

4QFY09 Result Update

CMP 155

Target INR 170

ADD

Sector View	CAUTIOUS
Company Risk	MEDIUM
BSE Sensex	15,924
S&P Nifty	4,711
BSE IT	4,001
Bloomberg Consensus (BUY/SELL/HOLD)	8 / 3 / 1
BSE Code	500366
NSE Code	ROLTA
Bloomberg Code	RLTA IB
Reuters	ROLT.BO
52 Wk High/Low (INR)	360 / 41
Equity (INR Mn)	1,610
Market Cap. (INR Mn)	24,884

Shareholding Pattern (%)

Foreign	26.71
Institutions	3.71
Corporate	5.11
Promoters	41.97
Public & Others	22.50

Returns (%)	Abs Perf	Relative to	
		Sensex	BSE IT
1 Month	31.98	18.59	8.34
3 Months	87.90	56.67	49.30
1 Year	-52.49	-61.73	-57.37

Relative Price Performance



Source: Khandwala Research, Bloomberg

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- Guided 11.4%-14.4% growth for FY10 with better margins
- Revenues and order additions better than expectations
- Operating performance remain in line with expectations

Rolta has reported muted sequential growth of 0.2% in revenues contrary to expectations of decline. Order book grew 3.7% sequentially to Rs ~16 bn, after posting decline in previous quarter. Order intakes grew by ~1.6% CQGR in last 4 quarters. Management guided 11.4%-14.4% growth in revenues for FY10 with better EBIDTA margin from FY09 levels. We expect next 1-2 quarters to be equally challenging for the company.

The stock recovered smartly since April and gained over 150% after highly volatile movement during Jan-Mar quarter. Rolta's business recovery lags behind recovery in CAPEX cycle which suggests growth rate to shift to ~10% in near terms from over 30%. Early signs of global economy recovery and improved liquidity scenario give hope of CAPEX cycle upturn which would augur well for the stock. We recommend ADD on the stock with a revised target price of Rs 170 at 10x FY11E earnings.

Consolidated results for the quarter ended June 30, 2009

- ✓ Revenue was at Rs 3,327; 3.6% yoy, 0.2% qoq
- ✓ Net Profit jumped by 49.9% yoy to Rs 762 mn, mainly because of gain of Rs 250 mn on FCCB buyback.
- ✓ EPS was Rs 4.7, grew 49.8% yoy.

Consolidated results for the year ended June 30, 2009

- ✓ Revenue at Rs 13,728 mn, a yoy growth of 28%
- ✓ Net Profit jumped by 27.4% yoy to Rs 2,938 mn
- ✓ EPS was Rs 18.2, grew 27.3% yoy.
- ✓ Declared dividend of Rs 3 per share

Financial Summary

INR Mn	FY07	FY08	FY09	FY10E	FY11E
Revenue	7,114	10,722	13,728	14,834	16,826
EBIDTA	2,866	3,897	4,635	5,044	5,818
PBT	1,943	2,685	3,333	2,670	3,144
Net Profit	1,726	2,306	2,938	2,320	2,713
Adj. EPS	10.8	14.3	18.2	14.4	16.9
P/E	14.4	10.8	8.5	10.8	9.2

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Result Highlights

- ✓ **Revenue growth:** Revenue grew by 0.2% sequentially to Rs 3,327 mn. GIS and EICT business reported sequential growth of 2.1% and 1.5%. Engineering Design businesses continue to face severe demand pressure and reported 4.3% sequential decline.
- ✓ **Demand outlook appears to have bottomed out and likely to improve gradually:** Growth momentum has been severely impacted due to global economic slowdown and credit crunch which resulted into lower capex by clients. However, with improved liquidity scenario and early signs of revival in global economy gives hope of modest growth in coming quarters. Oil & Gas vertical, ~17% of revenues, saw significant slowdown which would affect growth momentum and likely to shift growth trajectory from over 30% to ~10%.
- ✓ **Order Book shows some uptick:** Order book grew by 3.7% sequential. Order book (net) grew by Rs ~960 mn in FY09, whereas revenues grew by Rs ~3,000 mn in FY09. GIS order book growth (qoq) remained more or less stable at around 4-5% from last 4 quarters. EICT business showing some sign of rebound as order book grew by 3.9% sequentially, however remain marginally lower as compared to last year this quarter. EDA order book grew by 2.2% sequentially, 5.9% decline yoy. Oil & Gas segment contributed ~12% of total order book which would unlikely to see fresh incremental additions from flow related business in near terms due to cut in capex and economy slowdown, although BI related business would likely to grow and offset decline to some extent. Management hinted that EDA business would stabilize at current levels with upward bias.

(INR Mn)	FY 2007				FY 2008				FY 2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GIS	2,895	3,510	3,677	4,032	4,498	5,093	5,913	6,538	6,892	7,144	7,458	7,792
EDA	1,235	1,650	2,024	2,442	3,251	3,780	4,387	4,903	5,073	5,018	4,513	4,613
EICT	1,565	1,750	1,821	1,877	2,056	2,187	3,580	3,695	3,748	3,756	3,552	3,692
Total	5,695	6,910	7,522	8,351	9,805	11,060	13,880	15,136	15,713	15,918	15,523	16,097

- ✓ EBIDTA margin improve by ~170 bps sequentially mainly due to higher utilization and solution-based revenues. Management expects contribution from solutions to increase going forward (10-12% of revenues in FY10 from current 5-7%) which would have positive impact on margins.

