

### BUY

**CMP: Rs.182.00**

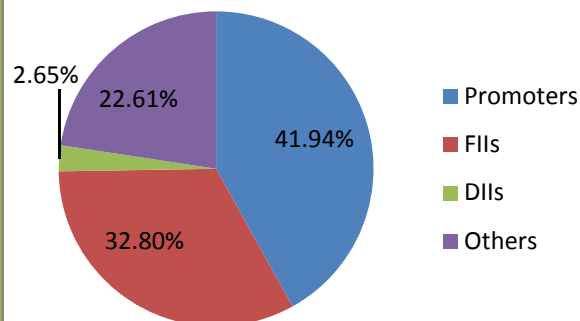
**Target Price: Rs.222.00**

**Date: April 19, 2010**

#### Important Data:

|                        |                |
|------------------------|----------------|
| Sector                 | IT             |
| Face Value             | Rs.10.00       |
| BSE Code               | 500366         |
| Market Cap.            | Rs.29334.76mn. |
| 52 wk. High/ Low (Rs.) | 210.00/74.55   |

#### 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 head count of the company as on 31 March 2010 stood over 4,500.
- In the third quarter ended on 31 March 2010, the revenue and PAT of company have grown 5% and 7% respectively on sequential basis.
- The order book of the company has shown a significant improvement in the third quarter.
- Utilization rate of EDOS segment improved.
- More than half of the revenue comes from the domestic market.

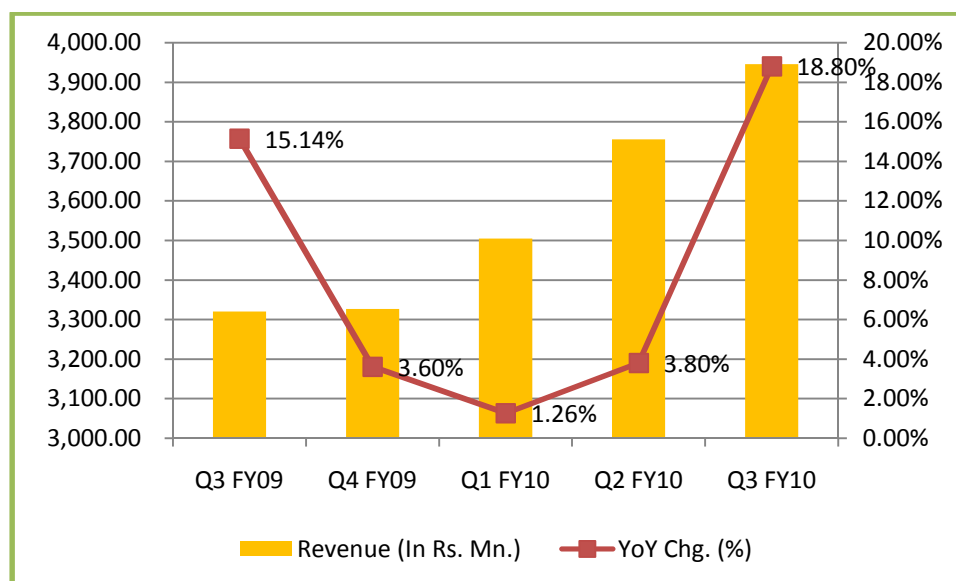
#### 1 Year Comparative Graph



## Financial Performance

- **Quarterly (Q3FY10)**

For the third quarter, the revenue of the company grew 5% and PAT rose 7% sequentially. On year-on-year basis, revenue grew around 19% while PAT declined around 50%. More than 50% of the revenue for the quarter came from the domestic market. Total income for the quarter increased 4.4% QoQ to Rs.4005.80mn while other income declined over 24% in comparison with the previous quarter. Operating profit for the quarter stood at Rs.1,551.80mn which is over 3% higher than the previous quarter and 35% higher than that of a year ago.

