Rolta India Limited – Q3, Result Update »»» BUY

Initial Recommendation	Accumulate
Current Recommendation	Buy

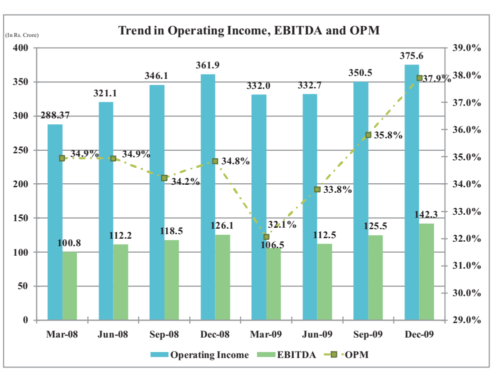
The Company:

Rolta India Limited or "Rolta" is a market leader in providing specialized Technology Solutions and Services for the Geospatial, Defense & Homeland Security and Engineering sector. It operates in different verticals through three business segments, namely Enterprise Geospatial Information Solutions (EGIS), Enterprise Design & Operation Solutions (EDOS) and Enterprise IT Solutions (ETIS). Over the last few years, the company has transformed its business from Services centric to Solutions centric model by developing and acquiring extensive Intellectual property that have enabled it to launch innovative solutions in each of its lines of business.

The company offers these services on its own and with the help of its Subsidiaries, which include Rolta International Inc. (RUS), Rolta Middle East FZ LLC UAE (RME), Rolta Saudi Arabia Limited (RSA), Rolta UK Limited (RUK) and Rolta Thames Limited (RTL) and Shaw Rolta Limited.

March Quarter Financial Performance almost In-line with Estimates

During the quarter under review, the company recorded healthy growth in the Top as well as the Bottom-line on both sequential and sequential and on yearly basis. The Net Sales of Rolta grew by 18.8% on YoY basis and 5.1% on a QoQ basis from Rs 376 Crore (Q2, 10) and 332 Crore (Q3, 09) to Rs 395 Crore (Q3, 10).



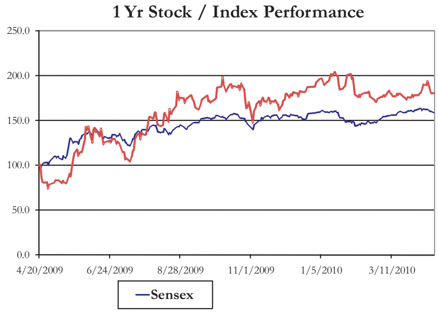
Source: Company Data, JRG Research

Industry: IT Software and Products

Price Target	237
% Upside	29%
Risk	Medium

Last Traded Price	184
BSE Sensex	17400

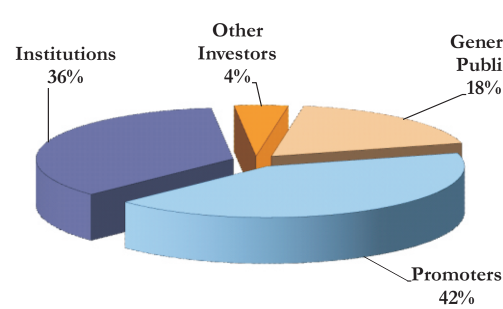
Market Price	184
Market Cap (Cr.)	2960
Reuters Code	ROLT.NS
BSE Scrip Code	500366
NSE Scrip Code	ROLTA
52 Week High	210
52 Week Low	73
FV/Share	10
Book Value/Share	88



Company	FY 09	FY 10E	FY 11	FY 12E
Net Revenue	1372.8	1542.8	1789.7	2125.2
Operating Exp.	909.3	971.2	1113.2	1285.8
EBITDA	463.5	571.6	676.5	839.4
Profit after Tax	293.1	256.0	300.1	392.8
EPS	18.2	15.9	18.7	24.4

* EPS based on Fully Diluted Equity Share Capital

Share Holding Pattern as on Mar 31, 2009



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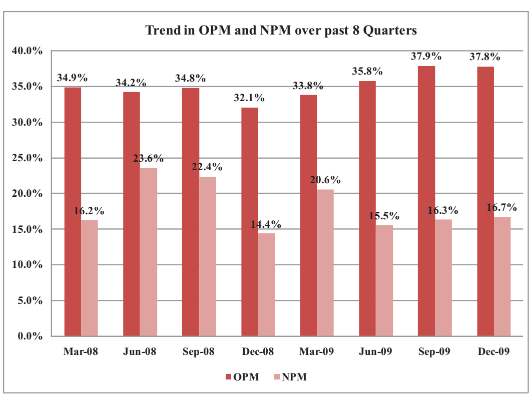
Quarterly Financial Performance - Rolta India Limited					
	Dec 09	% Growth	Dec 08	% Growth	Sep 09
Net Sales	394.6	18.8%	332.0	5.1%	375.6
Other Income	6.0	-25.8%	8.1	-24.4%	8.0
Total Income	400.6	17.8%	340.1	4.4%	383.5
Total Expenditure	245.4	8.8%	225.6	5.2%	233.3
EBITDA	149.2	40.1%	106.5	4.8%	142.3
OPM	*37.8%*	-	*32.1%*	-	*37.9%*
Depreciation	67.3	35.2%	49.8	0.5%	67.0
Interest	10.1	74.9%	5.8	-11.9%	11.5
Tax Expense	10.9	7.6%	10.1	18.2%	9.2
Net Profit	66.9	36.7%	49.0	6.9%	62.6
NPM	*16.7%*	-	*14.4%*	-	*16.3%*

