 53 | 43 | 29 | 128 |

* 3 stocks under review

| | > 50bn | Between 10bn and 50 bn | < 10bn |
|------------------|--------|------------------------|--------|
| Market Cap (INR) | 72 | 41 | 15 |

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.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved