



Ratings			
CMP	194	Recommendation	BUY
Target	230	Risk	HIGH

Bloomberg Consensus
(BUY/HOLD/SELL) 14 / 01 / 02

Sensex	Nifty	BSE IT
17,051	5,094	5,274

Codes	BSE	NSE	Bloomberg	Reuters
	500366	ROLTA	RLTA IB	ROLT.BO

	Sensex	Rolta
52 Wk: Hi/Lo	17,790/8,047	210/41
Life High	21,207-Jan 08	508-Feb 00
P/E	21.82	9.05
P/BV	4.10	1.92
Dividend Yield (%)	1.12	1.47
Mkt Cap (INR Mn)	61,872,926	31,179
Equity (INR Mn)	-	1,611

* - TTM standalone basis Capitaline

Share Holding Pattern %	Sept-09	Dec-09
Foreign	33.40	33.53
Institutions	3.35	3.14
Corporate	4.18	2.63
Promoters	41.97	41.97
Public & Others	20.10	18.74

Returns %	Abs	Relative to	
	Perf	Sensex	BSE IT
1 Month	4.37	2.22	-0.90
3 Months	5.22	3.66	-13.63
1 Year	143.40	49.94	-6.31

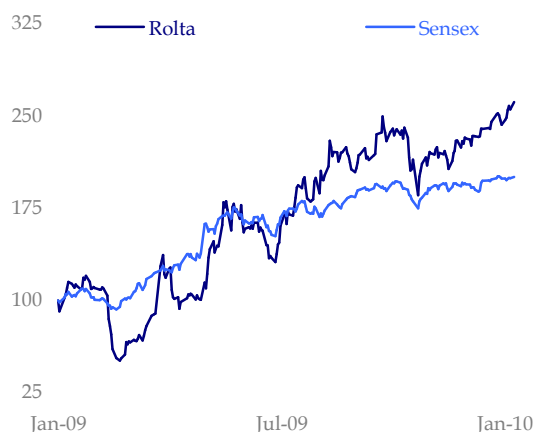
- Revenue grows 7.2% sequentially after 5.3% in Sept qtr
- FY10 Revenue growth guidance maintained 11.4%-14.4%
- EBIDTA margin expanded ~210 bps sequentially
- Improved demand environment to support growth momentum

Rolta has reported sequential growth of 7.2% in revenues with ~210 bps expansion in EBIDTA margins. Order book grew 3% sequentially to ~ Rs 17 bn, driven mainly by EDOS. Order book and revenue grew 2% and 2.6% CQGR respectively in last six quarters. Management maintains FY10 revenue growth guidance of 11.4%-14.4% with EBIDTA margin of 33-35%. FY10 guidance implies 4.6%-8.1% CQGR for remaining two quarters.

The qualified order pipeline remained steady at Rs ~50 bn. EDOS business shows some recovery and grew by 7.8% during the quarter, albeit still remains 13% lower than its previous highest quarterly run rate. The company's technical know-how through Thales JV and long term relationship positions it well to gain from increased spend on Defense, Homeland and Maritime Security. On-going modernization of defense and security agencies, signs of global economic recovery and improved liquidity scenario gives hope of an upturn in CAPEX cycle and augur well for Rolta's growth prospects.

We recommend BUY on the stock with a revised target price of Rs 230 at 12x FY11E earnings.

Relative Price Performance



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Consolidated Results for the Quarter ended Dec 31, 2009

- ✓ Revenue was at Rs 3,756 mn; 3.8% yoy, 7.2% qoq
- ✓ EBIDTA grew by 13.4% yoy to Rs 1,423 mn
- ✓ Net Profit jumped by 11.9% qoq to Rs 628 mn
- ✓ EPS was Rs 3.9, grew 11.9% yoy.

Financial Summary

INR Mn	FY06	FY07	FY08	FY09	FY10E	FY11E
Revenue	5,349	7,114	10,722	13,728	15,229	17,664
EBIDTA	2,229	2,866	3,897	4,635	5,626	6,589
PBT	1,420	1,943	2,685	3,333	2,813	3,556
Net Profit	1,273	1,726	2,306	2,938	2,442	3,056
Adj. EPS (INR)	8.0	10.8	14.3	18.2	15.2	19.0
P/E	24.3	17.9	13.5	10.6	12.7	10.2

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Key Highlights

- ✓ **Revenue growth:** Revenue grew by 7.2% sequentially to Rs 3,756 mn. EGIS, EDOS and EITS business reported sequential growth of 9.2%, 7.8% and 2.7% respectively.

