

### BUY

**CMP: ₹ 172.00**

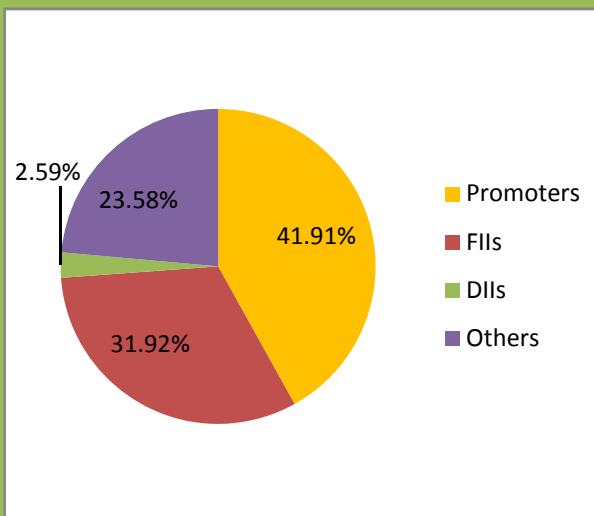
**Target Price: ₹ 222.00**

**Date: Oct. 26, 2010**

#### Important Data:

Sector	IT
Face Value	₹ 10.00
BSE Code	500366
Market Cap.	₹ 27722.96mn
52 wk. High/ Low (₹)	210.00/158.00

#### Shareholding Pattern:



### SYNOPSIS

- Rolta is a leading player in India for Defense, GIS, Engineering & Design and globally major provider of GIS Engineering Design solutions and IT services.
- The consolidated revenue and net profit rose 22% and 33% respectively on YoY basis.
- Total head count as on 30 Sep. 2010 stood at 4,651.
- Order book position of the company at the end of the first quarter stood at 18,823mn.
- All the segments reported double digit revenue growth in the quarter.
- Total debt of the company at the end of the first quarter stood at ₹ 12.3bn

