



Prabhudas
Lilladher

Fulfilling investors' needs since 1944

Rolta India

BUY

Rs.163

Sensex: 8,060

September 12, 2005

Parul Inamdar

(9122) 5632 2243

ParulInamdar@PLIndia.com

Key Figures - Consolidated (Rs.m)

Y/e Jun	'04	'05	'06E	'07E
Net Sales	3,506	4,146	4,975	6,169
EBITDA	1,358	1,474	1,891	2,589
PAT	638	902	1,198	1,595
PAT gr. (%)	18.6	41.3	32.8	33.1
EPS (Rs)	10.0	14.2	18.8	25.0

Key Ratios - Consolidated (%)

Y/e Jun	'04	'05	'06E	'07E
EBITDA mar.	38.7	35.5	38.0	42.0
RoCE	21.1	23.2	29.6	35.8
RoE	14.7	19.8	23.9	26.1

Valuations - Consolidated (x)

Y/e Jun	'04	'05	'06E	'07E
PER	16.3	11.5	8.7	6.5
EV/Sales	3.5	2.9	2.2	1.7
EV/EBITDA	9.0	8.1	5.9	4.2
Mcap/Sales	3.0	2.5	2.1	1.7

Key Data

Bloomberg code : RLTA@IN
Reuters code : ROLT.BO

Shareholding Pattern (%)

Promoters : 48.7
Foreign : 1.3
Inst./non-Promoters : 9.5
Public & Others : 40.5

Price Relative to Sensex (%)

1 month : 28.2
6 months : 54.4
12 months : 52.0

Shares outstanding : 63.7m
Market cap : Rs.10,416m
\$239m

Average Volume
(3 months) : 2.5m shares

*All FY04 Numbers are annualised for 18 months period of FY03.

(Price as on September 9, 2005)

Engineering an IT success

We believe that its past has affected investor interest in Rolta and its stock, and valuations have been lagging its peers for a long time.

We recently met its officials in order to understand the business and prospects. Management indicated it is optimistic of an over Rs.5,000m standalone turnover in the next two years (up from Rs.2,923m in FY04 and Rs.3,459m in FY05), as also increasing its personnel base from the present 3,500 to 5,000.

The major drivers will be its GIS/ CAD/ CAM services and IT security services. The company has embarked upon a restructuring drive into defined business vehicles, coupled with financial re-engineering, which in our opinion must be well taken note of...

Highlights

- About 96% of Rolta's revenue is derived from its CAD/ CAM/ GIS business; the balance from its e-Solutions services and Internet businesses.
- It dominates (70%) the GeoSpatial market in India and expects to remain at the cutting-edge of GeoSpatial technologies.
- Its foray into EDA in association with a global leader will open up newer and more lucrative opportunities.
- We expect a re-rating of the stock, and anticipate returns of over 70% from levels now.

Stock Price Performance

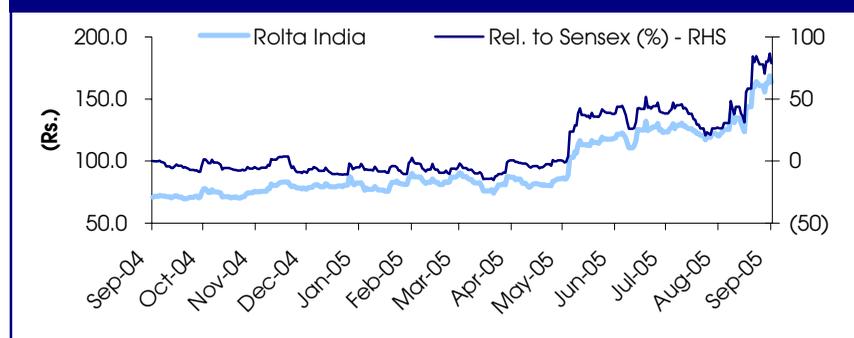


Table of Contents

- Background 4**
 - History: dates to 1982 4
 - ... Present reflects positive developments and a better future 5
 - Triggers 5
 - Relationship with recognized global players in place 6
 - Impressive client base 6
 - Infrastructure in place 7
- Business Model 8**
 - I. CAD/ CAM/ GIS Solutions and Services 8
 - A. Geographic Information Systems services (GIS) 8
 - Market potential 9
 - I. B. Engineering Design Automation (EDA) 9
 - Market leader at home 10
 - India and Asia Pacific offer promising potential 10
 - Services of the EDA business group... in a nutshell 11
 - The CAD/ CAM/ GIS Segment -- impressive growth 11
 - II. Internet e-Business Solutions & Services 11
 - Joint venture 13
- Concerns 14**
 - Related to the economic cycles of user-industries 14
 - Higher margins than its peers 14
 - Extremely high debtors - unlike a software company 15
- Constructive modification outlining our estimation for a re-rating 16**
 - Better management of working capital already bearing fruit 16
 - Turnaround in subsidiaries will aid performance 16
 - Borrowings to decline over the next four years 16
- Conclusion 17**
- Valuations 18**
- Annexure I A 19**
 - GeoEngineering/ GIS Services 19
- Annexure I B 22**
 - Engineering Design Automation Services 22
 - Mechanical Design Automation and Product
life-cycle management Services 22
- Annexure II 23**
 - e-Business Solutions and Services. 23

contd....3

Profiles - Annexure III A	24
Who is Stone & Webster?	24
Annexure III B	26
Profile of Intergraph	26
Timeline	26
Income Statement	27
Balance Sheet	27
Financials - Standalone	28
Quarterly Table	28
Income Statement	28
Balance Sheet	29
Cash Flow	29
Key Ratios	30
Financials - Consolidated	31
Income Statement	31
Balance Sheet	31
Cash Flow	32
Key Ratios	33

Tables and Charts

Chart 1: Strategic Business Group	8
Chart 2: CAD/ CAM/ GIS Revenue Trend	9
Table 1: Revenue from CAD/ CAM / GIS segments	11
Table 2: Gross Profit Margins	14
Table 3: Revenue, Cost and GPM	15
Table 4: Operating Profit Margin	15
Chart 3: Sales, Debtors and DSOs	16
Chart 4: Shaw group's industry-wise revenue break-up and YoY growth	25
Chart 5: Shaw group's geographical revenue break up and YoY growth	25

Background

India's leading Computer-Aided Designing/ Computer-Aided Manufacturing/ Geographical Information Systems (CAD/CAM/GIS) solutions provider, Rolta is one of the world's top Automated Mapping and Facilities Management (AM/FM), and GIS & Photogrammetry service providers. It is also the leading provider of Plant Design Automation (PDA) solutions in India, with an over 80% market share and the preferred partner for plant Engineering Design Services (EDS) globally to international giants like the Dow Chemical Co., a relationship which only a select few companies enjoy worldwide.

From a mere data processing centre in the early eighties, Rolta is now into mapping and engineering software. A pioneer in computer graphics, mapping and engineering software, Rolta has been consistently ranked as India's No. 1 CAD/ CAM/ GIS solutions provider and one of the world's top AM/ FM/ GIS and Photogrammetry service providers. It operates worldwide, with over 3,000 professionals, and global development centers in India and the USA. Its subsidiaries are widely spread - the USA, Canada, the UK, Germany, the Netherlands, Saudi Arabia, the UAE and more than 15 offices in India.

History: dates to 1982 . . .

In 1982 present Chairman and Managing Director Kamal K. Singh set up a computer company in Mumbai and took on board Mr. A. P. Singh (who, with an IBM background, now heads Rolta's US operations). A group of 15/20 professionals with technical and managerial skills was built up, starting with a data centre. The data centre would import large datasets to provide services. It was decided to allow ONGC and others to utilise these computers and to develop special packages for financial accounting and the like, including software for banks. It then decided to set up a CAD/ CAM/ GIS division and looked for people from the Survey of India (SoI) to create a team.

Soon realization struck that technology itself was a large issue and needed first to be understood. Thus, it went in for technological partnership with two contenders (Computer Vision and Intergraph). After several phases of interaction, it realized that Intergraph was a better option (well-versed in both CAD/CAM and GIS). The main issue in those days was to create awareness and educate the market, as only a few organizations were in this field. The Survey of India (SoI) was one, well-versed in surveying; but Rolta was looking for technology to turn the data digital. In 1987, Rolta was involved with the SoI in setting up a Digital Mapping Centre. In 1990 it realized that unless it manufactured local workstations, it would not be able to scale up beyond a point. So investment was made in developing Unix-based workstations.

In 1985-86, technology was transferred from Intergraph to Rolta, and many key organizations in the field (like the SoI and the Forest Survey of India) turned customers. In 1992, it decided to set up a development centre here itself rather than send people abroad, and started providing AM/ FM/ GIS services worldwide, specializing in telecoms and electrical utilities. Rolta automated Hong Kong Telecom and that of Saudi Arabia and eventually provided plant design and e-services.

