

EQUITY RESEARCH

IT Sector

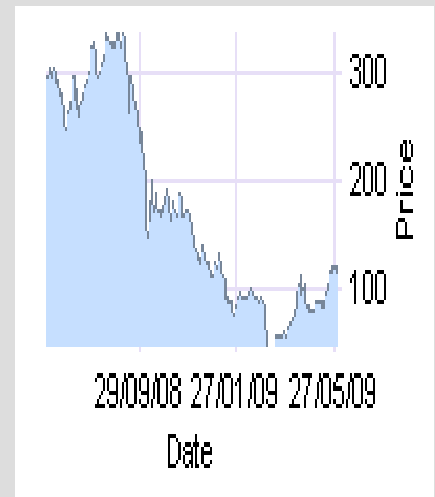
**CMP: Rs. 144.35
(As on Jun. 05, 2009)**

June 05, 2009

INDIA

Market Cap
Rs.2322.52mn**BUY****Target Price: Rs. 166.00
(For Short to Medium Term)****ROLTA INDIA LTD (Rolta)**

- The Company has benchmarked its quality processes with the world's best quality standards.
- The company is no.1 in India for Defence/GIS and EDA.
- The company has successfully executed projects in more than 40 countries worldwide.
- Recently acquired US based Piocon Technologies.
- Total manpower of the company stood at 5292 as on Mar.31, 2009.
- Order book declined by 2.5% sequential, sequential growth rate turned out negative from strong positive growth.
- The company has joint ventures with Thales, France and Shaw Stone & Webster.
- GIS, EDA and EICT business headcount declined sequentially by 39, 175 and 43 during the quarter.
- The topline and bottomline of the company is expected to grow at a CAGR of 27% and 19% over FY07 to FY10E.



ROLTA INDIA

BSE SENSEX

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Key Financials	FY08	FY09E	FY10E	Key Data	
Net Sales (Rs.mn)	10722.10	13887.42	14581.79	Face Value	Rs.10.00
EBIDTA (Rs.mn)	3748.20	4656.34	4957.69	Shares	161.01
Margin %	35	34	34	Outstanding	360.00/
PAT (Rs.mn)	2296.80	2721.82	2918.83	Exchange	BSE
Margin %	21	20	20	52 wk. High/Low(Rs.)	40.70
				2 wk avg.	4830569
				BSE Code	500366



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Peer Group Comparison

Name of the Company	52 wk. High/Low(Rs.)	CMP(Rs.)	EPS(Rs.)	P/E(x)
Rolta India Ltd	360.00/40.70	144.35	19.85	07.08
Infosys Technologies Ltd	2010.00/1040.00	1690.55	101.27	16.64
HCL Technologies Ltd	317.75/89.10	174.40	11.81	14.81
Tata Consultancy Ltd	997.80/418.00	721.55	46.07	15.67
Wipro Technologies Ltd	537.00/181.70	392.80	20.30	19.35

Company- Updates

- **The results for the Quarter ended March 31, 2009**

Rolta India announced a phenomenal rise of up to 2.03 times in the consolidated net profit for quarter ended Mar. 31, 2009. During the quarter, the company posted a consolidated net profit after tax, minority interest and exceptional item of Rs 1,331.40 million as against Rs 657.20 million in the same quarter last year. Consolidate total income of the company was at Rs 3,401.40 million, a rise of 13.80% from its prior year period.

Company reported earnings of Rs 9.90 a share during the quarter, registering 2.02 times growth over prior year period. During the quarter, the operating margin of the company rose to 86.11% compared with 49.60% in the previous year period. Interest cost for the period was while depreciation cost rose 35.65% to Rs 453.90 million over previous year period.

Order book declined by 2.5% sequential, sequential growth rate turned out negative from strong positive growth. Existing order book would support growth momentum for next 1-2 quarters however slowing order intake would affect growth momentum for FY10 and onwards.

GIS reported 4.4% sequential growth in order book; while EDA and EICT reported 10.1% and 5.4% decline in order book sequentially, first decline in last 10 quarters. Oil & Gas segment contributed 12-13% of total order book (~40% of EDA order book) which would unlikely to see fresh additions from flow related business due to cut in capex considering fall in crude oil price and economy slowdown, although BI related business would likely to grow and offset decline to some extent. EICT business has seen decline in order book despite favorable rupee and Piocon integration, suggests significant demand pressure.

- **Partnership with Intergraph**

Rolta India made the renewal of its partnership with Intergraph Corp; the leading global provider of engineering and geospatial software. Rolta will continue its successful 23-year long relationship with Intergraph and exclusively offer and support Intergraph`s enterprise engineering and product lifestyle management (PLM) software for the process, power, marine and offshore industries.