Despite a sharp rise in Sub-contracting cost, which as a % of Operating income jumped to 19.3% (Q3, 10) from 9.4% (Q3, 09) the growth in EBITDA was prominent from 107 Crore (Q3, 09) to Rs 149 Crore (Q3, 10).

This was a cumulative effect of better management of operating expenses; increasing contribution from Solutions based business to the total revenue and fall in Employee and SG&A expenses. A consistent dip in employee cost strengthens the fact that as Rolta consistently works to improve the share from its Solutions based business, revenues are expected to become more and more non-linear w.r.t. manpower. The company continued to register Operating Margins in the higher range of 38%. During the quarter under review, the OPM's surged by more than 570 bps on YoY basis and remained steady at around 38% levels on QoQ basis.



Source: Company Data, JRG Research

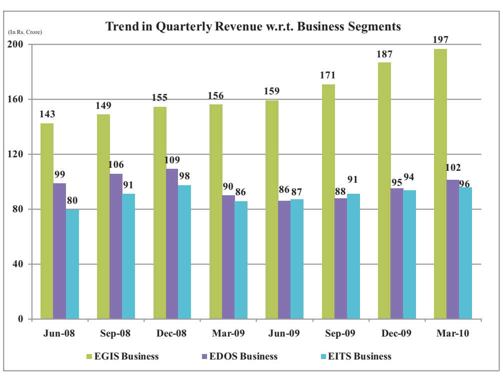
The Bottom-line of the company too grew by stellar 36.7% on a YoY basis, while, recorded a growth of 6.9% on QoQ basis. The Net profit came in at Rs 67 Crore (Q3, 10) from Rs 49 Crore (Q3, 09) beating the negative effects of depreciation which rose by 35% to 67 Crore (Q3, 10) due to the SEZ facility in SEEPZ and Interest expenses, which jumped by 75% to 10 Crore (Q3, 10). The Bottom-line growth on QoQ basis, though was modest by 6.9% from Rs 63 Crore (Q2, 10). The NPM's on the other side came strong at 16.7% (Q3, 10) from 14.4% (Q3, 09) and 16.3% (Q2, 10).

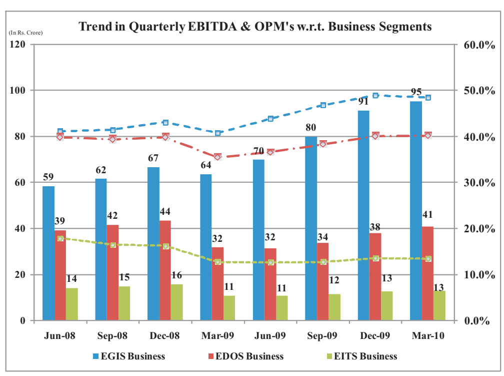
Segmental Quarterly Performance

Segmental Quarterly Performance - Rolta India Limited					
	Dec 09	% Growth	Dec 08	% Growth	Sep 09
Revenue performance					
EGIS Business	196.7	25.9%	156.3	5.3%	186.8
EDOS Business	101.7	13.0%	90.0	7.0%	95.1
EITS Business	96.1	12.1%	85.8	2.6%	93.7
EBITDA performance					
EGIS business	95.4	49.7%	63.7	4.3%	91.5
EDOS Business	40.9	28.2%	31.9	7.2%	38.1
EITS Business	12.9	18.5%	10.9	1.8%	12.7

On a Segmental basis, EGIS Business remained the key revenue generator for the company recording a growth of 25.9% to grow to Rs 197 Crore (Q3, 10) from Rs 156 Crore (Q3, 10). The contribution to the total revenue from the segment stayed high around the 50% mark. While the revenue grew by 26%, EBITDA accelerated by around 50% on YoY basis from Rs 64 Crore (Q3, 09) to Rs 95 Crore (Q3, 10). No doubt the Operating margins were strong at 48.5% (Q3, 10) from 40.8% (Q3, 09).

When compared on quarterly basis, both the Revenue and EBITDA grew moderately by around 5% each while the margins were marginally lower by 50 bps from 49% (Q2, 10).