	FY 2007				FY 2008				FY 2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GIS	40.2%	41.0%	45.2%	41.6%	39.6%	40.0%	39.2%	41.1%	41.4%	43.1%	40.8%	43.9%
EDA	38.9%	39.7%	40.2%	39.5%	38.6%	39.1%	38.5%	39.9%	39.4%	39.8%	35.4%	36.6%
EICT	36.0%	38.1%	32.4%	29.0%	28.9%	29.1%	19.7%	17.9%	16.4%	16.2%	12.7%	12.6%
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%

- ✓ Total headcount declined by 312 to 4,980 in Q4. All business segments have seen second sequential decline in headcount. GIS, EDA and EICT business headcount declined sequentially by 42, 225 and 36 respectively.
- ✓ **FCCBs buy back:** The company has bought back FCCBs amounting to USD 38.31 mn in face value of bonds having an accreted value USD 43.67 mn at a clearing price of USD 855 representing 25% discount on accreted value. The aggregate principal amount of Bonds remaining outstanding after this Tender Offer is USD 111.69 mn. The Bonds have been repurchased at gross repurchase value of USD 32.75 mn resulting in a gain of USD 10.92 mn (Rs 511.7 mn) which has been appropriated into other income (Rs 250.2 mn) and balance added to securities premium account.
- ✓ **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%. Guidance assumes back-ended growth with H2FY10 being stronger than H1FY10.
- ✓ DSO moved up to 154 days from 142 days in previous quarter mainly on account of delay in government payments. However, management believes this is one-off event and expects DSO to decline going forward.



4QFY09 and FY09 Financial Results

Particulars (Y/E June) (INR Million)	Q4FY09 Jun-09	Q3FY09 Mar-09	QoQ Growth	Q4FY08 Jun-08	YoY Growth	FY09 Jun-09	FY08 Jun-08	YoY Growth
GIS	1,595	1,563	2.1%	1,425	11.9%	6,196	5,306	16.8%
Engineering Design	861	900	-4.3%	987	-12.8%	3,915	3,477	12.6%
Enterprise Info & Comm Tech	871	858	1.5%	798	9.1%	3,617	1,940	86.5%
Net Sales	3,327	3,320	0.2%	3,211	3.6%	13,728	10,722	28.0%
Expenditure								
Material Cost	399	336	18.8%	620	-35.7%	1,968	2,560	-23.1%
Manpower Cost	1,344	1,487	-9.6%	1,154	16.5%	5,487	3,201	71.4%
	1,743	1,822	-4.4%	1,774	-1.8%	7,454	5,761	29.4%
Gross Profit	1,585	1,498	5.8%	1,437	10.3%	6,274	4,961	26.5%
	<i>GPM</i>	<i>47.6%</i>	<i>45.1%</i>	<i>44.8%</i>		<i>45.7%</i>	<i>46.3%</i>	
Other Expenses	460	433	6.1%	315	45.9%	1,638	1,064	54.0%
EBIDTA	1,125	1,065	5.6%	1,122	0.3%	4,635	3,897	18.9%
	<i>EBIDTM</i>	<i>33.8%</i>	<i>32.1%</i>	<i>34.9%</i>		<i>33.8%</i>	<i>36.3%</i>	
Depreciation	578	498	16.2%	378	52.8%	1,867	1,383	35.0%
EBIT	547	567	-3.6%	744	-26.5%	2,768	2,515	10.1%
	<i>EBITM</i>	<i>16.4%</i>	<i>17.1%</i>	<i>23.2%</i>		<i>20.2%</i>	<i>23.5%</i>	
Other Income	308	864	-64.4%	-134		564	170	232.5%
PBT	855	1,431	-40.3%	610	40.2%	3,333	2,685	24.1%
	<i>PBTM</i>	<i>25.7%</i>	<i>43.1%</i>	<i>19.0%</i>		<i>24.3%</i>	<i>25.0%</i>	
Provision for Tax	94	101	-7.0%	110	-14.4%	402	388	3.6%
PAT	760	1,330	-42.8%	500	52.2%	2,931	2,297	27.6%
	<i>PATM</i>	<i>22.9%</i>	<i>40.0%</i>	<i>15.6%</i>		<i>21.3%</i>	<i>21.4%</i>	
Minority interest	2	2	0.0%	9	-79.4%	7	9	-19.9%
Net Profit	762	1,331	-42.8%	508	49.9%	2,938	2,306	27.4%
	<i>22.9%</i>	<i>40.1%</i>		<i>15.8%</i>		<i>21.4%</i>	<i>21.5%</i>	
Adj. EPS (INR)	4.7	8.3	-42.8%	3.2	49.8%	18.2	14.3	27.3%



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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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