- **Inaugurates development center**

Rolta inaugurates its new state-of-the-art development and delivery centre in the newly constructed multistoried building at SEEPZ-SEZ, Andheri East, Mumbai. This facility has the capacity to seat 1,500 persons in each shift, and is fully equipped with cutting edge computing systems and software platforms, dedicated high speed data communications network, and backup power sources to provide reliable and cost-effective offshore services to the company`s global customers



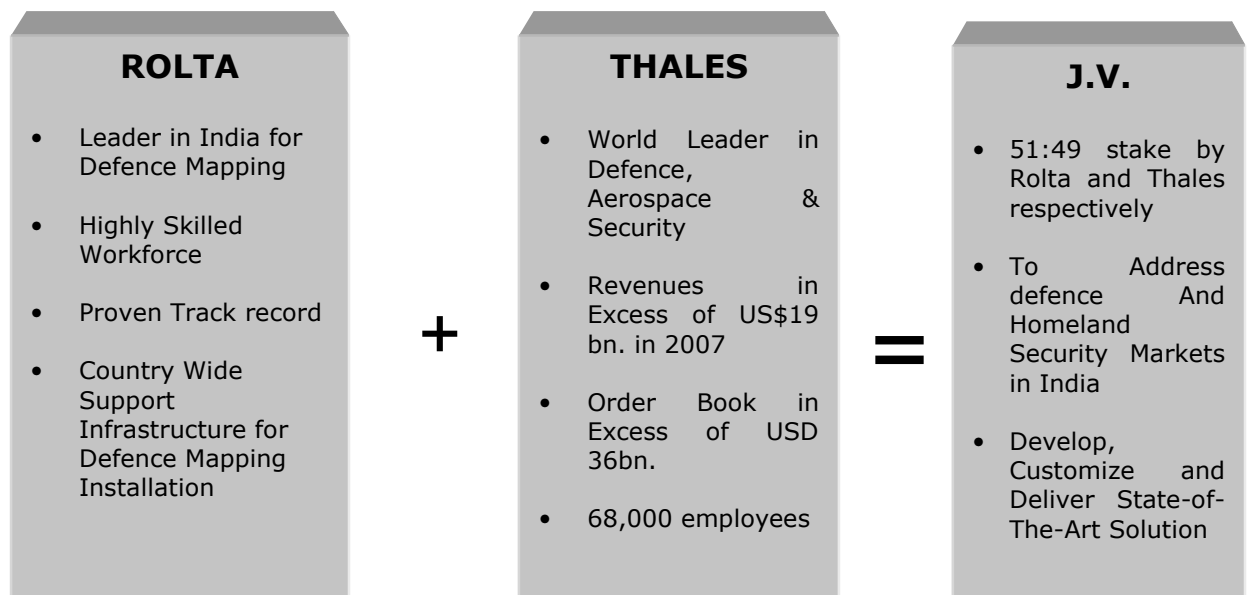
- **Unveils Service-Oriented Solutions**

The Rolta SOA Center of Excellence, a software division of Rolta and leading provider of agile service-oriented architecture (SOA) solutions, unveiled 'SOA Today'. The 'SOA Today' solution comprises service and software offerings that are customized to quickly deliver business results using a services-oriented approach.

Joint Ventures

(i) Rolta Thales Limited (RTL)

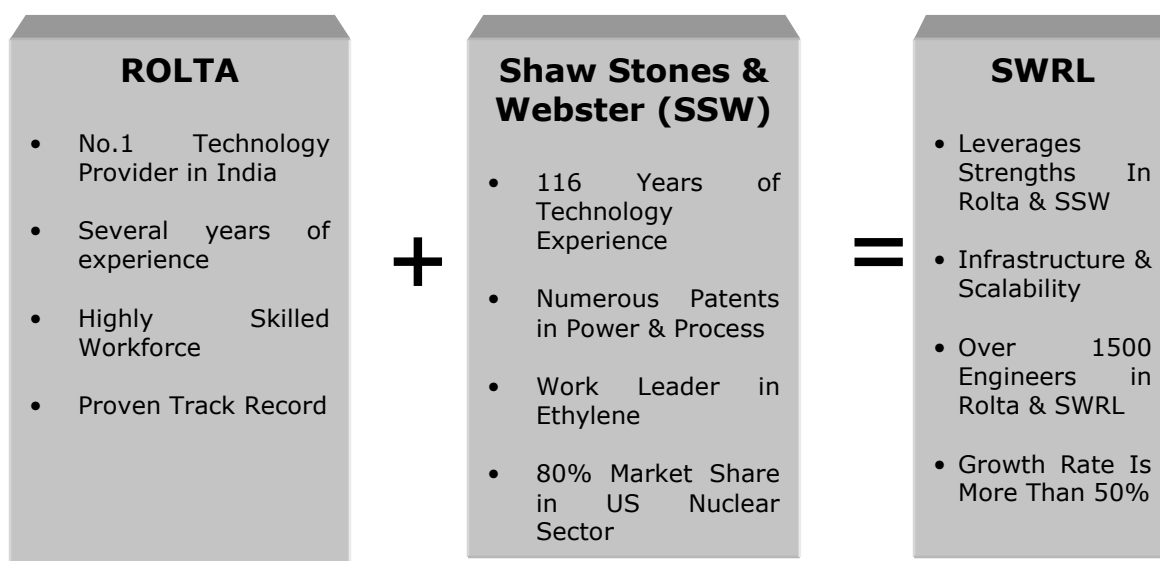
In this joint venture the company hold 51% stake and Thales, France holds 49%. RTL will take advantage of technology transfer from Thales for developing state-of-the-art Command, Control, Communications, Computers, Intelligence, Surveillance, Target Acquisition and Reconnaissance (C4ISTAR) equipment systems to address opportunities in the Defence, Security and Aerospace segments, worldwide. Rolta's leadership position in the Indian Geospatial Defence market, coupled with the Thales cutting edge technology, positions RTL in an extremely advantageous position.