... Present reflects positive developments and a better future

It has split its businesses into two: 1) The CAD/ CAM/ GIS Solutions & Services, comprising two strategic business groups (SBG)--geo-engineering (GIS) and engineering design automation--and 2) Internet e-Business Solutions & Services. Rolta claims it enjoys more than a 70% share of the GeoSpatial market in India (applications such as Photogrammetric Mapping, Aerial Triangulation, Digital Terrain Modeling, Ortho-photo Creation, Image Interpretation, etc.). The unique position it occupies in the GIS field enables it to provide specialized services in building the nation's infrastructure. It is rated one of the leading AM/ FM software conversion service providers in the world.

In engineering, Rolta states that it enjoys more than an 80% market share of the Plant Design Automation (PDA) segment in India. Taking this further, it has entered into a strategic partnership with Stone & Webster, Inc., USA, one of the world's foremost engineering-construction companies, to provide high-quality cost-effective engineering, design and procurement services, related to power, refinery and petrochemical projects, worldwide. This partnership envisions evolving into an independent full-service engineering and procurement operation, pursuing large contracts in India and elsewhere. Customers' faith in Rolta's capability and competency is not only reflected in the market share but also in "mind share".

Triggers

- About 96% of its revenue stem from its CAD/ CAM/ GIS business; the rest from its eSolutions services and Internet business. Given its intention to cater to the EPC market (through the Stone & Webster JV), and that its engineering business makes up 7% to 8% of the project cost, we believe there is great scope to better its financials.
- The recent joint venture with Stone & Webster, Inc., USA, one of the world's foremost engineering companies, in addressing large projects in segments of utmost importance and criticality (like power, petrochemicals, refineries and others) will further establish Rolta's dominance in engineering.
- Rolta is also one of the top three premier global service partners worldwide of Computer Associates for enterprise management security, software development and testing.
- It has strong business partnerships with international technology leaders.
- It had undertaken total mapping of power and other utilities in Saudi Arabia and has been entrusted with a similar work by the Dubai Municipal Corp. It recently entered into an agreement with Intergraph, Inc., USA, to act as its preferred partner in providing a gamut of GIS services (Data Conversion, Data Migration, Data Maintenance) to customers in North and South America.

- It is remarkable that Forbes Global has thrice consecutively (2001, 2002, 2003) ranked it among the 200 best companies in the world (sales up to \$1bn). Rolta has also been placed among the 'First 250 of the Asia-Pacific Technology Fast 500' by Deloitte Touche Tohmatsu, thereby recognizing it as one of the fastest growing technology companies in the Asia-Pacific Region. It has also been assessed at the SEI CMM Level, its certification covering Software Development and Testing. It has also received approval for BS 15000 certification by the British Standard Institute.

Relationship with recognized global players in place

Rolta's long-standing partner, Intergraph, controls 80% of the domestic market

Rolta has strong business partnerships with international technology leaders (Intergraph, Z/I Imaging, PTC, IBM, Microsoft and Oracle, among others) and boasts of operating worldwide, with over 3,000 professionals and state of art infrastructure, including global connectivity and software development centres in India and the USA.

In partnership with Intergraph and Z/I Imaging, it offers solutions that tie a customer's decision-making environment with complete GIS. These solutions include high-end workstations, specialized software and comprehensive technical services in mapping, cartography, imaging and photogrammetry, and provide advanced functionalities in applications such as mapping, surveying, image processing, terrain modeling, parcel management, digital photogrammetry, cartography, engineering design and utility/ environment resource management. Its experience permits it to support hundreds of GIS users with integration, customization and development of customer-specific applications, including web-enabling of existing GIS applications.

Thematic maps of buildings, roadways, public utilities, etc., are generated by aerial and satellite photography, data and physical surveys

Its comprehensive range of solutions include parcel mapping and conversion, urban and cadastral mapping, road and street center-line alignments, map creation, updation using aerial and satellite imagery, photogrammetric mapping, aerial triangulation, digital terrain modeling, orthophoto creation and image interpretation for thematic mapping. Rolta has also developed proficiency in applications such as fleet and disaster management. It offers leading edge Mapping/ GIS solutions for public safety agencies (the Police, Fire and Ambulance). Also, a full complement of e-governance solutions to address varying GIS and MIS needs of state governments and municipalities.

Impressive client base

It has an impressive client list: most nodal agencies in India--the Ministry of Defence, the Forest Survey of India, the Central Water Commission, the National Hydrographic Office, the Indian Institute of Remote Sensing, the Survey of India, the Geological Survey of India, and the National Remote Sensing Agency.

Some of its other clients have been ONGC, ICICI, Technimomt ICB, Saipem, BEL, NTPC, Bechtel India, Flour Daniel, NPCL, Toyo Engineering, PDIL, L&T, EIL, BHEL, BSNL, CESC, Nagar Nigams, Tata Chemicals, and many more.



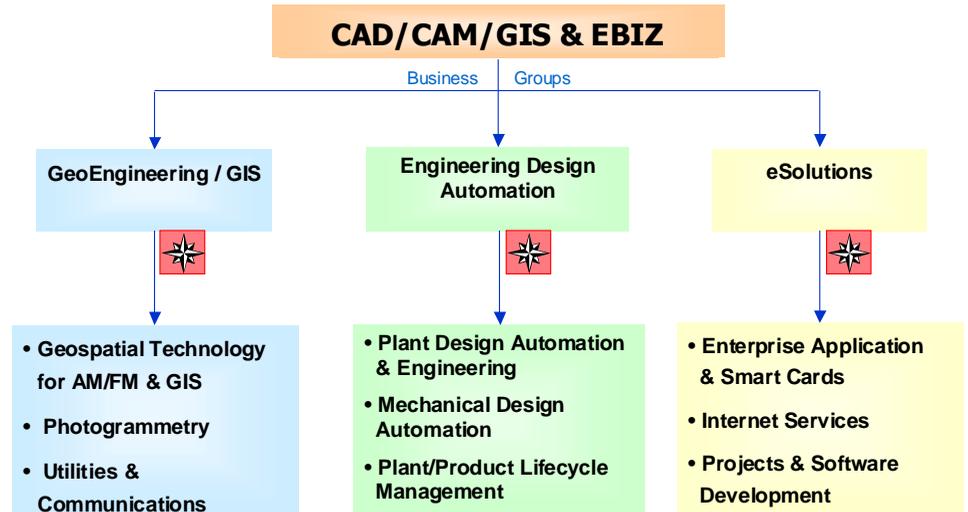
Global customers include Saudi Telecom, British Telecom, Telus, Bechtel, Aramco, Verizon, Sodexo, Philips Medical, HSBC, Master Card, Bear Stearns & Co, Philips Medical, Cingular, Shell, Technip, EDS Medical, the US Army, ALLTEL, US WEST, New England Power, Dayton Power & Light, Cowlitz County, Piedmont Natural Gas, Southern Bell Corp., Rochester Gas & Electric, Louisville Gas & Electric, Greenville Utilities Commission, Montana Dakota Utilities, Bell Canada, Canadian Hydrographic Service, Bahrain Telecom, GT Oman, United pan-European Communications, City of Mainz, Geodat, UK Ordnance Survey, Hong Kong Telecom, Fiji Telecom, Enerco Gas, Natural Gas Corporation, NSTAR Electric and Gas, Nuon, Electra Energy, New York City Department of Design & Const., National Grid, Hydro Ottawa, Westland Energie and the Danish Hydrographic Office, among others.

Infrastructure in place

Rolta recently incurred a capex of Rs.2,500m in establishing state-of-the-art and world class development centres in Mumbai (250,000 sq. ft. and one-shift seating for 3,000), boasting the latest workstations and state-of-the-art software. Its engineers have been put through rigorous training and an international certification program, then assigned live projects. Its overseas offices, coupled with development and production centers in Mumbai, provide the necessary efficiencies for on-going maintenance of valuable digital data. Marked-up CAD drawings can be transmitted during the day to Rolta and, due to the time difference, updated CAD files can be waiting for customers as early as the next morning. It is like a customer having his own round-the-clock operation!

