

ROLTA INDIA (ROLIND)

RESULT UPDATE ✓

WHAT'S CHANGED...

PRICE TARGET.....	Changed from Rs 105 to Rs 100
EPS (FY09E).....	Changed from Rs 15 to Rs 17.2
EPS (FY10E).....	Changed from Rs 24.8 to Rs 16.6
RATING.....	Changed from Outperformer to Performer

Current Price Rs 88	Target Price Rs 100
Potential upside 13.6%	Time Frame 12 months

Growth slowing down...

Rolta India declared disappointing Q3FY09 revenues of Rs 332.03 crore, which declined sequentially by 8.3%. The decline in revenues was a result of the poor performance of the engineering design (17.7% QoQ dip) and EICT (12.2% QoQ dip). The EBITDA margin declined by 270 bps, driven by price cuts realised across its three segments. The company has also seen a de-growth in its order book. The management has also indicated that the next few quarters would remain challenging.

Quarterly highlight

Decision delay by clients due to the global slowdown had a negative impact on the performance of Rolta, which saw revenues decline 8.3% in Q3FY09. The company witnessed a poor performance across its business segments with only GIS showing a positive sequential growth of 1%. EBITDA margin, at 32.1% for Q3FY09, declined by 270 bps QoQ. This was a result of a drop in both, billing rates and utilisation across segments (Exhibits 4, 5). This along with a change in accounting policy in respect of recognising FCCB losses (AS11) led to the net profit margin declining by 820 bps to 14.8%.

Valuations

The company saw its people headcount declining by 266 during the quarter to 5292 in Q3FY09 from 5558 in Q2FY09. The company has also seen a 2.5% decline in the order book, which now stands at Rs 1552.3 crore, 65% of which is executable in FY10. The cautious outlook by the management for the next couple of quarters along with poor operating performance has made us reduce our FY09E and FY10E EPS (without exceptional item) by 18% and 17%, respectively. We have changed our rating to **PERFORMER**.

PERFORMER

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Stock data...

Market Cap.	Rs1432cr
Debt (Q3FY09):	Rs950
Cash (Q3FY09):	Rs249cr
EV:	Rs 2132cr
52 week H/L:	Rs 360/40.70
Equity capital:	Rs 161
Face value:	Rs 10
MF Holding:	1.0%
FII Holding:	29.9%

Price performance (%)

	1M	3M	6M	12M
Rolta	86.3	26.6	-40.5	-68.2
KLG				
Systel	54.4	46.9	-5.4	-84.2
3i info.	46.0	44.6	-8.6	-61.2
NIIT Ltd.	38.9	25.6	-14.2	-72.7

Exhibit 1: Key Financials

	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr (%)	QoQ Gr (%)	FY09E	FY10E
Net Sales	332.0	395.0	288.4	361.9	15.1	-8.3	1381.0	1519.6
EBITDA	107.0	131.7	100.7	126.1	6.2	-15.1	472.1	523.6
EBITDA Margin (%)	32.2	33.3	34.9	34.8	270bps dip	262 bps dip	34.2	34.5
Depreciation	49.8	51.4	35.3	41.3	40.9	20.4	170.5	190.9
Other Income	8.1	10.0	10.5	9.5	-22.9	-14.7	42.6	46.0
Reported Net Profit*	133.5	159.1	65.7	60.4	103.2	121.1	275.5	265.8
EPS (Rs)	8.3	9.9	4.1	3.8	103.6	121.1	17.2	16.6
Valuation								
PE (x)	-	-	-	-	-	-	5.2	5.4
Target PE (x)	-	-	-	-	-	-	5.8	6.0
EV to EBITDA (x)	-	-	-	-	-	-	4.5	4.1
Price to book (x)	-	-	-	-	-	-	1.0	0.9
RoNW (%)	-	-	-	-	-	-	22.1	19.8
RoCE (%)	-	-	-	-	-	-	16.3	15.7

*With exceptional item(includes reversal of forex loss/gain and treatment under to AS-11)

Source: ICICIdirect.com Research, Company

Result analysis

Pricing and volume performance a negative surprise

Rollta India has seen a significant slowdown across segments in volumes as well as price realisation. The company has seen a reduction in its headcount by 266 in Q3FY09. The management has not made any fresh hiring during the quarter under review and the reduction in headcount has been a result of the normal attrition. Despite the reduction in employee count the EBITDA margins declined significantly, indicating a steep drop in demand.

The GIS segment showed a growth of 1% QoQ and also saw margins expanding YoY (although QoQ margins declined) (Exhibit 3). Since the major contribution in this segment comes from the government segment the performance remained stable. This was the only silver lining in an otherwise disappointing quarter.

Change in accounting treatment under AS-11

The company has opted for accounting the exchange differences arising on reporting of long-term foreign currency monetary items in line with Companies (Accounting Standards) Amendment Rules 2009 on Accounting Standard 11 (AS-11) notified by Government of India on March 31 2009.