Source: Company Data, JRG Research

Revenue in the EDOS Business segment was firm on both YoY and QoQ basis. The Operating Income came in at Rs 102 Crore (Q3, 10) from Rs 90 Crore (Q3, 09) registering a growth of 13%. As the Operating performance in the March quarter of 2009 was the lowest by the company in over the past 2 years, all the three business segments witnessed significant improvement in EBITDA and the margin expansion equated to the same in the respective quarter. The EBITDA of EDOS segment rose by 28.2% to Rs 41 Crore (Q3, 10) from Rs 32 Crore (Q3, 09). Likewise, the Operating margins gained around 500 bps on YoY comparison, whereas were steady at 40% levels on QoQ basis.

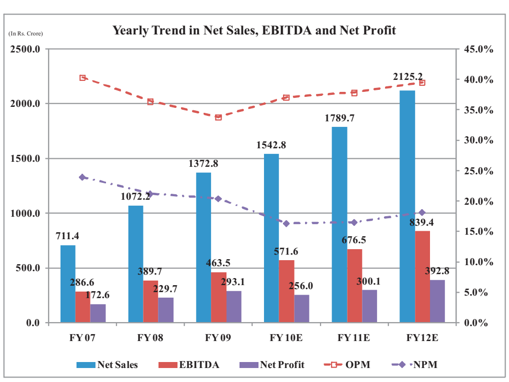
Similar to the EDOS Business segment, the EITS Business segment which is most sensitive to the general economy too grew moderately; showing strong signs of revival after the Recession and economic slowdown gripped the overall market in late 2008 and early 2009. The Operating Income of this business segment extended by 12.1% to Rs 96 Crore (Q3, 10) from Rs 85 Crore (Q3, 09) while the EBITDA rose by 18.5% to Rs 13 Crore (Q3, 10).

Valuation and Financial Projections

Steady improvement in business environment over the past few quarters, specifically in the EGIS Business segment and stabilization of operations in the other EDOS and ETIS segments have helped Rolta register a consistent growth in its Revenue over the past few quarters. Though the Revenue growth in the recent quarter was marginally below our estimates, the Rolta management is confident that it will be able to meet its constant currency guidance of 12-15% in FY 10E.

Financial Projections - Rolta India Limited				
Units: in Rs Crore	FY 09	FY 10E	FY 11E	FY 12E
Net Sales	1372.8	1542.8	1789.7	2125.2
Other Income	69.0	32.5	36.9	41.5
Total Income	1441.9	1575.3	1826.5	2166.7
Operating Expenses	909.3	971.2	1113.2	1285.8
EBITDA	463.5	571.6	676.5	839.4
OPM	*33.8%*	*37.0%*	*37.8%*	*39.5%*
Depreciation	186.7	266.5	313.1	367.9
Interest	12.6	41.8	51.2	56.2
Tax Expense	40.2	39.8	48.9	63.9
Net Profit	293.1	256.0	300.1	392.8
NPM	*20.4%*	*16.3%*	*16.5%*	*18.1%*

We are modifying our FY 11E estimates following the quarterly numbers and after considering the strong appreciation in the domestic currency over the past few months as well as introducing the FY 12E estimates. The Net Sales of the company is seen rising at a CAGR of 15.7% from Rs 1373 Crore (FY 09) to Rs 2125 Crore (FY 12E).



Source: Company Data, JRG Research

While the Revenue growth is seen at around 16% CAGR over the next three years, EBITDA is anticipated to clock 21.9% CAGR growth during the period, from Rs 464 Crore (FY 09) to Rs 839 Crore (FY 12E). Healthy rise in EBITDA will be driven by the moderate growth in SG&A Expenses, better margins from Solutions and owned IP based business and lower growth in Employee expenses in the future. With the above affect, the Operating margins are expected to grow by around 575 bps from the lows of 34% levels (FY 09) and slowly expand to 40% levels from 37% currently.

The Depreciation costs are expected to spike out due to the commencement of SEZ facility in SEEPZ while the Interest cost are also seen going up at a higher rate going forward. Inflicted by the increasing post operative expenses, the Bottom-line is ascertained to record a CAGR growth of 10.3% and move to Rs 393 Crore (FY 12E).

Recommendation

Rolta together with its subsidiaries is primarily engaged in providing specialized Technology Solutions and Services for the Geospatial, Defense & Homeland Security and Engineering sector in India & abroad. Over the past few years, the company has moved its focus on Solutions centric business model from being Services centric; which will result in higher margins, sustained revenue additions and higher orders from its own Licensed IP in the future.

At the trailing market price of Rs 184, Rolta is trading at 7.5x and 1.3x its FY12E; EPS and Book Value of Rs 24.4 and 136.5 respectively. The positive thing is Rolta derives around 55% of its Revenue and Profit from domestic operations, which is higher compared to most peers in the IT segment and thus is expected to face lesser headwinds due to Rupee appreciation. Considering these facts we are upgrading our rating on the stock to "Buy" with a revised Target of Rs 237 in Twelve months.

COMPANY REPORT

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