Business Model

Chart 1: Strategic Business Group



Source: Company Data, PL Research

I. CAD/ CAM/ GIS Solutions and Services

Extending functionality and crunching data in a digitized, portable and reusable manner

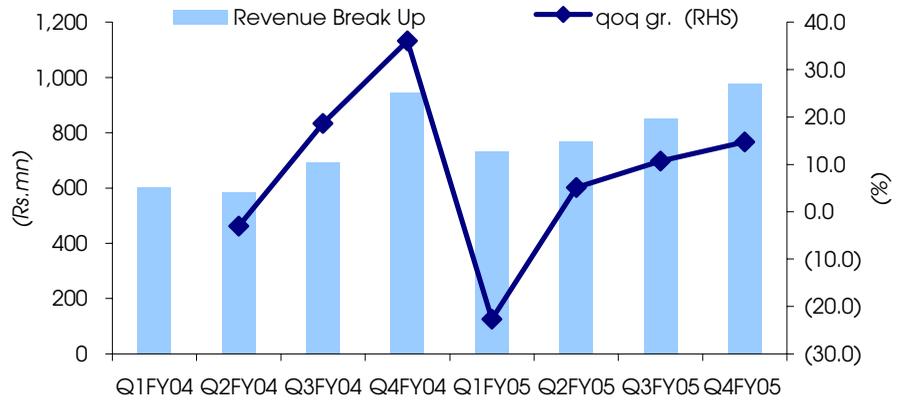
A. Geographic Information Systems services (GIS)

Digital mapping hit the scene in the early '80s. But GIS actually took off only after being offered on Windows. The Survey of India, the National Spatial Data Infrastructure (NSDI), the National Remote Sensing Agency (NRSA) and the Forest Survey Department were some Indian agencies involved in mapping different regions. They provide raw data from satellite images or paper maps. However, in the interests of security, the Government places restrictions on data.

This particular strategic business group (SBG) -- GeoEngineering and GIS -- is involved in three aspects: technical support and services, production, and pre-and post-sales service. The production department is involved in map-making. Technology and software customization is another major area. This kind of work has been done for national telephone carriers, MTNL and BSNL as well. Rolta has also worked on a project for the Dubai Municipality.

Photogrammetry is another area that Rolta is exploring in a huge way. It has already extended its partnership strategy to tap this burgeoning market. It has also launched, for the imaging market, sophisticated change detection solutions particularly relevant for Defence.

Long-term partnerships with industry leaders ensure that its skills and knowledge are constantly updated. Besides a skilled and dedicated team of over 1,000 technical professionals, the company has all the necessary ingredients for successful GIS and mapping.

Chart 2: CAD/ CAM/ GIS Revenue Trend


Source: Company Data, PL Research

Market potential

The global market for GIS is estimated at \$2.02bn (growing at 9.7% a year), while the Indian component is estimated at Rs.2bn. Rolta enjoys a dominant 70% share of the GeoSpatial market in India and expects to remain at the cutting-edge of GeoSpatial technologies: ensuring quality delivery on schedule on any software platform. A major strategy has been initiated by setting up a technology centre to maintain an updated database (knowledge) on all GeoSpatial technology across all platforms (ESRI, Smallworld, MicroStation, AutoCAD, CARIS, Star, Oracle and Intergraph) and application areas that cover photogrammetry and utilities (telecoms, gas, electricity, water, sewage, etc.). The company has acquired technology and established long-term strategic business partnerships with world leaders in this field: Intergraph and Z/I Imaging for end-to-end mapping and GIS solutions. Due to the growing need for cross-platform data models, it has also established technology alliances with industry leaders such as ESRI and Smallworld. All this ensures that, to satisfy customers, Rolta stay abreast of new developments in technology and updates its domain expertise.

I. B. Engineering Design Automation (EDA)

The engineering design automation (EDA) business group provides solutions and services in plant design automation (PDA), mechanical design automation (MDA) and product lifecycle management (PLM). The company boasts of an 85% market share domestically, and approximately Rs.500m of FY04 revenues stemmed from EDA. The estimated space is expected to be about Rs.750m.

Market leader at home

Owners / operators / engineers / clients / construction teams can visualize a finished design and gain a more comprehensive understanding

The very fact that the design phase of power plants lasts for almost 18 to 20 months reflects the complexities and criticalities. With about 55 to 60 domestic and 40 international clients, Rolta boasts of an 85% market share in PDA in India. In partnership with Intergraph, it offers plant design systems (PDS) and 3D design and modeling tools for plant design. It also has on offer INtools and Marian, the latter being an integrated lifecycle material procurement and supply chain management system. It also provides various services to the engineering industry, such as assistance in 3D modeling, detailed engineering services for EPC including Piping Layout, Pipe Support, Modeling and Isometrics, Stress Analysis, Electrical Design and Analysis, among others. The services are not restricted to sale or provision of software tools but extend to state-of-the art Plant Design and Mechanical Engineering solutions and services covering the entire gamut of product data and life cycle management.

Rolta possesses strong expertise in its domains -- automotive, aerospace, heavy engineering, manufacturing, electrical and the process industries. It is also Intergraph's preferred partner for Plant Design Automation

For MDA, it has tied up with PTC to provide customers with tools to handle designing, modeling, simulation, detailing and tooling. The segment holds huge potential, especially with the emergence of India as a source for auto parts. In this, Rolta boasts a market share of 20-25%. Whilst PDA today accounts for 65-70% of this SBG's revenues, MDA accounts for the balance 30-35%. Today, even small auto ancillary companies utilise design software to manufacture auto components. Says S. K. Shirguppi (director, business operations, and head, the engineering design automation business group), "When large manufacturing units adopt a design automation tool, smaller players have to follow if they want to survive."

India and Asia Pacific offer promising potential

Over the years Rolta has also gained considerable expertise in the detail-engineering segment. The alliance with Stone & Webster is expected to enable it to tap the growing petrochemicals market. As the demand for cleaner fuels rises, those in the field will need to upgrade their facilities.

With Asian markets growing rapidly, the company sees huge opportunities in power. China is opening up and India has a vast market potential. The Middle East is another region that promises vast opportunities, especially the reconstruction being carried out in Iraq.

Services of the EDA business group... in a nutshell

Rolta's EDA business group provides Plant and Mechanical Engineering solutions. Complete solutions and services are provided to the Indian market, while specialized services are offered worldwide for Design and Detailed Engineering, both in Plant and Mechanical Engineering. These services range from the creation of intelligent databases for Piping and Instrumentation drawings, through complete plant visualization for walkthroughs, to Production Modeling, 3D Plant Modeling and Detailed Engineering (structural, piping, instrumentation). The company's knowledge base is updated by its strong technology relationship with Intergraph. Rolta enjoys the reputation of being able to add value to its customer's business primarily because of its vast and diverse industry exposure and experience in MDA. Its services include end-to-end solutions from PTC to a range of high-end services including Product Design and Detailing, Engineering Analysis, Web-enabled Design Automation and Manufacturing applications.

The CAD/ CAM/ GIS Segment -- impressive growth

The CAD/ CAM/ GIS segment is its largest revenue stream, (96%; approximately \$75m in FY05). This segment has registered a 7.1% CQGR in the past eight quarters.

Table 1: Revenue from CAD/ CAM / GIS segments

Period (<i>Quarter ending</i>)	Amount (<i>Rs.m</i>)
30.09.03	604
31.12.03	586
31.03.04	695
30.06.04	945
30.09.04	731
31.12.04	769
31.03.05	851
30.06.05	976

II. Internet e-Business Solutions & Services

Rolta was one of the first (in 1999) to obtain a license to become an ISP, RoltaNet being launched that year. The motive was not merely to provide Internet services but to gain hands-on experience of an upcoming technology (including CAD/ CAM) likely to touch every aspect of life. The company entered into business tie-ups with Microsoft, IBM, Computer Associates (CA) and other technology majors to implement best-of-breed infrastructure at its Mumbai data center. It also doubled up as service provider for all its partners, including CA, Microsoft and IBM. As the cabling was then copper, it laid out at its own cost optic fibre lines for telephone connections. Thanks to this, Rolta boasts that it hasn't had a single hour of downtime in the last four years.

Competition brought in aggressive pricing, making it unviable to continue providing ISP services. Many companies without well-thought-out plans dropped out. This was when Rolta's traditional grit and determination came into the picture. It wanted to offer three basic services -- web services with a back-end database, network management and security. But pricing pressure was tremendous. The per-license fee charged by Microsoft accounted for a major portion of cost.

Rolta's systems software personnel were put on a programme to migrate from the Microsoft platform to a Linux-based one. Considerable effort was put into selecting the correct tools, integrating them and developing GUIs. Says Dr. S. R. Bhot (director, business operations; and head, eSolutions business group), "We crafted the entire Linux platform parallel to the Microsoft one. But the tricky part was to move 50,000-odd subscribers without losing any e-mail in a live environment from the Microsoft platform to our indigenously developed one. Seamless migration took seven months but the benefits were worth it." Thanks to this measure, the company has been able to slash over 50% in costs.

This experience saw it venturing into a new area. Having seen how cost-effective the Linux platform was, Rolta created Linux-based firewalls, VPNs, intrusion detection systems, e-mail solutions and various other solutions and offered them to end-customers. Rolta also created a Radius server on Linux for government organizations. The solutions it developed have become its products today .