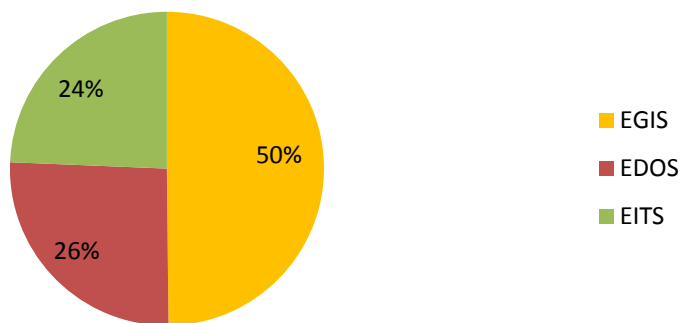


Revenue from EGIS segment grew 5% QoQ and 26% YoY. This segment contributed 50% to the revenue for the quarter. EDOS segment's revenue rose 7% QoQ and this segment contributed 26% to the revenue. ETIS segment contributed 24% to the revenue for the quarter.

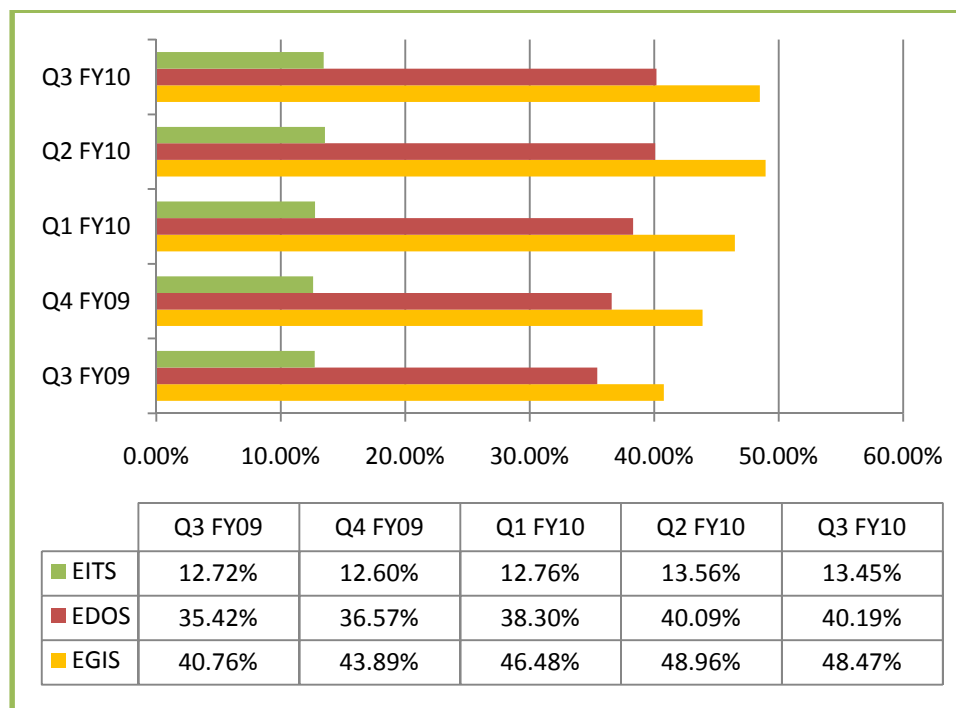
PBIT margin of EGIS segment declined 49bps sequentially while expanded 771bps YoY. PBIT margin of EDOS segment improved marginally (10bps) on sequential basis while that of ETIS segment declined 11bps.

