Prabhudas Lilladher

Rolta India

Tracking growth

Visit Update

December 24, 2009

Rating	**Accumulate**
Price	Rs190
Target Price	Rs240
Implied Upside	26.3%
Sensex	17,231

(Prices as on December 21, 2009)

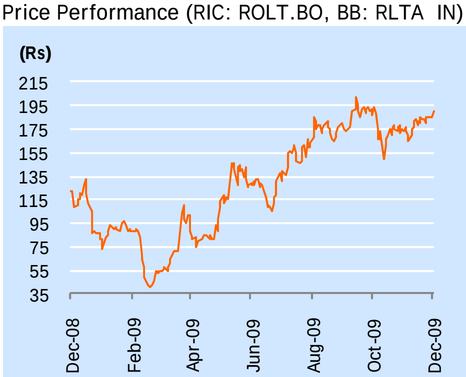
Trading Data	
Market Cap. (Rs bn)	30.6
Shares o/s (m)	160.9
Free Float	58.0%
3M Avg. Daily Vol ('000)	5,223.0
3M Avg. Daily Value (Rs m)	958.2

Major Shareholders	
Promoters	42.0%
Foreign	29.2%
Domestic Inst.	3.4%
Public & Others	25.4%

Stock Performance

(%)	1M	6M	12M
Absolute	9.0	47.7	56.4
Relative	8.4	28.2	(23.7)

Price Performance (RIC: ROLT.BO, BB: RLTA IN)



Source: Bloomberg

We met Rolta's CFO, Mr. Hiranya Ashar. We believe that as the order book of Rolta witness an improvement, the revenue visibility of the company would get better.

- **Strength of strategic ties and non-linear business model:** Rolta has strengthened its IP portfolio with Geospatial Fusion™, OneView™, iPerspective™ and SOA Today™, that has de-linked its model away from the linear growth model. Also, JVs with *Thales Group* and *The Shaw Group* have helped them bid for government projects and provide world-class service to its clients. We believe that solution driven growth when compared to service driven growth led by non-linear approach to revenue momentum, would help the company sustain its margin with revenue momentum.

- **Emerging market focus - strong growth potential:** We believe that Rolta's continued focus on emerging markets like India (~55% of total revenue) and the Middle-east (~20% of total revenue) would not only shield its revenue from currency fluctuation but also from global macro-economic volatility. The management said that they have no exposure to the current Dubai crisis.

- **Order book - improving revenue visibility:** The order book showed steady improvement over the last two quarters by 3.7% (Q4FY09) and 3% (Q1FY10) on QoQ basis when compared to dip of 2.5% in Q3FY09. The company guidance of 12-15% of revenue growth, with 33-35% of EBITDA margin has an upward bias as ~65% of guided revenue is in the order-book.

- **Valuation and Recommendation:** We believe that with the improvement in order book, the earnings visibility for the company would increase. The stock underperformed the CNXIT Index by ~16% over the last three months. We believe that the strong order book would boost the operational performance of the company. We reiterate '**Accumulate'** rating, with a target price of Rs240 and a target multiple of 13.0x FY11 earning.

Key financials (Y/e March)	**FY08**	**FY09**	**FY10E**	**FY11E**
Revenues (Rs m)	10,722	13,728	15,758	18,301
Growth (%)	*50.7*	*28.0*	*14.8*	*16.1*
EBITDA (Rs m)	3,897	4,635	5,518	6,382
PAT (Rs m)	2,306	2,938	2,530	2,965
EPS (Rs)	14.3	18.3	15.7	18.4
Growth (%)	*(33.5)*	*27.4*	*(13.9)*	*17.2*
Net DPS (Rs)	3.6	4.6	3.9	4.6