It has also developed a network management system that it considers equivalent to CA's solution. Rolta's own WAN and LAN consists of more than 3,500 workstations, numerous servers and other networking components. A major area of focus is its security solutions. It sees huge potential in this space, especially in mission-critical business operations-from financial operations to SCM to product sales and customer service -- moving onto internal networks and then to the Internet. Dr. S. R. Bhot says that Rolta ventured into the ISP space to get hands-on skills and experience in Internet technology.

The enterprise applications and smart-card solutions division develops, integrates and provides complex enterprise applications and smart-card solutions. Dr Bhot sees a huge opportunity for its smart-card venture in the e-governance space. The company is all set to tap business that will be generated with most state governments deciding to replace the current system of driving licenses with smart cards. It also sees a huge opportunity in the corporate segment, with authentication, physical access and security becoming major concerns.

Joint venture

In FY05, Rolta entered into a strategic partnership with Stone & Webster, Inc., USA, a subsidiary of The Shaw Group and a leading engineering, procurement and construction (EPC) company, to provide high-quality cost-effective engineering, design and procurement services, related to power, refinery and petrochemical projects, worldwide. This partnership would then evolve into an independent full-service engineering and procurement operation, pursuing large contract business in India and elsewhere. The joint venture, known as Stone & Webster Rolta (SWR), will utilise Rolta India's infrastructure, facilities and IT-enabled engineering capabilities in India and Stone & Webster's extensive experience and expertise in executing complex global EPC projects. This joint venture will also support Stone & Webster's international power, refinery and petrochemical EPC projects.

Increasing referral points will aid in attracting further business

Its purpose is to undertake design engineering for the worldwide projects which Stone & Webster has and, over and above that, to take up EPC work in India in the Power and Process sectors.

The joint venture has already bagged an engineering services contract for a gas-cracking furnace at Reliance's IPC Gandhar petrochemicals complex in Gujarat. This furnace would expand one of the four Stone & Webster USC-24W cracking furnaces and raise the installed capacity at Gandhar to 400 KTA of ethylene. SWR's scope includes high-end Detailed Engineering and Design, including preparation of Design Documents based on the NC furnace package, suitably modified to suit the GC conditions and pipe rack elevations; update of drawings to "as built" and to "as purchased" conditions and, in addition, design of balancing new equipment including developing and finalizing interconnecting P&IDs, etc. The scope also includes Procurement Assistance/ Engineering and Construction Management. The project has already begun and mechanical completion is planned by early 2006.

JV to fetch a great value proposition

This JV is expected to add tremendously in terms of revenue and visibility as it grows in a couple of years -- starting from Rs.50m in FY05, to about Rs.100m to 150m in FY06, and Rs.250m in FY07, implying a 123% CAGR.

Concerns

Related to the economic cycles of user-industries

Demand for the products and services in the industries to which the company markets its products and services is cyclical and vulnerable to downturns. Demand for the company's services depends on global economic conditions and the company may be faced with an adverse situation in an economic downturn at home or internationally. It expects that its various combination of solutions and services spread over the IT, Engineering, Software, GIS, PDA, eSecurity, and eBusiness fields and its multitudinous customers across government agencies and PSUs, etc., normally insulate its performance from a downturn in any one market.

Higher margins than its peers

As explained by the company

The low staff-cost-to-sales ratio (than other IT companies) is because sales where major orders are concerned include the cost of procured hardware and software (which may not be the case with other companies). This is evident from the fact that material cost invariably makes up about 20% of sales. In line with this, gross margins should be calculated by considering both staff costs and material costs. Then, the gross margin should work out substantially lower than the 83% as calculated normally.

Table 2: Gross Profit Margins

(Rs.m)

Particulars	18 months ending 30.06.03	Year ending 30.06.04	Year ending 30.06.05
Sales	3,778	2,923	3,459
Material Cost	520	722	680
Staff Cost	679	499	566
Gross Profit	2,617	1,796	2,213
<i>Gross Profit Margin (%)</i>	<i>69.3</i>	<i>61.5</i>	<i>64.0</i>

Table 3: Revenue, Cost and GPM

	Jun-04 Q4FY04	Sep-05 Q1FY05	Dec-05 Q2FY05	Mar-05 Q3FY05	Jun-05 Q4FY05
Net Sales	964	750	801	887	1,021
Total Expenditure	490	314	404	470	700
Raw Materials	328	72	78	109	421
<i>QoQ Growth</i>	43.9	(78.2)	9.4	39.0	287.2
<i>As a % of Sales</i>	34.0	9.5	9.8	12.3	41.3
Stock Adjustment	(32)	34	126	162	56
Employee expenses	131	145	143	148	131
<i>QoQ Growth</i>	0.2	11.3	(1.9)	3.6	(11.5)
<i>As a % of Sales</i>	13.5	19.4	17.8	16.6	12.8
Others	63	63	57	52	92
<i>As a % of Sales</i>	6.5	8.3	7.2	5.9	9.0
Operating Profits	474	436	397	417	320
Profitability					
<i>GPM (%)</i>	86.5	80.6	82.2	83.4	87.2
<i>GPM as defined by the Co. (%)</i>	52.5	71.1	72.4	71.1	45.9
<i>OPM (%)</i>	49.2	58.2	49.6	47.0	51.3

Source: Company

The company explains the higher operating margins thus: in markets like GIS and Plant Design Automation where it operates, it enjoys a 70% to 80% market share. It not only has the 'first-mover advantage' but the solutions and services offered, not being of the "me too" variety, result in higher margins. The company also states that it had executed prime orders for customized software and solutions. These require upgrades from time to time, on which normally high margins ensue.

Table 4: Operating Profit Margin
(Rs.m)

Particulars	18 months ending 30.06.03	Year ending 30.06.04	Year ending 30.06.05
Gross Profit	2,617	1,796	2,213
Other Expenses	304	213	264
Operating Profit	2,275	1,489	1,570
Operating Profit Margin	60.2	50.9	45.4

Extremely high debtors - unlike a software company

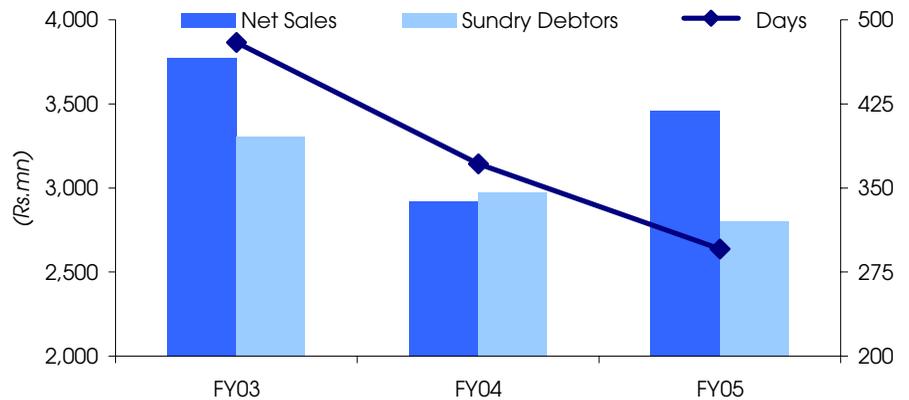
The company explains that Rolta implements major projects for government agencies and overseas customers. These involve the development/ provision of CAD/ CAM/ GIS solutions and technologically intensive IT services. These services are provided to installations scattered over the country and in various global regions. Payment for these contracts are linked to completion of not only various individual milestones but also the entire project. The company states that, as such, there is a mismatch between delivery/ billing schedules and payment schedules. This invariably leads to an extended payment cycle. The company consciously avoids interim payments since receipt of such advance payments is accompanied by stringent contractual terms and submission of bank guarantees. It has factored the extended receivables cycle into its pricing. Besides, business is conducted with relatively credit-worthy customers and, hence, the receivables are relatively safe.

Constructive modification outlining our estimation for a re-rating

Better management of working capital already bearing fruit

The company also points out that its receivables slid considerably -- from nearly 15 months of sales in June '03 to 12 months in June '04 and to about 10 months in FY05. Similarly, it is pushing measures to reduce inventory - from 100 days in June '03 to 75 days in June '04. This has been considerably reduced to 20 days in FY05, reflecting overall effective working capital management.

Chart 3: Sales, Debtors and DSOs



Source: Company data, PL research

Turnaround in subsidiaries will aid performance

Rolta has six subsidiaries (five 100%; one 75% Rolta-owned). In FY05, losses stood reduced to Rs.138m (from Rs.180m in FY04). With changes in the management structure of the subsidiaries in 2003 and 2004, they are expected to improve their financials. As these losses are reduced over time and the joint venture with Stone & Webster start contributing meaningfully, consolidated financials will stand to improve.