| Segment Name           | Q3 FY10<br>(In Rs.mn.) | Q3 FY09<br>(In Rs.mn.) | % Chg.<br>YoY | Q2FY10<br>(In Rs.mn.) | % Chg.<br>QoQ |
|------------------------|------------------------|------------------------|---------------|-----------------------|---------------|
| <b>Segment Revenue</b> |                        |                        |               |                       |               |
| EGIS                   | 1,967.28               | 1,562.44               | 26%           | 1867.99               | 5%            |
| EDOS                   | 1,017.10               | 900.11                 | 13%           | 950.9                 | 7%            |
| EITS                   | 961.24                 | 857.75                 | 12%           | 936.76                | 3%            |
| <b>Total</b>           | <b>3945.62</b>         | <b>3,320.30</b>        | <b>19%</b>    | <b>3755.65</b>        | <b>5%</b>     |
| <b>Segment Result</b>  |                        |                        |               |                       |               |
| EGIS                   | 953.58                 | 636.85                 | 50%           | 914.54                | 4%            |
| EDOS                   | 408.77                 | 318.83                 | 28%           | 381.18                | 7%            |
| EITS                   | 129.27                 | 109.08                 | 19%           | 126.99                | 2%            |
| Total                  | 1,491.62               | 1,064.76               | 40%           | 1422.71               | 5%            |
| Other Income           | 60.17                  | 81.13                  | -26%          | 79.64                 | -24%          |
| Interest               | (100.86)               | -57.66                 | 75%           | (114.50)              | -12%          |
| Depreciation           | (672.80)               | -497.53                | 35%           | (669.67)              | 0%            |
| <b>Total</b>           | <b>778.13</b>          | <b>590.70</b>          | <b>32%</b>    | <b>718.18</b>         | <b>8%</b>     |

## Break-Up of Revenue



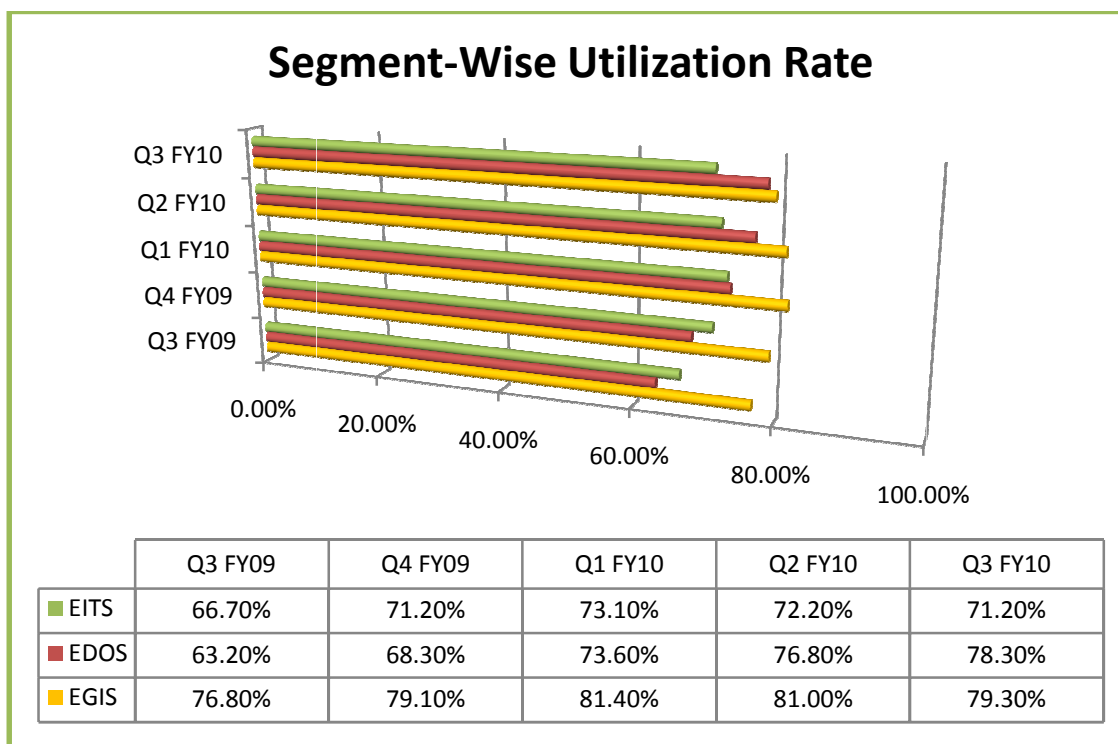
## Segment-Wise PBIT Margin



Overall order book of the company grew around 4% QoQ and 14% YoY. The order book of the company as on 31 March 2010 stood at Rs.17,693.00mn. On segment-wise, EGIS segment's order book grew 5%, EDOS and EITS segment's order book grew 2% and 3% respectively in comparison with that of the previous quarter. Segment-wise details of the order book are given below:

| Segment Name | Q3 FY09<br>(In Rs.<br>Mn.) | Q4 FY09<br>(In Rs.<br>Mn.) | Q1 FY10<br>(In Rs.<br>Mn.) | Q2 FY10<br>(In Rs.<br>Mn.) | Q3 FY10<br>(In Rs.<br>Mn.) |
|--------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| EGIS         | 7,458.00                   | 7,792.00                   | 8,152.00                   | 8,322.00                   | 8,716.00                   |
| EDOS         | 4,513.00                   | 4,613.00                   | 4,727.00                   | 5,107.00                   | 5,213.00                   |
| EITS         | 3,552.00                   | 3,692.00                   | 3,708.00                   | 3,648.00                   | 3,764.00                   |
| <b>Total</b> | <b>15,523.00</b>           | <b>16,097.00</b>           | <b>16,587.00</b>           | <b>17,077.00</b>           | <b>17,693.00</b>           |

Utilization rate of EDOS segment improved while that of the other two segments declined in the quarter in comparison with the previous quarter. EDOS segment's utilization rate improved 150bps while that of EGIS and EITS segments declined 170bps and 100bps respectively.

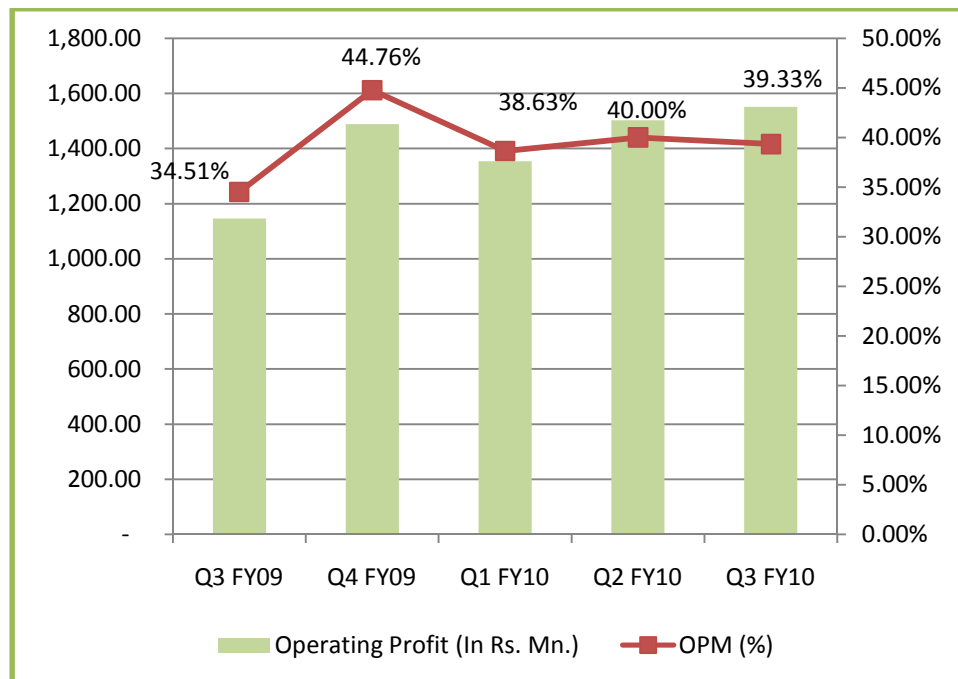


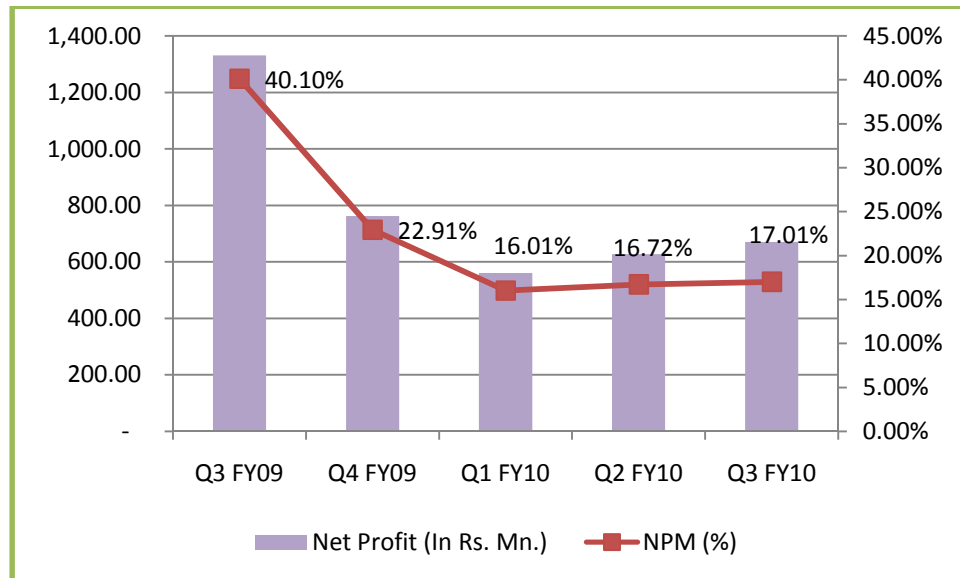
Operating expenses increased 5% and accounts for 62% of the revenue. Material & subcontract expenses increased 12% while staff cost declined marginally. Staff cost accounts for 32% of the revenue for the quarter which was at 45% a year ago and 34% in the previous quarter.

| Expenses                        | Q3 FY10<br>(In<br>Rs.mn.) | Q3 FY09<br>(In<br>Rs.mn.) | % Chg.<br>YoY | Q2FY10<br>(In<br>Rs.mn.) | % Chg.<br>QoQ |
|---------------------------------|---------------------------|---------------------------|---------------|--------------------------|---------------|
| Material & Subcontract Expenses | 760.70                    | 310.50                    | 145%          | 679.80                   | 12%           |
| Staff Cost                      | 1,244.30                  | 1,486.50                  | -16%          | 1,268.80                 | -2%           |