Revenues (INR Bn)	FY2007				FY2008				FY2009				FY2010	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EGIS	0.89	0.97	1.07	1.12	1.20	1.31	1.37	1.43	1.49	1.55	1.56	1.59	1.71	1.87
EDOS	0.47	0.51	0.56	0.67	0.74	0.83	0.92	0.99	1.06	1.09	0.90	0.86	0.88	0.95
EITS	0.18	0.21	0.23	0.25	0.26	0.28	0.60	0.80	0.91	0.98	0.86	0.87	0.91	0.94
Total	1.55	1.68	1.86	2.03	2.21	2.42	2.88	3.21	3.46	3.62	3.32	3.33	3.50	3.76

- ✓ **Demand outlook appears to have bottomed out and likely to improve gradually:** Growth momentum seems to have returned somewhat; which has been severely impacted due to global economic slowdown and credit crunch that resulted into lower capex by clients. However, improved liquidity scenario and early signs of revival in global economy gives hope of modest growth in coming quarters. Growing demand from EGIS mainly from defense, homeland security supported during tough business environment. The management suggests capex cycle turn-around and announced some orders for sophisticated engineering services from nuclear power, space research and oil refining sectors.
- ✓ **Order Book grows at modest pace:** Order book grew by 3% sequential. EGIS order book grew by 2.1% sequentially after showing around 4-5% growth in previous five quarters. EITS order book declined by 1.6%, second consecutive quarter of dismal performance. As suggested by management, EDOS business continues to show steady improvement, order book grew by 8% during the quarter. The qualified order pipeline remained steady at Rs ~50 bn comprising of EGIS ~30 bn, EDOS ~12 bn, and EITS ~8 bn.

Order Book (INR Bn)	FY2007				FY2008				FY2009				FY2010	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EGIS	2.90	3.51	3.68	4.03	4.50	5.09	5.91	6.54	6.89	7.14	7.46	7.79	8.15	8.32
EDOS	1.24	1.65	2.02	2.44	3.25	3.78	4.39	4.90	5.07	5.02	4.51	4.61	4.73	5.11
EITS	1.57	1.75	1.82	1.88	2.06	2.19	3.58	3.70	3.75	3.76	3.55	3.69	3.71	3.65
Total	5.70	6.91	7.52	8.35	9.81	11.06	13.88	15.14	15.71	15.92	15.52	16.10	16.59	17.08
New wins	2.53	2.90	2.47	2.86	3.66	3.67	5.70	4.47	4.04	3.82	2.93	3.90	3.99	4.25

- ✓ **EBIDTA margin** improve by ~210 bps sequentially (after showing ~200 bps improvement in previous quarter) mainly due to higher utilization, cost rationalization and higher proportion of revenues from solutions. Management expects contribution from solutions to increase going forward (10-12% of revenues in FY10 from current 8-9%) which would have positive impact on margins. EGIS margin improved by ~220 bps sequentially to 49% mainly on account of higher revenues from solutions and cost rationalization. EDOS margin improved by 180 bps sequentially due to higher utilization, better realization and cost rationalization.

EBIDTAM (%)	FY2007				FY2008				FY2009				FY2010	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EGIS	40.2	41.0	45.2	41.6	39.6	40.0	39.2	41.1	41.4	43.1	40.8	43.9	46.8	49.0
EDOS	38.9	39.7	40.2	39.5	38.6	39.1	38.5	39.9	39.4	39.8	35.4	36.6	38.3	40.1
EITS	36.0	38.1	32.4	29.0	28.9	29.1	19.7	17.9	16.4	16.2	12.7	12.6	12.8	13.6
Total	39.3	40.2	42.1	39.4	38.0	38.4	34.9	34.9	34.2	34.8	32.1	33.8	35.8	37.9