Source: Company Data; PL Research

Profitability & valuation	**FY08**	**FY09**	**FY10E**	**FY11E**
EBITDA margin (%)	*36.3*	*33.8*	*35.0*	*34.9*
RoE (%)	*20.6*	*22.3*	*16.5*	*17.1*
RoCE (%)	*12.7*	*13.3*	*9.8*	*10.7*
EV / sales (x)	3.3	2.9	2.4	2.1
EV / EBITDA (x)	9.0	8.5	7.0	5.9
PE (x)	13.3	10.4	12.1	10.3
P / BV (x)	2.8	2.3	2.1	1.8
Net dividend yield (%)	*1.9*	*2.4*	*2.1*	*2.4*

Source: Company Data; PL Research

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Strategic JVs and product portfolio – taking a non-linear approach

Rolta has strengthened its ability to provide innovative solution by striking strategic partnership with Thales and The Shaw Group. It has transformed its service offerings by providing solution based on the combination of its own IPR and services. We believe that the strategic joint-ventures and IPR have de-linked its revenue growth away from the linear model.

Rolta continued its earnings momentum by adopting partnership-driven approach that includes not only organic growth, but also strongly focuses on joint ventures and acquisition. We believe that these initiatives would help the company to achieve its guidance for FY10.

Joint Ventures: strengthening service offerings

Rolta's partnership driven growth helped the company to focus on specialized service offerings to its clients.

Shaw Rolta (SWRL): The JV with Shaw group, one of the leading EPCs, has helped Rolta to bid for some of the marquee names in oil & gas, refinery, petrochemical, and power sector (nuclear, hydro, and thermal). The JV contributes about US$20-25m annual revenue.

Rolta Thales (RTL): The JV with Thales facilitates Rolta to provide C4ISTAR and GOVINT systems for the Indian defence market. The JV, which helped the company to address the need of aerospace and security market, is expected to contribute to revenues in FY11.

JVs – strengthening service offerings

Joint-Ventures	Entity	Capability	Addressable market
Thales, France	Rolta Thales	Provide C4ISTAR solutions	Defence modernization programs of the Indian Armed Forces like Battlefield Management Systems, Tactical Communications System and Digital Soldier Systems
The Shaw Group	Shaw Rolta	Nuclear power design	Oil & Gas, refinery, petrochemical, and power sector (nuclear, hydro, and thermal)

Source: Company Data, PL Research

Business Mix – EGIS strong, EDOS back on track and EICT poised for growth

	EGIS	EDOS	EICT
Break-up	30% Defence, 38% Utilities/Telecom, 32% Civilian Govt	45% Oil &Gas, 40% Power, 15% Others	
Geographical Spread	India-62%, Export 38%	India 27%, Export 73%	India 15%, Export 85%
Billing Rate	US$18-20/hr	US$25-28/hr	US$145-155/hr
Growth driver	Good response for IP, expect margins to go up, steady demand environment	Opex plan of Oil&Gas, capex plan of Indian power sector	IT spend picking up in the US and other developed economies

Source: Company Data, PL Research

Strategic acquisitions & IP: filling the gap and taking a non-linear approach

Rolta has made strategic acquisitions and acquired some key IPR to strengthen its product portfolio. It has acquired Orion Technology, TUSC and Whittman-Hart consulting over the last three years. It has also fortified its product offering in all the key services offerings they have. We believe that the IP led revenue growth would help the company to de-link the revenue growth from the employee addition.

Inorganic strategy – help building IP portfolio

Acquisition Target	Capabilities Acquired
Orion Technologies	Software and integration company specializing in enterprise web-GIS solutions
TUSC	ERP Application, Fusion Middleware and core Database Technology based on Oracle application
WhittmanHart Consulting (Infinis)	Enterprise Performance Management, Business Intelligence domain on the oracle database
Piocon Technologies	Decision Support platform and modules (Rolta OneView)

Source: Company Data, PL Research

We believe that the demand for customized IP solution (including business intelligence software) would increase as companies try to cope with uncertainty in demand environment. We anticipate increased demand for Rolta's IP in line with demand for other solutions. It is an area that will require reassessment as events shake out in 2010.