| Other Expenses                  | 389.20                    | 433.20                    | -10%          | 359.30                   | 8%            |

| Expenses As % of Revenue        | Q3 FY10 | Q3 FY09 | Q2FY10 |
|---------------------------------|---------|---------|--------|
| Material & Subcontract Expenses | 19%     | 9%      | 18%    |
| Staff Cost                      | 32%     | 45%     | 34%    |
| Other Expenses                  | 10%     | 13%     | 10%    |

OPM declined in the quarter while NPM expanded on sequential basis. OPM declined 67bps to 39.33%. NPM expanded 29bps to 17.01% in the third quarter. Interest expenses declined sequentially while depreciation cost remained flat towards up. EPS for the quarter stood at Rs.4.16 per share.





## Quarterly Result (Consolidated)

| Description (In Rs.mn.)      | Q3 FY10         | Q3 FY09         | % Chg. YoY    | Q2FY10          | % Chg. QoQ  |
|------------------------------|-----------------|-----------------|---------------|-----------------|-------------|
| <b>Net Sales</b>             | <b>3,945.60</b> | <b>3,320.30</b> | <b>18.8%</b>  | <b>3,755.60</b> | <b>5.1%</b> |
| Other Income                 | 60.20           | 81.10           | -25.8%        | 79.60           | -24.4%      |
| <b>Total Income</b>          | <b>4,005.80</b> | <b>3,401.40</b> | <b>17.8%</b>  | <b>3,835.20</b> | <b>4.4%</b> |
| Expenditure                  | 2,454.00        | 2,255.50        | 8.8%          | 2,332.80        | 5.2%        |
| <b>Operating Profit</b>      | <b>1,551.80</b> | <b>1,145.90</b> | <b>35.4%</b>  | <b>1,502.40</b> | <b>3.3%</b> |
| Interest                     | 100.90          | 57.70           | 74.9%         | 114.50          | -11.9%      |
| Exceptional Items            | -               | 840.10          |               | -               |             |
| <b>Profit After Interest</b> | <b>1,450.90</b> | <b>1,928.30</b> | <b>-24.8%</b> | <b>1,387.90</b> | <b>4.5%</b> |
| Depreciation                 | 672.80          | 497.50          | 35.2%         | 669.70          | 0.5%        |