(ii) Stones & Webster Rolta Limited (SWRL)

SWRL provides a full range of engineering services from Front End Engineering and design (FEED) through Detailed Design, Project Management, Procurement, Construction Management, Start-up and Commissioning. They selectively undertake refinery, petrochemical and power projects within India and provide project execution resources for global projects executed from within India and at other Shaw Stone & Webster locations around the globe. SWRL also offers very cost effective solutions for revamp, modernization and debottlenecking of existing facilities.





Financials Results Update

12 months ended Profit and Loss A/C (Consolidated):

Value(Rs.in.mn)	FY07	FY08	FY09E	FY10E
Description	12m	12m	12m	12m
Net Sales	7114.10	10722.10	13887.42	14581.79
Other Income	102.52	169.80	408.72	437.33
Total Income	7216.62	10891.90	14296.14	15019.12
Expenditure	-4247.89	-7143.70	-9639.79	-10061.43
Operating Profit	2968.73	3748.20	4656.34	4957.69
Interest	-7.37	0.00	-127.95	-131.79
Gross profit	2961.36	3748.20	4528.39	4825.89
Depreciation	-1018.31	-1063.60	-1423.63	-1509.04
Profit Before Tax	1943.05	2684.60	3104.76	3316.85
Tax	-216.61	-387.80	-382.95	-398.02
Profit After Tax	1726.44	2296.80	2721.82	2918.83
Equity capital	801.19	1609.00	1610.10	1610.10
Reserve	10669.20	11431.10	14152.92	17071.75
Face value	10.00	10.00	10.00	10.00
EPS	21.55	14.27	16.90	18.13

*A=Actual, E=Estimated



Quarterly ended Profit and Loss A/C (Consolidated):