IP led solution offering

Product portfolio	Capability
Geospatial Fusion™	Fusion of disparate geospatial, non-spatial database and software applications for generating real time reports, resulting in implementation of a decision support system
OneView™	Enables CXOs to view power plant operations as one fully connected ecosystem and provides operational and reliability excellence
iPerspective™	Business intelligence data aggregator (patent filed in the US)
SOA Today™	Storing information in disparate databases and heterogeneous platforms securely available and reusable across the enterprise

Source: Company Data, PL Research

Non-linear growth: enhancing employee productivity

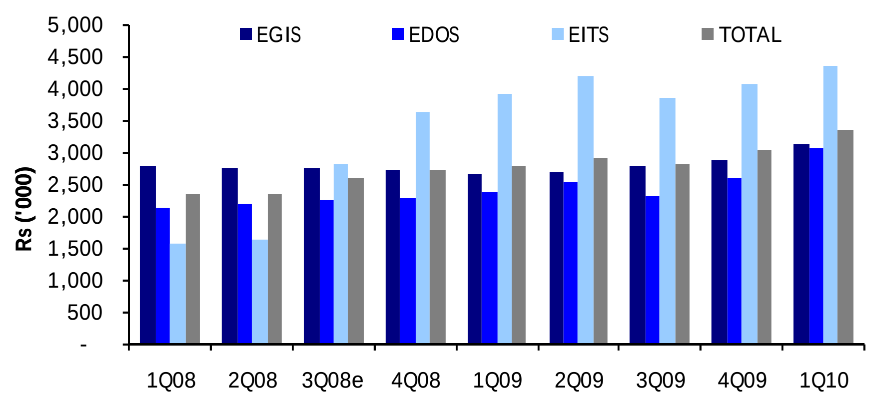
We believe that IP led growth has boosted the employee productivity and helped the company to grow its revenue without adding a significant employee base. The number of employee increased with a CQGR of 1.2% over the last nine quarters, whereas the revenue has grown at a CQGR of 5.9% over the same period. We believe that a strong IP portfolio has helped the company to de-link its growth from the linear model.

IP led growth – non-linearity pushing top-line

	Last nine quarters	
	Revenue Growth	Employee Growth
EGIS	4.5%	3.0%
EDOS	2.1%	-2.4%
EITS	16.9%	2.9%
Total	**5.9%**	**1.2%**

Source: Company Data, PL Research

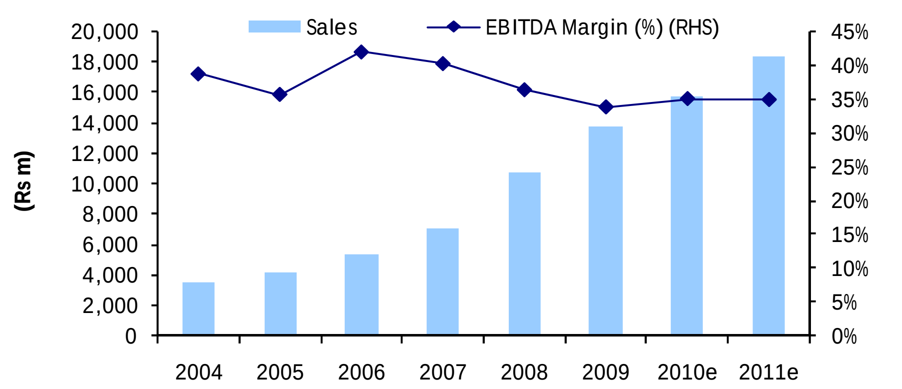
Revenue per employee – growing across segments



Source: Company Data, PL Research

We believe that IP led solution driven model would help Rolta maintain its margin in the range of 34-36%. We expect the revenue for the company to grow at a CAGR of 14.3% (FY09-12) on the back of improved demand environment. The strong presence in the Indian market would help the company to exploit the domestic growth opportunity.