|                          |               |                 |               |               |             |
|--------------------------|---------------|-----------------|---------------|---------------|-------------|
| <b>Profit Before Tax</b> | <b>778.10</b> | <b>1,430.80</b> | <b>-45.6%</b> | <b>718.20</b> | <b>8.3%</b> |
| Tax                      | 108.90        | 101.20          | 7.6%          | 92.10         | 18.2%       |
| <b>Profit After Tax</b>  | <b>669.20</b> | <b>1,329.60</b> | <b>-49.7%</b> | <b>626.10</b> | <b>6.9%</b> |
| Minority Interest        | 1.80          | 1.80            | 0.0%          | 1.80          | 0.0%        |
| <b>Net Profit</b>        | <b>671.00</b> | <b>1,331.40</b> | <b>-49.6%</b> | <b>627.90</b> | <b>6.9%</b> |
| <b>EPS (Rs.)</b>         | <b>4.16</b>   | <b>8.27</b>     |               | <b>3.90</b>   |             |

- **Nine Month Result (Consolidated)**

| Description (In Rs.mn.)      | 9M FY10          | 9M FY09          | % Chg. YoY    |
|------------------------------|------------------|------------------|---------------|
| <b>Net Sales</b>             | <b>11,206.08</b> | <b>10,401.16</b> | <b>7.7%</b>   |
| Other Income                 | 238.88           | 326.03           | -26.7%        |
| <b>Total Income</b>          | <b>11,444.96</b> | <b>10,727.19</b> | <b>6.7%</b>   |
| Expenditure                  | 7,036.98         | 6,890.63         | 2.1%          |
| <b>Operating Profit</b>      | <b>4,407.98</b>  | <b>3,836.56</b>  | <b>14.9%</b>  |
| Interest                     | 298.59           | 69.08            | 332.2%        |
| <b>Profit After Interest</b> | <b>4,109.39</b>  | <b>3,767.48</b>  | <b>9.1%</b>   |
| Depreciation                 | 1,963.47         | 1,289.24         | 52.3%         |
| <b>Profit Before Tax</b>     | <b>2,145.92</b>  | <b>2,478.24</b>  | <b>-13.4%</b> |
| Tax                          | 291.20           | 307.78           | -5.4%         |
| <b>Profit After Tax</b>      | <b>1,854.72</b>  | <b>2,170.46</b>  | <b>-14.5%</b> |
| Minority Interest            | 5.44             | 5.55             | -2.0%         |
| <b>Net Profit</b>            | <b>1,860.16</b>  | <b>2,164.91</b>  | <b>-14.1%</b> |
| <b>EPS (Rs.)</b>             | <b>11.50</b>     | <b>13.50</b>     |               |



## Consolidated Segment-Wise Result for Nine Month

| Segment Name           | 9M FY10<br>(In Rs.mn.) | 9M FY09<br>(In Rs.mn.) | % Chg.<br>YoY |
|------------------------|------------------------|------------------------|---------------|
| <b>Segment Revenue</b> |                        |                        |               |
| EGIS                   | 5,545.12               | 4,600.60               | 21%           |
| EDOS                   | 2,850.43               | 3,053.99               | -7%           |
| EITS                   | 2,810.53               | 2,746.57               | 2%            |
| <b>Total</b>           | <b>11206.08</b>        | <b>10,401.16</b>       | <b>8%</b>     |
| <b>Segment Result</b>  |                        |                        |               |
| EGIS                   | 2,668.49               | 1,921.06               | 39%           |
| EDOS                   | 1,127.95               | 1,172.29               | -4%           |
| EITS                   | 372.66                 | 417.18                 | -11%          |
| Total                  | 4,169.10               | 3,510.53               | 19%           |
| Other Income           | 238.88                 | 326.03                 | -27%          |
| Interest               | (298.59)               | (69.08)                | 332%          |
| Depreciation           | (1,963.47)             | (1,289.24)             | 52%           |
| <b>Total</b>           | <b>2145.92</b>         | <b>2,478.24</b>        | <b>-13%</b>   |