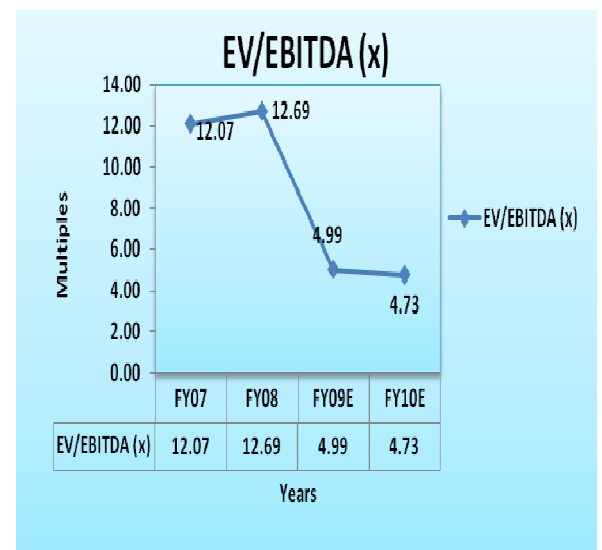
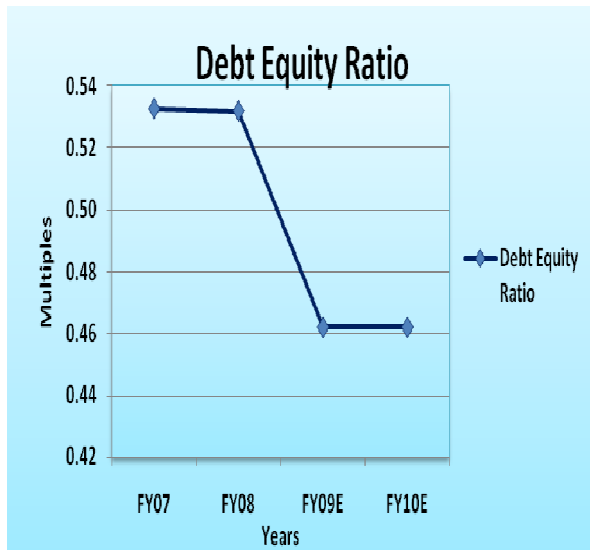
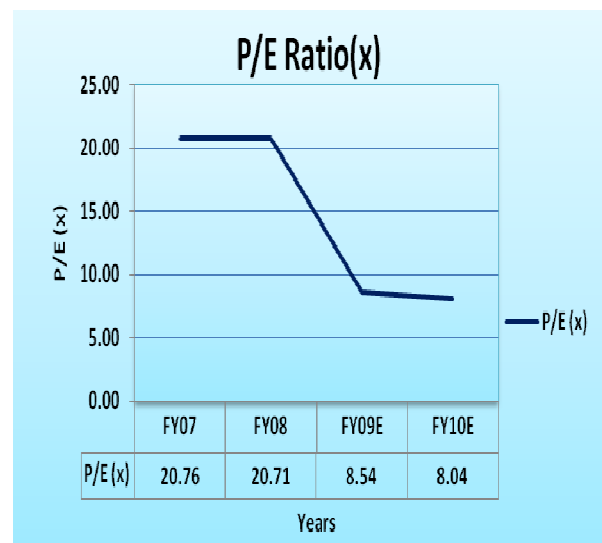
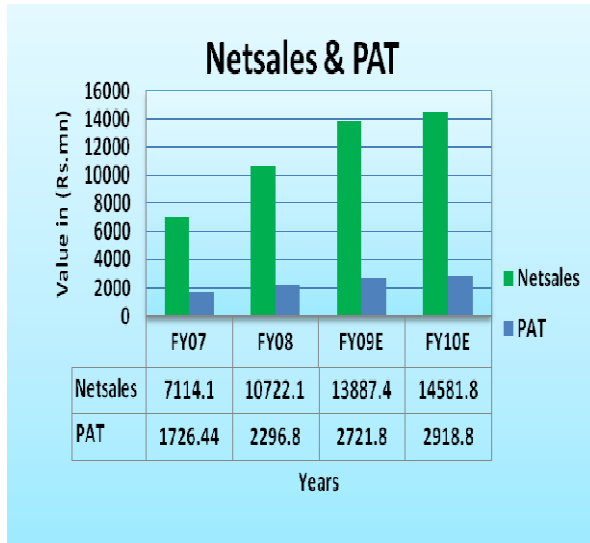
Value(Rs.in.mn)	30-Sep-08	31-Dec-08	31-Mar-09	30-Jun-09
Description	3m	3m	3m	3m
Net sales	3461.40	3619.40	3320.30	3486.32
Other income	149.80	95.10	81.10	82.72
Total Income	3611.20	3714.50	3401.40	3569.04
Expenditure	-2276.80	-2736.30	-2256.00	-2370.69
Operating profit	1334.40	978.20	1145.40	1198.34
Interest	0.00	-11.40	-57.70	-58.85
Gross profit	1334.40	966.80	1087.70	1139.49
Depriciation	-378.60	-35.10	-497.50	-512.43
Profit Before Tax	955.80	931.70	590.20	627.06
Tax	-105.10	-101.40	-101.20	-75.25
Profit After Tax	850.70	830.30	489.00	551.82
Exceptional items	-613.50	-226.60	840.10	0.00
Net Profit	237.20	603.70	1329.10	551.82
Equity capital	1609.30	1609.30	1610.10	1610.10
Face value	10.00	10.00	10.00	10.00
EPS	1.47	3.75	8.25	3.43

Key Ratios:

Particulars	FY07	FY08	FY09E	FY10E
No. of Shares(In Million)	80.12	160.9	161.01	161.01
EPS (Rs.)	21.55	14.27	16.9	18.13
EBITDA Margin (%)	42%	35%	34%	34%
PBT Margin (%)	27%	25%	22%	23%
PAT Margin (%)	24%	21%	20%	20%
P/E Ratio (x)	20.76	20.71	8.54	8.04
ROE (%)	15%	18%	17%	16%
ROCE (%)	23%	24%	26%	25%
EV/EBITDA (x)	12.07	12.69	4.99	4.73
Debt equity ratio	0.53	0.53	0.462	0.409
Book Value (Rs.)	143.17	81.04	97.9	116.03
P/BV	3.12	3.65	1.47	1.26