Accordingly, the effect of exchange differences on FCCBs/ECBs of the company is accounted by addition or deduction to the cost of the assets so far as it relates to depreciable capital assets and in other cases by transfer to "Foreign Currency Monetary Items Translation Difference Account" to be amortised in the subsequent period. Exchange difference recognised in the profit & loss account up to the last financial year ending June 30 2008 relating to said long-term liabilities in foreign currency have been adjusted against opening revenue reserve as provided in the rules. As a result of this change in accounting for exchange difference, profit before exceptional items for the quarter and nine months ending March 31 2009 is lower by Rs 118.70 million with corresponding increase in other expenses and depreciation. The company has reversed foreign exchange revaluation loss amounting to Rs 840.09 million on translation of FCCB liability of US\$150 million, which was charged to profit & loss during July 2008 to December 2008 as an exceptional item. As a result the net profit for the quarter and nine months ending March 31 2009 is higher by Rs 721.39 millions.

We believe that with this adoption the company has made a move to avoid excess volatility in reported income. However, the company's net profitability will be impacted, going ahead, as it will have to amortise revaluation reserve of Rs 109.6 crore (as on March 31 2009) over the next nine quarters. Only if the rupee appreciates significantly over the next quarters will the company be able to get complete benefit of this treatment.

Risk & Concern

Discretionary spends getting cut – Client spends are getting cut across geographies and the cut is more prominent in the discretionary projects. The company derives nearly 26% (based on Q3FY09 numbers) from the EICT segment, which is primarily discretionary in nature.

Exhibit 2: Valuation table

	Sales		EPS	EPS Growth (%)	PE	EV/EBITDA	RoNW (%)	RoCE (%)
	Sales(Rs Cr)	Growth (%)						
FY08	1072.2	50.7	14.3	-33.7	6.2	5.2	20.6	14.8
FY09E	1381.0	28.8	17.2	20.2	5.2	4.5	22.1	16.3
FY10E	1519.6	10.0	16.6	-3.5	5.4	4.1	19.8	15.7

Source: ICICIdirect.com Research, Company

Exhibit 3: Segment wise performance

	Revenue			EBITDA		EBITDA Margin			
	Q3FY09	Q2FY09	Q3FY08	Q3FY09	Q2FY09	Q3FY08	Q3FY09 (%)	Q2FY09 (%)	Q3FY08 (%)
GIS	156.2	154.9	137.0	63.7	66.7	53.7	40.8	43.1	39.2
EDA	90.0	109.4	91.6	31.9	43.6	35.3	35.4	39.8	38.5
EICT	85.8	97.7	59.8	10.9	15.8	11.8	12.7	16.2	19.7

	Revenue		EBITDA		EBITDA margin	
	QoQ (%)	YoY (%)	QoQ (%)	YoY (%)	QoQ (%)	YoY (%)
GIS	0.9	14.0	-4.5	18.5	-2.3	1.5
EDA	-17.7	-1.7	-26.8	-9.6	-4.4	-3.1
EICT	-12.2	43.4	-31.1	-7.3	-3.5	-7.0

Source: ICICIdirect.com Research, Company

Exhibit 4: Billing rates in US\$ per hr

	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
GIS	19.4	19.5	19.8	20.8	20.9	21.6	21.1
EDA	26.1	27.6	27.7	28.7	28.8	29.3	27.0
EICT	88.4	90.7	135.5	147.4	151.3	152.1	145.9

Source: ICICIdirect.com Research, Company

Exhibit 5: Dipping billing rates

Growth in billing rates (%)	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
GIS	0.9	0.6	1.5	5.4	0.3	3.3	-2.3
EDA	4.4	5.8	0.1	3.8	0.3	1.7	-7.8
EICT	3.5	2.6	49.4	8.8	2.7	0.5	-4.1

Source: ICICIdirect.com Research, Company

Exhibit 6: Slump in utilisation rates

Utilization (%)	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
GIS	83.1	83.0	83.3	83.8	81.3	81.8	76.8
EDA	78.3	78.0	75.4	77.3	77.4	74.4	63.2
EICT	75.8	73.2	77.2	79.8	80.9	75.8	66.7

Source: ICICIdirect.com Research, Company

Exhibit 7: Weak order booking

QoQ Order Book growth (%)	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
GIS	11.6	13.2	16.1	10.6	5.4	3.7	4.4
EDA	33.1	16.3	16.1	11.8	3.5	-1.1	-10.1
EICT	9.5	6.4	63.7	3.2	1.4	0.2	-5.4
Total	17.4	12.8	25.5	9.0	3.8	1.3	-2.5

Source: ICICIdirect.com Research, Company

Exhibit 8: Order book growth annual

YoY Order book growth (%)	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
GIS	55.4	45.1	60.8	60.4	53.2	40.3	23.1
EDA	163.2	129.1	116.7	99.5	56.0	32.8	2.9
EICT	31.4	25.0	96.6	102.2	82.3	71.7	-0.8
Total	72.2	60.1	84.5	81.2	60.3	43.9	11.8