- ✓ Total headcount increased by 7 to 4,763 in Q2 after registering decline for previous three quarters. EGIS business head count declines by 12, decline for fourth quarter in a row. EDOS, EITS and sales and marketing headcount grew by 9, 5 and 5 respectively.
- ✓ DSO stays 134 days (last quarter 133 days) and management expects DSO to come down to below 120 days by FY10-end.
- ✓ **FY10 guidance:** The management guided Rs 15.3 - 15.7 bn of revenues, 11.4%-14.4% growth over FY09. EBIDTA margin is likely to be in the range of 33-35%.
- ✓ **FCCBs buy back:** During the quarter the Company has further repurchased FCCB's, amounting to USD 15 mn (accrued value USD 17.8 mn) at a discount of 15.25% resulting in a gain of USD 2.8 mn (~Rs 130 mn) which has been appropriated into other Income (Rs 4 mn) & Reserves (Rs 126 mn). The aggregate accrued value of all repurchase of FCCB's till date is USD 61.47 mn (Face Value USD 53.31 mn) and total amount paid aggregates USD 47.75 mn resulting in a gain of USD 13.72 mn (approx Rs 665 mn) giving an average discount of 22.3% to the accrued value on all buybacks.

2QFY10 and H1FY10 Financial Results

Descriptions (Y/E June) (INR Mn)	2QFY10	1QFY10	Q-o-Q	2QFY09	Y-o-Y	H1FY10	H1FY09	Y-o-Y
	Dec-09	Sep-09	% Chg.	Dec-08	% Chg.	Dec-09	Dec-08	% Chg.
Enterprise Geospatial Info System	1,868	1,710	9.2	1,549	20.6	3,578	3,038	17.8
Enterprise Design & Operation Soln.	951	882	7.8	1,094	-13.1	1,833	2,154	-14.9
Enterprise IT Solutions	937	913	2.7	977	-4.1	1,849	1,889	-2.1
Net Sales	3,756	3,505	7.2	3,620	3.8	7,260	7,081	2.5
Material Cost	705	546	29.0	622	13.3	1,251	1,233	1.4
Manpower Cost	1,269	1,299	-2.3	1,358	-6.6	2,568	2,657	-3.3
	1,974	1,846	6.9	1,980	-0.3	3,819	3,890	-1.8
Gross Profit	1,782	1,659	7.4	1,640	8.7	3,441	3,191	7.8
	GPM (%)	47.4	47.3	45.3		47.4	45.1	
Other Expenses	359	405	-11.2	378	-5.1	764	745	2.5
EBIDTA	1,423	1,255	13.4	1,261	12.8	2,677	2,446	9.5
	EBIDTM (%)	37.9	35.8	34.8		36.9	34.5	
Depreciation	670	621	7.8	413	62.1	1,291	792	63.0
EBIT	753	634	18.8	848	-11.2	1,387	1,654	-16.2
	EBITM (%)	20.1	18.1	23.4		19.1	23.4	
Other Income	-35	16	0.0	-143		-19	-607	0.0
PBT	718	650	10.6	705	1.8	1,368	1,048	30.6
	PBTM (%)	19.1	18.5	19.5		18.8	14.8	
Provision for Tax	92	90	2.0	101	-9.2	182	207	-11.7
PAT	626	559	11.9	604	3.7	1,185	841	40.9
	PATM (%)	16.7	16.0	16.7		16.3	11.9	
Minority interest	2	2	-1.1	2	-6.2	4	4	-2.2
Net Profit	628	561	11.9	606	3.7	1,189	845	40.8
		16.7	16.0	16.7		16.4	11.9	
Equity	1,611	1,610		1,609		1,611	1,609	
Adj. EPS (INR)	3.9	3.5	11.9	3.8	3.6	7.4	5.2	40.7



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KSL Ratings

Target Price refers to one year unless specified; CMP: Last closing price

BUY: Expected return >15%

ADD: Expected return 0-15%

REDUCE: Expected decline 0-15%

SELL: Expected decline >15%

Company Risk is based on the systematic risk of the stock. (1-year Beta)

HIGH: >1.2

MEDIUM: 0.8-1.2

LOW: < 0.8

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