Charts



Valuation

- At the market price of Rs.144.35, the stock trades at 8.54x and 8.04x for FY09E and FY10E respectively.
- On the basis of EV/EBDITA, the stock trades at 4.99x FY09E and 4.73x for FY10E.
- Earning per Share (EPS) of the company for the earnings of FY09E and FY10E are seen at Rs.16.90 and Rs.18.13 respectively.
- The topline and bottomline of the company is expected to grow at a CAGR of 27% and 19% respectively over FY07 to FY10E.
- Rolta India is the only CAD/CAM/GIS Company that provides end-to-end IT solutions and services that address customers' total requirements for engineering and its e-enablement.
- Through its joint venture with Shaw Stone & Webster (S&W), Stone & Webster Rolta Limited (SWRL), Rolta has a good exposure to the nuclear power projects. SWRL offers engineering, design, procurement services and construction management.
- The company mainly focuses on business areas like infrastructure segments such as utilities, communications, oil& gas, power, petrochemicals etc. This focus helps the company to avoid any significant impact of the slow down in US and European economies.
- The company has recently launched Geospatial Fusion™ Solution in North America, the Middle East and Africa and also won some prestigious contracts in GIS segments.
- Piocon acquisition will help the company to meet the critical operational need of refineries in the oil and gas sector.
- Rolta has plans for becoming a major player in e-business segment. In this market, Rolta would leverage its core strengths in the areas of Internet Services, GIS, Plant and Mechanical Design.
- The company has plans to expand its European operations by establishing a development and delivery centre in the UK, which can respond faster to customers based in Europe and also address specific requirements of 'in-country/continent' projects. At present, the company has development and delivery centers in India (Mumbai), the Middle East (Riyadh) and the USA (Atlanta), which has been effectively serving clients in their respective regions.
- In the defense business segment, the company will soon commence manufacturing of sophisticated equipments and systems in the area of Maritime, Communication, Aerospace, Electronics Warfare & Sensors and Optronics Systems. The company has already got licenses from the government for this purpose.
- The Company continues to maintain its leadership in the Indian Defense Geospatial market and its JV with Thales – Rolta Thales Ltd. has launched innovative combat solutions for Mechanized Forces, Op Logistics, Order of Battle (ORBAT) generation/management and Ops room visualization, which can be quickly deployed in various formations.
- The Company has expanded its world-class facilities by recently inaugurating a state-of-the-art development and delivery center in SEEPZ, an SEZ in Mumbai.
- We recommend 'BUY' in this scrip with a target price of Rs.166.00 for short to medium term.



Industry Overview

India's IT industry can be divided into five main components, viz. software products, IT services, engineering & R&D services, ITES (IT-enabled services) and hardware. Export revenues continue to growth driver of the industry. Amongst the export revenues, project-based services accounted for more than 50% of the Indian IT services exports. Multi-year annuity based outsourcing agreements are expected to increase going forward. However, the majority share of the project based revenues is going to continue on the back of custom application development and application management.

IT-BPO SECTOR OVERVIEW

(USD billion)	FY2004	FY2005	FY2006	FY2007	FY2008	Growth% (08/07)
IT Services	10.4	13.5	17.8	23.5	31.0	32
-Exports	7.3	10.0	13.3	18.0	23.1	28
-Domestic	3.1	3.5	4.5	5.5	7.9	43
BPO	3.4	5.2	7.2	9.5	12.5	32
-Exports	3.1	4.6	6.3	8.4	10.9	30
-Domestic	0.3	0.6	0.9	1.1	1.6	41
Engineering Services and R&D, Software Products	2.9	3.8	5.3	6.5	8.6	32
-Exports	2.5	3.1	4.0	4.9	6.4	29
-Domestic	0.4	0.7	1.3	1.6	2.2	38
Total Software and Services Revenues	16.7	22.5	30.3	39.5	52.0	31
-Exports	12.9	17.7	23.6	31.3	40.4	29
-Domestic	3.8	4.8	6.7	8.2	11.6	41
Hardware	5.0	5.6	7.1	8.5	12.0	41
-Exports	0.5	0.5	0.6	0.5	0.5	-
-Domestic	4.4	5.1	6.5	8.0	11.5	44
Total IT-BPO Industry (incl. Hardware)	21.6	28.2	37.4	48.0	64.0	33
-Exports	13.4	18.2	24.2	31.8	40.9	28
-Domestic	8.2	9.9	13.2	16.2	23.1	43

