

1QFY09 Result Update

CMP: INR 187

Target: INR 285

OUTPERFORMER

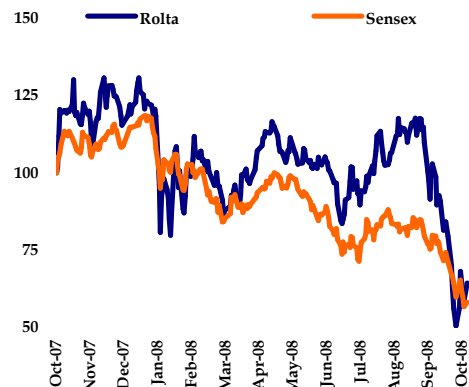
Sector View	CAUTIOUS
Company Risk	MEDIUM
BSE Sensex	10,223
S&P Nifty	3,123
BSE IT	2,742
Bloomberg Consensus (BUY/SELL/HOLD)	8 / 2 / 1
BSE Code	500366
NSE Code	ROLTA
Bloomberg Code	RLTA IN
Reuters	ROLT.BO
52 Wk High/Low (INR)	390 / 134
Equity (INR Mn)	1,609
Market Cap. (INR Mn)	300,22

Shareholding Pattern (%)

Foreign	39.49
Institutions	2.75
Corporate	2.30
Promoters	40.25
Public & Others	15.22

Returns (%)	Abs Perf	Relative to	
		Sensex	BSE IT
1 Month	-37.47	-10.28	-22.64
3 Months	-31.48	-5.29	-18.70
1 Year	-35.70	6.26	-3.31

Relative Price Performance



Source: Comline Products

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Rolta is well positioned to tap opportunities arising from the core infrastructure development and increased usage of geospatial data in the infrastructure development projects. We believe joint ventures with Stone and Webster and Thales, leaders in respective areas, would give Rolta an edge over competitors. With experienced and technological sound JV partners, Rolta is in a favorable position to grab opportunities arising from opening up of Indian defense sector for private participation and Indo-US nuclear deal. We expect significant contribution from these joint ventures to the company's growth in medium term.

The management indicated order backlog of Rs ~15.7 bn at the end of quarter, which gives confidence of growth sustainability for near terms. However, order intake has started showing early sign of slowdown which would affect growth momentum for FY10 and onwards. The company's order pipeline remains healthy at Rs ~40 bn, grew at ~14% qoq, much higher than growth of confirmed order book which suggests prolonging sales cycle. We have revised our estimates to reflect these changes and cut FY09 and FY10 estimates by ~0.5% and ~3% respectively. We expect revenue and net profit to grow at 31.3% and 31.8% CAGR respectively over FY08-10. We maintain Outperformer recommendation on the stock with a revised target price of Rs 285 at 12x FY10E earnings.

Consolidated Results for the quarter ended September 30, 2008

- ✓ Revenue was at Rs 3,461 mn as against Rs 2,210 mn in Q1FY08, a y-o-y growth of 56.6% and sequential growth of 7.8%.
- ✓ Net Profit has shown y-o-y decline of 55.6% to Rs 239 mn, as against Rs 538 mn in the Q1FY08, q-o-q decline of 53%. The profit was impacted negatively due to MTM foreign exchange loss on FCCBs of Rs 613 mn.
- ✓ EPS was Rs 1.5, as against Rs. 3.4 same period last year, y-o-y decline of 55.8%.

Financial Summary

INR Mn	Jun 06	Jun 07	Jun 08	Jun 09E	Jun 10E
Revenue	5,349	7,114	10,722	15,158	18,484
EBIDTA	2,229	2,866	3,897	5,093	6,248
PBT	1,420	1,943	2,685	3,816	4,676
Net Profit	1,273	1,726	2,306	3,284	4,008
Adj. EPS (INR)	8.0	10.8	14.3	20.2	23.7
BVPS	58.9	65.3	73.6	90.6	119.5
P/E	23.5	17.4	13.1	9.3	7.9

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Result Highlights

- ✓ **Healthy Order Book** – Order book grew by ~3.8% sequential, comprises of orders of Rs 6.9 bn, Rs 5.1 bn and Rs 3.7 bn in GIS, EDA and EICT segments respectively. Existing order book gives growth visibility for next 3-4 quarters however slowing order intake could affect growth momentum for FY10 and onwards. GIS, EDA and EICT reported sequential order book of 5.4%, 3.5% and 1.4% respectively, slowest growth in last 2 years.