## Recent Developments

- **Acquisition of OneGIS**

Recently, the company has done strategic acquisition of OneGIS Inc. of Atlanta, USA. OneGIS is an exceptional consulting, development and system integration firm with an excellent track record of implementing Geospatial and IT solutions. Through this acquisition, Rolta has acquired the intellectual property of OneGIS including the OneView Mobile solution. This will enrich Rolta's portfolio of IP. OneView Mobile is already operational in many large utilities and telecoms in North America.

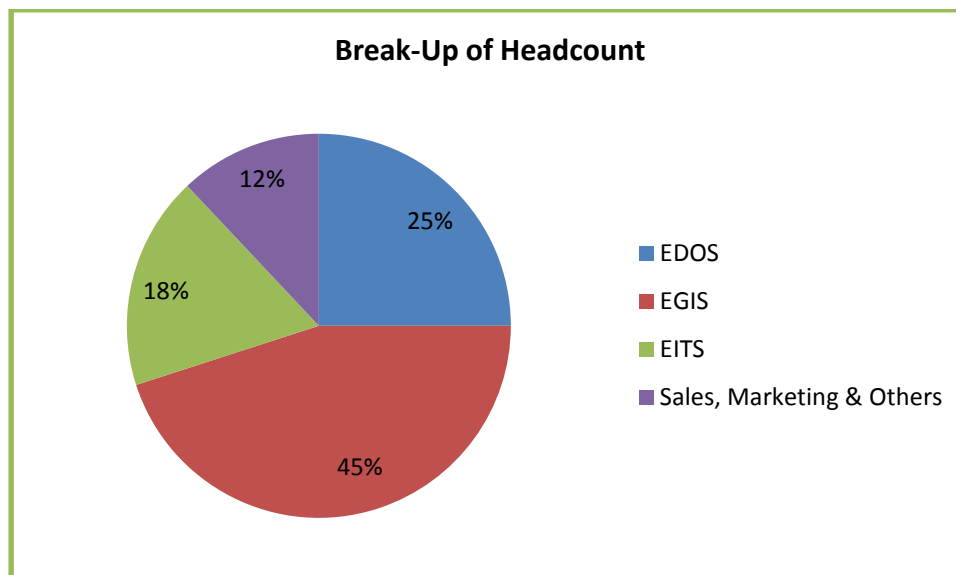
OneView Mobile will become the integral part of Rolta's GeospatialFusion solution. The new combination of OneView and GeospatialFusion will be use to provide powerful productivity solutions that are synchronized between the office and field workforce.

- **New Order**

The company has recently won a prestigious engineering project for a significant nuclear reactor system of international importance. This project is first of its kind internationally and is very complex and technically challenging engineering design project. This project provides Rolta an opportunity to work on sophisticated nuclear technology related projects using advanced technologies.

## 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. The head count of the company as on 31 March 2010 stood over 4,500.



## 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 Rs.mn.)      | FY08             | FY09             | FY10E            | FY11E            | FY12E            |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Net Sales</b>             | <b>10,722.10</b> | <b>13,728.10</b> | <b>15,100.91</b> | <b>17,819.07</b> | <b>21,382.89</b> |
| Other Income                 | 169.80           | 690.40           | 347.32           | 445.48           | 491.81           |
| <b>Total Income</b>          | <b>10,891.90</b> | <b>14,418.50</b> | <b>15,448.23</b> | <b>18,264.55</b> | <b>21,874.69</b> |
| Expenditure                  | 7,143.70         | 9,092.80         | 9,513.57         | 11,315.11        | 13,685.05        |
| <b>Operating Profit</b>      | <b>3,748.20</b>  | <b>5,325.70</b>  | <b>5,934.66</b>  | <b>6,949.44</b>  | <b>8,189.65</b>  |
| Interest                     | -                | 125.90           | 437.93           | 605.85           | 759.09           |
| <b>Profit After Interest</b> | <b>3,748.20</b>  | <b>5,199.80</b>  | <b>5,496.73</b>  | <b>6,343.59</b>  | <b>7,430.55</b>  |
| Depreciation                 | 1,063.60         | 1,867.10         | 2,627.56         | 3,082.70         | 3,506.79         |