Source: NASSCOM

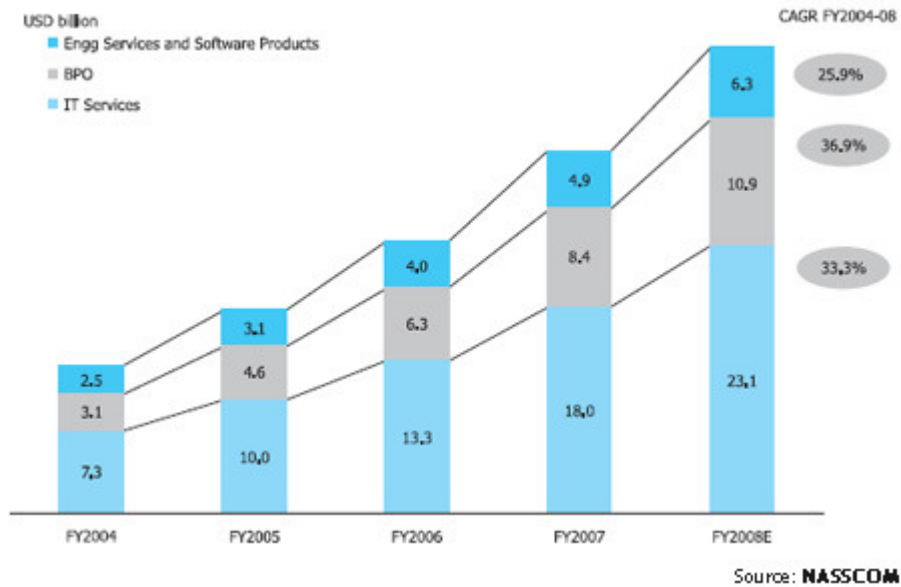
Indian IT-BPO grew 33% in FY08 and reached USD 64bn. in aggregative revenue, thus revalidating its strong fundamentals, despite strong concerns of slowing US economy and supply constraints. IT-BPO export reached USD 40.9bn in FY08 against USD31.8bn in FY07 i.e, it has grown 28%. Software and service export reached USD40.4bn, contributing nearly 63% of the overall IT-BPO aggregate revenue.

Domestics IT market has reached USD 23.1bn against USD 16.2bn in FY07 (a growth of 43%YoY). Hardware remained the largest segment of the domestic market with a growth rate of 44% in FY08. As a proportion of national GDP, the Indian technology sector revenue has grown from 1.2% in 1998 to 5.5% in 2008. Net value added by the sector to the economy was estimated at 3.3 – 3.9% for FY08.



IT Services

IT Services involves a full range of engagement types that include consulting, systems integration, IT outsourcing/managed services/hosting services, training and support/maintenance.

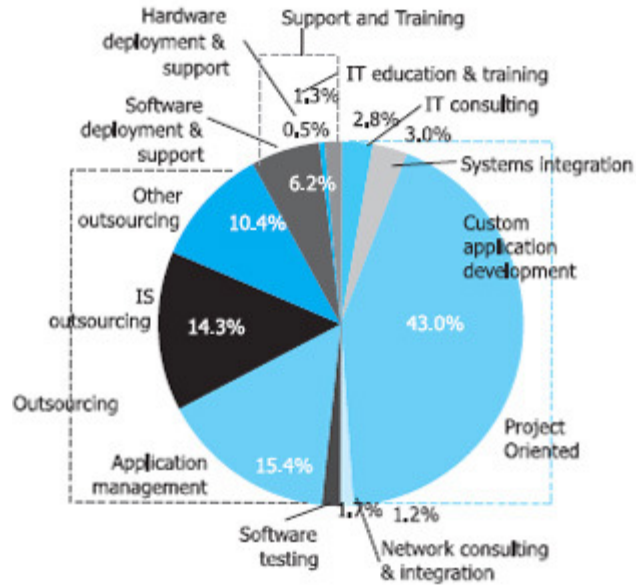


IT services (excluding BPO, Engineering Services, R&D and Software products), contributing to 57 per cent of the total software and services exports, remains the dominant segment and crossed USD 23 billion, a growth of 28 per cent in FY2008. The segment is witnessing a noticeable shift from projects towards multi-year outsourcing-based relationships; remote infrastructure management is emerging as a key growth driver.



IT Services: Exports by Service Line (FY2008)

Break-up of IT Services Exports by service line, FY2008E
 100% = 23.1 USD billion

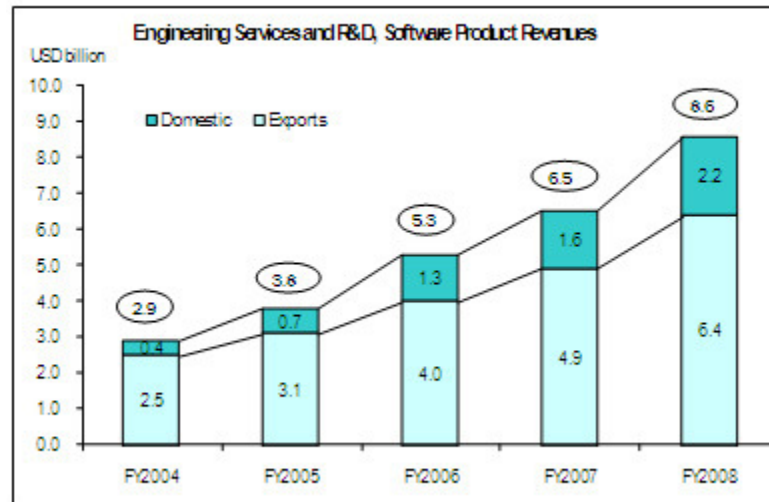


Source: **NASSCOM**

Project-oriented services contributing to about 52 per cent, continues to be the largest segment of the IT Services exports. Outsourcing segment and Support and Training segment account for about 40 per cent and 8 per cent of the IT Services export segment respectively. Domestic IT services spends grew at over 43 per cent in FY2008, showing strong signs of increasing sophistication as building enterprise IT infrastructures and applications, networking and communication became key priorities for India Inc.



