

2QFY09 Result Update

CMP: INR 87

Target: INR 220

OUTPERFORMER

Sector View	CAUTIOUS
Company Risk	HIGH
BSE Sensex	9,101
S&P Nifty	2,797
BSE IT	2,146
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)	360 / 42
Equity (INR Mn)	1,609
Market Cap. (INR Mn)	13,953

Shareholding Pattern (%)

Foreign	36.35
Institutions	2.86
Corporate	3.91
Promoters	40.25
Public & Others	16.62

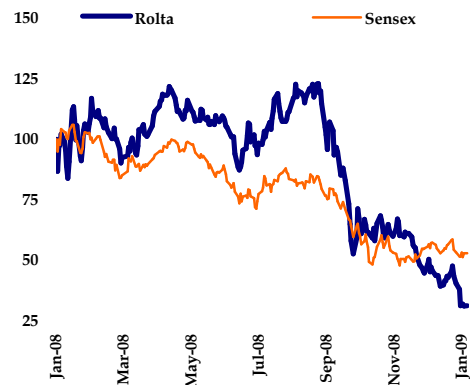
Returns (%)	Abs Perf	Relative to	
		Sensex	BSE IT
1 Month	-33.84	-26.43	-26.31
3 Months	-53.26	-44.52	-32.36
1 Year	-68.66	-21.65	-29.34

The company has order backlog of Rs ~15.9 bn at the end of quarter, which gives confidence of growth sustainability for next 2-3 quarters. However, order intake has started showing sign of slowdown which would affect growth momentum for FY10 and onwards. 3QFY09 numbers will include Piocon numbers (USD ~10 mn annual run rate) as integration became effective from end of December 2008. We have revised our estimates to reflect these changes and cut FY09 and FY10 estimates by ~0.5% and ~6% respectively. We maintain Outperformer recommendation on the stock with a revised target price of Rs 220 at 10x FY10E earnings.

Consolidated Results for the quarter ended December 31, 2008

- ✓ Revenue was at Rs 3,619 mn as against Rs 2,417 mn in Q2FY08, a yoy growth of 49.7% and sequential growth of 4.6%.
- ✓ Net Profit has shown marginal growth 0.6% to Rs 606 mn, as against Rs 602 mn in the Q2FY08, qoq growth of 153.3%. The profit was impacted negatively by Rs 226.6 mn due to MTM foreign exchange loss on FCCBs. Net profit excluding MTM loss grew by 38.2% yoy to Rs 832 mn
- ✓ EPS was Rs 3.8, muted yoy growth of 0.2% (excluding FCCB MTM loss, EPS grew 37.6% yoy).

Relative Price Performance



Source: Khandwala Research, Bloomberg

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Financial Summary

Descriptions (INR Mn)	Jun 06	Jun 07	Jun 08	Jun 09E	Jun 10E
Revenue	5,349	7,114	10,722	14,750	17,465
EBIDTA	2,229	2,866	3,897	5,061	5,938
PBT	1,420	1,943	2,685	2,866	4,387
Net Profit	1,273	1,726	2,306	2,408	3,813
Adj. EPS	8.0	10.8	14.3	14.9	23.6
Adj. EPS (excl. FCCB MTM)	8.0	10.8	14.3	20.1	22.3
BVPS	58.9	65.3	73.6	83.3	101.1
P/E	11.0	8.2	6.2	4.4	3.9

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Result Highlights

- ✓ **Revenue growth:** Revenue grew by 4.6% sequentially to Rs 3,619 mn. Whitman Hart acquisition contributed incremental revenues of Rs ~60 mn (USD ~1.2 mn) during the quarter, ~1.7% out of 4.6% sequential growth. Whitman Hart consolidated for ~40 days in September quarter. Oil & Gas segment, contributed ~17% of revenues, is seeing slowdown in business linked with capex cycle, however business intelligence (BI) related business (driven by 3 acquisitions) would likely to negate negative impact to some extent.
- ✓ **Order Book shows signs of slow down:** Order book grew by 1.3% sequential, sequential growth rate declined to lower single digit from double digit growth. Global economic slowdown and credit crunch would likely to result into lower capex by clients which could affect growth momentum in coming quarters. Existing order book gives growth visibility for next 2-3 quarters however slowing order intake would affect growth momentum for FY10 and onwards. GIS and EICT reported 3.7% and 0.2% sequential growth respectively in order book, while EDA reported 1.1% 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.

(INR Mn)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
GIS	2,895	3,510	3,677	4,032	4,498	5,093	5,913	6,538	6,892	7,144
EDA	1,235	1,650	2,024	2,442	3,251	3,780	4,387	4,903	5,073	5,018
EICT	1,565	1,750	1,821	1,877	2,056	2,187	3,580	3,695	3,748	3,756
Total	5,695	6,910	7,522	8,351	9,805	11,060	13,880	15,136	15,713	15,918

- ✓ EBIDTA margin improved by ~62 bps sequentially mainly due to change in business mix (higher contribution from GIS IPR-led revenue) over last quarter, however margin declined by ~312 bps yoy, primarily due to integration of low margin acquisitions.