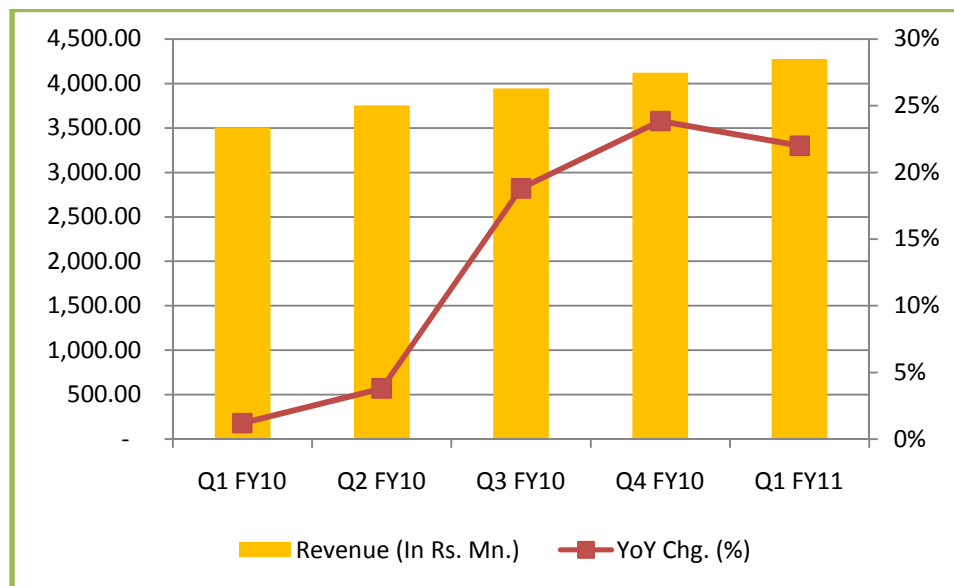
#### 1 Year Comparative Graph



## Financial Performance

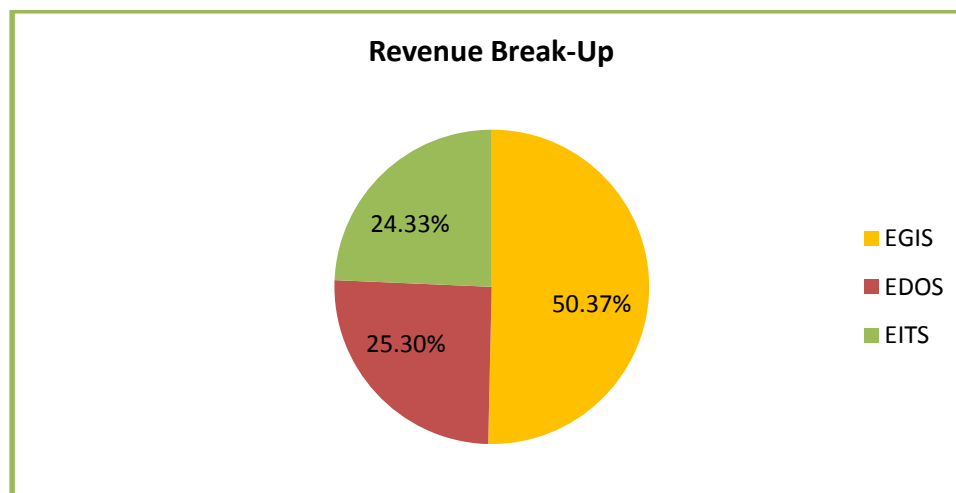
- **Quarterly (Q1 FY11)**

Consolidated revenue and net profit of the company for the first quarter of the current fiscal (financial year of the company ends on 30 June) rose 22% and 33% respectively in comparison with that of a year ago. On sequential basis, revenue grew 4% and net profit rose 8%. Other income declined 44% YoY while rose 37% QoQ. Total income stood at ₹4,331mn which is 20% higher in comparison with that of a year ago. Operating profit of the company rose 29% YoY and 7% QoQ.



All the segments reported double digit revenue growth in the quarter. Gross profit of EGIS and EDOS segments rose 42% and 29% respectively while that of EITS segment rose only 6% in comparison with that of a year ago. Contribution of EGIS and EDOS segments improved 158bps and 12bps respectively on year-on-year basis while that of EITS declined 170bps.

Gross profit margin of EGIS and EDOS improved 607bps and 190bps in comparison with that that of a year ago. Sequentially the gross margin of EGIS segment improved 100bps and EDOS improved 128bps. EITS segment reported a decline in the gross profit margin on YoY basis (declined 90bps YoY) and a marginal improvement on sequential basis (improved 17bps QoQ).



The details of gross profit margin for the last five quarters are given below:

Segment Name	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	Q1 FY11
EGIS	46.81%	48.96%	48.47%	51.48%	52.88%
EDOS	38.30%	40.09%	40.19%	38.92%	40.20%
EITS	12.76%	13.56%	13.45%	11.69%	11.86%