(INR Mn)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09
GIS	2,895	3,510	3,677	4,032	4,498	5,093	5,913	6,538	6,892
EDA	1,235	1,650	2,024	2,442	3,251	3,780	4,387	4,903	5,073
EICT	1,565	1,750	1,821	1,877	2,056	2,187	3,580	3,695	3,748
Total	5,695	6,910	7,522	8,351	9,805	11,060	13,880	15,136	15,713

- ✓ EBIDTA Margin declined by ~70 bps sequentially, ~375 bps yoy, primarily due to integration of low margin acquisitions and wage hike effected during the quarter. The company has effected salary hike of ~15% for India-based and ~2.5% of overseas employees.

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09
GIS	40.2%	41.0%	45.2%	41.6%	39.6%	40.0%	39.2%	41.1%	41.4%
EDA	38.9%	39.7%	40.2%	39.5%	38.6%	39.1%	38.5%	39.9%	39.4%
EICT	36.0%	38.1%	32.4%	29.0%	28.9%	29.1%	19.7%	17.9%	16.4%
Total	39.3%	40.2%	42.1%	39.4%	38.0%	38.4%	34.9%	34.9%	34.2%

- ✓ During the quarter, the company has added 253 professionals raising the total employee strength to 5,522.
- ✓ **FY09 guidance:** The management maintained earlier guidance of Rs 14.8-15 bn of revenues, Rs 3.25 – 3.3 bn of PAT and EPS of Rs ~20.

Valuation

The management indicated order backlog of Rs ~15.7 bn at the end of quarter, which gives confidence of growth sustainability for near terms. However, order intake has started showing early sign of slowdown which would affect growth momentum for FY10 and onwards. Change in business mix, moving up in the value chain that leads to higher blended billing rate, gains arising from improvement in employees' productivity and redeployment of IPRs would partly offset margin erosion due to wage inflation and integration of low margin acquisitions. We expect revenue and net profit to grow at 31.3% and 31.8% CAGR respectively over FY08-10. The stock is currently traded at 7.9x FY10E earnings. We maintain Outperformer recommendation on the stock with a revised target price of Rs 285 at 12x FY10E earnings (target PE revised to 12x from 15x to reflect increased risk aversion).



1QFY09 Financial Results

Particulars (Y/E June) (INR Mn)	Q1FY09 Sep-08	Q4FY08 Jun-08	QoQ Growth	Q1FY08 Sep-07	YoY Growth
GIS	1,490	1,425	4.5%	1,204	23.7%
Engineering Design	1,060	987	7.4%	745	42.4%
Enterprise Info & Comm Tech	912	798	14.2%	262	248.6%
Net Sales	3,461	3,211	7.8%	2,210	56.6%
Expenditure					
Material Cost	611	620	-1.5%	619	-1.2%
Manpower Cost	1,299	1,154	12.6%	550	136.0%
	1,910	1,774	7.7%	1,169	63.4%
Gross Profit	1,552	1,437	8.0%	1,041	49.0%
	<i>GPM</i>	<i>44.8%</i>		<i>47.1%</i>	
Other Expenses	367	315	16.4%	201	82.2%
EBIDTA	1,185	1,122	5.6%	840	41.1%
	<i>EBIDTM</i>	<i>34.2%</i>		<i>38.0%</i>	
Depreciation	379	378	0.1%	316	19.9%
EBIT	806	744	8.4%	524	53.8%
	<i>EBITM</i>	<i>23.3%</i>		<i>23.7%</i>	
Other Income	-464	-134		96	
PBT	342	609	-43.8%	621	-44.8%
	<i>PBTM</i>	<i>9.9%</i>		<i>28.1%</i>	
Provision for Tax	105	110	-4.4%	82	27.7%
PAT	237	500	-52.5%	538	-55.9%
	<i>PATM</i>	<i>6.9%</i>		<i>24.4%</i>	
Minority interest	2	9		0	
Net Profit	239	508	-53.0%	538	-55.6%
Equity	1,612	1,609		801	
Adj. EPS (INR)	1.5	3.2	-53.1%	3.4	-55.8%



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