Solution driven growth - stability to margin outlook

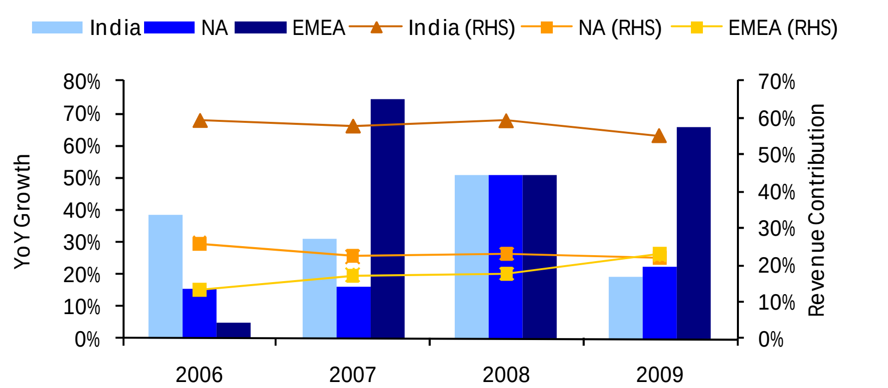


Source: Company Data, PL Research

India-led growth story

Rolta derives about 55% of its revenue from India. Its strong presence in the Indian market de-risks its revenue from the currency volatility. As the demand in Indian market for IT grows, the services offering of Rolta would find more buyers. We believe that Rolta's strength in the Indian market, especially government, oil and gas, and utility sector is seeing improved demand environment. We see more Indian companies willing to outsource their IT related work to increase its competitiveness.

Revenue concentration still skewed towards India



Source: Company Data, PL Research

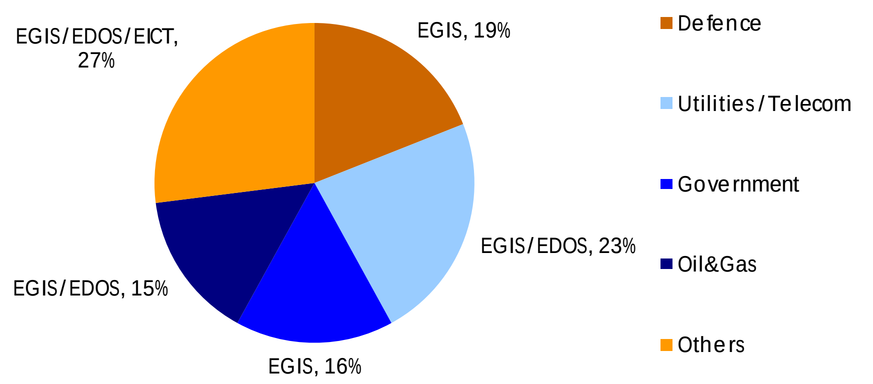
Dominant presence in GIS and EDA in India

Vertical	Market Share
Geospatial Business	70% in India
Engineering Design and Operations	85% in India

Source: Company Data, PL Research

Government is expected to have US$12bn capital expenditure plan for the defence sector, out of which US$2.5bn is expected to be in IT. We believe that Rolta service offering is uniquely positioned to exploit the demand environment. The overall addressable market opportunity, which includes capital expenditure plan in power sector, telecom sector, oil & gas sector and defence & homeland security is growing at a CAGR of 17%. Our growth assumption of Rolta is in line with these industrial segment where it is present.