Borrowings to decline over the next four years

Rolta plans to repay nearly Rs.1,300m over the next four years according to the agreed terms of the foreign currency loans. It has already repaid a part, and outstanding term loans have been reduced to Rs.1,840m in June '04. We expect them to slide further, to about Rs1,580m in FY05. Further, a major part of the borrowings are by way of foreign currency loans and, with the hedging arrangements entered into, these loans cost not more than 4% to 5% a year. Also, the company is hopeful of availing of lower working capital loans from banks, considering the cash projected to be generated from its operations.

Conclusion

Most utilities and telecoms companies worldwide are in the process of replacing traditional Digital Elevated Models (DEM) generation with LIDAR DEMs. The cost-effectiveness of outsourcing large-scale GIS data maintenance and web enabling of Geo Spatial data for taking GIS into public access will be the demand drivers in the immediate future in this segment.

In the plant and mechanical design domain, with the growing geographical spread of all aspects of design, manufacturing and distribution, users need an effective methodology, enterprise-wide, to handle the entire life cycle. Rolta with the combined expertise of its three SBGs (GeoSpatial, Engineering Design and eSolutions) is uniquely poised to seize these opportunities.

Valuations

We believe that Rolta has been leading an effective turnaround by focusing on raising earnings and developing leaders. Its foray into the EDA space in conjunction with a global leader will present immense business opportunities and open up prospects.

Besides generating healthy cash flows (Rs.1,136m in FY05), it has to its credit a healthy dividend payout policy. Over the last three years, dividend payout has consistently ranged from 18% to 24% of profits.

Based on our estimates, the stock of the consolidated company (with all its subsidiaries) trades at 8.7x FY06E earnings, 5.9x FY06E EV/EBITDA, and 2.2x FY06E EV/sales. The company aims at a CAGR of 24% in revenue and 34% in net profit in the next three years. The valuations are indeed compelling.

In Rolta, we believe is a business with much to offer to customers - if it can truly focus on the huge offerings in the market, repair its perception among investors, expand its footprint in EPC, and crystallize its value proposition.

We recommend a BUY, with a target of Rs.300 (at 12x FY07 estimates).

Annexure I A

GeoEngineering/ GIS Services

Aero-triangulation - Rolta utilizes an automated aero-triangulation package for triangulation, thereby minimizing manual work and operator intervention. Its approach combines point selection, point measurement, point transfer, and block adjustment in a single process.

High-end digital photogrammetry - For over a decade it has been providing solutions in digital photogrammetry. With extensive experience at the management level, highly trained staff and the latest equipment/ software, Rolta is well equipped to provide the full range of services in digital photogrammetry. Its approach in designing the workflow for a project ranges from aerial photography and ground signalization to stereo compilation and orthophoto generation. Before commencing any stereo compilation project, an initial project review is conducted to analyze the needs and expectations of a client. All standards and specifications are documented in compliance with ISO 9001:2000 certified process, to ensure a smooth production flow.

Planimetry compilation/ Vector compilation - A state-of-the-art feature-collection software package is used, utilizing screen-based, icon-driven menus to provide a user interface designed for easy map production. A feature-based table allows the technician to define a series of map symbols and manage them, job-by-job. Rolta's quality control process uses automated rules that define the editing steps; therefore, special technician/ engineer intervention is not always required.

Digital Terrain/ Elevation Models (DTM/ DEM) For Digital Terrain/ Elevation Modelling, breakline features with supplemental random mass points are collected to maintain mapping accuracy. In order to assure that contours meet the required accuracy stipulations, a Digital Terrain Model (DTM) is prepared which far exceeds these standards. Each breakline and mass point is directly measured from the aerial photographs, in stereo, to assure the accuracy and integrity of the final surface. The optional automatic procedure extracts DTM points from digital aerial and satellite stereo images. This yields high overall accuracy because it generates a large number of DTMs by sifting through a pyramidal data structure and robust terrain modelling.

Digital orthophotography - Ortho-rectification is a process of removing the effects of tilt, relief and many of the lens aberrations from standard perspective photographs. An orthophoto is a visual depiction of a tract of land while simultaneously providing the viewer with details about the land. To create a digital orthophoto that most closely achieves the resolution of the continuous tone original aerial image, it employs a variety of image enhancement and edge-sharpening routines using special image-processing techniques. The study area or area of interest (AOI) may span several orthophoto images. It is necessary to combine several mosaic-like orthoimages into a final deliverable orthoimage file. The process includes contrast-matching and edge-feathering to ensure a virtually seamless mosaic. Many images are mosaic-ed together and re-sampled to produce an overview image file to supplement the original orthoimages. Accuracy is measured by comparing the rectified position of the ground control point to its true coordinates.

Image analysis/ Interpretation - With greater resolution, lower cost and easy availability, high-resolution satellite data is becoming a popular choice for large-scale mapping projects. High-resolution satellites (IKONOS/ Quick Bird) render it easier and more cost-effective to create or update land-based features (buildings, streets, vegetation, water, etc. Rolta has substantial technical resources, with extensive knowledge and experience to handle such digital remote-sensing data. It has carried out many projects handling high-resolution satellite images for mapping.

Cadastral/ Parcel mapping - One of the most important components of a Geographic Information System is an accurate map delineating land-parcel ownership. Many entities have strict requirements for this mapping, as an accurate cadastral map is commonly a primary tool in the assessment of land values for tax.

Rolta has converted over one million parcels, using digital conversion of a new tax parcel/ orthophoto manuscript into a topologically structured GIS format. It has the knowledge and experience to assemble cadastral maps to comply with local/national standards of a client, using various coordinate systems, survey systems, and property information records. It has the skills and experience needed to get your cadastral mapping project done right from the first time. The company's commitment to quality and innovation provides unsurpassed functionality in cadastral mapping.

Electronic navigational charts (ENC) - Rolta offers a complete range of electronic navigational services, including producing ENCs from original paper/ digital source material, converting them to the IHO Standard S-57 format, and paper / raster chart creating and updating.

GIS database design and development - Rolta has more than a decade's experience in creating and "manipulating" various GIS databases. With the experience of converting most commercial GIS software packages and in-house knowledge utilized for such large projects, it is the ideal choice for GIS database design, translation or re-projection services.



Map creation, updating and map finishing - The Intergraph Map Creation/Finishing software is used for complete raster map composition to incorporate title block data and other surrounding information. A variety of grids, labels, scale bars, north arrows, legend and other annotation features can be added to the final raster file. Vector overlay data is also directly merged with the image before translating to final deliverable format.

Facilities mapping, data conversion and format translation - Rolta, equipped with the latest in data capture technologies, prides itself on employing staff committed to CAD and GIS Data Conversion services for facilities. Markets served include telephones (inside plant outside plant), electric, natural gas, water, wastewater, cable TV and fiber. Supported CAD and GIS platforms include ArcInfo, ArcView, ArcFM, ArcSDE, Autocad, Intergraph FRAMME, Intergraph G/Technology, MicroStation, Oracle, GE Smallworld and Vision.

Annexure I B

Engineering Design Automation Services

PDS promotes creation, sharing, exchange and the best use of engineering data

Plant and facility owner/operators and engineering, procurement, and construction (EPC) organizations are fast discovering that they need effective solutions for the management of their engineering information. Only then can they properly track the evolving configuration of their plants from conception, through construction, operation, maintenance and revamps, to eventual decommissioning. The potential benefits arising from the effective management of engineering information are enormous, and competitive pressures are such that companies recognize the compelling need to invest in this area to survive and prosper.

Rolta's Engineering Design Automation division provides the following Plant Design Automation services:

Engineering Information Management - Services to O/Os for integrating their engineering information.

Customisation & Technical Services - Services to EPCs for the complete range of Intergraph Plant Engineering Solutions.

Detail Engineering & Intelligent 3D Modeling - Services to both EPCs and O/Os covering all disciplines of Plant Engineering.

Materials Control and Management - Rolta offers a wide range of services using MARIAN for Material control and Management for ongoing projects.

Plant Information Management - Services to EPCs and O/Os for creating a Plant Data Warehouse to capture and maintain plant engineering information during the life of the plant.

Mechanical Design Automation and Product life-cycle management Services

Globalisation and fast evolving technologies are changing the products and processes faster than ever before. CAD/CAM/CAE/PLM is a widely accepted methodology for virtual product development. This has changed the face of engineering design from traditional drawings creation to modern computer aided design center. Rolta offers a full range of services to help customers make their design process cost-effective, and to reduce design-to-market time. State-of-the-art facilities and highly skilled and competent engineers are Rolta's commitments to its clients. Rolta specializes in providing Mechanical Design Automation services using the world's leading software's from PTC, Autodesk, EDS and a variety of other tools.