|                          |                 |                 |                 |                 |                 |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Profit Before Tax</b> | <b>2,684.60</b> | <b>3,332.70</b> | <b>2,869.17</b> | <b>3,260.89</b> | <b>3,923.76</b> |
| Tax                      | 387.80          | 401.80          | 416.03          | 495.66          | 612.11          |
| <b>Profit After Tax</b>  | <b>2,296.80</b> | <b>2,930.90</b> | <b>2,453.14</b> | <b>2,765.24</b> | <b>3,311.65</b> |
| Minority Interest        | 9.10            | 7.30            | 7.36            | 8.00            | 9.93            |
| <b>Net Profit</b>        | <b>2,305.90</b> | <b>2,938.20</b> | <b>2,460.50</b> | <b>2,773.24</b> | <b>3,321.59</b> |
| <b>EPS (Rs.)</b>         | <b>14.33</b>    | <b>18.25</b>    | <b>15.27</b>    | <b>17.21</b>    | <b>20.61</b>    |

### Key Ratios

| Particulars           | FY08  | FY09  | FY10E | FY11E | FY12E |
|-----------------------|-------|-------|-------|-------|-------|
| EBDITA Margin (%)     | 35%   | 39%   | 39%   | 39%   | 38%   |
| Net Profit Margin (%) | 22%   | 21%   | 16%   | 16%   | 16%   |
| ROE (%)               | 2%    | 23%   | 16%   | 15%   | 16%   |
| ROCE (%)              | 3%    | 27%   | 22%   | 21%   | 22%   |
| P/E (x)               | 24.60 | 17.33 | 6.66  | 10.58 | 8.83  |
| EV/EBDITA(x)          | 15.14 | 9.56  | 2.76  | 5.15  | 5.55  |
| P/BV (x)              | 0.55  | 3.58  | 0.98  | 1.51  | 1.29  |

### Outlook and Conclusion

The company has managed to perform well in the March quarter. All the segments of the company have reported a positive growth in the quarter. We expect the company to perform well in the coming quarter as the global economy is coming out from slowdown and recession. The quarter also witnessed a strong growth in the order book. Unlike other IT companies, Rolta is least affected by the recent Rupee appreciation as more than half of the company's revenue comes from the domestic market.

Rolta has recently done a strategic acquisition (acquisition of OneGIS). The technical expertise of OneGIS will significantly expand Rolta's current GeospatialFusion service offerings by adding substantial consulting and domain experience in utilities, telecommunications and government

markets. The addition of OneView Mobile to GeospatialFusion solution will address a critical area of future growth- mobile field of force automation.

At the current level, the stock trades at 10.58 times to the earnings of FY11E and 8.83 times to the earnings of FY12E. The revenue and PAT of the company is expected to grow at a compound rate of 19% and 10% respectively over FY08 to FY12E. At Rs.182.00, the stock trades at 1.51 times to the book value of FY11E and 1.29 times to the book value of FY12E. We recommend investors to **BUY** this scrip with a **target price of Rs.222.00**

## Peer Comparison

| Name of the company | CMP (As on, , April 19, 2010) | Market Cap. (Rs. Mn.) | 52 Week High/Low (Rs.) | EPS (Rs.) | P/E (x) | P/BV (x) |
|---------------------|-------------------------------|-----------------------|------------------------|-----------|---------|----------|
| Rolta India         | 182.00                        | 29334.76              | 210.00/74.55           | 18.25     | 9.97    | 2.06     |
| Polaris             | 174.05                        | 17206.58              | 204.40/55.55           | 13.25     | 13.13   | 2.23     |
| Mphasis             | 651.60                        | 136594.91             | 796.50/217.00          | 43.40     | 15.01   | 5.82     |
| Hexaware            | 75.85                         | 10895.85              | 102.75/31.00           | 9.34      | 8.12    | 1.64     |

## 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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