ENGINEERING SERVICES, R&D AND SOFTWARE PRODUCTS

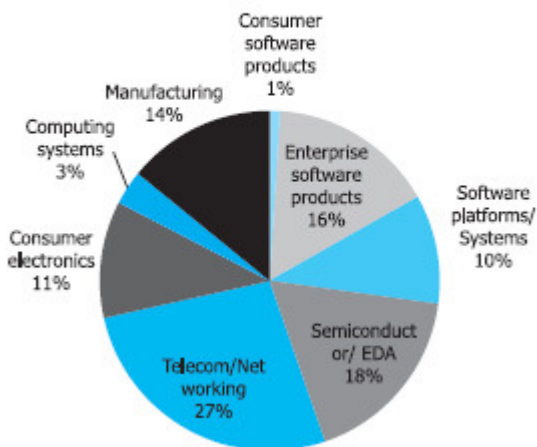


Source: **NASSCOM**

Complementing the strong growth in IT services and BPO exports is the continued expansion of the product development and engineering services segment, which also reflects India's increasing role in global technology IP creation. Export revenues from the relatively high-value-added services engineering and R&D, offshore product development and made-in-India software products grew at nearly 29 per cent to reach USD 6.4 billion in FY2008. Domestic spending in this segment grew by over 37 per cent in FY2008. Embedded solutions development, product design and prototyping are some of the key engineering services being sourced from India.

Key Engineering Services (ES) and Offshore Product Development (OPD) verticals of Indian ES and OPD exports (FY2008)

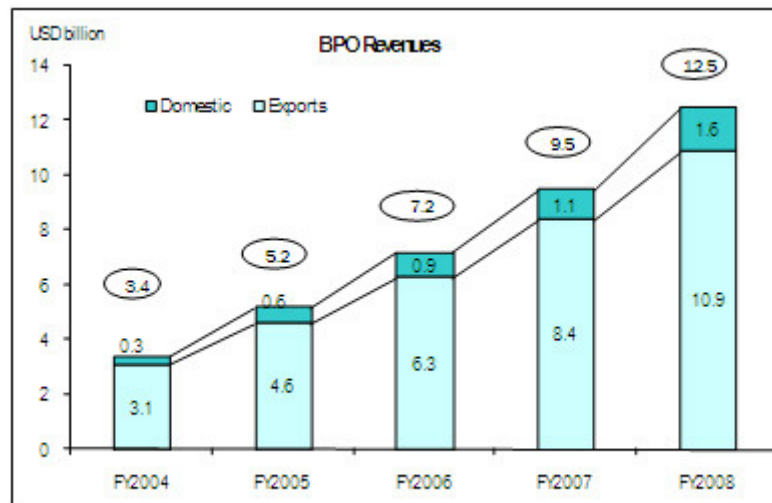
Key ES and OPD Verticals of Indian ES and OPD exports**