### Segment-Wise Result

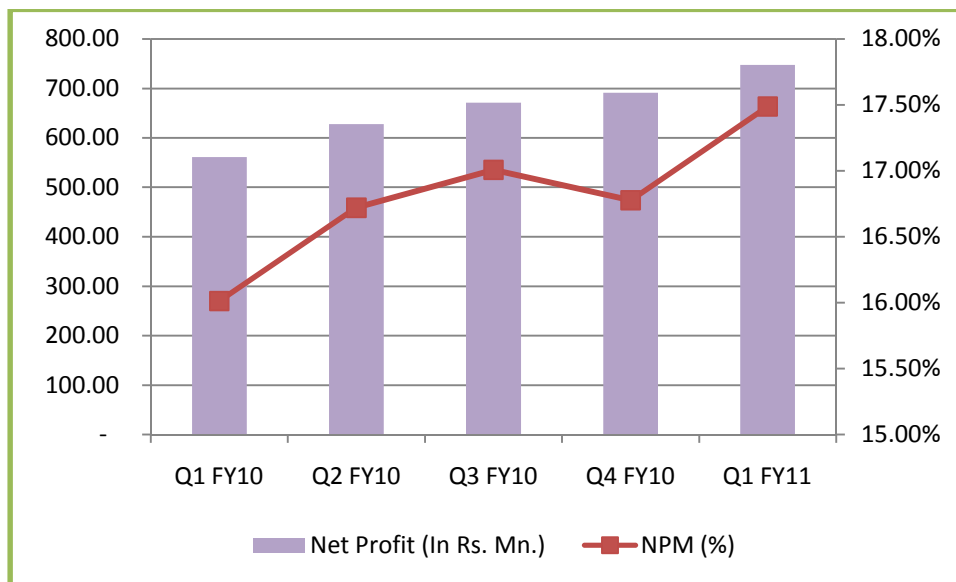
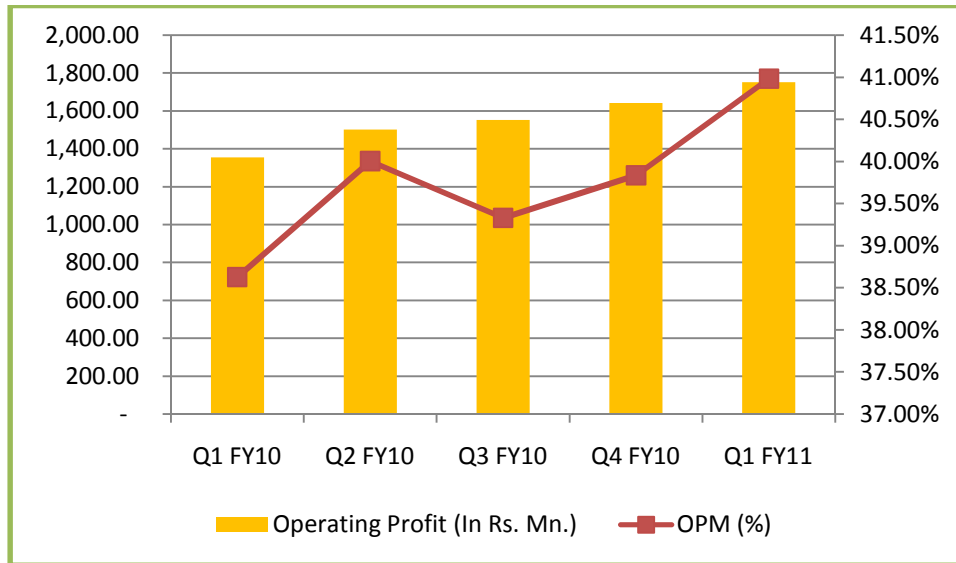
Segment Name	Q1 FY11 (In ₹ mn.)	Q1 FY10 (In ₹ mn.)	% Chg. YoY	Q4 FY10 (In ₹ mn.)	% Chg. QoQ
<b>Segment Revenue</b>					
EGIS	2,153.80	1,709.90	26%	2,077.90	4%
EDOS	1,081.60	882.50	23%	1,074.30	1%
EITS	1,040.40	912.50	14%	968.40	7%
<b>Total</b>	<b>4,275.80</b>	<b>3,504.90</b>	<b>22%</b>	<b>4120.6</b>	<b>4%</b>
<b>Segment Result</b>					
EGIS	1,138.90	800.40	42%	1,069.80	6%
EDOS	434.80	338.00	29%	418.10	4%
EITS	123.40	116.40	6%	113.20	9%

Total	1,697.10	1,254.80	35%	1,601.10	6%
Other Income	55.20	99.10	-44%	40.40	37%
Interest	(126.90)	(83.20)	53%	(120.40)	5%
Depreciation	(763.50)	(621.00)	23%	(715.60)	7%
<b>Total</b>	<b>861.9</b>	<b>649.70</b>	<b>33%</b>	<b>805.50</b>	<b>7%</b>