Annexure II

e-Business Solutions and Services.

Rolta' eSolutions comprise comprehensive premium technical customization services and solutions in eBusiness. The company provides a comprehensive range of high-end technology services in the areas of Enterprise Management, Security Management, Storage Management, Service Management, Rapid Application Development, and Software Testing. Rolta is among the top three premier worldwide global service partners of Computer Associates (CA). CA is the world leader in providing solutions for Enterprise wide Security and Network Management.

This SBG also operates Mumbai's premier Internet Service Provider (ISP) under the brand name RoltaNet and provides other value-added services including server co-location/hosting, an eSecurity portal, a wide range of network security services and a variety of smart-card based IT access solutions.

Profiles - Annexure III A

Who is Stone & Webster?

Two electrical engineers Charles Stone and Edwin Webster founded Stone & Webster as an electrical testing lab and consulting firm in 1889 in Boston, Massachusetts. Today, it is the one of the world's most experienced engineering and construction companies, providing engineering, procurement and construction (EPC) services and is a global leader in developing, engineering, designing and constructing facilities supporting domestic and international power generation.

Stone & Webster is part of the Shaw Group, a leading industrial pipe fabricator in the US. Through bargain buys of other companies (including environmental firm The IT Group), the Shaw Group has positioned itself as one of the largest engineering and construction contractors for power generation, as well as one of the top environmental services firms. It focuses not only on power generation but also on serving chemicals and petrochemicals, refineries, and process industries. In addition, Shaw has continued its pipe fabrication operations, including specialty pipe-fittings and pipe support systems.

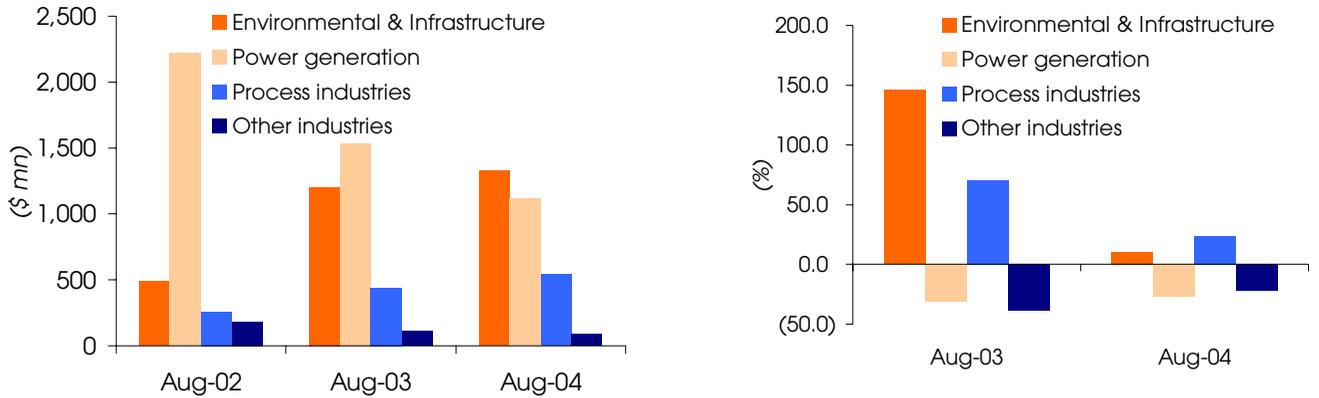
Stone & Webster has full service offices in Boston, Atlanta, Cherry Hill (New Jersey), Denver, Houston and Washington in the USA and major operations in the UK, Canada, and Saudi Arabia. Other locations include India, Malaysia, Oman, Taiwan, Thailand and the UAE. It also has foreign representatives in 13 countries: Argentina, Bangladesh, Brazil, Chile, China, Egypt, France, Greece, Italy, Japan, Mexico, Peru and Turkey.

<i>Company</i>	<i>Shaw Group</i>
Year end	August
Revenues (FY04)	\$3,077m
Net income (FY04)	\$31m
Number of employees	17,200

The company has been active in nuclear power for private utilities and governments and is a leader in nuclear decommissioning and decontamination. It employs proprietary process technology to provide cost-effective solutions for petrochemicals, refining and gas processing applications for the global process engineering and construction market. In other words, it provides engineering, construction and consulting services to federal facilities and environmental remediation, water and wastewater and transportation markets, and is a complete service provider to the chemicals and fibers, pipeline, telecommunications, energy services and manufacturing operations.

In addition, Stone & Webster's management consulting subsidiary assists clients in deregulating and restructuring domestic and global gas, power and water industries. Through a subsidiary, Stone & Webster operates the largest public refrigerated warehouse distribution system in the southeastern United States. Another subsidiary develops and markets engineering software to reduce cycle times and improve product quality.

Chart 4: Shaw group's industry-wise revenue break-up and YoY growth



Source: Company Data, PL Research

Chart 5: Shaw group's geographical revenue break up and YoY growth



Source: Company Data, PL Research

Annexure III B

Profile of Intergraph

Intergraph Corp. (NASDAQ:INGR) is the leading global provider of spatial information management (SIM) software. Security organizations, businesses and governments in more than 60 countries rely on the company's spatial information technology and services to make better and faster operational decisions. It organizes vast and complex data into understandable visual representations, creating intelligent maps, managing assets, building and operating better plants and ships and protecting critical infrastructure and millions of people around the world.

DirectTech's survey suggests that Intergraph has a 45% market share of the global SIM software market, with Aviva being the next in line with an 18% market share. In India, Intergraph has an almost 80% market share.

Intergraph Process, Power and Marine has become the industry leader in plant design, and evolved into the leading provider of integrated plant life-cycle engineering solutions. Since its first solution for plant design (in 1978), Intergraph has focused on developing the premier plant-design solution-one that would enable clients to use integrated applications to execute projects or run plants more efficiently and effectively.

Since its introduction, the SmartPlant suite has grown to include SmartPlant P&ID, SmartPlant Electrical, SmartPlant Review, SmartPlant 3D, and SmartPlant Foundation. With the acquisition of INtools® in 1999 and MARIAN® in 2001, the company offers a full suite of solutions for EPCs and O/Os that support global workflows, allowing users to create logical and physical definitions of the plant model, and enabling access and re-use of plant data throughout the life cycle.

Timeline

1978 - Offered first piping application for plant design
1979 - Introduced process and instrumentation application
1980 - Introduced fully integrated plant design technology for the VAX
1984 - Launched Plant Design System (PDS®)
1991 - Ported PDS to UNIX
1992 - Announced strategy to move plant design and information management solutions to Microsoft® Windows NT®
1994 - Delivered PDS on Windows NT
1997 - Introduced SmartPlant®, a new generation of engineering solutions
1998 - Introduced Notia™, the first industry standard plant data warehouse
1999 - Acquired INtools®
2001 - Acquired MARIAN®
2002 - Introduced SmartPlant Electrical
2003 - Launched SmartPlant 3D
2003 - Acquired Pelican Forge

**Income Statement**

(\$ m)

	Dec 04	Dec 03	Dec 02
Revenues	551.1	527.3	501.2
Cost of Goods Sold	246.3	248.4	242.0
Gross Profit	304.8	278.9	259.2
<i>Gross Profit Margin (%)</i>	<i>55.3</i>	<i>52.9</i>	<i>51.7</i>
SG&A Expense	240.8	234.7	223.6
Depreciation & Amortization	29.0	25.7	25.2
Operating Income	35.0	18.5	10.4
<i>Operating Margin (%)</i>	<i>6.4</i>	<i>3.5</i>	<i>2.1</i>
Nonoperating Income	199.8	13.7	20.5
Nonoperating Expenses	0.0	0.0	0.2
Income Before Taxes	234.0	28.2	469.2
Income Taxes	75.0	5.0	91.1
Net Income After Taxes	159.0	23.2	378.1
Continuing Operations	159.0	23.2	377.8
Discontinued Operations	0.0	0.0	0.0
Total Operations	159.0	23.2	377.8
Total Net Income	159.0	23.2	377.8
<i>Net Profit Margin (%)</i>	<i>28.9</i>	<i>4.4</i>	<i>75.4</i>
Diluted EPS from Continuing Operations (\$)	4.37	0.49	7.47
Diluted EPS from Discontinued Operations (\$)	0.00	0.00	0.00
Diluted EPS from Total Operations (\$)	4.37	0.49	7.47
Diluted EPS from Total Net Income (\$)	4.37	0.49	7.47
Dividends per Share	0.00	0.00	0.00

Balance Sheet

(\$ m)