Source: **NASSCOM**



BPO Sector



Source: **NASSCOM**

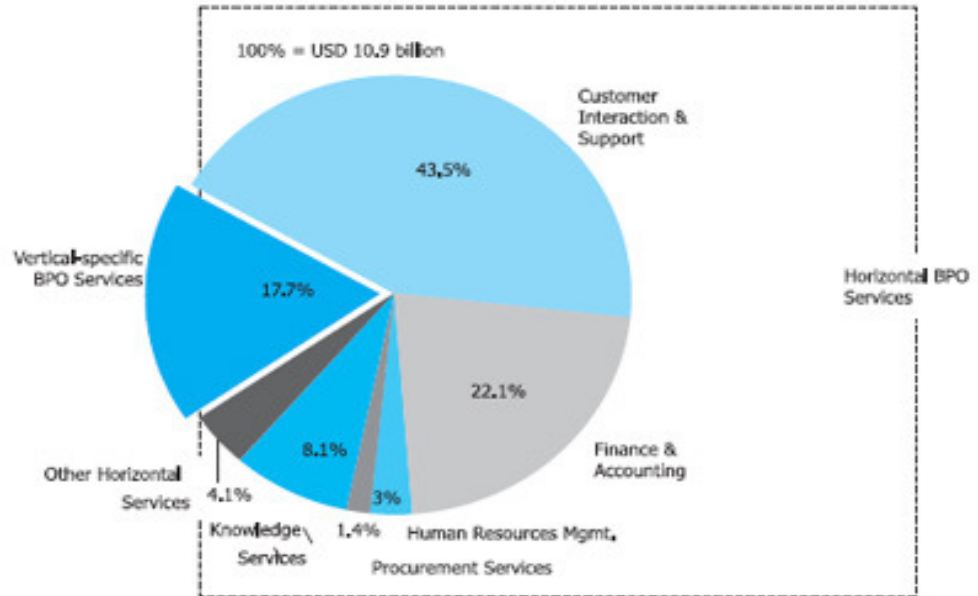
BPO exports, accounting for about 27 per cent, is the fastest growing segment across software and services exports driven by scale as well as a rapidly expanding service landscape. Domestic BPO spends are also growing rapidly, led by the BFSI, Telecom and Airline industries. Revenue from the domestic BPO segment grew by nearly 41 per cent over FY2007 to touch USD 1.6 billion. Horizontal BPO, accounting for about 80 per cent of Indian BPO exports, represents the larger and relatively more established set of services being delivered from India. Vertical specific services now contribute nearly 20 per cent of the BPO exports, led by an increasing number of processes, being offered across multiple verticals and by a growing number of providers. Vertical-specific BPO services refer to offerings that require a high degree of vertical specific knowledge that is not easily replicable across industries (e.g. insurance claims processing). Other aspects of Indian BPO, besides the growing breadth and depth of the service portfolio, that reflect its increasing maturity include the increasing global delivery footprint and continuous emphasis on enhancing service delivery efficiency and productivity.



BPO: Exports by Service Line (FY2008)

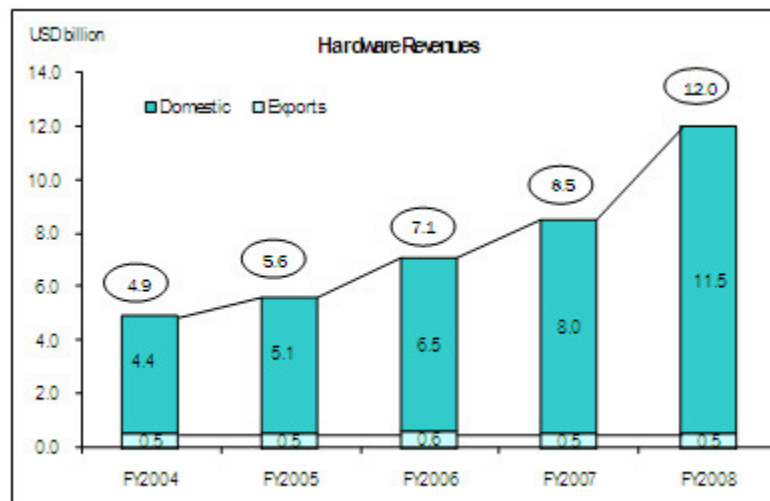
Revenue distribution by service offerings

FY2008E



Source: **NASSCOM**

Hardware Market



Source: **NASSCOM**



Despite the declining trends in pricing observed across key categories, increasing volumes have ensured that the domestic hardware revenue aggregate continues to grow. While hardware exports remained steady, domestic hardware segment grew by 44 per cent over FY 2007 to reach USD 11.5 billion. PCs (including desktops and notebooks) continue to lead hardware spending patterns. With their prices coming down, notebooks are increasingly being adopted as the computing device of choice. For the desktop segment, consumers are showing an increased trend of moving away from locally assembled items towards branded products with relatively higher-end configurations.

Future Outlook

Sufficient demand, strong fundamentals and a favorable environment support a positive outlook for Indian IT-BPO exports as well as the domestic market, going forward. The Indian IT-BPO industry is on track to reach USD 60 billion in exports and USD 73-75 billion in overall software and services revenue, by 2010. At the aspired levels of growth, the sector would, by 2010, employ around 2.5-3 million professionals, directly, account for direct investment of about USD 10-15 billion, and contribute 7-8 per cent of the national GDP.

However, the scope of the opportunity is significantly larger. At USD 52 billion (excluding hardware), India accounts for around 4 per cent of the worldwide spend on IT software and services. The global sourcing penetration is estimated to be growing at nearly four times the rate of absolute technology spends. Together, these two trends signify a huge opportunity for the Indian IT-BPO industry.

In order to sustain India's edge in the global markets and improve revenues, Indian IT-BPO service providers need to shift towards more market-facing breakthroughs. They could additionally, foray new customer segments in intellectual asset-intensive service lines like engineering and R&D services, creating IP in emerging technology areas, developing and codifying specific domain expertise to target consulting and system integration services, technical innovations to develop their own standards for next generation of technologies.

Finally, providers could enhance the role they are already playing in helping improve the quality of education, by working closely with the Government and academia to facilitate changes in the curriculum and pedagogy, which directly influence the quality of graduate output.

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