Operating expenses of the company increased 15% YoY and 2% QoQ. It account for 60% of the revenue for the quarter, which was at 64% a year ago and at 61% in the previous quarter. Material & Sub-Contract expenses increased 66% YoY and account for 14% of the revenue while staff cost declined 9% YoY and account for 11% of the revenue. Analysis of operating expenses is given below:

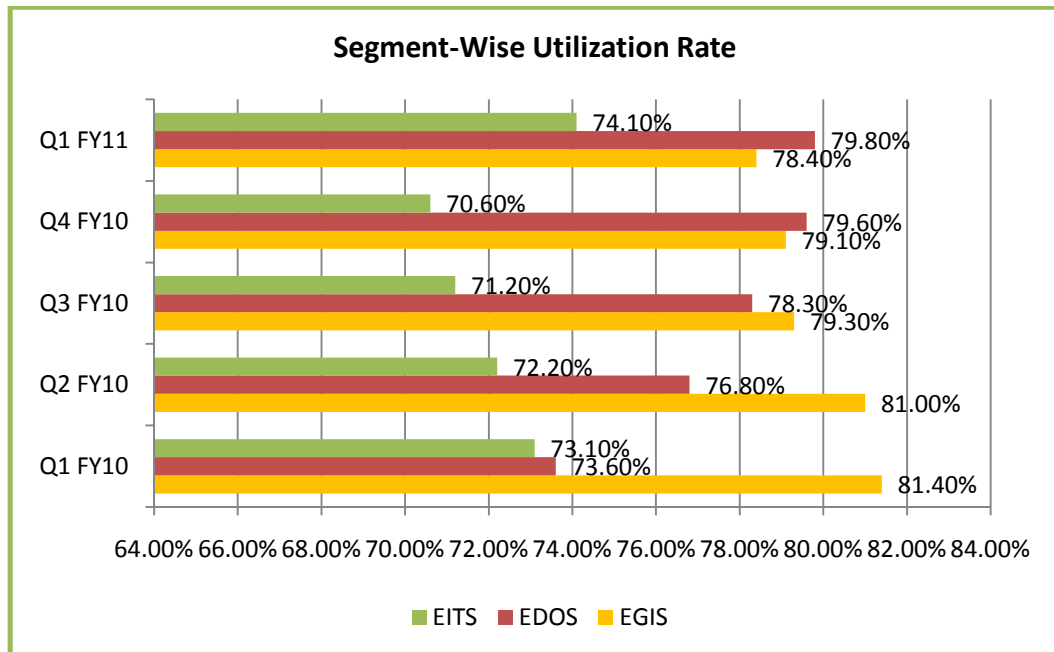
Expenses	Q1 FY11 (In ₹ mn.)	Q1 FY10 (In ₹ mn.)	% Chg. YoY	Q4 FY10 (In ₹ mn.)	% Chg. QoQ
Material & Subcontract Expenses	596.90	359.00	66%	887.60	-33%
<i>% of Net Sales</i>	<i>14%</i>	<i>10%</i>		<i>22%</i>	
Staff Cost	467.10	511.00	-9%	1,181.10	-60%
<i>% of Net Sales</i>	<i>11%</i>	<i>15%</i>		<i>29%</i>	
Other Expenses	309.10	142.30	117%	489.60	-37%
<i>% of Net Sales</i>	<i>7%</i>	<i>4%</i>		<i>12%</i>	

OPM improved 235bps YoY and 114bps QoQ. It stood at 40.98% in the quarter. NPM stood at 17.49% in the first quarter. This improved 148bps YoY and 71bps QoQ. Finance expenses increased around 53% YoY and depreciation cost 23% YoY. Effective tax rate stood at 13%, which was at 14% in the previous quarter. Rolta has reported an EPS of ₹ 4.64 per share.