Strength in non-cyclical sectors like government and utilities



Source: Company Data, PL Research

Verticals of Rolta to grow inline with our growth assumptions **($bn @ Rs48)**

Vertical	X th Plan	XI th Plan	CAGR
Electricity	60.8	138.9	18.0%
Telecommunications	30.2	65.4	16.7%
Oil & Gas	10.8	25.1	18.3%
Defence/Homeland	24.0	50.0	15.8%
Addressable Market	**125.8**	**279.4**	**17.3%**

Source: India Budget, PL Research

Guidance – backed by strong order book

Rolta has guided for revenue growth of 12-15% and EBITDA margin of 33-35% for FY10. We think that the company is on track to achieve these targets. Management expects that over the medium term, it will grow its EGIS, EDOS and EICT divisions by ~15–20%, 0-5% and 8-10%, respectively.

A closer look at the company's order books reaffirms our confidence in the management guidance. Book-to-bill ratio (current order book/revenue of the past 12 months) has shown a secular move to the north, improving from 1.14 in Q3FY09 to 1.20 in Q1FY10.

Order Book – Steady improvement (Rs m)

	1Q09	2Q09	3Q09	4Q09	1Q10
GIS	6892	7144	7458	7792	8152
EDA	5073	5018	4513	4613	4727
EICT	3748	3756	3552	3692	3708
Total	**15713**	**15918**	**15523**	**16097**	**16587**

Source: Company Data, PL Research

Book to Bill Ratio – improving revenue visibility (x)

	1Q09	2Q09	3Q09	4Q09	1Q10
GIS	1.23	1.22	1.24	1.26	1.27
EDA	1.34	1.24	1.12	1.18	1.26
EICT	1.45	1.14	1.00	1.02	1.02
Total	**1.31**	**1.21**	**1.14**	**1.17**	**1.20**

Source: Company Data, PL Research

QoQ order book growth – the growth likely to be continued

	1Q09	2Q09	3Q09	4Q09	1Q10
GIS	5.4%	3.7%	4.4%	4.5%	4.6%
EDA	3.5%	-1.1%	-10.1%	2.2%	2.5%
EICT	1.4%	0.2%	-5.4%	3.9%	0.4%
Total	**3.8%**	**1.3%**	**-2.5%**	**3.7%**	**3.0%**

Source: Company Data, PL Research

Valuation and Recommendation

Our DCF points to a base-case fair value of Rs240/share. We assume an average WACC of 12.9% and operating margin of 29%.

DCF Valuation Summary – Target Price Rs240

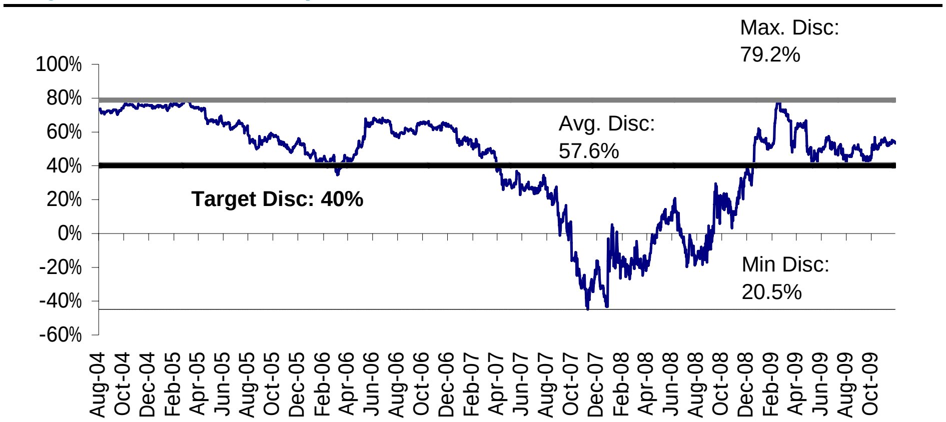
PV of Cash Flow	21,574.5	43%
Terminal Value	28,778.6	57%
Firm Value	50,353.1	
Tax asset		
Less Net Debt/(Cash)	7,790.8	
Equity Value	42,562.3	
Number of Shares O/s	177.2	
Per Share Price	**240.2**	
WACC	**12.9%**	

Source: PL Research

Rolta's business is improving and so is its valuation with respect to Infosys (figure below). The discount to Infosys has been narrowed from 70-80% in 2004 (an average of 40% FY04-09) to discount of ~53% currently. We believe that, given the improved earnings visibility, the company will reverse towards its historical average of 40% discount to Infosys' target PER for one year forward earnings.