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
GIS	40.2%	41.0%	45.2%	41.6%	39.6%	40.0%	39.2%	41.1%	41.4%	43.1%
EDA	38.9%	39.7%	40.2%	39.5%	38.6%	39.1%	38.5%	39.9%	39.4%	39.8%
EICT	36.0%	38.1%	32.4%	29.0%	28.9%	29.1%	19.7%	17.9%	16.4%	16.2%
Total	39.3%	40.2%	42.1%	39.4%	38.0%	38.4%	34.9%	34.9%	34.2%	34.8%

- ✓ During the quarter, the company has added 36 professionals raising the total employee strength to 5,558. EDA business headcount declined sequentially by 55 to 1,723.
- ✓ **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 (excluding MTM forex loss).

Valuation

The management indicated order backlog of Rs ~15.9 bn at the end of December 2008, which gives confidence of growth sustainability for next 2-3 quarters. Global economic slowdown and credit crunch is likely to impact Rolta's growth momentum in near terms (impact likely to be seen from September 2009 quarter) but over medium term we expect company to deliver ~20% annualized growth. Slowing order intake would affect growth momentum for FY10 and onwards. The stock is corrected sharply and currently traded at ~4x FY10E earnings. We maintain **OUTPERFORMER** recommendation on the stock with a target price of Rs 220 at 10x FY10E.



2QFY09 and 1HFY09 Financial Results

Particulars (Y/E June) (INR Mn)	Q2FY09 Dec-08	Q1FY09 Sep-08	QoQ Growth	Q2FY08 Dec-07	YoY Growth	H1FY09 Dec-08	H1FY08 Dec-07	YoY Growth
GIS	1,549	1,490	4.0%	1,306	18.6%	3,038	2,510	21.0%
Engineering Design	1,094	1,060	3.2%	830	31.9%	2,154	1,574	36.8%
Enterprise Info & Comm Tech	977	912	7.2%	282	247.0%	1,889	543	247.8%
Net Sales	3,619	3,461	4.6%	2,417	49.7%	7,081	4,627	53.0%
Expenditure								
Material Cost	622	611	1.8%	640	-2.9%	1,233	1,259	-2.1%
Manpower Cost	1,358	1,299	4.5%	606	123.9%	2,657	1,157	129.6%
	1,980	1,910	3.7%	1,247	58.8%	3,890	2,416	61.0%
Gross Profit	1,640	1,552	5.7%	1,170	40.1%	3,191	2,212	44.3%
	<i>GPM</i>	<i>45.3%</i>	<i>44.8%</i>	<i>48.4%</i>		<i>45.1%</i>	<i>47.8%</i>	
Other Expenses	378	367	3.2%	243	56.1%	745	444	67.9%
EBIDTA	1,261	1,185	6.5%	928	35.9%	2,446	1,768	38.4%
	<i>EBIDTM</i>	<i>34.8%</i>	<i>34.2%</i>	<i>38.4%</i>		<i>34.5%</i>	<i>38.2%</i>	
Depreciation	413	379	9.1%	335	23.2%	792	651	21.6%
EBIT	848	806	5.2%	592	43.2%	1,654	1,117	48.1%
	<i>EBITM</i>	<i>23.4%</i>	<i>23.3%</i>	<i>24.5%</i>		<i>23.4%</i>	<i>24.1%</i>	
Other Income	-143	-464		102		-607	199	
PBT	705	342	<i>105.9%</i>	695	<i>1.5%</i>	1,047	1,315	<i>-20.4%</i>
	<i>PBTM</i>	<i>19.5%</i>	<i>9.9%</i>	<i>28.7%</i>		<i>14.8%</i>	<i>28.4%</i>	
Provision for Tax	101	105	-3.5%	93	9.6%	207	175	18.1%
PAT	604	237	<i>154.4%</i>	602	<i>0.2%</i>	841	1,140	<i>-26.3%</i>
	<i>PATM</i>	<i>16.7%</i>	<i>6.9%</i>	<i>24.9%</i>		<i>11.9%</i>	<i>24.6%</i>	
Minority Interest	2	2		0		4	0	
Net Profit	606	239	<i>153.3%</i>	602	<i>0.6%</i>	845	1,140	<i>-25.9%</i>
	<i>NPM</i>	<i>16.7%</i>	<i>6.9%</i>	<i>24.9%</i>		<i>11.9%</i>	<i>24.6%</i>	
Equity	1,609	1,609		801		1,609	801	
Adj. EPS (INR)	3.8	1.5	<i>153.3%</i>	3.8	<i>0.2%</i>	5.2	7.1	<i>-26.2%</i>



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