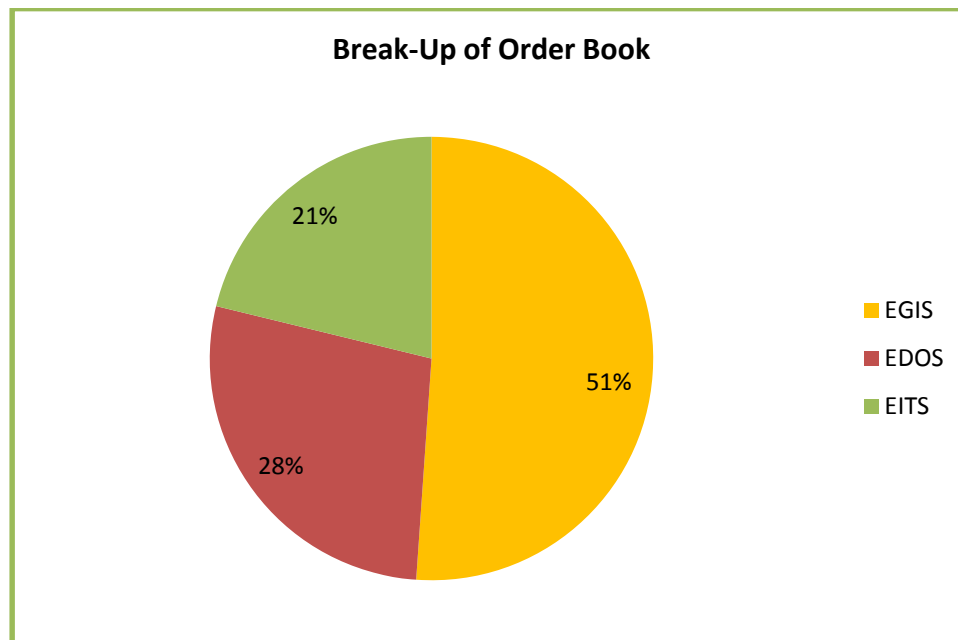
The total number of employees at the end of the first quarter stood at 4,651, which is less by 55 in comparison with that of the previous quarter. Details of headcount are given below:

Segment Name	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	Q1 FY11
EGIS	2,184	2,172	2,188	2,127	2,083
EDOS	1,147	1,156	1,174	1,118	1,089
EITS	838	843	846	868	876
Sales, Marketing & Others	587	592	601	593	603
<b>Total</b>	<b>4,756</b>	<b>4,763</b>	<b>4,809</b>	<b>4,706</b>	<b>4,651</b>
Addition/ (Reduction)	(224)	7	46	(103)	(55)



Total order book of the company grew 5% QoQ and 13% YoY. At the end of the first quarter, the total order book position of Rolta stood at ₹ 18,823mn. On sequential basis, the order book of EGIS and EDOS segments grew 8% and 2% respectively and on year-on-year basis, it grew 18% and 10% respectively. The order book of EITS grew 4% QoQ and 8% YoY. The segment-wise details of order book is given below:

Segment Name	Q1 FY10 (In ₹ Mn.)	Q2 FY10 (In ₹ Mn.)	Q3 FY10 (In ₹ Mn.)	Q4 FY10 (In ₹ Mn.)	Q1 FY11 (In ₹ Mn.)
EGIS	8,152.00	8,322.00	8,716.00	8,895.00	9,618.00
EDOS	4,727.00	5,107.00	5,213.00	5,126.00	5,216.00
EITS	3,708.00	3,648.00	3,764.00	3,829.00	3,989.00
<b>Total</b>	<b>16,587.00</b>	<b>17,077.00</b>	<b>17,693.00</b>	<b>17,850.00</b>	<b>18,823.00</b>