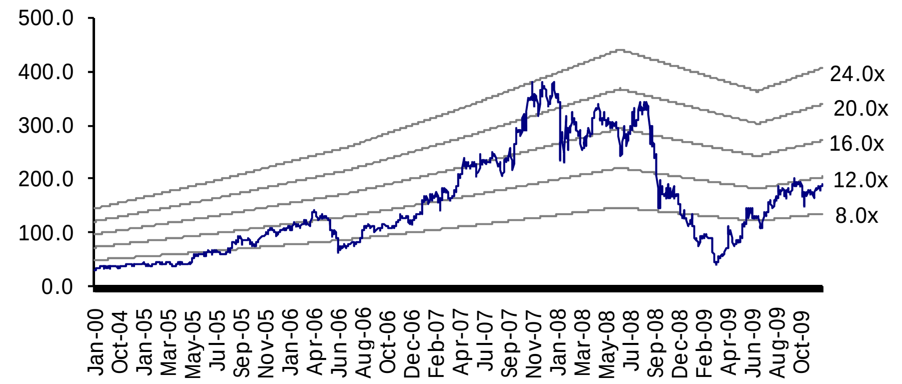
40% discount to Infosys valuation points target price of Rs240/share: If we value Rolta at the 40% discount to Infosys' target FY11 PER, which is 1,600bp above the historically minimum discount, Rolta's valuation rises to Rs240. On the back of an enhanced service and product portfolio with improved order book, we believe that the discount is likely to narrow.

Target discount 40% - compared to current 55%



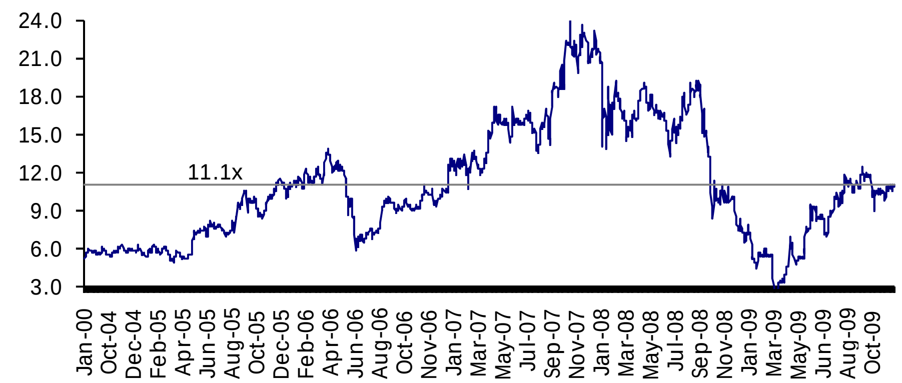
Source: PL Research

Early stage of PE re-rating



Source: PL Research

Our target PE of 13.0x FY11 earning estimates



Source: PL Research

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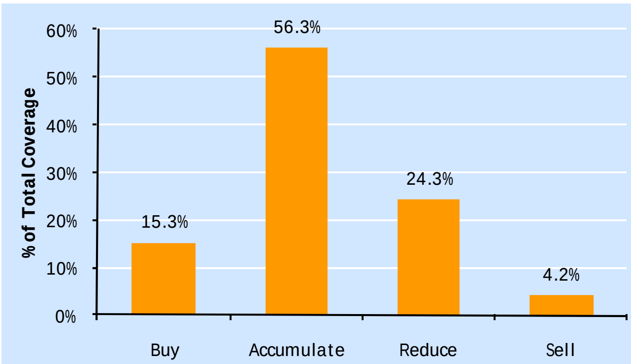
Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly