

RESULT UPDATE ✓

Rolta India (ROLIND)

WHAT'S CHANGED...

PRICE TARGET.....	Changed to Rs220 from Rs405
EPS (FY09E).....	Changed to Rs21.6 from Rs20.5
EPS (FY10E).....	Changed to Rs24.4 from Rs27.0
RATING.....	Unchanged

Current Price Rs 172	Target Price Rs 220
Potential upside 28%	Time Frame 12-15 months

OUTPERFORMER

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Outperformer indeed ...

Rolta India reported revenues of Rs 346.1 crore, a 7.8% sequential growth, with each of its segmental business showing moderation in their revenue growth. The profitability of the company was negatively impacted because of the whopping Rs 61.4 crore of foreign exchange revaluation loss on translation of FCCBs of US\$150 million. The order book remains robust at Rs 15.7 billion executable over the next five to six quarters.

Quarterly highlights:

The company has shown consolidated revenue growth of 7.8% (QoQ) and 56.6% (YoY). Out of the three business segments, EICT showed muted sequential revenue growth of 8.3%(organic) and 14.2%(inorganic, i.e. post integration of the US\$1 million from Whittman-Hart consulting division of Whittman Hart Inc acquired in this quarter). EBIDTA margins dipped by 72 bps on the back of wage hikes given in this quarter of 15% offshore and 2.5% onsite and 377 bps (YoY). The company had to charge a notional loss of Rs 61.4 crore on its bottomline for foreign exchange revaluation loss on translation of FCCB of US\$150 million. This will mature in June 2012. Profit after tax before this loss grew 68% sequentially at Rs 85.3 crore primarily boosted by other income of Rs 15 crore in Q1FY09 as compared to a loss of Rs 13.4 crore in Q4FY08. Billing rates expanded for all three segments with growth of 0.5%, 0.3% and 2.6% for GIS, EDA and EICT, respectively, and are expected to go up, going forward. The company improved its debtor's day from 150 days (end of Q4FY08) to 143 days (end of Q1FY09).

Emerging as beneficiary of Indo-US nuclear deal:

In this quarter, we witnessed the signing of the Indo-US nuclear deal. With the signing, Rolta India will be well positioned to tap opportunities in designing Indian nuclear power plants by leveraging its strengths of a strategic joint venture with the Shaw group. On the back of a strategic tie up of Shaw with Westinghouse (manufacturer of nuclear reactor) Rolta India could be the preferred partner for setting up of nuclear power plants. This benefit is expected to flow in from CY11.

Exhibit 1: Key Financials

(Rs crore)	Q1FY09	Q4FY08	Q-o-Q growth	Q1 FY08	Y-o-Y growth	FY09E	FY10E
Revenues	346.1	321.1	7.8%	221.0	56.6%	1,483.2	1,792.8
Total Expenditure	227.7	208.9	9.0%	137.0	66.1%	837.0	1,060.2
EBIDTA	118.5	112.2	5.6%	84.0	41.1%	518.5	602.9
EBIDTA margin	34.2%	34.9%	72 bps dip	38.0%	377 bps dip	35.0%	33.6%
Depreciation	37.9	37.8	0.1%	31.6	19.9%	174.3	206.2
Interest	0.0	0.0		0.0		0.0	0.0
Other income	15.0	-13.4	-211.6%	9.6	55.5%	45.0	48.0
PBT	95.6	60.9	56.8%	62.1	54.0%	389.2	444.7
Tax	10.5	11.0	-4.4%	8.2	27.7%	42.8	53.4
Minority Int/Equity in affiliates	0.2	0.9	-79.5%	0.0		1.0	1.1
Extraordinary Items	-61.4	0.0		0.0		-17.3	30.0
PAT	23.9	50.8	-53.0%	53.8	-55.6%	330.1	362.5

Source: ICICIdirect Research, Company

Exhibit 2: Segmental performance

(Rs crore)	Q1FY09	Q4FY08	Q-o-Q growth %	Q1 FY08	Y-o-Y growth %
Revenue					
Geospatial/GIS	149.0	142.5	4.5	120.4	23.7
Engineering Design	106.0	98.7	7.4	74.5	42.4
Enterprise Info. & Communication Tech.	91.2	79.8	14.2	26.2	248.6
Total	346.1	321.1	7.8	221.0	56.6
EBITDA					
Geospatial/GIS	61.7	58.6	5.3	47.7	29.4
Margin	41.4	41.1		39.6	
Engineering Design	41.8	39.3	6.1	28.8	45.2
Margin	39.4	39.9		38.6	
Enterprise Info. & Communication Tech.	15.0	14.3	5.1	7.6	98.5
Margin	16.4	17.9		28.9	
Total	118.5	112.2	5.6	84.0	41.1
Margin	34.2	34.9		38.0	

Source: Company, ICICIdirect.com Research

Exhibit 3: Billing rates

Average blended billing rate(US \$ per hr)	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09
GIS	19.4	19.5	19.8	20.8	20.9
EDA	26.1	27.6	27.7	28.7	28.8
EICT	88.4	90.7	135.5	147.4	151.3

Source: Company, ICICIdirect.com Research

Exhibit 4: Increasing billing rates

Growth in billing rates	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09
GIS	0.9%	0.6%	1.5%	5.4%	0.3%
EDA	4.4%	5.8%	0.1%	3.8%	0.3%
EICT	3.5%	2.6%	49.4%	8.8%	2.7%

Source: Company, ICICIdirect.com Research

Exhibit 5: Order book status

Order Book	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09
In million	9805	11060	13880	15136	15713
Quarterly growth rate	17.40%	12.8%	25.5%	9.0%	3.8%

Source: Company, ICICIdirect.com Research

VALUATIONS

Rolta India's revenues have a natural hedge with more than 50% of the revenues coming from the domestic market and almost 85% of its effort offshore. The company has always reported a strong order book position and has a very niche offering to cater to a large opportunity base. We believe sectors like defence, oil & gas and power would be relatively insulated from the current global turmoil. These are the core sectors for Rolta. This is also evident from the robust order book of the company.

We value Rolta with a one-year forward earning multiplier of 10.2. This gives us a target price of Rs 220. As mentioned above the unique business model of Rolta justifies the premium given to the company compared to other players in the midcap IT space.

Exhibit 6: Valuation Metrics

	FY09E	FY10E
EPS without exceptional item	21.6	24.4
EPS with exceptional item	20.5	26.3
P/E	8.0	7.1
Target P/E	10.2	9.0

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Outperformer: 20% or more;

Performer: Between 10% and 20%;

Hold: $\pm 10\%$ return;

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