## Quarterly Result (Consolidated)

Description (In ₹ mn.)	Q1 FY11	Q1 FY10	% Chg. YoY	Q4 FY10	% Chg. QoQ
<b>Net Sales</b>	<b>4,275.80</b>	<b>3,504.90</b>	<b>22.0%</b>	<b>4,120.60</b>	<b>3.8%</b>
Other Income	55.20	99.10	-44.3%	40.40	36.6%
<b>Total Income</b>	<b>4,331.00</b>	<b>3,604.00</b>	<b>20.2%</b>	<b>4,161.00</b>	<b>4.1%</b>
Expenditure	2,578.70	2,250.10	14.6%	2,519.50	2.3%
<b>Operating Profit</b>	<b>1,752.30</b>	<b>1,353.90</b>	<b>29.4%</b>	<b>1,641.50</b>	<b>6.7%</b>
Interest	126.90	83.20	52.5%	120.40	5.4%
<b>Profit After Interest</b>	<b>1,625.40</b>	<b>1,270.70</b>	<b>27.9%</b>	<b>1,521.10</b>	<b>6.9%</b>
Depreciation	763.50	621.00	22.9%	715.60	6.7%
<b>Profit Before Tax</b>	<b>861.90</b>	<b>649.70</b>	<b>32.7%</b>	<b>805.50</b>	<b>7.0%</b>
Tax	115.00	90.30	27.4%	114.20	0.7%
<b>Profit After Tax</b>	<b>746.90</b>	<b>559.40</b>	<b>33.5%</b>	<b>691.30</b>	<b>8.0%</b>
Minority Interest	0.80	1.80	-55.6%	-	
<b>Net Profit</b>	<b>747.70</b>	<b>561.20</b>	<b>33.2%</b>	<b>691.30</b>	<b>8.2%</b>
<b>EPS (₹)</b>	<b>4.64</b>	<b>3.48</b>		<b>4.29</b>	



## **Business**

Rolta is a leading player in India for Defense, GIS, Engineering & Design and globally major provider of GIS Engineering Design solutions and IT services. The company has ten subsidiaries located in US, UK, Canada, Netherlands, UAE, Australia, Germany and Saudi Arabia. Rolta has a track record of implementing projects in more than 40 countries. Rolta serves these markets by providing Enterprise Geospatial Information Solutions (EGIS), Enterprise Design and Operation Solutions (EDOS) and Enterprise IT Solutions (EITS). Over 45% of the revenue of the company comes from EGIS segment, around 26% from EDOS segment and over 25% from EITS segment.

## **Joint Ventures**

Rolta has two joint ventures- one with Thales, France - Rolta Thales Ltd and the second one is with The Shaw Group Inc. USA - Shaw Rolta Ltd.

### **Rolta Thales Ltd.**

In this joint venture, Rolta holds 51% and Thales holds 49% stake. The joint venture is for developing and providing state-of-the-art C4ISTAR information systems, Military Communications, Digital Soldier & Vehicle System solutions, covering the entire “sensor to shooter” chain, under transfer of technology from Thales.

### **Shaw Rolta Ltd.**

This is 50:50 joint venture between and this joint venture company provides comprehensive Engineering, Procurement and Construction Management (EPCm) services to meet turnkey project requirements of power, oil, gas and petrochemical sectors.