Source: ICICIdirect.com Research, Company

Exhibit 9: Absolute order book status

Order Book position	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
In Rs Million	9805.0	11060.0	13880.0	15136.0	15713.0	15918.0	15523.0
In USD Million	246.1	280.4	347.5	353.2	334.8	339.1	304.7

Source: ICICIdirect.com Research, Company

Detailed valuations

The company has revised down its FY09 revenue estimate from 30-40% growth to 25-30% currently and expects the same to be in the range of Rs 1360-1375 crore. Net profit is expected to be in the range of Rs 255-265 crore for FY09. De-growth in the order book and the greater-than-expected decline in utilisation, pricing and reduction in headcount reduction points to a challenging future, going ahead. The management has also indicated towards growth concerns in the next couple of quarters. Declining revenue visibility for the near future has made us revise down our EPS for both FY09 and FY10. We have changed our recommendation from OUTPERFORMER to **PERFORMER** with a price target of Rs 100.

ICICIdirect.com Coverage Universe

Exhibit 10: Valuation table

Infosys			Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	INFTEC CMP(Rs)	1385 FY09	21693.5	104.4	13.3	8.96	32.8	37.9
	Target(Rs)	1260 FY10E	21649.4	96.92	14.3	8.91	25.6	30.0
Mcap(crore)	79230.6 % Upside	-9.0 FY11E	22163.7	92.84	14.9	8.23	21.3	26.5
TCS			Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	TCS CMP(Rs)	546 FY09	27813.0	52.8	10.3	7.3	33.3	39.4
	Target(Rs)	593 FY10E	28463.0	53.7	10.2	7.6	27.1	30.5
Mcap(crore)	53392.4 % Upside	8.7 FY11E	29228.0	55.2	9.9	6.9	23.2	26.0
HCL Tech			Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	HCLTEC CMP(Rs)	125 FY08	7562.8	16.5	7.5	3.9	25.6	24.0
	Target(Rs)	129 FY09E	10562.0	18.7	6.7	4.4	26.5	21.5
Mcap(crore)	8296.06 % Upside	3.6 FY10E	11375.0	17.1	7.3	4.6	24.0	20.0
Tech Mahindra			Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	TECHM CMP(Rs)	309 FY08	3766.1	25.2	12.3	3.2	30.4	67.2
	Target(Rs)	344 FY09E	4459.6	74.3	4.2	1.8	62.2	69.2
Mcap(crore)	3753.69 % Upside	11.3 FY10E	4905.0	66.1	4.7	1.8	41.4	46.3
Wipro			Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	WIPRO CMP(Rs)	283 FY08	19979.6	22.5	12.6	8.9	28.1	21.0
	Target(Rs)	287 FY09E	25589.9	25.6	11.1	6.7	28.9	27.5
Mcap(crore)	41426.2 % Upside	1.3 FY10E	27355.0	26.9	10.5	5.9	27.0	25.8
3i Infotech			Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	3IINFO CMP(Rs)	41 FY08	1205.3	10.2	4.0	4.5	34.04	14.4
	Target(Rs)	41 FY09E	2287.8	13.7	3.0	5.8	30.4	15.6
Mcap(crore)	533.46 % Upside	0.5 FY10E	2589.0	13.6	3.0	5.0	23.6	15.9
KLG Systel			Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	KLGSYS CMP(Rs)	111 FY08	268.9	48.2	2.3	1.1	27.5	26.2
	Target(Rs)	96 FY09E	276.2	26.1	4.3	1.1	25.0	23.0
Mcap(crore)	131.065 % Upside	-13.9 FY10E	357.5	40.1	2.8	0.9	23.0	21.0
NIIT			Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	NIIT CMP(Rs)	26 FY08	1006.8	4.6	5.5	4.8	21.3	17.3
	Target(Rs)	23 FY09E	1147.4	4.2	6.1	4.4	16.1	18.0
Mcap(crore)	422.765 % Upside	-10.5 FY10E	1319.5	5.1	5.1	3.4	17.3	19.6

Source: ICICIdirect.com Research, Company

Peer Valuation

Exhibit 11: Valuation matrix

				M Cap	EPS			P/E (x)			EV/EBITDA (x)			ROCE (%)			ROE (%)		
	CMP	TP	Ratings	Rs Cr.	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10
Rohta	88	100	P	1403.9	14.3	15	24.4	6.2	5.9	3.6	4.5	3.2	2.6	14.8	18.2	17.0	20.6	25.1	21.7
3i Infotech	41	41	H	533.5	13.5	13.9	14.8	4.0	3.0	3.0	4.5	5.8	5	14.4	15.6	15.9	34.4	34.4	23.6
KLG	111	96	H	131.1	48.2	32.6	44.9	2.3	4.3	2.8	1.1	1.1	0.9	26.2	23.0	21.0	27.5	25	23
NIIT	26	23	H	422.8	4.6	4.2	5.1	5.6	6.1	5.1	4.8	4.4	3.4	17.3	18.0	19.6	21.3	16.1	17.3

Source: Company, ICICIdirect.com Research

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

Underperformer (UP): -10% or more

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