

Mapping Growth
Outperformer

CMP : Rs. 87
Target : Rs. 175

Rolta is a leading IT services player in three major business segments: Geospatial Services, Engineering Design and eConsulting. It provides integrated solutions for mapping, mechanical designing and ERPs for defense, government, infrastructure and utilities sector. It has tied-up with global giants like Thales, Stone & Webster and CA for various technological alliance and offshoring contracts.

The company has announced results for the 3rd quarter and nine months ending Mar'2009 (Year ending June).

Highlights of Q3FY09 & 9 Month Period Ended Mar'09.

- *Total Income (consolidated) grew by 15.33% for the quarter on YoY basis to Rs.332cr. The growth rate has slowed due to slower ramp-up of projects (order book) in the engineering design space (delay in EPC projects from client side). Other segments continue to grow in the quarter.*
- *The growth in the income has lowered on account of cuts in the billing rates in all three segments.*
- *PBDILT margin were down to 32.1% as against 34.9% in the corresponding quarter in the previous year. The operating margins declined due to lower utilization and revenue mix dilution. Margins have fallen on account of change in the revenue mix (Contribution of low margin EICT business increased to 25% as against 20%). Staff utilization has also come down by 6% to 10% in different segments on YoY basis.*
- *Profit after tax (excluding exceptional items) has gone down by 25.7% at Rs.48.8cr on YoY basis. PAT margin is down by 800bps at 14.7% for current quarter due to revenue mix dilution and increased depreciation charges. Interest component to the tune of Rs.5.8cr from overseas subsidiary is added in current quarter.*
- *Due to the change in the AS11 norms, the company has reversed back the MTM provisions provided earlier worth Rs.72cr in Jan-Mar'09 quarter.*
- *Sequentially, the company has reported a degrowth of 8.2% in the topline as contribution from EICT & EDS business has come down due to few cancellations and delays in the projects and lower realizations (due to lower billing rate & increased offshoring component).*
- *Overall, performance for the nine months period has been spectacular with a topline growth of 38.5% YoY at Rs.1040.1cr. The profitability has come down by 320bps on account of increased operating cost and bench size.*

MATA RESEARCH

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FINANCIAL PERFORMANCE

Particulars	Q3			9M		
	FY'09	FY'08	ΔYoY	FY'09	FY'08	ΔYoY
Total income	332.0	288.4	15.1%	1040.1	751.1	38.5%
Material Cost	31.1	66.7	-53.4%	148.4	191.9	-22.6%
Staff Cost	148.7	89.0	66.9%	414.3	204.7	102.4%
Other Expenditure	45.9	31.9	43.8%	126.4	77.0	64.1%
Total Expenditure	225.6	187.6	20.2%	689.1	473.6	45.5%
PBILDT	106.5	100.8	5.7%	351.1	277.5	26.5%
Depreciation	49.8	35.3	40.9%	128.9	100.4	28.4%
PBIT	56.7	65.5	-13.3%	222.1	177.1	25.4%
Other Income	8.1	10.5	-22.9%	32.6	30.4	7.3%
Financial Charge	5.8	0.0		6.9	0.0	
Op. PBT & E-O items	59.1	76.0	-22.3%	247.8	207.5	19.4%
Extra-Ord Item	84.0	0.0		0.0	0.0	
PBT	143.1	76.0		247.8	207.5	
Tax	10.1	10.3	-1.7%	30.8	27.8	10.7%
PAT	133.0	65.7	102.4%	217.1	179.7	20.8%
Minority Interest	0.2	0.0		0.6	0.0	
PAT after MI	132.8	65.6	102.3%	216.5	179.7	20.5%
PAT w/o exceptional items	48.8	65.6	-25.7%	217.1	179.7	-25.7%
KEY RATIOS						
PBILDT margin (%)	32.1%	34.9%		33.8%	37.0%	
PAT Margin (W/o except item)	14.7%	22.8%		20.9%	23.9%	
PAT Margin (%)	40.0%	22.8%		20.9%	23.9%	
Effective tax Rate (%)	17.1%	13.6%		12.4%	13.4%	

(Rs.in cr)
** Year ending June*
Recent Developments:

- ❖ The company has inaugurated its state-of-the-art facility in SEEPZ (Mumbai) with a 1500 seat capacity, in SEZ.
- ❖ Rohta has renewed its 23-year long exclusive partnership with Intergraph to provide, customize and build enterprise software for power, marine and offshore industries.
- ❖ Order book at the end of the quarter is Rs.1552.3cr to be executed in next 15 to 18 months, providing reasonable visibility. The order book growth has come down significantly in past few quarters and company is adding as much as it is burning in a quarter.
- ❖ The promoters have increased their stake by 1% to 41.39% during the quarter through open market purchases.
- ❖ Pursuant to the extension in the period for 'Buyback of FCCBs' to Dec.31.2009, the company has deferred its plan for buyback. The company has Cash & Equivalents to the tune of Rs.249cr as on March,31.09

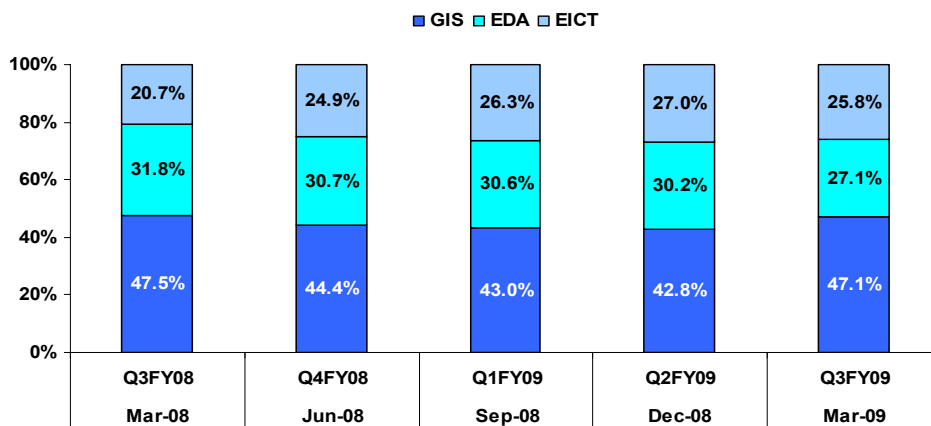
Promoter stake increased by 1% through creeping acquisitions.

Cash & equivalent Rs.2.5 billion

Segmental Performance

Slow rampups in the EDS segment

Rolta’s GIS segment continued its strong growth backed by increased traction for its host of Geospatial services. The contribution from this segment has increased to 47.1% up from 42.8% in previous quarter. Engineering Design & eConsulting business witnessed fall in revenues sequentially. Going forward contribution from GIS would continue to increase as concluded from order book split and also from the potential contribution from Rolta GeoSpatial Fusion in coming quarters.



Actual Vs. Expected

Environment challenging in quarters remain in coming

In Q3FY’09, the growth rate has come down unexpectedly due to project cancellations in the Engineering space. The total income clocked by the company was Rs.332 cr as against our expectation of Rs.370cr. Profitability has also come down significantly due to change in the revenue mix, lower utilization and increased asset service charges. *The environment continues to remain challenging in coming quarters as clients are demanding price cuts whereas EPC projects are witnessing delays. Company’s results for full year are likely to underperform marginally with our full year guidance.*

VALUATIONS

Target price Rs.175

Mata Research expects the company to continue its current growth momentum for coming quarters backed by secured order positions (Rs.1,500cr) and potential opportunity from its new offerings such as Rolta oneView (critical operations and reliability need based Solutions) and GeoSpatial Fusion.

Our target price for the stock is Rs.175, based on the relative valuation method, discounting FY10E EPS of Rs.23.43 at 7.5x. Currently, it is trading on an economical PER of 6.1x on its 12-M trailing EPS of Rs.16.57.

Mata Research maintains its ‘Outperformer’ rating on the stock with a target price of Rs.175 per share with 12 month investment horizon.

Financial Projections

Particulars	FY'08	FY'09P	FY'10P	FY'11P
Total Income	1072.2	1481.4	1851.8	2259.4
Cost of Sales	682.0	979.8	1227.7	1525.5
PBDILT	390.2	501.6	624.1	733.9
Less: Depreciation	138.3	176.6	210.7	236.9
PBILT	251.9	325.1	413.4	497.0
Less: Interest	0.0	0.0	0.0	0.0
Op Profit before Tax	251.9	325.1	413.4	497.0
+ / - Extraordinary Items	16.5	20.5	27.5	38.0
PBT	268.5	345.5	440.8	535.0
Less: Tax	38.8	50.1	63.9	77.6
PAT	229.7	295.4	376.9	457.4
EPS (in Rs.)	14.3	18.4	23.4	28.4

(Rs. in crores)

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