## Financials

### Profit & Loss Account (Consolidated)

Description (In ₹ mn.)	FY08	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>10,722.10</b>	<b>13,728.10</b>	<b>15,326.70</b>	<b>17,702.34</b>	<b>21,242.81</b>
Other Income	169.80	690.40	279.30	354.05	424.86
<b>Total Income</b>	<b>10,891.90</b>	<b>14,418.50</b>	<b>15,606.00</b>	<b>18,056.39</b>	<b>21,667.66</b>
Expenditure	7,143.70	9,092.80	9,556.40	11,063.96	13,382.97
<b>Operating Profit</b>	<b>3,748.20</b>	<b>5,325.70</b>	<b>6,049.60</b>	<b>6,992.42</b>	<b>8,284.69</b>
Interest	-	125.90	419.00	531.07	743.50
<b>Profit After Interest</b>	<b>3,748.20</b>	<b>5,199.80</b>	<b>5,630.60</b>	<b>6,461.35</b>	<b>7,541.20</b>
Depreciation	1,063.60	1,867.10	2,679.10	3,062.50	3,483.82
<b>Profit Before Tax</b>	<b>2,684.60</b>	<b>3,332.70</b>	<b>2,951.50</b>	<b>3,398.85</b>	<b>4,057.38</b>
Tax	387.80	401.80	405.50	492.83	620.78
<b>Profit After Tax</b>	<b>2,296.80</b>	<b>2,930.90</b>	<b>2,546.00</b>	<b>2,906.02</b>	<b>3,436.60</b>
Minority Interest	9.10	7.30	5.40	3.11	3.61
<b>Net Profit</b>	<b>2,305.90</b>	<b>2,938.20</b>	<b>2,551.40</b>	<b>2,909.13</b>	<b>3,440.21</b>
<b>EPS (₹)</b>	<b>14.33</b>	<b>18.25</b>	<b>15.83</b>	<b>18.05</b>	<b>21.34</b>

## Key Ratios

Particulars	FY08	FY09	FY10	FY11E	FY12E
EBDITA Margin (%)	34.96%	38.79%	39.47%	39.50%	39.00%
Net Profit Margin (%)	21.51%	21.40%	16.65%	16.43%	16.19%
ROE (%)	2.26%	22.98%	16.63%	15.94%	15.86%
ROCE (%)	2.64%	27.05%	21.97%	21.54%	22.14%
P/E (x)	48.61	9.32	12.27	9.53	8.06
EV/EBDITA(x)	29.91	5.14	5.18	5.09	5.45
P/BV (x)	1.09	1.92	1.87	1.41	1.20

## Outlook and Conclusion

In the previous fiscal Rolta was focused on creating differentiated solutions in each of its business line. The results of these efforts have started seeing and Rolta has started getting the benefits of these strategic initiatives in the current fiscal.

Business of the company is currently going through a transformation stage. The strong order book growth is part of this transformation. Recently, the company has launched Rolta iPerspective Suite 2.0, a world-class, rapid application development workbench focused on EAI. To further enhance its own IP-based solutions-oriented strategy, the company continues to augment its rich repository of IP assets. The company is in advanced stages of establishing the viability of Rolta iPerspective at some major corporations, and is steadily building its pipeline for high-value solutions in EITS.

In EGIS segment, the international business has picked up momentum, especially in the Middle East. In the first quarter, this segment has booked some significant orders. The company is looking for more opportunities in this segment.

At ₹ 172 per share, the stock is trading at 9.53x to the earnings of FY11E and 8.06x to the earnings of FY12E. On the basis of price to book value, it is trading at 1.41x and 1.20x for FY11E and FY12E respectively. We expect the consolidated revenue and net profit of the company will grow at a compounded growth rate of 19% and 11% respectively over FY08 to FY12E. **We are maintaining BUY rating in this scrip and set the target price at ₹ 222.00**

## Peer Comparison

Name of the company	CMP (As on, , Oct. 26, 2010)	Market Cap. (₹. Mn.)	52 Week High/Low (₹.)	EPS (₹.)	P/E (x)	P/BV (x)
Rolta India	172.00	27722.96	210.00/158.00	15.83	10.87	01.65
Polaris	173.30	17177.50	215.00/145.95	15.48	11.20	01.97
Mphasis	623.00	130736.55	796.00/549.00	43.40	14.35	05.57
Hexaware	84.15	12184.92	102.80/65.10	09.34	9.01	01.43

## Key Risks

- Over dependency on the domestic market. More than 50% of the revenue comes from the domestic market and the competition in the domestic market increasing rapidly. This may lead to pricing pressure which may have an adverse impact on the margins of the company.
- Increasing competition from the local as well as international companies.
- Retention of talent.

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