	Dec 04	Dec 03	Dec 02
Assets			
Cash	225.0	265.8	490.1
Net Receivables	155.2	150.9	152.2
Inventories	22.3	15.4	19.4
Other Current Assets	151.6	37.7	55.7
Total Current Assets	553.9	469.8	717.4
Net Fixed Assets	50.6	51.1	50.8
Other Noncurrent Assets	46.0	51.5	67.4
Total Assets	650.5	572.4	835.6
Current Liabilities			
Accounts Payable	20.9	23.1	17.9
Short-Term Debt	0.3	0.0	0.2
Other Current Liabilities	163.5	155.6	178.6
Total Current Liabilities	184.8	178.6	196.7
Long-Term Debt	0.9	0.0	0.0
Other Noncurrent Liabilities	0.3	0.5	1.0
Total Liabilities	201.2	192.7	214.0
Shareholders' Equity			
Preferred Stock Equity	0.0	0.0	0.0
Common Stock Equity	449.3	379.9	621.7
Total Equity	449.3	379.9	621.7
Shares Outstanding (mil.)	33.1	36.2	46.2

Source: http://beta.hoovers.com/intergraph/--ID__13799,period_Q--/free-co-fin-income.xhtml



Financials - Standalone

Quarterly Table

(Rs.m)

Y/e June	Q4FY05	Q3FY05	QoQ(%)	Q4FY04	YoY(%)	H2FY05	H2FY04	YoY(%)	FY04	FY05	YoY(%)
Net Sales	1,021	887	15.1	964	5.9	1,908	3,775	(49.5)	3,459	2,923	18.3
Total Expenses	700	470	48.9	490	43.0	1,171	1,503	(22.1)	1,888	1,435	31.6
Raw Material	421	109	287.2	328	28.6	530	479	10.7	680	627	8.4
Stock Adjustment	56	162	(65.2)	(32)		218	41	431.5	378	95	299.6
Personnel	131	148	75.9	131	-	278	679	(59.0)	566	499	13.3
Others	92	52	75.9	63	46.3	144	304	(52.5)	264	213	23.9
Operating Profits / EBITDA	320	417	(23.1)	474	(32.5)	737	2,272	(67.6)	1,570	1,489	5.5
Depreciation	21	122	(83.1)	190	(89.1)	143	829	(82.7)	449	562	(20.0)
EBIT	300	294	1.8	284	5.4	594	1,443	(58.8)	1,121	927	20.9
Interest	30	31		22	37.7	62	269	(77.1)	109	103	5.3
EBT before Other Income	269	263	2.4	262	2.7	532	1,174	(54.7)	1,013	824	22.9
Other Income	12	23	(50.2)	(38)	(130.3)	35	57	(39.2)	103	88	17.3
PBT	281	286	(1.9)	224	25.5	567	1,232	(53.9)	1,116	912	22.3
Tax	33	15	122.7	56	(40.7)	48	105	(53.9)	83	106	(21.5)
PAT before Extraordinaries	248	271	(8.8)	168	47.7	519	1,127	(53.9)	1,032	806	28.1
Extraordinaries	-	-		-		-	(24)		-	(2)	(100.0)
PAT after Extraordinaries	248	271	(8.8)	168	47.7	519	1,102	(52.9)	1,032	808	27.8
Key Ratios											
OPM (%)	31.4	47.0		49.2		38.6	60.2		45.4	50.9	
NPM (%)	24.3	30.6		17.4		27.2	29.8		29.8	27.6	
*Adjusted EPS (Rs.)	3.9	4.3	(8.8)	2.6	47.7	8.1	17.7	(30.9)	16.2	12.7	28.1

Income Statement

(Rs.m)

Y/e June	FY04	FY05	FY06E	FY07E
Net Sales	2,923.0	3,458.5	4,254.0	5,274.9
Total Expenses	1,434.5	1,888.1	2,090.0	2,490.0
Raw Material	627.4	680.0	850.0	1,000.0
Stock Adjustment	94.6	378.0	200.0	150.0
Personnel	499.4	566.0	720.0	920.0
Others	213.1	264.1	320.0	420.0
Operating Profits / EBITDA	1,488.5	1,570.4	2,164.0	2,784.9
Depreciation	561.5	449.4	690.0	820.0
EBIT	927.0	1,121.0	1,474.0	1,964.9
Interest	103.0	108.5	120.0	120.0
EBT before Other Income	824.0	1,012.5	1,354.0	1,844.9
Other Income	88.0	103.2	100.0	100.0
PBT	912.0	1,115.7	1,454.0	1,944.9
Tax	106.2	83.4	120.0	200.0
PAT before Extraordinaries	805.8	1,032.3	1,334.0	1,744.9
Extraordinaries	(1.9)	-	-	-
PAT after Extraordinaries	807.7	1,032.3	1,334.0	1,744.9

Balance Sheet
(Rs.m)

Y/e June	FY04	FY05	FY06E	FY07E
Net Worth	5,105.4	5,271.5	6,314.9	7,732.9
Equity capital	636.9	636.9	636.9	636.9
Reserves & surplus	4,468.5	4,634.6	5,678.0	7,096.0
Total borrowings	2,227.6	1,750.0	1,488.0	1,100.0
Deferred Tax Liability	187.0	170.0	170.0	170.0
TOTAL LIABILITIES	7,520.0	7,191.5	7,972.9	9,002.9
Gross block	4,810.3	6,620.0	7,500.0	8,400.0
Less: Accumulated deprec.	2,519.6	3,610.0	4,300.0	5,120.0
Net Block	2,290.7	3,010.0	3,200.0	3,280.0
CWIP	365.2	420.0	450.0	500.0
Investments	928.0	920.0	1,020.0	1,100.0
Current assets	4,663.9	3,800.0	4,302.6	5,169.5
Inventories	602.5	190.0	190.0	230.0
Sundry debtors	2,975.9	2,800.0	3,200.0	3,000.0
Cash & Bank	348.4	260.0	412.6	739.5
Others	737.1	550.0	500.0	1,200.0
Less: Current liab. & prov.	728.5	958.3	999.8	1,046.6
Sundry creditors	83.0	150.0	160.0	120.0
Other current liab.	294.5	420.0	400.0	400.0
Provisions	351.0	388.3	439.8	526.6
Net current assets	3,935.4	2,841.7	3,302.9	4,122.9
TOTAL ASSETS	7,519.3	7,191.7	7,972.9	9,002.9

Cash Flow
(Rs.m)

Y/e June	FY04	FY05	FY06E	FY07E
EBIT	92.7	112.1	147.4	196.5
Taxes on EBIT	7.2	4.4	8.2	16.2
Change in deferred taxes	-	-	-	-
NOPLAT	85.5	107.7	139.2	180.3
Depreciation	56.2	44.9	69.0	82.0
Gross Cash Flow	141.6	152.7	208.2	262.3
Increase in Working capital	(31.7)	(100.5)	30.9	49.3
Capital Expenditure	114.0	186.5	91.0	95.0
Equity Dividend	19.1	22.3	25.5	28.7
Preference Dividend	-	-	-	-
Gross Investments	12.7	(0.8)	10.0	8.0
Operating Free Cash Flow	27.5	45.3	50.9	81.4
non-operating cash flow	-	-	-	-
Free Cash Flow	27.5	45.3	50.9	81.4
Free Cash Flow per share	4.3	7.1	8.0	12.8
Price / FCF per share	37.8	23.0	20.5	12.8

Key Ratios

Y/e June	FY04	FY05	FY06E	FY07E
Ratios				
EPS (Rs.)	12.7	16.2	20.9	27.4
CEPS (Rs.)	21.5	23.3	31.8	40.3
BVPS (Rs.)	80.2	82.8	99.2	121.4
Dividend per share (Rs)	3.0	3.5	4.0	4.5
<i>Dividend pay out (%)</i>	26.7	24.6	21.8	18.7
Growth Ratios (%)				
<i>Revenues</i>	16.1	18.3	23.0	24.0
<i>Total Expenses</i>	43.2	31.6	10.7	19.1
<i>EBITDA</i>	6.0	5.5	37.8	28.7
<i>Other Income</i>	130.0	17.3	(3.1)	-
<i>APAT</i>	6.0	27.8	29.2	30.8
Profitability Ratios (%)				
<i>RoACE</i>	21.8	22.8	29.9	34.0
<i>RoANW</i>	16.8	19.9	23.0	24.8
<i>EBITDA margins</i>	50.9	45.4	50.9	52.8
<i>Net Profit Margins</i>	27.6	29.8	31.4	33.1
Turnover & Calitalization ratios				
Debtors (days)	372	296	275	208
Sales / Gross Block (x)	0.7	0.6	0.6	0.7
Leverage Ratios				
Debt / Equity	0.4	0.3	0.2	0.1
Valuation Ratios				
Price (Rs.)	163.55	163.55	163.55	163.55
PE (x)	12.9	10.1	7.8	6.0
Cash PE (x)	7.6	7.0	5.1	4.1
Price / BV	2.0	2.0	1.6	1.3
EV / EBITDA (x)	8.3	7.6	5.3	3.9
EV / Net Sales (x)	4.2	3.4	2.7	2.0
Mcap / Net Sales (x)	3.6	3.0	2.4	2.0
<i>Dividend yield (%)</i>	1.8	2.1	2.4	2.8
<i>Effective tax rate (%)</i>	11.6	7.5	8.3	10.3

Financials - Consolidated

Income Statement

(Rs.m)

Y/e June	FY04	FY05	FY06E	FY07E
Net Sales	3,505.6	4,145.9	4,975.1	6,169.1
Total Expenses	2,147.8	2,672.3	3,084.3	3,580.6
Raw Material	949.2	938.7	970.0	1,020.0
Stock Adjustment	93.1	378.0	350.0	300.0
Personnel	744.9	899.0	1,144.3	1,480.6
Others	360.6	456.6	620.0	780.0
Operating Profits / EBITDA	1,357.8	1,473.6	1,890.8	2,588.5
Depreciation	613.0	488.6	580.0	800.0
EBIT	744.8	985.0	1,310.8	1,788.5
Interest	107.9	115.8	120.0	120.0
EBT before Other Income	636.9	869.2	1,190.8	1,668.5
Other Income	94.8	110.9	120.0	120.0
PBT	731.7	980.1	1,310.8	1,788.5
Tax	106.9	86.1	120.0	200.0
PAT before Extraordinaries	624.8	894.0	1,190.8	1,588.5
Extraordinaries	(13.6)	(8.1)	(7.0)	(6.0)
PAT after Extraordinaries	638.4	902.1	1,197.8	1,594.5

Balance Sheet

(Rs.m)

Y/e June	FY04	FY05	FY06E	FY07E
Net Worth	4,546.1	4,566.9	5,474.1	6,741.7
Equity capital	636.9	636.9	636.9	636.9
Reserves & surplus	3,909.2	3,930.0	4,837.2	6,104.8
Total borrowings	2,356.7	1,858.1	1,358.1	1,208.1
Deferred Tax Liability	186.5	170.0	170.0	170.0
TOTAL LIABILITIES	7,089.3	6,595.0	7,002.2	8,119.8
Gross block	5,303.2	7,120.0	8,000.0	8,900.0
Less: Accumulated depn.	2,766.6	3,890.0	4,470.0	5,270.0
Net Block	2,536.6	3,230.0	3,530.0	3,630.0
CWIP	365.2	420.0	450.0	500.0
Investments	62.9	-	-	-
Goodwill	68.5	64.0	64.0	64.0
Current assets	4,894.7	3,991.0	4,178.0	5,192.5
Inventories	604.0	190.0	150.0	200.0
Sundry debtors	3,151.6	2,890.0	3,000.0	3,550.0
Cash & Bank	507.7	337.6	588.0	842.5
Others	631.4	573.4	440.0	600.0
Less: Current liab. & prov.	838.6	1,110.0	1,219.8	1,266.6
Sundry creditors	104.4	170.0	180.0	140.0
Other current liab.	374.9	470.0	450.0	450.0
Provisions	359.3	470.0	589.8	676.6
Net current assets	4,056.1	2,881.0	2,958.2	3,925.8
TOTAL ASSETS	7,089.3	6,595.0	7,002.2	8,119.8

**Cash Flow***(Rs.m)*

Y/e June	FY04	FY05	FY06E	FY07E
EBIT	74.5	98.5	131.1	178.9
Taxes on EBIT	7.0	4.3	7.4	15.4
Change in deferred taxes				
NOPLAT	67.4	94.2	123.7	163.5
Depreciation	61.3	48.9	58.0	80.0
Gross Cash Flow	128.7	143.0	181.7	243.5
Increase in Working capital	(47.8)	(100.5)	(17.3)	71.3
Capital Expenditure	114.3	187.2	91.0	95.0
Equity Dividend	19.1	22.3	25.5	28.7
Preference Dividend	-	-	-	-
Gross Investments	6.3	(6.3)	-	-
Operating Free Cash Flow	36.8	40.4	82.5	48.5
non-operating cash flow		-	-	-
Free Cash Flow	36.8	40.4	82.5	48.5
Free Cash Flow per share	5.8	6.3	13.0	7.6
Price / FCF per share	28.3	25.8	12.6	21.5

Key Ratios

Y/e June	FY04	FY05	FY06E	FY07E
Ratios				
EPS (Rs.)	10.0	14.2	18.8	25.0
CEPS (Rs.)	19.6	21.8	27.9	37.6
BVPS (Rs.)	71.4	71.7	85.9	105.9
Dividend per share (Rs)	3.0	3.5	4.0	4.5
<i>Dividend pay out (%)</i>	33.8	28.2	24.3	20.5
Growth Ratios (%)				
Revenues	31.1	18.3	20.0	24.0
Total Expenses	61.8	24.4	15.4	16.1
EBITDA	0.8	8.5	28.3	36.9
Other Income	157.1	17.0	8.2	-
APAT	18.6	41.3	32.8	33.1
Profitability Ratios (%)				
RoACE	21.1	23.2	29.6	35.8
RoANW	14.7	19.8	23.9	26.1
EBITDA margins	38.7	35.5	38.0	42.0
Net Profit Margins	18.2	21.8	24.1	25.8
Turnover & Calitalization ratios				
Debtors (days)	328	254	220	210
Sales / Gross Block (x)	0.7	0.7	0.7	0.7
Leverage Ratios				
Debt / Equity	0.5	0.4	0.2	0.2
Valuation Ratios				
Price (Rs.)	163.55	163.55	163.55	163.55
PE (x)	16.3	11.5	8.7	6.5
Cash PE (x)	8.3	7.5	5.9	4.4
Price / BV	2.3	2.3	1.9	1.5
EV / EBITDA (x)	9.0	8.1	5.9	4.2
EV / Net Sales (x)	3.5	2.9	2.2	1.7
Mcap / Net Sales (x)	3.0	2.5	2.1	1.7
<i>Dividend yield (%)</i>	1.8	2.1	2.4	2.8
<i>Effective tax rate (%)</i>	14.6	8.8	9.2	11.2

Heads of Institutional Equities

Amisha Vora
Director – Sales
AmishaVora@PLIndia.com
91 22 5632 2204

Dilip Bhat
Director – Research
DilipBhat@PLIndia.com
91 22 5632 2200

Research

Oil & Gas, Petrochem, Telecom
Jaspreet Singh — Senior Analyst
JaspreetSingh@PLIndia.com
91-22-5632 2238

Banking
Rajesh Malhani — Analyst
RajeshMalhani@PLIndia.com
91-22-5632 2236

Pharmaceuticals
Rohita Sharma — Analyst
RohitaSharma@PLIndia.com
91-22-5632 2235

Metals & Mining, Power
Jigar Mistry — Analyst
JigarMistry@PLIndia.com
91-22-5632 2239

Information Technology
Parul Inamdar — Analyst
Parullnamdar@PLIndia.com
91-22-5632 2243

Textiles & Mid-Caps
Shailee Shah — Analyst
ShaileeShah@PLIndia.com
91-22-5632 2246

FMCG

Abhijeet Kundu — Analyst
AbhijeetKundu@PLIndia.com
91-22-5632 2233

Institutional Dealing/Sales

Abhijit Chakraborty – Institutional Sales
AbhijitChakraborty@PLIndia.com
91-22-5632 2202

Rahul Jain – Institutional Sales
RahulJain@PLIndia.com
91-22-5632 2203

Navin Roy – Institutional Sales
NavinRoy@PLIndia.com
91-22-5632 2205

Vijay Tilakraj – Chief Dealer
VijayTilakraj@PLIndia.com
91-22-5632 2208

PL's Recommendation Scale

BUY	: > 15% Outperformance to BSE Sensex	Outperformer	: 5 to 15% Outperformance to Sensex
Market Performer	: -5 to 5% of Sensex Movement	Underperformer	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt Ltd (PLPL) and is meant for use by the recipient and is not for circulation. This document is not to be reported or copied or made available to others without prior written permission of PLPL. It should not be considered to be or taken as an offer to sell or a solicitation to buy any security. The information contained in this report has been obtained from sources that are considered to be reliable and PLPL has not independently verified the accuracy or completeness. Neither PLPL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinions given, made or expressed herein or for any omissions herefrom. Recipients of this report should be aware that past performance is not necessarily a guide to future performance and the value of investments can go down as well as up. The suitability or otherwise of any investment will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent advisor. Either PLPL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication. We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

Prabhudas Lilladher Pvt. Ltd.

Corporate Office: 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.
Tel: (91 22) 5632 2222 Fax: (91 22) 5632 2209